EUROPEAN COMMISSION

Brussels, 20.7.2010
SEC(2010) 963 final

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

ANNUAL ACCOUNTS OF THE EUROPEAN UNION FINANCIAL YEAR 2009

Consolidated financial statements and consolidated reports on implementation of the budget

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NOTE ACCOMPANYING THE CONSOLIDATED ACCOUNTS

The consolidated annual accounts of the European Union for the year 2009 have been prepared on the basis of the information presented by the institutions and bodies under Article 129.2 of the Financial Regulation applicable to the general budget of the European Union. I hereby declare that they were prepared in accordance with Title VII of this Financial Regulation and with the accounting principles, rules and methods set out in the notes to the financial statements.

I have obtained from the accounting officers of these institutions and bodies, who certified its reliability, all the information necessary for the production of the accounts that show the European Union's assets and liabilities and the budgetary implementation.

I hereby certify that based on this information, and on such checks as I deemed necessary to sign off the accounts of the European Commission, I have a reasonable assurance that the accounts present a true and fair view of the financial position of the European Union in all material aspects.

(signed)
Philippe Taverne
Accounting Officer
of the Commission

IMPLEMENTING AND ACCOUNTING FOR THE EU BUDGET

1. ANNUAL BUDGET PREPARATION

The European Union (EU) Budget finances a wide range of policies and programmes throughout the EU. In accordance with the priorities set by the Member States, the Commission carries out specific programmes, activities and projects in the field. These could range from supporting education projects for the mobility of students and teachers, to projects aimed at supporting better work environment for workers in the EU, to enhance the control of the external borders.

Over 90% of the EU budget goes to funding such EU policies and activities, which have been agreed by all the Member States. The direct link between the annual budget and the EU policies is ensured through activity-based budgeting (ABB). The activity-based budget nomenclature, first introduced in the 2004 budget, allows for clear identification of the policy areas of the European Union and the total amount of resources allocated to each of these areas.

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

The internal procedure for the adoption of the draft budget starts with its preparation by the Commission before it is passed to the Council who can make amendments if considered necessary. The updated budget then goes to the European Parliament, which may propose amendments or accept or reject the current draft. Once all amendments and updates are agreed (including, if necessary, an entirely new draft proposed by the Commission) the budget is adopted in mid-December by the Parliament. The President of Parliament declares the budget adopted and it can then be implemented.

2. HOW IS THE EU FUNDED?

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

2.1 Own resource revenues and receivables

Own resource revenue accrues automatically to the EU to enable it to finance its budget without the need for a subsequent decision by national authorities. The overall amount of own resources needed to finance the budget is determined by total expenditure less other revenue. The total amount of own resources cannot exceed 1.24 % (1.23% from 2010 onwards) of the gross national income (GNI) of the EU. Own resources can be divided into the following categories:

(1) Traditional own resources (TOR) consist of customs duties and sugar levies. These own resources are levied on economic operators and collected by Member States on behalf of the EU. However, Member States keep 25% as a

compensation for their collection costs. Customs duties are levied on imports of products coming from third countries, at rates based on the Common Customs Tariff. Sugar levies are paid by sugar producers to finance the export refunds for sugar. TOR usually account for +/- 13% of own resource revenue.

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

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

With regard to payment of these amounts, separate accounts contain traditional own resources which, under Article 6(3)(b) of Regulation No 1150/2000, have been established by the Member States but not made available to the EU as they have not yet been recovered or guaranteed or because they have been challenged. Each Member State sends the Commission a quarterly statement of these accounts, with the following particulars for each type of resource:

– the previous quarter's outstanding balance,
– the amounts recovered during the quarter in question,
– rectifications of the base (corrections/cancellations) during the quarter in question,
– amounts written off,
– the balance to be recovered at the end of the quarter in question.

When the traditional own resources from the separate account are recovered, they must be made available to the Commission at the latest on the first working day following the 19th day of the second month following the month during which the entitlement was recovered.

A write-down of the entitlements in the separate account must be made to reflect the situations when actual recovery is unlikely. This write-down is based on estimations made by Member States themselves in accordance with Article 6(4)(b) of Council Regulation (EC, Euratom) No 1150/2000 which states "Together with the final quarterly statement for a given year, Member States shall forward an estimate of the total amount of entitlements contained in the separate account at 31 December of that year for which recovery has become unlikely."

Based on the estimations sent by Member States, a write-down is deducted from the item for receivables from Member States on the asset side of the balance sheet. However, this does not mean that the Commission is waiving recovery of the amounts covered by this value adjustment. Even where recovery looks very unlikely, if not virtually impossible, this does not necessarily mean that the amounts in question are lost to the EU budget as traditional own resources. This is because non-recovered entitlements are lost only if the Member State has exhausted all the avenues it is required to pursue in order to secure recovery. Where the Member State fails to do this, it is held financially liable and required to pay the amount into the EU budget in accordance with Article 17(2) of Regulation No 1150/2000.

2.2 Sundry revenues

Sundry revenues arising from the activities of the European Union normally represent less than 10% of total revenue. These are, for instance, competition fines and recovery orders to private and public debtors with regard to the management of EU projects. Penalty payments imposed by the Court of Justice on Member States that fail to comply with a given judgment also fall into this category. The Commission manages hundreds of thousands of projects each year and needs to establish about 13,000 recovery orders per year. Any debt not paid at the due date is subject to default interest. Where debts of third parties other than Member States remain unpaid, Commission (and Council) decisions imposing the obligation to pay are directly enforceable in accordance with the rules of civil procedure in force in the territory where enforcement is to be carried out. Defaulting debtors are subject to debt collecting procedures launched by the Legal Service with the help of external law firms.

3. HOW THE EU BUDGET IS MANAGED AND SPENT

3.1 Primary operational expenditure

The European Union's operational expenditure covers the various headings of the financial framework and takes different forms, depending on how the money is paid out and managed. In accordance with the Financial Regulation, the Commission implements the general budget using the following methods:

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

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

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

Shared management: under this method of management budget implementation tasks are delegated to Member States. The majority of the expenditure falls under this mode “Shared Management” involving the delegation of tasks to Member States, covering such areas as agricultural spending and Structural Actions

Joint management: under this method, the Commission entrusts certain implementation tasks to an international organisation.

3.2 The different financial actors

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

The responsibility of the **Authorising Officers** covers the entire management process, from determining what needs to be done to achieve the policy objectives set by the institution to managing the activities launched from both an operational and budgetary standpoint, including signing legal commitments, monitoring performance, making payments and even recovering funds, if necessary. Authorising officers must also arrange for evaluations to be carried out to analyse the viability of their proposals (ex ante evaluation) and to gauge the success and cost-effectiveness of programmes already underway (interim and ex-post evaluations). The results of these evaluations are used to help improve the decision-making process and increase the transparency, accountability and cost-effectiveness of EU intervention.

Sound financial management and proper accountability are assured within each DG by the separation of management control (in the hands of the authorising officers) from internal audit and compliance control with clear internal control standards (inspired by COSO international standards), ex-ante and ex-post controls, independent internal auditing on the basis of risk assessments, and regular reporting on activities to the individual Commissioners.

The **Accounting Officer** executes payment and recovery orders drawn up by authorising officers and is responsible for managing the treasury, laying down accounting rules and methods, validating accounting systems, keeping the accounts and drawing up the institution's annual accounts. Furthermore, the Accounting Officer is required to sign the accounts declaring that they provide a true and fair view of the financial position.

The **Internal Auditor**, who is not a financial actor in the strict sense of the term, is appointed by an institution or body to verify the proper operation of budgetary implementation systems and procedures and to advise on risk management issues. He issues independent opinions on the quality of management and control systems and provides recommendations on how to improve operational procedures and promote sound financial management.

3.3 Committing to spend the EU budget

Once the budget is approved, DG Budget makes funding available, via the Commission’s accounting system, to the different Commission departments and the Institutions and other bodies in accordance with their policy responsibilities under a system called activity based budgeting. For example, the responsibility for managing budget lines to do with the environment would be delegated by the Commission to the head – or Director-General - of DG Environment (who in this context becomes known as the Authorising Officer by Delegation for the budget lines in question).

Before a legal commitment (for example a contract or grant agreement) can be entered into with a third party, there must be a budget line authorising the activity in question in the annual budget. There must also be sufficient funds on the budget-line in question to cover the expenditure. If these conditions are met, the funds required must be reserved in the budget by means of a budgetary commitment made in the accounting system.

No money can be spent from the EU budget unless and until the Commission or another EU body and the possible recipient of EU money have entered into a written legal commitment. Under centralised direct management, this legal commitment takes the form of either a contract with a contractor or a grant agreement with a beneficiary.

Once approved, the budgetary commitment is recorded in the budgetary accounting system and the appropriations are consumed accordingly. This, however, has no effect on the general accounts (or general ledger) since no charge has yet been incurred. This is because the accounting system of the European Union comprises two separate but linked elements:

(a) budget accounts, which provide a detailed record of budget implementation;

(b) general accounts, used to prepare the balance sheet and economic outturn.

3.4 Making a payment

3.4.1 General rules

No payment can be made unless a budgetary commitment has already been approved by the Authorising Officer dealing with the operation in question.

Once a payment is approved in the accounting system, the next step is for the transfer to be made to the beneficiary's account.

The Commission makes over 1.7 million payments a year. The Commission is a participant in SWIFT (Society for Worldwide Interbank Financial Telecommunication).

3.4.2 Pre-financing, cost statements and eligibility of expenditure

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

Pre-financing is valued at its estimated recoverable amount, taking into consideration the existence of a related guarantee attached to the pre-financing. The expected irrecoverable pre-financing is recognised as a charge in the economic outturn account and a decrease in the pre-financing carrying value in the balance sheet. Interest is generally earned on pre-financing paid out (notable exceptions include amounts paid to Member States or as pre-accession aid).

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

Eligibility criteria are defined in the basic act, in the calls for proposal, in other information documents for grant beneficiaries and/or in the contractual clauses of the grant agreements. After analysis, the eligible expenses are taken into charges and the beneficiary is informed about any non eligible amounts. "Eligibility to be checked" amounts thus represent received cost claims for which the eligibility has not yet been checked and therefore where the event giving rise to the expense has not yet occurred.

3.4.3 Accounting treatment at year-end (cut-off)

With regard to open pre-financing amounts at year-end, these are valued at the original amount(s) paid less: amounts returned, eligible amounts cleared, estimated eligible amounts not yet cleared at year-end, and value reductions.

Cost claims not yet received at year-end are taken into account in the year-end accounting cut-off procedures. In particular an assessment has to be made concerning eligible expenses incurred by beneficiaries of EU funds but not yet reported to the EU. Different methods are used depending on the type of activities and information available so as to arrive at the best estimate of these amounts. Following these cut-off entries, estimated eligible amounts are recorded as accrued charges, while the estimated non-eligible parts remain open on the "eligibility to be checked" accounts. These amounts are shown under current liabilities so as not to overestimate assets and liabilities.

3.5 Recoveries following irregularities detected

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

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

4. YEAR-END REPORTING

4.1 Annual accounts

It is the responsibility of the Commission's Accounting Officer to prepare the annual accounts and ensure that they present a true and fair view of the financial position of the EU. The annual accounts comprise the financial statements and the reports on implementation of the budget. They are adopted by the Commission and presented to the Court of Auditors for audit and finally to the Council and Parliament for discharge.

4.2 Annual Activity reports

Each Authorising Officer is required to prepare an Annual Activity Report (AAR) on the activities under his responsibility. In this AAR, he reports on policy results and on the reasonable assurance he may have that the resources assigned to the activities described in his report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions.

5. AUDIT AND DISCHARGE

5.1 Audit

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

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

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

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

The Court of Auditors is entitled to access all documents required during the course of its audit. The Court audits all areas of EU activities, right down to examining the legality and regularity of individual transactions and payments. It also audits the annual accounts themselves, reviewing individual balance sheet and economic outturn accounts where necessary as well as the overall presentation of the financial statements. Thus the Court can offer its opinion not only on the figures presented, but also on the system and controls in place.

5.2 Discharge

The final control is the discharge of the budget for a given financial year. The European Parliament is the discharge authority within the EU. This means that following the audit and finalisation of the annual accounts it falls to the Council to recommend and then to the Parliament to decide whether to grant discharge to the Commission and other EC bodies for executing the EU budget for the preceding financial year. This decision is based on a review of the accounts and the annual report of the Court of Auditors (which includes an official statement of assurance) and replies of the Commission, and also following questions and further information requests to the Commission.

The discharge represents the political aspect of the external control of budget implementation and is the decision by which the European Parliament, acting on a Council recommendation, "releases" the Commission from its responsibility for management of a given budget by marking the end of that budget's existence. This discharge procedure may produce one of two outcomes: the granting or postponement of the discharge. When granting discharge the Parliament may highlight observations they consider important, often recommending actions that the Commission should take concerning these matters. The Commission sets out the measures taken in a follow-up report and an action plan which it sends to both the Parliament and the Council.

PART I – CONSOLIDATED FINANCIAL STATEMENTS OF THE EUROPEAN UNION AND EXPLANATORY NOTES

Balance Sheet

Economic Outturn Account

Cashflow Table

Statement of changes in Net Assets

Notes to the financial statements

BALANCE SHEET

EUR millions

	Note	31.12.2009	31.12.2008
NON-CURRENT ASSETS:			
Intangible assets	*2.1*	72	56
Property, plant and equipment	*2.2*	4 859	4 881
Long-term investments	*2.3*	2 379	2 078
Loans	*2.4*	10 764	3 565
Long-term pre-financing	*2.5*	39 750	29 023
Long-term receivables	*2.6*	55	45
		57 879	**39 648**
CURRENT ASSETS:			
Inventories	*2.7*	77	85
Short-term investments	*2.8*	1 791	1 553
Short-term pre-financing	*2.9*	9 077	10 262
Short-term receivables	*2.10*	8 663	11 920
Cash and cash equivalents	*2.11*	23 372	23 724
		42 980	**47 544**
TOTAL ASSETS		**100 859**	**87 192**
NON-CURRENT LIABILITIES:			
Employee benefits	*2.12*	(37 242)	(37 556)
Long-term provisions	*2.13*	(1 469)	(1 341)
Long-term financial liabilities	*2.14*	(10 559)	(3 349)
Other long-term liabilities	*2.15*	(2 178)	(2 226)
		(51 448)	**(44 472)**
CURRENT LIABILITIES:			
Short-term provisions	*2.16*	(213)	(348)
Short-term financial liabilities	*2.17*	(40)	(119)
Accounts payable	*2.18*	(93 884)	(89 677)
		(94 137)	**(90 144)**
TOTAL LIABILITIES		**(145 585)**	**(134 616)**
NET ASSETS		**(44 726)**	**(47 424)**
Reserves	*2.19*	3 323	3 115
Amounts to be called from Member States:	*2.20*		
*Employee benefits**		*(37 242)*	*(37 556)*
*Other amounts***		*(10 807)*	*(12 983)*
NET ASSETS		**(44 726)**	**(47 424)**

***** Under Article 83 of the Staff Regulations (Council Regulation 259/68 of 29 February 1968 as amended), the Member States shall jointly guarantee the liability for pensions.

****** The European Parliament has adopted a budget on 17 December 2009 which provides for the payment of the EU's short-term liabilities from own resources to be collected by, or called up from, the Member States in 2010.

ECONOMIC OUTTURN ACCOUNT

EUR millions

	Note	2009	2008
OPERATING REVENUE			
Own resource and contributions revenue	*3.1*	110 537	112 713
Other operating revenue	*3.2*	7 532	9 731
		118 069	**122 444**
OPERATING EXPENSES			
Administrative expenses	*3.3*	(8 133)	(7 720)
Operating expenses	*3.4*	(104 934)	(97 214)
		(113 067)	**(104 934)**
SURPLUS FROM OPERATING ACTIVITIES		**5 002**	**17 510**
Financial revenue	*3.5*	835	698
Financial expenses	*3.6*	(594)	(467)
Movement in employee benefits liability	*2.12*	(683)	(5 009)
Share of net deficit of associates & joint ventures	*3.7*	(103)	(46)
ECONOMIC OUTTURN FOR THE YEAR		**4 457**	**12 686**

CASHFLOW TABLE

	Note	2009	2008*
			EUR millions
Economic outturn for the year		4 457	12 686
Operating activities	*4.2*		
Amortisation		22	19
Depreciation		447	302
(Reversal of) impairment losses on investments		(16)	3
(Increase)/decrease in loans		(7 199)	(1 759)
(Increase)/decrease in long-term pre-financing		(10 727)	(15 008)
(Increase)/decrease in long-term receivables		(10)	82
(Increase)/decrease in inventories		8	3
(Increase)/decrease in short-term pre-financing		1 185	10 321
(Increase)/decrease in short-term receivables		3 257	131
Increase/(decrease) in long-term provisions		128	262
Increase/(decrease) in long-term financial liabilities		7 210	1 775
Increase/(decrease) in other long-term liabilities		(48)	237
Increase/(decrease) in short-term provisions		(135)	(21)
Increase/(decrease) in short-term financial liabilities		(79)	(16)
Increase/(decrease) in accounts payable		4 207	(5 703)
Prior year budgetary surplus taken as non cash revenue		(1 796)	(1 529)
Other non-cash movements		37	37
Increase/(decrease) in employee benefits liability		(314)	4 076
Investing activities	*4.3*		
(Increase)/decrease in intangible assets and property, plant and equipment		(463)	(689)
(Increase)/decrease in long-term investments		(284)	(108)
(Increase)/decrease in short-term investments		(239)	(133)
NET CASHFLOW		**(352)**	**4 968**
Net increase in cash and cash equivalents		(352)	4 968
Cash and cash equivalents at the beginning of the year	*2.11*	23 724	18 756
Cash and cash equivalents at year-end	*2.11*	23 372	23 724

***** The 2008 accounts included the cash of the Guarantee Fund as cash not investments

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 2007	**7**	**2 799**	**(68 888)**	**7 462**	**(58 620)**
Movement in Guarantee Fund reserve		158	(158)		0
Fair value movements	34				34
Other		113	(108)		5
Allocation of the economic outturn 2007		4	7 458	(7 462)	0
Budget result 2007 credited to Member States			(1 529)		(1 529)
Economic outturn for the year				12 686	12 686
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		(1)	10		9
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				4 457	4 457
BALANCE AS AT 31 DECEMBER 2009	**69**	**3 254**	**(52 506)**	**4 457**	**(44 726)**

NOTES TO THE FINANCIAL STATEMENTS

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 of 16 September 2002), on the Financial Regulation applicable to the general budget of the European Union and Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of this Financial Regulation.

In accordance with article 133 of the Financial Regulation, the European Union has prepared its 2009 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

Impact of the Lisbon Treaty

Following the entering into force of the Lisbon Treaty on 1 December 2009 the annual accounts are now entitled the "Annual accounts of the European Union". Regarding the scope of consolidation this change has had no impact. The agencies set-up under the former 2nd pillar of the EU do not meet the criteria to be consolidated, nor does the European Central Bank (ECB), even if it is considered as an European Institution in the Lisbon Treaty. All these entities thus remain outside the scope of consolidation, as was the case in previous years.

Regarding the agencies of the former 3rd pillar of the European Union two of them, who receive a subsidy from the General Budget of the European Union, are consolidated as was done in previous years (see also note **10**). The remaining agency under this pillar, Europol, will become an EU body from 2010 onwards.

Scope of consolidation

The consolidated financial statements of the EU comprise all significant controlled entities (institutions and agencies), associates and joint ventures, this being 40 controlled entities, 3 associates and 4 joint ventures. The complete list of consolidated entities can be found in note **10**. In comparison with 2008, the scope of consolidation has been extended by two executive agencies, two associates and one joint venture, whilst one agency has been liquidated at 31 December 2008. 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 through founding treaties or secondary legislation, financing 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 and Europol) 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 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.

Associates

Associates are entities over which the European Union have, directly or indirectly, significant influence but not control over financial and operating policy decisions. 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 a venture 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.

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 entity 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.

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 the following headings:

– 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; and

– pre-financing amounts paid under the European Agricultural Guarantee Fund, which are converted at the exchange rates applying on the 10th day of the month following the month in which they are granted.

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	31.12.2009	31.12.2008	Currency	31.12.2009	31.12.2008
BGN	**1.9558**	1.9558	**LTL**	**3.4528**	3.4528
CZK	**26.4730**	26.8750	**PLN**	**4.1045**	4.1535
DKK	**7.4418**	7.4506	**RON**	**4.2363**	4.0225
EEK	**15.6466**	15.6466	**SEK**	**10.2520**	10.8700
GBP	**0.8881**	0.9525	**CHF**	**1.4836**	1.4850
HUF	**270.4200**	266.7000	**JPY**	**133.1600**	126.1400
LVL	**0.7093**	0.7083	**USD**	**1.4406**	1.3917

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, being 4 years. Internally produced intangible assets are currently expensed in the economic outturn account. Costs associated with developing or maintaining computer software programmes are recognised as expenses as incurred, as are scientific research and development costs.

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 and losses on disposals are determined by comparing proceeds less selling expenses with the carrying amount of the disposed asset. These 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") as reported by the fund manager up to the balance sheet date, thus excluding any attributable unrealised gain that may be prevailing in the underlying investment portfolio. Investments in Venture Capital Funds still at an early stage are valued based on the same principles, except in the case of unrealised losses due only to administrative expenses where these unrealised losses are not taken into account.

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. The fair valued attributable NAV is determined through applying either the European Union's percentage ownership in the fund to the NAV reflected in the most recent report or, to the extent available, the precise share value at the same date, submitted by the respective Fund Manager.

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 loss 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.

In the case of loans granted on borrowed funds, 'back-to-back operations', the differences between the loan and the borrowing conditions and amounts are not material and the "opportunity cost" is not applicable since the EU is not allowed to invest money in the capital markets. For these reasons, these loans are measured at their nominal amount. he 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

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.

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.

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.

<u>*Impairment of financial assets*</u>

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.

(i) 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.

(ii) 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, being the present value of expected future cash flows, discounted at the market rate of interest for similar borrowers. The amount of the write-down is recognised in the economic outturn account. Also recognised is a general write-down 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, and bank overdrafts.

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 ("RCAM") 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 the 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 242 of the EC 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.

2. NOTES TO THE BALANCE SHEET

NON CURRENT ASSETS

2.1 INTANGIBLE ASSETS

EUR millions

	Amount
Gross carrying amount at 31 December 2008	134
Additions	39
Disposals	(3)
Transfers between asset categories	0
Other changes	1
Gross carrying amount at 31 December 2009	**171**
Accumulated amortisation at 31 December 2008	78
Amortisation charge for the year	22
Disposals	(1)
Transfers between asset categories	0
Other changes	0
Accumulated amortisation at 31 December 2009	**99**
Net carrying amount at 31 December 2009	**72**
Net carrying amount at 31 December 2008	*56*

The amounts relate primarily to computer software.

2.2 PROPERTY, PLANT AND EQUIPMENT

In some countries the value of the land cannot be distinguished from the value of the building since both were purchased as a whole. The value of the land, which is not subject to depreciation, will not be evaluated separately unless it becomes necessary, i.e. for subsequent expenditure such as construction of a new property or a partial sale.

Assets related to the European Geostationary Navigation Overlay Service (EGNOS) are included under plant and equipment at 31 December 2009 following their transfer to the Commission during 2009. These assets have a net book value at this date of EUR 11 million (a gross value of EUR 40 million less accumulated depreciation of EUR 29 million).

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 2008	3 902	368	205	466	151	2 621	122	7 835
Additions	39	89	20	57	17	29	141	392
Disposals	(1)	(15)	(20)	(56)	(6)	0	0	(98)
Transfers between asset categories	31	(2)	0	0	3	0	(32)	0
Other changes	1	20	10	8	17	5	0	61
Gross carrying amount at 31 December 2009	**3 972**	**460**	**215**	**475**	**182**	**2 655**	**231**	**8 190**
Accumulated depreciation at 31 December 2008	1 616	300	149	349	92	448		2 954
Depreciation charge for the year	127	66	16	60	17	163		449
Depreciation written back	0	0	0	(2)	0	0		(2)
Disposals	(1)	(13)	(14)	(52)	(5)	0		(85)
Transfers between asset categories	0	(1)	0	0	1	0		0
Other changes	0	3	4	4	3	1		15
Accumulated depreciation at 31 December 2009	**1 742**	**355**	**155**	**359**	**108**	**612**		**3 331**
NET CARRYING AMOUNT AT 31 DECEMBER 2009	**2 230**	**105**	**60**	**116**	**74**	**2 043**	**231**	**4 859**
NET CARRYING AMOUNT AT 31 DECEMBER 2008	*2 286*	*68*	*56*	*117*	*59*	*2 173*	*122*	*4 881*

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 A+B**	**Subsequent expenditure on assets (C)**	**Asset value A+B+C**	**Depreciation (E)**	**Net carrying amount =A+B+C+E**
		< 1 year	**> 1 year**	**> 5 years**	**Total Liability (B)**					
Land and buildings	785	51	257	1 465	1 773	2 558	61	2 619	(598)	**2 021**
Other tangible assets	14	8	13	1	22	36	0	36	(14)	**22**
Total at 31.12.2009	**799**	**59**	**270**	**1 466**	**1 795**	**2 594**	**61**	**2 655**	**(612)**	**2 043**
Total at 31.12.2008	*738*	*52*	*250*	*1 520*	*1 822*	*2 560*	*61*	*2 621*	*(448)*	*2 173*

2.3 LONG-TERM INVESTMENTS

EUR millions

	Note	31.12.2009	31.12.2008
Participations in Associates	*2.3.1*	382	278
Participations in Joint Ventures	*2.3.2*	196	145
Guarantee Fund	*2.3.3*	1 240	1 091
Available-for-Sale assets	*2.3.4*	561	564
Total Investments		**2 379**	**2 078**

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 Associates

EUR millions

	EIF	ARTEMIS	Clean Sky	Total
Amount at 31 December 2008	278	0	0	278
Acquisitions	26	10	75	111
Share of net surplus/(deficit)	(2)	(3)	(1)	(6)
Other equity movements	(1)	0	0	(1)
Amount at 31 December 2009	**301**	**7**	**74**	**382**

Participations in associates are accounted for using the equity method – for further explanation see note **1.3**. The following carrying amounts are attributable to the EU based on its percentage of participation in associates:

EUR millions

	31.12.2009	31.12.2008
Assets	420	295
Liabilities	(38)	(17)
Revenue	17	23
Surplus/(Deficit)	(6)	10

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 2009, the Commission has subscribed for a total amount of EUR 861 million (out of EUR 2 940 million) of the share capital of the EIF. This represents 29.29% of the total EIF share capital. The Commission has paid in 20%, the balance being uncalled corresponding to an amount of EUR 689 million – see also note **5.13.2**. Under an agreement between the Commission and the European Investment Bank (EIB) signed in 2005, the Commission is entitled to sell its shares at any time to the EIB at the price corresponding to the EIF valuation divided by the total number of issued shares. The value of the put option is close to nil since the formula used for determining the sale price of the shares is similar to the one used to determine the net equity of the EIF. The EU's shareholding is valued at 29.29% of the EIF's net assets, which at 31 December 2009 amounted to EUR 301 million (2008: EUR 278 million), of which EUR 2 million concerns the result for 2009 (loss). A dividend of EUR 4 million relating to the financial year 2008 was received in 2009.

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. Joint Technology Initiatives are public-private partnerships set up at European level to address strategic areas where research and innovation are essential to European competitiveness. A new element of the 7th Framework programme for research, technological development and demonstration activities, Joint Technology Initiatives support large-scale multinational research activities. They bring together private and public partners to define common objectives of wide societal relevance and to combine funding and knowledge in order to fulfil these objectives. Joint Technology Initiatives are a new way of working together towards reaching the goals set by EU leaders in the Lisbon strategy on growth and employment. During 2009 the first three Joint Technology Initiatives became operational, the ARTEMIS Joint Undertaking and the Clean Sky Joint Undertaking described below and the IMI Joint Undertaking, classified as joint venture and described under note **2.3.2**. Although ARTEMIS & Clean Sky are legally referred to as joint undertakings, from an accounting perspective they must be considered as associates because the Commission has a significant influence over these entities.

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 European Union, represented by the Commission, is at 31 December 2009 100% or EUR 7 million. The maximum indicative contribution of the EU 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 at 31 December 2009 99.41% or EUR 74 million. The maximum indicative contribution of the EU to this venture shall amount to EUR 800 million.

2.3.2 Participations in joint ventures

EUR millions

	GJU	SESAR	ITER	IMI	Total
Amount at 31.12.2008	0	103	42	0	145
Acquisitions	0	28	39	81	148
Share of net result	0	(51)	(46)	0	(97)
Amount at 31.12.2009	**0**	**80**	**35**	**81**	**196**

Participations in joint ventures are accounted for using the equity method – for further explanation see note **1.3**. The following carrying amounts are attributable to the EU based on its percentage of participation in joint ventures:

EUR millions

	31.12.2009	31.12.2008
Non-current assets	48	0
Current assets	192	154
Non-current liabilities	0	0
Current liabilities	(44)	(9)
Revenue	72	37
Expenses	(169)	(93)

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. The net assets of the GJU in liquidation at year-end amounted to EUR 0. As the entity was inactive and still undergoing liquidation in 2009, there were no revenues or expenditures incurred. The value of the investment at 31 December 2009 (and 31 December 2008) was EUR 0, being the investment of EUR 585 million less the accumulated share of losses, EUR 585 million.

The European GNSS Supervisory Authority (GSA), an EU agency created in 2004 and consolidated in the EU accounts, originally took over responsibility from the GJU on 1 January 2007. Following the entry into force of Regulation (EC) No. 683/2008, the Commission took the role of Programme Manager of the European GNSS Programmes from the GSA. The transfer of these activities and tasks from the GSA to the Commission took effect on 1 January 2009.

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 2009, the Commission holds 87.4% or EUR 80 million (2008: EUR 103 million) of the ownership participation in SESAR. The total (indicative) EU contribution foreseen for SESAR (from 2007 to 2013) is EUR 700 million.

ITER International Fusion Energy Organisation (ITER International)

ITER International involves the EU and China, India, Russia, Korea, Japan and USA. ITER was created to manage the ITER facilities, to encourage the exploitation of the ITER facilities by the laboratories, other institutions and personnel in the fusion energy research and development programmes of the members, 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 and 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 EU must recognise the participation in its consolidated accounts.

At 31 December 2009, Euratom holds 47% or EUR 35 million (2008: EUR 42 million) of the ownership participation in ITER. The total (indicative) Euratom contribution foreseen for ITER (from 2007 to 2041) is EUR 7 649 million.

IMI Joint Technology Initiative on Innovative Medicines

The IMI Joint Undertaking, the third Joint Technology Initiative that became operational during 2009, shall support pre-competitive pharmaceutical research and development in the Member States and associated countries, aiming at increasing the research investment in the biopharmaceutical sector and shall promote the involvement of small and medium-sized enterprises (SME) in its activities. The ownership interest of the European Union, represented by the Commission, is at 31 December 2009 99.1% or EUR 81 million. The maximum indicative contribution of the EU shall amount to EUR 1 billion up to 31/12/2017.

2.3.3 Guarantee Fund

Net assets of the Guarantee Fund *EUR millions*

	31.12.2009	**31.12.2008**
Available-for-sale assets	1 050	887
Cash and cash equivalents	191	205
Total assets	**1 241**	**1 092**
Total liabilities	**(1)**	**(1)**
Net assets	**1 240**	**1 091**

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 European Union and loans under macro-financial assistance (MFA loans) and Euratom loans outside the European Union. 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 76% 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 to a special heading in the statement of 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 1 472 million corresponds to the target amount of 9% of the loans outstanding at 31 December 2009. The net assets of the Fund at 31 December 2009 total EUR 1 240 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 232 million. Fair-value changes of the available-for-sale debt security portfolio have been recognised in equity in 2009 totalling EUR 16 million (2008: EUR 15 million.).

2.3.4 Available-for-sale assets

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

Long-term Available-for-sale assets

EUR millions

	EBRD	RCO	ETF Start up	EFSE	Other	Total
Amounts at 31.12.2008	157	204	133	67	3	564
Acquisitions	0	11	52	26	19	108
Disposals/withdrawals	0	(26)	(4)	0	0	(30)
Revaluation surplus/ (deficit) t/f to equity	0	(14)	(14)	3	0	(25)
Exchange loss	0	(42)	0	0	0	(42)
Impairment loss	0	(1)	(13)	0	0	(14)
Amounts at 31.12.2009	**157**	**132**	**154**	**96**	**22**	**561**

European Bank for Reconstruction and Development (EBRD)

The Commission has subscribed to 3% of the EBRD's total capital of EUR 20 billion. At balance sheet date, the called up amount was EUR 157 million, which has been fully paid. Payments outstanding on non-called up capital amount to EUR 443 million (see also note **5.13.1**). 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.

Risk Capital Operations (RCO)

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.

Other investments

The most significant amounts concern 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 (EUR 154 million). Also included is EUR 96 million relating to the European Fund for South East Europe, an investment company with variable share capital (SICAV). 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. A new investment of EUR 19 million relating to the Southeast Europe Energy Efficient Fund (SE4F) has been included in 2009.

2.4 LOANS

This heading covers loan amounts owed to the European Union maturing in over one year:

EUR millions

	Note	31.12.2009	31.12.2008
Loans granted from the EU budget & ECSC	*2.4.1*	169	179
Loans granted from borrowed funds	*2.4.2*	10 595	3 386
Total loans		**10 764**	**3 565**

2.4.1 Loans granted from the European Union budget and the ECSC in liquidation

EUR millions

	Loans with special conditions	ECSC in Liquidation	Total
Total at 31.12.2008	150	29	179
Repayments	(19)	(5)	(24)
Changes in carrying amount	12	2	14
Total at 31.12.2009	**143**	**26**	**169**

Loans with Special Conditions

This item covers loans with special conditions 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 12.36%.

Housing loans of the ECSC in liquidation (ECSC)

Housing loans are loans granted by the ECSC from its own funds in accordance with articles 54 and 54.2 of the ECSC Treaty. These loans are granted at a fixed rate of 1% and consequently, considered as loans at preferential rates. The effective interest rates on these loans are 2.806% - 22.643%. For practicable reasons and based on materiality considerations, the transaction price is used as the fair value of these loans at inception, independently from any preferential interest rate granted.

2.4.2 Loans granted from borrowed funds

EUR millions

	MFA loans	Euratom Loans	BOP	ECSC in Liquidation	Total
Total at 31.12.2008	663	494	2 004	338	3 499
New loans	25	7	7 200	0	7 232
Repayments	(95)	(11)	0	(88)	(194)
Exchange differences	0	(1)	0	16	15
Change in carrying amount	(6)	(5)	99	(5)	83
Total at 31.12.2009	587	484	9 303	261	10 635
Amount due < 1 year	**40**	**0**	**0**	**0**	**40**
Amount due > 1 year	**547**	**484**	**9 303**	**261**	**10 595**

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. 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.

The Commission has received EUR 481 million (2008: EUR 486 million) of guarantees from third-party guarantors in respect of these loans.

Balance of Payment (BOP) loans

The BOP facility, a policy based financial instrument, has been reactivated to provide medium-term financial assistance to Member States of the EU during the current economic and financial crisis. 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 total amount of loans authorised is EUR 50 billion and these are guaranteed by the EU general budget.

Between November 2008 and end 2009, loans amounting to EUR 14.6 billion were granted. BOP financial assistance of EUR 6.5 billion has been made available for Hungary, of which EUR 2 billion was disbursed in 2008, the maturity date being in December 2011. A further EUR 3.5 billion was disbursed in 2009 (maturity: November 2014 and April 2016). A BOP loan of EUR 3.1 billion was made available to Latvia, EUR 2.2 billion being disbursed during 2009, with maturity dates of April 2014 and January 2015 and EUR 0.5 billion being disbursed in March 2010 (maturity date May 2019). EUR 5 billion was also made available to Romania of which EUR 1.5 billion was disbursed in 2009, with a maturity date of January 2015 and a further EUR 1 billion was disbursed in March 2010 (maturity date May 2019).

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.

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

Loans	31.12.2009	31.12.2008
Macro Financial Assistance (MFA)	0.9625%-4.54%	3.022%-5.29%
Euratom	1.071%-5.76%	3.428% -5.76%
BOP	3.125%-3.625%	3.25%
ECSC in liquidation.	0.346%-5.8103%	3.072%-5.8103% (*)

(*) higher bound value related to a fixed rate loan covered by an interest rate swap

2.5 LONG-TERM 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

	31.12.2009	**31.12.2008**
Long-term Pre-financing (see below)	39 750	29 023
Short-term Pre-financing (see note **2.9**)	9 077	10 262
Total Pre-financing	**48 827**	**39 285**

Guarantees received in respect of pre-financing:

These are guarantees that the European Union 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 2009 the "nominal" value of guarantees received in respect of pre-financing amounted to EUR 936 million. The "on-going" value of those guarantees was EUR 724 million. At 31 December 2008 these values were EUR 968 million and EUR 769 million respectively. This difference effectively acts as a cover for pre-financing that has been cleared and charged to expenses, but which may have to be recovered in the future.

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) – at 31 December 2009 the amount of pre-financing paid out totalled 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 Participants Guarantee Fund thus guarantees the financial interest of both the EU and the participants. As at 31 December 2009 a total amount of EUR 561 million has been contributed to the PGF by the participants (2008: EUR 274 million) – see also note **11**.

LONG-TERM PRE-FINANCING

EUR millions

Management type	31.12.2009	31.12.2008
Direct centralised management	1 148	1 351
Indirect centralised management	486	275
Decentralised management	347	90
Shared management	37 199	26 764
Joint management	568	543
Implemented by other Institutions & Agencies	2	0
Total Long-Term Pre-financing	**39 750**	**29 023**

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. The amount of the above long-term pre-financing for which the EU is entitled to receive interest from beneficiaries amounts to EUR 1 607 million.

The increase in 2009 is due mainly to the payment of a third tranche of pre-financing to Member States for a total amount of EUR 5 billion: EUR 2.6 billion for CF, EUR 1.8 billion for ERDF and EUR 0.6 million for ESF. In addition, extra recovery package payments for a total amount of EUR 6.2 billion were made for each programme, as a result of the economic crisis: EUR 3.9 billion for CF and ERDF and EUR 2.3 billion for ESF. The rise of the amounts concerning decentralised management results mainly from the pre-financing payments made to candidate countries under IPA programmes.

2.6 LONG-TERM RECEIVABLES

EUR millions

	31.12.2009	31.12.2008
Due from Member States	26	24
ECSC staff loans	10	13
Other	2	2
Guarantees and deposits	17	6
Total	**55**	**45**

Amounts to be received from Member States refer to amounts due to the ECSC in liquidation from former accession countries.

CURRENT ASSETS

2.7 INVENTORIES

EUR millions

	31.12.2009	31.12.2008
Scientific material	62	73
Other	15	12
TOTAL	**77**	**85**

The stock of the scientific equipment is held and managed by the JRC. A major part is the stock of reference materials, nuclear and non-nuclear, located in Geel. This stock has a strategic nature and is maintained to be able to cope with unpredictable future requests in crisis situations. Other stock includes the stock of the EGNOS project, the stock of publications held and/or managed by the Publications Office and supplies of vaccinations.

2.8 SHORT-TERM INVESTMENTS

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. In 2008 there were also held for trading assets of EUR 7 million shown under this heading.

Available-for-sale assets

EUR millions

	ECSC in Liquidation	Other	Total
Amounts at 31.12.2008	1 464	82	1 546
Acquisitions	560	255	815
Disposals and withdrawals	(573)	(32)	(605)
Adjustment to amortised cost	(1)	0	(1)
Change in carrying amount	8	3	11
Revaluation surplus transferred to equity	25	0	25
Amounts at 31.12.2009	**1 483**	**308**	**1 791**

Regarding the ECSC in liquidation amounts, all AFS investments are debt securities denominated in EUR and quoted in an active market. At 31 December 2009 debt securities (expressed at their fair value) reaching final maturity in the course of 2010 amount to EUR 242 million (2008: EUR 126 million).

The increase in other amounts is due to new acquisitions by the Risk Sharing Finance Facility, RSFF, (EUR 195 million) and the Loan Guarantee Instrument for TEN-T Projects, LGTT, (EUR 60 million).

2.9 SHORT-TERM PRE-FINANCING

EUR millions

Management type	31.12.2009	31.12.2008
Direct centralised management	2 924	3 055
Indirect centralised management	1 990	930
Decentralised management	700	326
Shared management	2 550	5 304
Joint management	832	608
Implemented by other Institutions & Agencies	81	39
Total Short-Term Pre-financing	**9 077**	**10 262**

The decrease in short-term pre-financing is due to the fact that for the Structural Actions under shared management, some projects being funded are in the process of winding down (programmes related to the period 2000-2006), while for the new projects (programmes related to the period 2007-2013) a third pre-financing instalment was paid in 2009, but was classified under long-term assets as explained in note **2.5.** The increase in short-term pre-financing under the indirect centralised management type is due to the transfer of activities from the Commission to new executive agencies, mainly in the research and development fields. The amount of short-term pre-financing for which the European Union is entitled to receive interest from beneficiaries amounts to EUR 4 629 million.

2.10 SHORT-TERM RECEIVABLES

EUR millions

	31.12.2009	31.12.2008
Short-term loans	216	114
Current receivables	4 519	6 128
Sundry receivables	16	23
Accrued income and deferred charges	3 912	5 655
Total	**8 663**	**11 920**

2.10.1 Short-term loans

These amounts concern loans of EUR 41 million with remaining final maturities less than 12 months after the balance sheet date (EUR 40 million relating to MFA loans, see note **2.4** above). Also included under this heading are term deposits of the ECSC in liquidation:

Term Deposits

EUR millions

	Total
Amounts at 31.12.2008	0
Increase	174
Accrued amounts	1
Amounts at 31.12.2009	**175**

2.10.2 Current receivables

EUR millions

Account Group	31.12.2009			31.12.2008		
	Gross amount	Write down	Net Value	Gross amount	Write down	Net Value
Customers	277	(76)	201	243	(79)	164
Fines	3 370	(133)	3 237	4 590	(96)	4 494
Member States	2 198	(1 191)	1 007	2 576	(1 204)	1 372
Others	76	(2)	74	111	(13)	98
Total	**5 921**	**(1 402)**	**4 519**	**7 520**	**(1 392)**	**6 128**

Customers

These are recovery orders entered in the accounts at 31 December 2009 as established entitlements to be recovered and not already included under other headings on the assets side of the balance sheet.

Fines

Amounts to be recovered relating to fines issued by the Commission totalled EUR 3 370 million. A write-down of EUR 133 million was applied to this amount. The increase in this write-down is explained by 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. Additionally, for some fines summary proceedings are still pending before the European Court of Justice. Guarantees totalling EUR 2 952 million had been received by 31 December 2009 (2008: EUR 2 403 million) in respect of these receivables, indicating that the recipient of the fine wishes to appeal it. It should be noted that EUR 290 million of the above amounts were not due for payment at 31 December 2009.

Receivables from Member States

EUR millions

	31.12.2009	31.12.2008
EAGF receivables		
EAGF receivables	627	684
Write-down	(350)	(392)
Total	**277**	**292**
VAT paid and recoverable from Member States	**38**	**36**
Own resources		
Established in the A account	89	97
Established in the separate account	1 260	1 260
Write-down	(841)	(812)
Other	25	16
Total	**533**	**561**
Other receivables from Member States	**159**	**483**
Total	**1 007**	**1 372**

– EAGF receivables

This item covers the amounts owed by beneficiaries of EAGF at 31 December 2009, as declared and certified by the Member States at 15 October 2009, 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 2009. 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.

– Own resources

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 841 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 72 million of recovery of expenses and EAGF advances of EUR 8 million compared to EUR 120 million and EUR 244 million respectively in 2008.

2.10.3 Accrued income and deferred charges

EUR millions

	31.12.2009	**31.12.2008**
Accrued income	3 655	5 402
Deferred charges	230	223
Other	27	30
Total	**3 912**	**5 655**

The main amount under this heading is accrued income of EUR 3 655 million:

EUR millions

Accrued Income	**31.12.2009**	**31.12.2008**
Own resources	2 209	2 576
Agricultural assigned revenue Nov & Dec	940	1 261
Sugar restructuring	0	911
EAGF: non-executed conformity correction decisions	0	368
Cohesion & Regional development Funds: financial corrections	404	146
Fisheries fund	0	32
Other accrued income	102	108
Total accrued income	**3 655**	**5 402**

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

Also included under this heading are deferred charges totalling EUR 230 million of which the main amounts are anticipated payments of EUR 53 million paid under bilateral fisheries agreements with third countries, EUR 36 million for the European school, EUR 44 million for office rental, EUR 22 million for office transformation and EUR 17 million interest on fixed asset leases.

2.11 CASH AND CASH EQUIVALENTS

EUR millions

	31.12.2009	31.12.2008
Unrestricted cash:		
Accounts with Treasuries & Central Banks	10 958	15 039
Current accounts	1 967	1 415
Imprest accounts	42	35
Transfers (cash in transit)	9	26
Short-term deposits and other cash equivalents	1 486	1 456
Total	**14 462**	**17 971**
Restricted cash	**8 910**	**5 753**
Total	**23 372**	**23 724**

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.

The lower balance with Treasuries and Central Banks this year-end is due to the fact that EUR 3.5 billion had to be repaid to Member States in early 2010 following Amending Budget 10/2009, compared to a figure of EUR 6.6 billion last year. The related liability is shown under current payables – see also note **2.18.2** below. Also impacting the cash balance at year-end is cash from assigned revenue not yet used of EUR 2.7 billion (2008: EUR 5.1 billion) which cannot be refunded to Member States and EUR 1.4 billion (2008: EUR 1.7 billion), which was withheld to cover payment appropriations carried over to 2010. The budget outturn of EUR 2.3 billion also has to be repaid to Member States through deduction from their amounts due for 2010.

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.

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

	31.12.2009	31.12.2008
Pensions – Staff	33 316	32 867
Pensions – Others	663	696
Joint Sickness Insurance Scheme	3 263	3 993
Total	**37 242**	**37 556**

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 on 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 amount of this contribution is revised every year and updated as needed to guarantee that these contributions (currently 11.3% of basic salary) are sufficient to finance each year one third of the rights acquired during the year.

The liabilities of the pension scheme were assessed on the basis of the number of staff and retired staff at 31 December 2009 and on the rules of the Staff Regulations applicable at this date. This valuation took into account the benefits linked to seniority, invalidity and survival (different types of pensions as well as invalidity allowance). It was carried out in accordance with the methodology of IPSAS 25 (and therefore also EU accounting rule 12). This accounting standard requires the employer to determine its commitment valued on an actuarial basis, taking into account both the contractual benefits during the active lifetime of employees, and the foreseeable increases in salaries. The actuarial valuation method used to calculate this liability is known as the projected unit credit method.

The main actuarial assumptions available at the valuation date and used on the valuation were as follows:

Actuarial Assumptions	31.12.2009	31.12.2008
Nominal discount rate	4.5%	3.9%
Expected inflation rate	2.5%	1.8%
Real discount rate	2.0%	2.1%
Probability of marriage: Man/Woman	84%/38%	84%/38%
General Salary Growth/pension revaluation	0%	0.3%

The 2008 International Civil Servants Life Table was used in the calculation. The departure on retirement is supposed to occur at the time when the official benefits from his full rights, taking into account the reduction for early retirement and the Barcelona Incentive for late retirement, at the latest at 65 years old. The calculations of gross pensions and family allowances are based on the Staff Regulations.

Liabilities cover the rights previously defined for the following persons:

(1) Staff in active employment at 31 December 2009 in all the Institutions and Agencies included in the pension 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 (exclusively those 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 main movement since 31 December 2008 were as follows:.

EUR millions

Movement in Staff Pension Liability	Amount
Gross pension liability as at 31 December 2008	36 495
Service cost	1 360
Interest cost	1 456
Benefits paid	(1 035)
Actuarial gains	(1 248)
Change due to newcomers	187
Gross pension liability as at 31 December 2009	**37 215**

The principal points to note are:

– The gross actuarial liability was valued at EUR 37 215 million at 31 December 2009 (2008: EUR 36 495 million). Added to this is a co-efficient corrector effect of EUR 1 079 million (2008: EUR 1 277 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 2009 has thus been estimated at EUR 33 316 million.

– The members of the staff pension scheme increased by 5 082 individuals. This increase concerns mainly Temporary Agents, Contractual Agents and MEP's assistants, the latter being included for the first time in the scheme.

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 certain Members of 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. This gross liability has been valued at EUR 3 535 million. Plan assets of EUR 272 million are deducted from this gross liability to arrive at the net amount. The calculations take into account active officials and pensioners from the various EU Institutions and Agencies, and their families, and active Members and pensioners from the Commission, the Court of Auditors, the Court of Justice, the Council, the European Data Protection Supervisor and the European Ombudsman. The discount rate and the general salary growth used in the calculation are the same as those used in the staff pension valuation (see above). Actuarial gains due to changes in actuarial assumptions are the main reason for the small decrease in the liability.

EUR millions

Movement in Joint Sickness Insurance Liability	Amount
Gross liability as at 31 December 2008	4 248
Normal cost	168
Interest cost	169
Benefits paid	(85)
Actuarial gains	(965)
Gross liability as at 31 December 2009	3 535
Less Plan assets	(272)
Net Liability as at 31 December 2009	**3 263**

2.13 LONG-TERM PROVISIONS

EUR millions

	31.12.2008	Additional provisions	Unused amounts reversed	Amounts used	Transfer to/from short-term	Change in estimation	31.12.2009
Legal cases	421	54	(50)	(12)	0	0	413
Nuclear site dismantlement	819	0	0	0	(22)	111	908
Financial	12	67	0	0	(3)	0	76
Other	89	45	(12)	(37)	(13)	0	72
Total	**1 341**	**166**	**(62)**	**(49)**	**(38)**	**111**	**1 469**

Legal cases

This is the estimate of amounts that will probably have to be paid out after 2010 in relation to a number of ongoing legal cases. The largest portion, EUR 409 million, concerns court cases pending at 31 December 2009 in relation to financial corrections for EAGF expenditure and other court cases concerning agricultural expenditure.

Nuclear site dismantlement

In 2008 a consortium of independent experts made an update of their 2003 study into the estimated costs of the decommissioning of the JRC nuclear facilities and waste management programme. Their revised estimate of EUR 1 222 million (previously EUR 1 145 million) is taken as the basis for the provision to be included in the financial statements. In accordance with the EU accounting rules, this estimate is indexed for inflation and then discounted to its net present value. At 31 December 2009, this resulted in a total provision of EUR 930 million split between amounts expected to be paid in 2010 (EUR 22 million) and afterwards (EUR 908 million.). In view of the estimated duration of this programme (around 30 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

Under the SME Guarantee Facility 1998, the SME Guarantee Facility 2001 and the SME Guarantee Facility 2007 under CIP, 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. As at the balance sheet date, financial provisions correspond for both facilities to the payment obligations towards financial intermediaries minus the net payment demands made up to that date. Long-term financial provisions are discounted to their net present value.

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 60 million (2008: EUR 101 million) split between amounts expected to be settled in 2010 (EUR 25 million) and afterwards (EUR 35 million).

2.14 LONG-TERM FINANCIAL LIABILITIES

2.14.1 Borrowings

EUR millions

Name	31.12.2008	New borrowings	Repayments	Exchange differences	Change in carrying amount	31.12.2009
MFA	663	25	(95)	-	(6)	587
BOP	2 004	7 200	-	-	99	9 303
EURATOM	494	7	(11)	(1)	(5)	484
ECSC in liquidation	282	-	(67)	18	(8)	225
Total	**3 443**	**7 232**	**(173)**	**17**	**80**	**10 599**

Split of borrowings between long-term & short-term *EUR millions*

Borrowings	Maturity< 1 year	Maturity > 1 year	Total at 31.12.2009
MFA	40	547	587
BOP	-	9 303	9 303
EURATOM	-	484	484
ECSC in liquidation	-	225	225
Total	**40**	**10 559**	**10 599**

This heading includes borrowings due by the European Union maturing in over one year. Borrowings include debts evidenced by certificates amounting to EUR 10 324 million (2008: EUR 3 131 million). The changes in carrying amount correspond to the change in accrued interests plus, in the case of ECSC in liquidation's borrowings, the amortisation of the year of any material transaction costs incurred at inception, calculated according to the effective interest rate method. The effective interest rates (expressed as a range of interest rates) were as follows:

Borrowings	**31.12.2009**	**31.12.2008**
Macro Financial Assistance (MFA)	0.9625%-4.54%	3.022%-5.29%
Euratom	0.9031%-5.6775%	3.348%-5.6775%
BOP	3.125%-3.625%	3.25%
ECSC in liquidation	0.346%-9.2714%	4.939%-11.875% (*)

(*) higher bound value related to a fixed rate borrowing covered by an interest rate swap

2.15 OTHER LONG-TERM LIABILITIES

EUR millions

	31.12.2009	**31.12.2008**
Finance Leasing debts	1 736	1 770
Buildings paid for in instalments	395	403
Other	47	53
Total	**2 178**	**2 226**

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

	31.12.2008	**Additional provisions**	**Unused amounts reversed**	**Amounts used**	**Transfers to/ from other headings**	**Change in estimation**	**31.12.2009**
Legal cases	16	18	(3)	(1)	0	0	30
Nuclear site dismantlement	89	0	0	(28)	22	(61)	22
Financial	202	14	(50)	(41)	3	0	128
Other	41	7	(23)	(5)	13	0	33
Total	**348**	**39**	**(76)**	**(75)**	**38**	**(61)**	**213**

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 borrowings (see note **2.14.1**) of EUR **40 million** that mature during the 12 months following the balance sheet date (2008: EUR 94 million plus EUR 25 million relating to held for trading liabilities).

2.18 ACCOUNTS PAYABLE

EUR millions

	31.12.2009	31.12.2008
Current portion of long-term liabilities	71	64
Current payables	15 260	12 026
Sundry payables	133	115
Accrued charges and deferred income	78 420	77 472
Total	**93 884**	**89 677**

2.18.1 Current portion of long-term liabilities

EUR millions

	31.12.2009	31.12.2008
Finance leasing liabilities	59	52
Other	12	12
Total	**71**	**64**

2.18.2 Current payables

EUR millions

Type	31.12.2009	31.12.2008
Member States	14 903	11 386
Suppliers and other	944	1 175
Eligibility to be checked	(587)	(535)
Total	**15 260**	**12 026**

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 “eligibility to be checked” accounts. In order not to overestimate assets and liabilities, it has been decided to present the net amount to be paid under the current liabilities.

Member States

The primary amounts here relate to EUR 11 160 million (2008: EUR 4 660 million) in unpaid cost claims for Structural Fund actions. Also included here is EUR 3 524 million due back to Member States following a amending budget made at the end of 2009 (2008: EUR 6 627 million) - this was paid to Member States in February 2010.

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).

Eligibility to be checked

Payables are reduced by EUR 587 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

	31.12.2009	31.12.2008
Accrued charges	76 435	77 260
Deferred income	1 976	50
Other	9	162
Total	**78 420**	**77 472**

The split of accrued charges is as follows:

Accrued Charges

EUR millions

	31.12.2009	31.12.2008
EAGF accrued charges:		
Expenses 16/10/2009 to 31/12/2009	32 087	30 415
Direct Aid	12 195	12 682
Sugar restructuring	735	3 787
Others	(55)	(13)
Total EAGF:	**44 962**	**46 871**
Structural Actions accrued charges:		
EAFRD & EAGGF-G	9 076	7 004
ERDF & innovative actions	11 777	10 687
Cohesion fund	980	2 810
ISPA	3	4
ESF	5 411	4 596
Total Structural Funds:	**27 247**	**25 101**
Other accrued charges:		
R&D	1 687	1 978
Other	2 539	3 310
Total Others:	**4 226**	**5 288**
Total accrued charges	**76 435**	**77 260**

After a slow start-up in previous years, the Structural Actions' 2007-2013 programmes reached a normal level in 2009, thus explaining the increases under that heading above. This increase is compensated by a decrease in accrued charges for sugar restructuring, as it appears part of these funds would not actually be used.

The significant increase in deferred income is due to the advance payment of 2010 own resources contributions by two Member States.

NET ASSETS

2.19 RESERVES

EUR millions

	31.12.2009	31.12.2008
Fair value reserve	**69**	**41**
Other reserves:		
Guarantee Fund	1 472	1 276
Revaluation reserve	57	57
Borrowing and lending activities	1 511	1 528
Other	214	213
Total	**3 254**	**3 074**
Total	**3 323**	**3 115**

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.

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 2008	**50 539**
Return of 2008 budget surplus to Member States	1 796
Movement in Guarantee Fund reserve	196
Other reserve movements	(10)
ECSC in liquidation: allocation of 2008 result	(15)
Economic outturn (surplus) for the year	(4 457)
Total amounts to be called from Members States at 31 December 2009	**48 049**
Split between:	
Employee Benefits	37 242
Other amounts	10 807

This amount represents that part of the expenses already incurred by the EU up to 31 December 2009 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 2009 was EUR 32 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.

There was a decrease in the other amounts to be called from Members States compared to last year, EUR 10.8 billion compared to EUR 13 billion in 2008. This decrease is due mainly to the increase of EUR 9.5 billion increase in pre-financing (notes **2.5 & 2.9**) offset by the EUR 4.2 billion increase in accounts payable (see note **2.18**) and the EUR 3.3 billion decrease in short-term receivables (note **2.10**).

It is essentially only the employee benefits obligations of the EU 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 2010	1 214
Long-term: amounts to be paid after 2010	36 028
Total employee benefits liability at 31.12.2009	**37 242**

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	2009	2008
Own resource revenue:	*3.1.1*		
GNI resources		81 978	74 479
VAT resources		12 795	19 008
Traditional own resources:			
Agricultural duties		*0*	*1 184*
Custom duties		*14 002*	*15 196*
Sugar levies		*130*	*702*
Total traditional own resources		14 132	17 082
Budgetary adjustments	*3.1.2*	1 399	1 930
Contributions of third countries (incl. EFTA countries)		233	214
Total		**110 537**	**112 713**

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, in turn, 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.

VAT-based own resources derive from the application of a uniform rate, fixed at 0.30%, to the harmonised VAT base for all Member States, (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%), a base which 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 based resources and miscellaneous revenue. The revenue derives from the application of a uniform rate to the aggregate GNI of all the Member States.

Compared to 2008, there has been a EUR 6.2 billion decrease in the VAT resource revenue, which was more than offset by an increase of EUR 7.5 billion in the GNI based own resource revenue. These movements are explained mainly by the different provisions laid down in the Council Decision No. 2007/436/EC, Euratom of 7 June 2007 on the system of the European Union's own resources (ORD 2007) that replaced those of the previous own resources decision from 2000. There is no agricultural duties revenue recorded in 2009 since, following the entry into force in 2009 of the ORD 2007, these duties are now considered as custom duties. There has been a EUR 1.1 billion decrease in custom duties caused by a significant reduction for EU-27 in imports in value terms in 2009 compared with 2008 and a EUR 572 million decrease in sugar levies because in 2008 there had been an extra revenue coming from the one-off amounts from additional sugar quotas.

3.1.2 Budgetary adjustments

The budgetary adjustments include the budget surplus from 2008 (EUR 1 796 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 2009. 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 319 million was registered under this heading being the differences in the Euro rates used for budgetary purposes (see Article 10 (3) of Regulation 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	2009	2008
Fines	*3.2.1*	2 648	3 171
Agricultural levies	*3.2.2*	705	2 299
Recovery of expenses:	*3.2.3*		
Direct centralised management		63	61
Indirect centralised management		6	4
Decentralised management		41	90
Shared management		1 066	1 349
Total		1 176	1 504
Revenue from administrative operations:	*3.2.4*		
Staff		1 010	974
Property, plant and equipment related revenue		33	25
Other administrative revenue		165	149
Total		1 208	1 148
Miscellaneous operating revenue:	*3.2.5*		
Adjustments/provisions		150	71
Exchange gains		618	269
Other		1 027	1 269
Total		1 795	1 609
Total		**7 532**	**9 731**

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 99 million (2008: EUR 338 million) and sugar levies of EUR 606 million (2008: EUR 1 961 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 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.

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 1 066 million, relates to shared management and is made up of EUR 453 million concerning the European Agricultural Guarantee Fund (EAGF) and EUR 613 million for Structural Actions.

(a) Agriculture: EAGF

In the framework of agriculture, amounts accounted for as revenue of the year under this heading are EUR 453 million, made up as follows:

– conformity corrections decided during the year, EUR 347 million;

– fraud and irregularities EUR 106 million: reimbursements declared by Member States and recovered during the year, EUR 163 million, less the decrease in the outstanding amounts declared by Member States to be recovered at year-end concerning fraud and irregularities, EUR 57 million (EUR 627 million at year-end 2009 compared to EUR 684 million at year-end 2008) – see also note 2.10.2.

At 31 December 2009 the amount of EAGF expenditure subject to future corrections following audits which were not yet finalised totalled EUR 2.8 billion (see note **6.4.1**.).

(b) Structural Actions:

The recovery of expenditure under the Structural Actions included under this heading amounted to EUR 613 million (2008: EUR 349 million). This sub-heading includes recovery orders issued by the Commission to recover undue expenditure made in previous years for an amount of EUR 406 million, and the variation (increase) of the accrued income at year-end for EUR 206 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.

At 31 December 2009, EUR 1.1 billion is estimated as the amount of potential financial corrections in the process of being decided - see note **6.4.2** for more details.

3.2.4 Revenue from administrative operations

This revenue arises mainly 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 376 million (2008: EUR 321 million) relates to amounts received from accession countries. The main reason for the increase in miscellaneous operating revenues compared with last year is the increase in exchange gains (see below). This was slightly offset by the decrease in old pre-financing amounts included on the balance sheet for the first time, the counter-part of which appears under this heading (EUR 5 million compared to EUR 241 million in 2008).

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.

Looking at the net position, there was a net exchange gain for the year of EUR 185 million (2008: net loss of EUR 504 million). This is split between unrealised and realised amounts and the Commission accounted almost all of the amounts:

Net Unrealised Exchange Rate Gain:

The net gain of EUR 132 million is the result of the year end revaluation of outstanding balances in foreign currencies. Most of the gain (EUR 87 million) is related to the GBP and SEK currencies, both of which appreciated against the EUR in 2009.

Significant balances in foreign currencies, including GBP and SEK, are held at year end by the Commission on its own resources bank accounts. In accordance with Council Regulation 1150/2000 these funds are kept by the Commission on its own resources accounts, where they are paid by Member States, and are drawn on to the extent necessary to cover the Commission's cash requirements arising out of the implementation of the budget.

Net Realised Exchange Rate Gain:

Most of the overall exchange rate gain of EUR 53 million arises from accounting transactions related to the own resources paid in national currencies other than EUR by non Euro-zone Member States. It results from the difference between the accounting exchange rate at which these amounts are accounted for by the Commission when they are received, and the market exchange rate at which they are converted to EUR before being used to cover the Commission's payments. The accounting exchange rate for any given month is fixed, on the basis of the market exchange rate of the penultimate day of the preceding month. Own resources are accounted for at such exchange rates when they are received and are then converted in EUR at market exchange rates at later dates.

In the course of 2009 several European currencies, including in particular GBP and RON have significantly appreciated in value. As a result of this the market exchange rates applied in certain periods for the conversion of Commission's own resources in these currencies were regularly higher than the accounting rates at which they were accounted for when received. The remaining part of the difference is related to other accounting transactions including payments executed by the Commission in other currencies than EUR.

The change in overall exchange rate differences between 2008 and 2009 from a net loss to a net gain is a result of the significant change in currency rates in the course of those two years. During 2008 several European currencies depreciated significantly versus EUR, while in 2009 this trend partly reversed.

3.3 ADMINISTRATIVE EXPENSES

EUR millions

	2009	**2008**
Staff expenses	4 898	4 563
Depreciation and impairment	436	330
Other administrative expenses	2 799	2 827
Total	**8 133**	**7 720**

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	2009	2008
Primary operating expenses:	*3.4.1*		
Direct centralised management		8 744	7 998
Indirect centralised management		3 605	3 077
Decentralised management		137	1 278
Shared management		89 681	81 839
Joint management		1 655	1 188
Total		**103 822**	**95 380**
Other operating expenses:	*3.4.2*		
Adjustments/provisions		199	278
Exchange losses		432	773
Other		481	783
Total		**1 112**	**1 834**
Total		**104 934**	**97 214**

3.4.1 Primary operating expenses

The European Union's operating expenditure covers the various headings of the financial perspective and takes different forms, depending on how the money is paid out and managed. The majority of the expenditure, 86%, falls under the heading "Shared Management" involving the delegation of tasks to Member States, covering such areas as EAGF spending and actions financed through the different Structural Actions (the regional development fund, the social fund, the agricultural fund for rural development, the cohesion fund and the fisheries fund).

The increase in 2009 is due mainly to the Structural Actions for the programming period 2007-2013. After a slow start-up in previous years, these programmes reached a normal level in 2009, while the actions for 2000-2006 are winding-up.

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.

3.5 FINANCIAL REVENUE

EUR millions

	2009	2008
Dividend income (from Venture Capital Funds)	**14**	**22**
Interest income:		
On pre-financing	59	50
On late payments	132	26
On swaps	2	13
On available for sale assets	100	102
On loans	265	105
On cash & cash equivalents	158	349
Other	3	3
Total	**719**	**648**
Other financial income:		
Realised gain on sale of financial assets	10	4
Other	76	11
Total	**86**	**15**
Present value adjustments	**10**	**3**
Exchange gains	**6**	**10**
Total	**835**	**698**

3.6 FINANCIAL EXPENSES

EUR millions

	2009	2008
Interest expenses:		
Leasing	95	91
On swaps	2	10
On borrowings	248	90
Other	20	9
Total	**365**	**200**
Other financial expenses:		
Adjustments to financial provisions	39	12
Financial charges on budgetary instruments	73	50
Realised loss on sale of financial assets	0	8
Impairment losses on financial assets	15	11
Other	57	56
Total	**184**	**137**
Present value adjustments	**0**	**118**
Exchange losses	**45**	**12**
Total	**594**	**467**

3.7 SHARE OF NET SURPLUS/(DEFICIT) OF ASSOCIATES & JOINT VENTURES

In accordance with the equity method of accounting, the EU includes in its economic outturn account its share of the net surplus/deficit of its associates and joint ventures (see also notes **2.3.1 & 2.3.2**).

3.8 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 are grouped for financial statement presentation purposes 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.

The consolidated agencies are integrated into the different policy areas. Other Institutions, aside from the Commission are grouped in a specific policy area. The various policy areas represent gross figures before consolidation eliminations and the consolidation eliminations are done globally in one column.

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 of the net result with 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	2 648	0	0	0	0	0	2 648
Agricultural levies	705	0	0	0	0	0	705
Recovery of expenses	1 110	64	2	0	0	0	1 176
Revenue from admin operations	79	37	840	0	377	(125)	1 208
Other operating revenue	1 930	81	707	2	1	(926)	1 795
OTHER OPERATING REVENUE	**6 472**	**182**	**1 549**	**2**	**378**	**(1 051)**	**7 532**
Administrative expenses:							
Staff expenses	(1 732)	(737)	(1 151)	0	(1 287)	9	(4 898)
Intangible assets and PPE related expenses	(70)	(18)	(118)	0	(230)	0	(436)
Other administrative expenses	(658)	(311)	(853)	0	(1 225)	248	(2 799)
	(2 460)	**(1 066)**	**(2 122)**	**0**	**(2 742)**	**257**	**(8 133)**
Operating expenses:							
Direct centralised management	(6 279)	(2 843)	(278)	0	0	656	(8 744)
Indirect centralised management	(2 971)	(616)	(4)	0	0	(14)	(3 605)
Decentralised management	(32)	(105)	0	0	0	0	(137)
Shared management	(89 546)	(9)	(126)	0	0	0	(89 681)
Joint management	(368)	(1 287)	0	0	0	0	(1 655)
Other operating expenses	(726)	(9)	(468)	(61)	0	152	(1 112)
	(99 922)	**(4 869)**	**(876)**	**(61)**	**0**	**794**	**(104 934)**
TOTAL OPERATING EXPENSES	**(102 382)**	**(5 935)**	**(2 998)**	**(61)**	**(2 742)**	**1 051**	**(113 067)**
NET OPERATING EXPENSES	**(95 910)**	**(5 753)**	**(1 449)**	**(59)**	**(2 364)**	**0**	**(105 535)**
Own resource and contributions revenue							**110 537**
Surplus from operating activities							**5 002**
Net financial income							241
Movement in employee benefits liability							(683)
Share of associates/joint venture results							(103)
Economic outturn for the year							**4 457**

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	8	2 626	0	0	2	10	0	0
Agricultural levies	0	0	0	0	705	0	0	0	0
Recovery of expenses	3	5	0	60	492	3	1	6	12
Revenue from administrative operations	0	9	0	0	0	17	0	1	4
Other operating revenue	7	261	0	33	84	203	35	513	5
OTHER OPERATING REVENUE	**10**	**283**	**2 626**	**93**	**1 281**	**225**	**46**	**520**	**21**
Administrative expenses:	**(53)**	**(243)**	**(74)**	**(102)**	**(108)**	**(265)**	**(100)**	**(292)**	**(127)**
Staff expenses	(46)	(161)	(68)	(75)	(88)	(178)	(74)	(197)	(96)
Intangible assets and PPE related expenses	0	(15)	0	(1)	0	(9)	(1)	(2)	0
Other administrative expenses	(7)	(67)	(6)	(26)	(20)	(78)	(25)	(93)	(31)
Operating expenses:	**(35)**	**(358)**	**(16)**	**(8 153)**	**(55 539)**	**(1 726)**	**(192)**	**(3 646)**	**(1 220)**
Centralised direct management	(35)	(159)	0	(182)	(43)	(607)	(173)	(2 647)	(1 108)
Centralised indirect management	0	(39)	0	0	0	(667)	(4)	(922)	(103)
Decentralised management	0	0	0	(3)	(8)	(11)	0	0	0
Shared management	0	0	0	(7 952)	(55 427)	0	0	0	0
Joint management	0	(68)	0	0	0	(285)	0	0	0
Other operating expenses	0	(92)	(16)	(16)	(61)	(156)	(15)	(77)	(9)
TOTAL OPERATING EXPENSES	**(88)**	**(601)**	**(90)**	**(8 255)**	**(55 647)**	**(1 991)**	**(292)**	**(3 938)**	**(1 347)**
NET OPERATING EXPENSES	**(78)**	**(318)**	**2 536**	**(8 162)**	**(54 366)**	**(1 766)**	**(246)**	**(3 418)**	**(1 326)**

	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	2	0	0	0	0	0	2 648
Agricultural levies	0	0	0	0	0	0	0	0	705
Recovery of expenses	0	23	0	497	0	4	1	3	1 110
Revenue from administrative operations	45	0	0	0	0	1	1	1	79
Other operating revenue	159	8	190	(1)	1	156	136	140	1 930
OTHER OPERATING REVENUE	**204**	**31**	**192**	**496**	**1**	**161**	**138**	**144**	**6 472**
Administrative expenses:	**(308)**	**(39)**	**(161)**	**(69)**	**(49)**	**(177)**	**(177)**	**(116)**	**(2 460)**
Staff expenses	(226)	(32)	(105)	(55)	(40)	(88)	(120)	(83)	(1 732)
Intangible assets and PPE related expenses	(28)	0	(4)	0	(2)	(1)	(4)	(3)	(70)
Other administrative expenses	(54)	(7)	(52)	(14)	(7)	(88)	(53)	(30)	(658)
Operating expenses:	**(143)**	**(544)**	**(36)**	**(25 789)**	**(65)**	**(1 341)**	**(495)**	**(624)**	**(99 922)**
Centralised direct management	(29)	(282)	(7)	(37)	(65)	(157)	(395)	(353)	(6 279)
Centralised indirect management	0	0	0	(17)	0	(1 179)	(40)	0	(2 971)
Decentralised management	0	0	0	(10)	0	0	0	0	(32)
Shared management	0	(260)	0	(25 710)	0	0	0	(197)	(89 546)
Joint management	0	0	0	(15)	0	0	0	0	(368)
Other operating expenses	(114)	(2)	(29)	0	0	(5)	(60)	(74)	(726)
TOTAL OPERATING EXPENSES	**(451)**	**(583)**	**(197)**	**(25 858)**	**(114)**	**(1 518)**	**(672)**	**(740)**	**(102 382)**
NET OPERATING EXPENSES	**(247)**	**(552)**	**(5)**	**(25 362)**	**(113)**	**(1 357)**	**(534)**	**(596)**	**(95 910)**

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	14	0	9	39	2	64
Revenue from administrative operations	37	0	0	0	0	37
Other operating revenue	81	0	(1)	1	0	81
OTHER OPERATING REVENUE	**132**	**0**	**8**	**40**	**2**	**182**
Administrative expenses:	**(799)**	**(50)**	**(146)**	**(45)**	**(26)**	**(1 066)**
Staff expenses	(511)	(45)	(129)	(36)	(16)	(737)
Intangible assets and PPE related expenses	(18)	0	0	0	0	(18)
Other administrative expenses	(270)	(5)	(17)	(9)	(10)	(311)
Operating expenses:	**(2 924)**	**(12)**	**(939)**	**(142)**	**(852)**	**(4 869)**
Direct centralised management	(1 514)	(6)	(610)	(296)	(417)	(2 843)
Indirect centralised management	(563)	0	(1)	(52)	0	(616)
Decentralised management	(185)	0	(122)	202	0	(105)
Shared management	(26)	0	17	0	0	(9)
Joint management	(634)	(6)	(218)	6	(435)	(1 287)
Other operating expenses	(2)	0	(5)	(2)	0	(9)
TOTAL OPERATING EXPENSES	**(3 723)**	**(62)**	**(1 085)**	**(187)**	**(878)**	**(5 935)**
NET OPERATING EXPENSES	**(3 591)**	**(62)**	**(1 077)**	**(147)**	**(876)**	**(5 753)**

SEGMENT REPORTING – SERVICES & OTHER

	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	1	0	0	0	0	0	2
Revenue from administrative operations	0	6	0	692	0	50	0	92	0	840
Other operating revenue	(2)	0	6	54	(1)	(2)	0	47	605	707
OTHER OPERATING REVENUE	**(1)**	**6**	**6**	**747**	**(1)**	**48**	**0**	**139**	**605**	**1 549**
Administrative expenses:	**(96)**	**(49)**	**(148)**	**(1 360)**	**(65)**	**(51)**	**(8)**	**(380)**	**35**	**(2 122)**
Staff expenses	(61)	(36)	(129)	(564)	(60)	(38)	(8)	(290)	35	(1 151)
Intangible assets and PPE related expenses	(2)	0	0	(116)	0	0	0	0	0	(118)
Other administrative expenses	(33)	(13)	(19)	(680)	(5)	(13)	0	(90)	0	(853)
Operating expenses:	**(98)**	**(13)**	**0**	**(36)**	**(30)**	**(261)**	**0**	**(14)**	**(424)**	**(876)**
Direct centralised management	(94)	(13)	0	(32)	(29)	(109)	0	(1)	0	(278)
Indirect centralised management	(4)	0	0	0	0	0	0	0	0	(4)
Shared management	0	0	0	0	0	(126)	0	0	0	(126)
Other operating expenses	0	0	0	(4)	(1)	(26)	0	(13)	(424)	(468)
TOTAL OPERATING EXPENSES	**(194)**	**(62)**	**(148)**	**(1 396)**	**(95)**	**(312)**	**(8)**	**(394)**	**(389)**	**(2 998)**
NET OPERATING EXPENSES	**(195)**	**(56)**	**(142)**	**(649)**	**(96)**	**(264)**	**(8)**	**(255)**	**216**	**(1 449)**

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 need 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 EU's reporting currency (Euro), by applying to the foreign currency amount the exchange rate between the euro and the foreign currency at the date of the cash flow.

The cashflow 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 8 910 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

	Note	31.12.2009	31.12.2008
Guarantees received	5.1	279	260
Contingent assets relating to cases of fraud & irregularities	5.2	1 944	2 010
Financial corrections in progress (awaiting final decision)	5.3	0	4 390
Other contingent assets	5.4	18	43
Total Contingent Assets		**2 241**	**6 703**

CONTINGENT LIABILITIES

EUR millions

Contingent Liabilities	Note	31.12.2009	31.12.2008
Guarantees given	5.5	19 330	17 510
Fines – appeals to the Court of Justice	5.6	11 969	10 198
EAGF – court judgements pending	5.7	1 945	1 609
Amounts relating to legal cases and other disputes	5.8	416	281
Other contingent liabilities	5.9	12	18
Total Contingent Liabilities		**33 672**	**29 616**

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

CONTINGENT ASSETS

5.1 GUARANTEES RECEIVED

EUR millions

	31.12.2009	31.12.2008
Performance guarantees	252	239
Other	27	21
Total	**279**	**260**

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

5.2 FRAUD AND IRREGULARITIES

The table below presents the potential amount of recoveries which may be made by Member States 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, with amounts broken down by Member State.

Contingent assets: fraud & irregularities cases

EUR millions

Member State	31.12.2009	31.12.2008
Austria	8	13
Belgium	2	16
Czech Republic	13	13
Denmark	2	10
Estonia	3	2
Finland	2	3
France	15	12
Germany	468	581
Greece	25	62
Hungary	6	5
Ireland	1	1
Italy	436	441
Latvia	5	4
Lithuania	5	2
Malta	1	1
Netherlands	15	14
Poland	18	13
Portugal	82	114
Slovakia	39	9
Slovenia	7	1
Spain	277	279
Sweden	2	2
United Kingdom	347	257
TOTAL	**1 779**	**1 855**

The figures given in this table represent a theoretical maximum rather than the amounts that will actually be made available to the EU budget, for the following reasons:

- The Member States do not always report the results of their recovery operations.

- Although Member States must inform the Commission of the likelihood of recovery, it is impossible to determine exactly what proportion of the amounts still to be recovered will actually be recovered. National laws sometimes provide for a 30-year limitation period, which may well make the national authorities delay formally writing off the debt even if the chances of recovery are only theoretical. For structural operations, Member States must now send the Commission once a year a statement of the amounts awaiting recovery (Article 8 of Regulation No 438/2001) to give a better picture of the actual situation.
- Even if the Member State concerned launches recovery proceedings in time, a positive outcome is not guaranteed. This is particularly true where recovery orders are contested in the courts.
- Individual projects are co-financed as part of multi-annual programmes. As long as a multi-annual programme has not been closed, it is impossible to put an exact figure on the amounts to be recovered because the funding used for irregular expenditure may, in certain circumstances, be reallocated to other, legitimate projects and because subsequent instalments, in particular final payments, can sometimes be used as a means of adjusting for earlier irregular expenditure. The figures in these tables are provisional figures based on the reports received and processed up to the end of February 2010. These figures may be changed in line with further reports arriving late.

The prospects of recovery in individual cases cannot be assessed with sufficient accuracy from the information forwarded by the Member States. The main movements since 2008 concern increases relating to the "EU10" countries. The implementation of the Cohesion Policy started fully in 2004 and ever since, due to increasing implementation and increased controls on the co-financed operations, the reported number of irregularities has been increasing. Another main variation in relation to 2008 concerns the United Kingdom which has been reporting an increased number of irregularities following extensive audits carried out on the financed operations.

Also included under this heading is EUR 165 million in relation to EAGF (2008: EUR 153 million). Member States communicated to the Commission the amounts that have been recorded in their "debtors' ledger", and also amounts that still were at a preliminary stage of checking. It is these preliminary amounts that are disclosed under this heading.

5.3 FINANCIAL CORRECTIONS IN PROGRESS, AWAITING FINAL DECISION

This information, which concerns the recovery of EU expenditure, is now disclosed, together with related information, in note **6** of these financial statements.

5.4 OTHER CONTINGENT ASSETS

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

CONTINGENT LIABILITIES

5.5 GUARANTEES GIVEN

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

EUR millions

	Risk Sharing 31.12.2009	Non-risk Sharing 31.12.2009		Outstanding 31.12.2009 Total	Outstanding 31.12.2008
		Public authority	Private company		
65% guarantee	3 127	9 126	2 692	**14 945**	12 429
70% guarantee	109	1 981	506	**2 596**	2 908
75% guarantee	0	617	233	**850**	1 049
100% guarantee	0	625	196	**821**	1 008
Total	**3 236**	**12 349**	**3 627**	**19 212**	17 394

The EU budget guarantees loans signed and granted by the EIB from its own resources to third countries at 31 December 2009 (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 2009 the amount outstanding totalled EUR 19 212 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.

5.5.2 Other guarantees given

EUR millions

	31.12.2009	31.12.2008
Risk Sharing Finance Facility (RSFF)	94	48
MEDA: Moroccan guarantees	17	66
Loan Guarantee Instrument for Ten-T Projects (LGTT)	6	1
Other	1	1
Total	**118**	**116**

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. An amount of EUR 94 million has been blocked by the Commission as a "Capital Allocation". This Capital Allocation covers unexpected losses on the loans and guarantees given by the EIB within the framework of the RSFF. It is the maximum loss the Commission might suffer in case of defaults on loans or guarantees given. It is the ceiling of the guarantee given by the Commission with respect to the RSFF and thus considered as a contingent liability by the EU.

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 2009, EUR 17 million fell under the Commission guarantee.

The Loan Guarantee Instrument for Ten-T Projects (LGTT) (2007-2013) aims to issue guarantees 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 will be a joint financial product of the Commission and the EIB and EUR 500 million from the EU budget will be allocated. The EIB will allocate another EUR 500 million so in total the amount available will be EUR 1 billion. The amount included here, EUR 6 million, represents the contribution to the provisioning of unexpected losses in relation to the LGTT operations.

5.6 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 460 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.

5.7 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**.

5.8 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.

Amounts are related to disputes involving suppliers, contractors and former staff. 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.

5.9 OTHER CONTINGENT LIABILITIES

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

OTHER SIGNIFICANT DISCLOSURES

5.10 UNDRAWN COMMITMENTS FINANCIAL ACTIVITIES

EUR millions

	31.12.2009	31.12.2008
Undrawn commitments financial activities	5 733	4 885

These are lending and equity investment agreements entered into by the Commission (not covered by the RAL) but not yet drawn down by the other party before the year-end. The main amounts relate to Balance of Payments loan agreements signed in 2008 and 2009 but not yet disbursed before year-end (EUR 5.4 billion at 31 December 2009).

5.11 BUDGETARY COMMITMENTS MADE, PAYMENTS STILL PENDING

EUR millions

	31.12.2009	31.12.2008
Budgetary commitments made, payments still pending	134 689	120 023

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 2009 the budgetary RAL totalled EUR 177 272 million. The amount above is this budgetary RAL less related amounts that have been included as expenses in the 2009 economic outturn account, giving the total above.

5.12 SIGNIFICANT LEGAL COMMITMENTS

EUR millions

	31.12.2009	31.12.2008
Structural Actions	275 761	332 995
Protocol with Mediterranean countries	263	263
Fisheries agreements	249	401
Galileo programme	1 517	2 023
GMES programme	556	624
TEN-T	4 289	4 571
Other contractual commitments	1 325	983
Total	**283 960**	**341 860**

These commitments originated because the EU 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.

5.12.1 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. Structural Actions represent aid planned for the period 2007-2013. The format and objectives of the Financial Framework period that started in 2007 are different to those of the prior period.

EUR millions

	Financial perspective amounts 2007-2013 (A)	**Legal commitments concluded (B)**	**Budget commitments 2007-2009 (C)**	**Legal commitments less budget commitments (=B-C)**	**Maximum commitment (=A-C)**
Cohesion policy funds	346 543	346 136	140 318	205 818	206 225
Natural Resources	100 624	98 388	39 533	58 855	61 091
Instrument for Pre-Accession Assistance	10 958	5 195	2 513	2 682	8 445
Total	458 125	449 719	182 364	267 355	**275 761**

5.12.2 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 process (of winding them up) is on-going.

5.12.3 Fisheries agreements

These are commitments totalling EUR 249 million entered into with third countries for operations under international fisheries agreements.

5.12.4 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 2009 and including the previous investment in the GJU, paid EUR 1 028 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 of the Galileo programme (from 2008 to 2013) is EUR 2 645 million.

5.12.5 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 2009 an amount of EUR 68 million was paid out to ESA.

5.12.6 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.

5.12.7 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 93 million concerning building related contracts of the Council, as well as EUR 441 million relating to building contracts of the Parliament. The other significant amounts included here are EUR 480 million relating to procurement arrangements between the Fusion for Energy Agency (European Joint Undertaking for ITER and the Development of Fusion Energy) and ITER International and EUR 165 million concerning procurement arrangements signed between the Fusion for Energy Agency, the Japan Atomic Energy Agency (JAEA) and ITER International.

5.13 CONTRIBUTIONS TO RELATED ORGANISATIONS

This sum represents payments outstanding on non-called-up capital subscribed by the Commission.

5.13.1 Uncalled share capital: EBRD

EUR millions

EBRD	**Total EBRD capital**	**Commission subscription**
Capital Paid-in	19 794 (5 198)	600 (157)
Uncalled	14 596	**443**

5.13.2 Uncalled share capital: EIF

EUR millions

EIF	Total EIF capital	Commission subscription
Capital Paid-in	2 940 (588)	861 (172)
Uncalled	2 352	**689**

Following the issuance of 1 000 new shares by the EIF in 2007, during 2009 the EU subscribed for a further 75 shares with a nominal amount of EUR 1 million per share, of which 20% of the nominal amount and the premium were paid in 2009. The participation of the EU is limited to 900 shares (of EUR 900 million). See also note **2.3.1**.

5.14 OPERATING LEASE COMMITMENTS

EUR millions

Description	**Future amounts to be paid**			
	< 1 year	**1- 5 years**	**> 5 years**	**Total**
Buildings	334	1 236	842	2 412
IT materials and other equipment	6	7	0	13
Total	**340**	**1 243**	**842**	**2 425**

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 2009, EUR 364 million was recognised as an expense in the economic outturn account in respect of operating leases.

6. FINANCIAL CORRECTIONS AND RECOVERIES FOLLOWING THE DETECTION OF IRREGULARITIES

In implementing the EU budget it is necessary to ensure the prevention, detection and correction of irregularities and fraud. The objective of this note is to give an overview of the various procedures foreseen in the applicable legislation for the process of dealing with irregularities detected by the Commission and by the Member States, and to present a best estimate of the total amounts concerned. This is the last stage in the operation of control systems and is essential in order to demonstrate sound financial management.

6.1 INTRODUCTION

6.1.1 Overview of the financial correction & recovery process by management type

Recoveries and financial corrections can result from controls and audits at any level of the control system, from audits at EU level (Commission, European Court of Auditors, OLAF) or by the Member States in the case of shared management. Although irregularities may occur at any stage of a project, they can be discovered at the final stage when the beneficiary sends in his final claim, which is in most cases checked on the spot and/or certified by an independent auditor. A distinction ought to be made, however, between recoveries and financial corrections, reflecting differences in the management mode, as outlined in the relevant sector legislation.

Recoveries

Article 71 (3) of the Financial Regulation requires that amounts wrongly paid shall be recovered. A recovery, in this context, is the actual recovery of monies by the Commission or by the Member State due to the detection of undue or irregular expenditure.

Financial Corrections

As outlined in the relevant sector legislation in many areas of EU expenditure (primarily under shared management), the correction of irregularities is dealt with using a mechanism called financial correction. The purpose of financial corrections, made either by the Commission or the Member State, is to restore a situation where 100% of the expenditure declared for financing or for co-financing (cohesion policy) is in line with the applicable national and EU rules and regulations.
In shared management, Member States are primarily responsible for making the financial corrections required in connection with the individual or systematic irregularities detected in operational programmes. The Commission is responsible for ensuring that the systems put in place by the national authorities are effective and, when not, the Commission shall impose financial corrections on Member States.

When undue payments to beneficiaries can be identified as a result of EU controls, financial corrections can be seen as the first step in an actual recovery process since the applicable legislation requires Member States to follow up financial corrections imposed on them and recover monies themselves from the final beneficiaries. In the case of audits from the national authorities, the Member States also have the legal obligation to pursue recoveries at the level of the final beneficiary.

A summary by management type of the different procedures of recovery and financial correction activities and their impact on the EU accounts is given below.

6.1.2 Direct management

When the Commission manages the budget in a direct way, ineligible expenditure is either recovered from the beneficiary or deducted from the next cost statement. If the deduction is made by the beneficiaries before sending the cost statement, the information is not included in the accounting system. This is very often the case since most beneficiaries are required to provide a certified or audited final cost statement to the Commission before they can receive their final payment. This certified statement should correct any irregularities noted.

6.1.3 Shared management

Approximately 80% of the EU budget is managed jointly by the European Commission and Member States and includes principally expenditure on agriculture and rural development, Cohesion Policy and Fisheries.

For expenditure subject to shared management, implementation tasks and responsibilities are delegated to Member States who are primarily responsible for detecting and correcting irregularities committed by beneficiaries and, as a consequence, for ensuring the regularity of expenditure declared to the Commission. Member States thus make financial corrections and, where undue payments to beneficiaries can be identified as a result of their own audit work or of EU controls, they are legally required to initiate recovery proceedings against these beneficiaries.

The European Commission has an overall supervisory role: it verifies the effective functioning of Member States' management and control systems and takes corrective measures when it concludes that this is not the case, in order to assume its responsibility for the implementation of the budget (Article 53(4) of the Financial Regulation). The Commission may also take a formal decision itself to apply financial corrections to the Member State where the Member State has failed itself to make the required corrections or where there are serious failings in the management and control systems which could lead to systemic irregularities.

The Commission shall impose financial corrections in relation to individual irregularities detected but has also the power to apply extrapolated or flat-rate corrections. Extrapolation is used when there are results of a representative sample of files available in relation to a systemic irregularity. Flat rate corrections are applied in the case of individual breaches or systemic irregularities where the financial impact is not precisely quantifiable and where the administrative cost of establishing a precise amount would be disproportionate. In both cases, even where recoveries from beneficiaries are not possible, these corrections are an important means to improve weaknesses in the Member States' systems and thus to prevent or detect and recover irregular payments made to beneficiaries.

6.1.4 Other management types

For expenditure subject to decentralised management and indirect centralised management, the responsibility for recovering payments incorrectly made is delegated to Member States, third countries or agencies. For expenditure subject to joint management, corrective mechanisms are defined in the agreements concluded with international organisations. As with shared management, in cases when the rules of EU expenditure schemes have been incorrectly applied, the Commission can make financial corrections.

6.1.5 Summary of recoveries and financial corrections in 2009

Summary of recoveries & financial corrections confirmed/decided in 2009

EUR millions

Financial Corrections	Note	2009	2008
EAGGF/EAGF/EAFRD	*6.2.2*	462	917
Cohesion policy (EU work)			
- 1994-1999 programmes	*6.2.4*	521	414
- 2000-2006 programmes	*6.2.4*	1 890	1 173
- *Subtotal financial corrections*		*2 411*	*1 587*
Total financial corrections		**2 873**	**2 504**

Recoveries	Note	2009	2008
EAGGF/EAGF/EAFRD (detected by MS)	*6.3*	163	360
Cohesion policy (EU work)	*6.3*	102	31
Other management types	*6.3*	181	72
Total Recoveries		**446**	**463**

Total protection EU budget		2009	2008
Total protection EU budget		**3 319**	**2 967**

This table does not include the recoveries and withdrawals made in the Cohesion Policy by Member States following their own controls. Despite their obligation to provide the Commission with information on withdrawals and recoveries, they are not obliged, by the legislation for the 2000-2006 programmes, to separately identify recoveries resulting from their own controls. For this reason and to avoid the overlap with the financial corrections, the recoveries and withdrawals made by Member States (2009 EUR 1 233 million) are not included (see note **6.5)**.

Summary of recoveries & financial corrections implemented during 2009

EUR millions

Financial Corrections	Note	Confirmed in 2009	Confirmed before 2009	Total
EAGGF/EAGF/EAFRD	*6.2.2*	274	429	**703**
Cohesion funds				
- 1994-99 programmes	*6.2.4*	163	137	**300**
- 2000-2006 programmes	*6.2.4*	313	96	**409**
- *Subtotal financial corrections*		476	233	**709**
Total financial corrections		**750**	**662**	**1 412**

EUR millions

Recoveries	Note	Confirmed in 2009	Confirmed before 2009	Total
EAGGF/EAGF/EAFRD	*6.3.*	117	31	**148**
Cohesion funds	*6.3.*	102	0	**102**
Other management types	*6.3.*	147	34	**181**
Total Recoveries		**366**	**65**	**431**

Total protection EU budget		**1 116**	**727**	**1 843**

6.2 FINANCIAL CORRECTIONS UNDER SHARED MANAGEMENT

In shared management, financial corrections have three main steps:

The amount is still in the process of being finalised through legal and contradictory procedures ("**in progress**" – see note **6.4** below);

(1) The amount is established and finalised ("**decided**" through a Commission decision, or "**confirmed**": agreed with the Member States in shared management); and,

(2) The amount is actually recovered either via cash received from the Member State (decided correction) or via a deduction (withdrawal/recovery) by the Member State from a future payment claim ("implemented"); for financial corrections not yet implemented see note 6.2.4.

6.2.1 Agriculture and rural development

Under EAGF and EAFRD, which have replaced the EAGGF Guarantee section, the applicable legislation foresees that financial corrections are implemented by the Commission through the clearance of accounts procedure.

Clearance of accounts procedure

The clearance of accounts procedure is operated by the Commission and includes an annual financial clearance of accounts of each paying agency and a multi-annual conformity clearance covering the conformity of the expenditure declared by a Member State with EU rules. In the case of EAGF, all these amounts are booked in the economic outturn account of the Commission as revenue. For EAFRD, the amounts recovered by the Member States themselves, as well as those resulting from the annual financial clearance of accounts, are, as a general rule, re-usable for the programme.

Financial clearance: the Commission adopts an annual clearance of accounts decision, by which it formally accepts the paying agencies annual accounts on the basis of management verifications, and of the certificates and reports from the certification bodies.

Conformity clearance is designed to exclude expenditure from EU financing which has not been made in conformity with EU rules. The conformity clearance is, therefore, not a mechanism by which irregular payments are recovered directly from the final beneficiaries, rather a strong incentive for the Member States to improve their management and control systems and thus to prevent or detect and recover irregular payments to final beneficiaries. Furthermore, a conformity correction does not relieve the Member State of its responsibility to pursue identified irregularities. Conformity clearance does not follow an annual cycle as it covers expenditure incurred in more than one financial year.

Financial clearance of payments executed that do not respect the regulatory deadlines: The respect for the fixed deadlines for payments to beneficiaries by Member States is systematically controlled three times a year in accordance with Article 9 of Regulation 883/06. In case of non respect of the deadlines, the Commission effects reductions, subject to certain allowances for special cases and exceptional circumstances, as well as proportionality. These financial corrections are treated as 'negative payments' and accounted for in the economic outturn account as a reduction of expenses.

6.2.2 Agriculture and rural development financial corrections in 2009

Total financial corrections decided in 2009 for agriculture and rural development

EUR millions

	2009	**2008**
Clearance of accounts procedure:		
Financial clearance and non-respected payment deadlines	103	58
Conformity clearance	359	859
Total	**462**	**917**

The above amounts concern EAGF, as for EAFRD there was only approximately EUR 0.4 million of financial corrections in 2009. These amounts are included in the economic outturn account. For a split of the above amounts per Member State see Annex 1.

The decrease in conformity clearance between 2008 and 2009 was due to non implemented conformity clearance decisions at the end of 2008, for a total amount of EUR 368 million.

Financial corrections implemented in 2009 for agriculture and rural development

EUR millions

	2009 implementation
Clearance of accounts procedure	
Financial clearance and non-respected payment deadlines	*103*
Conformity clearance	*600*
Total	**703**

For a split of the above amounts per Member State see Annex 2.

6.2.3 *Cohesion policy*

The legislation applicable to cohesion policy foresees that actions to execute financial corrections are taken both by Member States and the Commission:

- **Member States** may execute financial corrections in two ways. Either they:
  - withdraw the expenditure affected from the programme immediately by deducting it from the next statement of expenditure submitted to the Commission, thereby immediately releasing the EU funding for commitment to other operations; or they
  - leave the expenditure for the time being in the programme pending the outcome of proceedings to recover the unduly paid amount from the beneficiaries. Recovery is made either by obtaining repayment of the sums concerned or setting off the sums to be repaid against further payments due to the same beneficiary. See 6.5 below for details on such recoveries.
  - Member States are required to supply the Commission with data on financial corrections in the form of both the amounts withdrawn from co-financing and the amounts recovered. The two sets of data are distinct and complementary, as only expenditure withdrawn without waiting for the outcome of recovery proceedings is included in **withdrawals**, and only expenditure which has not been withdrawn at the outset, but has been left in the declared expenditure until it is recovered, is included in **recoveries**, once recovery has taken place. Member States are not obliged to identify separately corrections resulting from EU work and the ones resulting from their own audit work. This reporting request has only been introduced for the 2007-2013 programme period.
- Financial corrections following EU audit and controls, are executed as follows:
  - Where the Member State agrees to make a correction as a result of an EU control or audit activity, it may withdraw the already declared irregular expenditure from the next payment claim (which is cumulative for each programme or Cohesion Fund project separately) and re-use the EU funding released for other eligible expenditure under the programme concerned, but not related to the operation(s) that were the subject of the correction.

– The Commission issues recovery orders to execute financial corrections in the following cases:

- After formal financial corrections decisions;
- At the closure of a programme; and,
- After programme closure following recovery by Member states from beneficiaries.

In such cases, recovery orders have an impact on the Commission's accounts.

– No recovery order is issued by the Commission in other cases of financial corrections, notably when Member States accept and implement the financial correction. In such cases, the information is not included in the Commission's accounting system.

6.2.4 Cohesion policy financial corrections in 2009

Note that the table below does not include the results of the Member States' own checks of Structural Actions expenditure:

Financial corrections confirmed in 2009

EUR millions

	ERDF	CF	ESF	FIFG	EAGGF Guidance	TOTAL
Financial Corrections 1994-99 period:						
Implemented	87	10	21	41	4	163
Not yet implemented	358	0	0	0	0	358
Subtotal 1994-99 period	**445**	**10**	**21**	**41**	**4**	**521**
Financial Corrections 2000-2006:						
Implemented	84	63	141	2	25	315
Not yet implemented	1 532	13	18	3	9	1 575
Subtotal 2000-2006 period	**1 616**	**76**	**159**	**5**	**34**	**1 890**
Total financial corrections 2009	**2 061**	**86**	**180**	**46**	**38**	**2 411**
Total financial corrections 2008	*949*	*92*	*522*	*19*	*5*	*1 587*

N.B.: included in figures confirmed in 2009 are financial corrections decided/confirmed in 2008 not previously reported which amount to EUR 90 millions.

The increase in the amounts confirmed between 2009 and 2008 for the ERDF is due to the rigorous actions implemented under the Action Plan to strengthen the Commission's supervisory role under shared management of structural actions (COM(2010)52) and the acceptance of a major financial correction for Spain in November 2009.

The decrease of amounts confirmed relating to the ESF in 2009 compared to the amounts reported for 2008 is due to the implementation of the above-mentioned Commission Action Plan in 2008 aiming at accelerating the decision procedures on financial corrections in progress, which subsequently lowered the number of corrections to be taken in 2009. It is noted that, out of the amount of EUR 522 million of financial corrections confirmed in 2008, implementation of financial corrections for the ESF amount to EUR 518 million for that year.

The figures presented in the previous tables are established on an accrual basis, meaning that while some of these amounts have been already implemented in 2009 (EUR 709 million for all funds), the remaining will be implemented in subsequent years.

Financial corrections confirmed – cumulative figures

EUR millions

	2000-2006 Period	1994-1999 Period	Total
	31.12.2009	**31.12.2009**	**31.12.2009**
Cohesion Fund	233	273	**506**
ERDF	3 797	1 633	**5 430**
ESF	1 130	392	**1 522**
FIFG	7	97	**104**
EAGGF Guidance	36	121	**157**
Total	**5 203**	**2 516**	**7 719**

For a split of the above amounts per Member State see Annex 3.

Financial corrections confirmed as at 31 December 2009 but not yet implemented as at 31 December 2009 (cumulative figures)

The recovery or financial correction is "not yet implemented" when it has been decided or confirmed, but the amount has not yet been recovered, deducted or withdrawn.

EUR millions

To be implemented as at 31.12.2009	ERDF	CF	ESF	FIFG	EAGGF Guidance	TOTAL
Financial Corrections 1994-99 period:	359	11	1	0	0	**371**
Financial Corrections 2000-2006:	1 904	23	22	3	9	**1 961**
Total to be implemented as at 31.12.2009	**2 263**	**34**	**23**	**3**	**9**	**2 332**

The low amount implemented concerning 2009 decisions is related to ERDF. Concerning the programming period 1994-1999, most of the financial corrections not yet implemented during 2009 are financial correction decisions adopted during the 4th Quarter 2009. The implementation will take place during the first quarter 2010.

Concerning the programming period 2000-2006, where the Member State agrees to make a correction as a result of EU control, so as to implement the financial correction, it may withdraw the amount of irregular expenditure in the following declaration of expenditure and replace it with other eligible expenditure under the same programme. As the ceiling for payments has been reached for most of the ERDF programmes and Cohesion Fund projects (2000-2006), the deduction of the ineligible expenditure will be reflected only in the closure documents (final certification of expenditure, winding-up declaration and final implementation report) to be submitted by the Member State in the forthcoming months.

Financial corrections implemented in 2009 (confirmed in 2009 and in previous years)

EUR millions

	ERDF	CF	ESF	FIFG	EAGGF Guidance	TOTAL
Financial Corrections 1994-99 period:						
Confirmed in 2009	87	10	21	40	5	**163**
Confirmed previous years	131	0	0	6	0	**137**
Subtotal 1994-99 period	**218**	**10**	**21**	**46**	**5**	**300**
Financial Corrections 2000-2006:						
Confirmed in 2009	82	63	141	2	25	**313**
Confirmed previous years	34	16	44	2	0	**96**
Subtotal 2000-2006 period	**116**	**79**	**185**	**4**	**25**	**409**
Total financial corrections implemented in 2009	**334**	**89**	**206**	**50**	**30**	**709**

For a split of the above amounts per Member State see Annex 4.

6.3 RECOVERIES MADE BY THE COMMISSION OR BY MEMBER STATES

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.

Recoveries confirmed in 2009

EUR millions

	2009	2008
Shared management		
Agriculture: EAGGF/EAGF	163	360
Cohesion Policy	102	31
Subtotal	**265**	**391**
Other management types:		
- external actions	81	32
- internal policies	100	40
Subtotal	**181**	**72**
Total	**446**	**463**

Recoveries implemented during 2009

EUR millions

	Confirmed in 2009	Confirmed before 2009	Total
Shared management			
Agriculture: EAGGF/EAGF	117	31	**148**
Cohesion Policy	102	0	**102**
Subtotal	**219**	**31**	**250**
Other management types:			
- external actions	60	21	**81**
- internal policies	87	13	**100**
Subtotal	**147**	**34**	**181**
Total	**366**	**65**	**431**

6.3.1 Agriculture: Recovery of irregularities detected by Member States

Member States are obliged to identify and recover sums lost as a result of irregularities following their national rules and procedures. For actions financed by EAGF, if they succeed in recovering from the beneficiaries, they credit the recovered sums to the Commission and these are booked in the economic outturn account as revenue. For EAFRD, recoveries are deducted from the next payment claim, and therefore the relevant EAFRD 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 via the conformity clearance procedure and to impose a financial correction on the Member State concerned.

The reduction of income from irregularities is mainly due to the positive effects of more effective control systems in the Member States including the impact of the 50% clearance procedure (Article 32 (5) of Council Regulation (EC) No 1290/2005).

6.3.2 Cohesion Policy

Member States are primarily responsible for preventing, detecting and correcting irregularities and recovering amounts unduly paid together with interest on late payments, where appropriate. The amounts of recoveries executed by Member States are not included in the table above (see explanation in point 6.5). The amount of recoveries included in this heading concerns recoveries directly made by the Commission.

6.3.3 Other Management types

The recoveries of irregularities detected in other management types are implemented by the issue of a recovery order or by a deduction on a subsequent payment. In a case where the beneficiary is requested to send a corrected final cost statement, the amount of the irregularity is not necessarily included in the Commission's accounting system.

6.4 FINANCIAL CORRECTIONS IN PROGRESS FOLLOWING EU CONTROLS

6.4.1 Agriculture

EUR millions	**Financial corrections in progress as at 31.12.2008**	**New financial corrections in progress in 2009**	**Financial corrections decided in 2009**	**Adjustments on financial corrections decided or in progress as at 31.12.2008**	**Financial corrections in progress as at 31.12.2009**
EAGGF	1 733	657	-317	690	2 763

The Commission determines each year the measures and the Member States that will be audited for conformity on the basis of an annual risk analysis carried out across the range of agricultural expenditure. The conformity clearance procedure takes some years; by the end of 2009, the conformity work on expenditure incurred prior to 2003 had largely been completed. The audits for the years 2003 to 2009 are ongoing.

In accordance with its accounting policies and generally accepted accounting principles, the Commission can use estimates for the preparation of the annual accounts. This is the case for the amount of expenditure which is likely to be excluded from EU financing by such future conformity decisions. This estimate takes into account the most reliable information available. Since EAGF corrections are decided per financial year of expense it is therefore possible to calculate the average of corrections per financial year closed and to extrapolate this percentage to more recent financial years for which the controls are still ongoing. The reliability of this estimate is assessed on the basis of the comparison with the amounts of 'corrections in progress' for the years where this information is available and checked against the results of the conformity audits carried out in the year in question. Moreover, it should be noted that the average of corrections per financial year closed is relatively stable, being between 1.1% and 1.9%.

The amount of EUR 2 763 million is an estimation of the amount to be received under future conformity decisions for audits covering expenditure for the years 2003-2009 years. Of this amount, EUR 2.1 billion represents financial corrections in progress for which the amount is calculated based on current ongoing audit cases (which mainly concern 2003 to 2007 expenditure years).

The increase of the estimate above is due to the increase, compared to earlier years, of the average rate of corrections versus expenditure from 1.1% to 1.5%. The latest figures available of 'corrections in progress' for 2003, 2004, 2005, 2006, and 2007 confirm this rate and even show a higher average correction rate than 1.5%. The financial consequences of the introduction in 2005 of the SPS (Single Payment Scheme) are at this stage difficult to predict. On the one hand it could be considered that there will be fewer corrections in the number of cases; on the other hand flat rate corrections on the SPS measures can have more impact in financial terms. As the amounts are not yet definitive, they are not recognised on the balance sheet.

6.4.2 Structural Actions

EUR millions	Financial corrections in progress as at 31.12.2008	New financial corrections in progress in 2009	Financial corrections confirmed in 2009	Adjustments on financial corrections confirmed or in progress as at 31.12.2008	Financial corrections in progress as at 31.12.2009
Structural and Cohesion funds (1994-1999 and 2000-2006 programmes)					
ERDF	1 771	89	-1 087	- 343	430
Cohesion Fund	178	98	- 80	- 47	149
ESF	630	2	- 56	- 250	326
FIFG	35	0	- 33	0	2
EAGGF Guidance + EAFRD	4	221	- 38	4	191
Total	**2 618**	**410**	**-1 294**	**- 636**	**1 098**

The amount above is based on audit findings of the Commission and those of the Court of Auditors or OLAF, all of which are being followed up by the relevant DGs through formal legal proceedings and on-going contradictory procedures with the concerned Member States. This is a best 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 2009. This amount will be subject to change following the contradictory procedure for suspensions and financial corrections, under which Member States are given the opportunity to present further evidence to support their claims.

6.5 RECOVERY AND FINANCIAL CORRECTION ACTIVITIES 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 registered in the Commission's accounting system since 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 2009 and cumulatively for the periods 2000-2006 and 2007-2013, 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.

The withdrawals and recoveries in 2009, based on the data reported by Member States in line with their obligation under Regulations 438/2001 and 448/2001, amount to EUR 986 million and 247 million respectively, for a total of EUR 1 233 million. These figures take account of the results of the first analysis by the Commission which has led to corrections of certain data.

The on-the-spot review of the Member States' data carried out by the Commission during 2009 in nine Member States (10 Member States in 2008) showed that the systems for recording and reporting data are not yet completely reliable in all Member States, although there is evidence that the quality is improving and that there has been some improvement in comparison with previous years. In addition, the figures are incomplete, particularly as regards the data for the whole programme period, as some of the large Member States have not yet communicated corrections carried out in the earlier years of the period. However, even with regard to completeness, there has been some improvement in comparison with previous years and Member States have agreed to provide full information at closure.

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, 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 when the Member State accepts the financial correction. Therefore, the possible overlap remains only an estimation. A comparison Member State by Member State between the Member States' figures for 2009 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 465 million. For 2008, the overlap could not exceed EUR 600 million.

In the 2007-2013 programme period, the Commission has incorporated the annual reporting in its IT systems. This will mean that it will receive data electronically directly from the Member States. Member States are also required by sector regulation to separately identify corrections resulting from EU bodies' work, in order to avoid any overlap.

Note 6 – Annex 1: Total financial corrections and recoveries decided in 2009 for agriculture and rural development

Split per Member State

EUR millions

Member State	Financial clearance	Conformity clearance	Irregularities declared	Total
Belgium	0	12	2	15
Bulgaria	0	0	5	5
Czech Republic	0	0	0	1
Denmark	0	101	4	104
Germany	0	2	15	17
Estonia	0	0	0	0
Ireland	-2	3	2	4
Greece	2	18	1	21
Spain	7	62	38	106
France	3	73	35	111
Italy	-3	5	13	15
Cyprus	0	0	0	0
Latvia	0	0	0	0
Lithuania	0	2	1	4
Luxembourg	0	0	0	0
Hungary	6	13	2	22
Malta	0	0	0	0
Netherlands	1	30	5	36
Austria	0	2	1	3
Poland	0	11	2	13
Portugal	0	9	8	18
Romania	5	0	9	14
Slovenia	0	1	0	2
Slovakia	0	0	1	1
Finland	2	0	0	2
Sweden	0	0	2	2
United Kingdom	83	12	14	109
Total decided	**103**	**359**	**163**	**625**

N.B.: the figures above are rounded into millions of Euro and amounts shown as 0 represent actual figures of less than EUR 500 000

Note 6 – Annex 2: Total financial corrections and recoveries implemented in 2009 for agriculture and rural development

Split 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
Belgium	0	12	2	14
Bulgaria	0	-	1	1
Czech Republic	0	-	0	0
Denmark	0	101	4	105
Germany	0	1	16	18
Estonia	0	0	0	0
Ireland	-2	5	2	5
Greece	2	189	5	196
Spain	7	23	30	59
France	3	46	34	82
Italy	-3	167	13	177
Cyprus	-	0	0	1
Latvia	0	0	0	0
Lithuania	0	0	2	2
Luxembourg	0	-	0	0
Hungary	6	-	3	9
Malta	-	-	0	0
Netherlands	1	2	6	9
Austria	0	-	1	1
Poland	0	-	2	2
Portugal	0	0	7	7
Romania	5	-	7	12
Slovenia	0	1	0	2
Slovakia	0	0	0	0
Finland	2	0	1	2
Sweden	0	12	2	14
United Kingdom	83	41	9	133
Total implemented	**103**	**600**	**148**	**851**

N.B.: the figures above are rounded into millions of Euro and amounts shown as 0 represent actual figures of less than EUR 500 000

Note 6 – Annex 3: Total financial corrections confirmed in 2009 for Structural Actions

Split per Member State

EUR millions	Cumulative 2008	Financial corrections confirmed in 2009						Cumulative 2009
Member State		**ERDF**	**CF**	**ESF**	**FIFG**	**EAGGF Guidance**	**TOTAL**	
1994-1999	**1 995**	**445**	**10**	**21**	**41**	**4**	**521**	**2 516**
Belgium	5	-	-	0	-	-	0	5
Denmark	3	0	-	-	-	-	0	3
Germany	286	49	-	-	-	4	53	339
Ireland	42	0	-	-	-	-	0	42
Greece	526	-	-	-	-	0	0	526
Spain	244	250	5	17	32	0	304	548
France	83	0	-	0	-	-	1	84
Italy	442	63	-	-	-	-	63	505
Luxembourg	1	0	-	4	-	-	4	5
Netherlands	168	1	-	-	9	-	9	177
Austria	2	0	-	-	-	0	0	2
Portugal	113	19	5	-	-	-	24	137
Finland	1	-	-	0	-	0	0	1
Sweden	1	0	-	-	-	-	0	1
United Kingdom	77	54	-	-	-	-	54	131
INTERREG	1	9	-	-	-	-	9	10
2000-2006	**3 313**	**1 616**	**76**	**159**	**5**	**34**	**1 890**	**5 203**
Belgium	5	2	-	3	-	-	5	10
Bulgaria	-	-	2	-	-	-	2	2
Czech Republic	-	-	0	-	-	-	0	0
Denmark	-	-	-	0	0	-	0	0
Germany	10	0	-	2	-	-	2	12
Estonia	-	0	-	-	-	-	0	0
Ireland	26	16	-	-	-	-	16	42
Greece	867	37	2	14	-	-	53	920
Spain	1 246	1 200	22	24	3	8	1 257	2 503
France	249	3	-	9	0	-	12	261
Italy	608	135	-	80	2	-	217	825
Cyprus	-	-	-	-	-	-	-	-
Latvia	3	1	-	0	-	-	1	4
Lithuania	1	-	1	-	-	-	1	2
Luxembourg	-	-	-	2	-	-	2	2
Hungary	-	4	41	7	-	0	52	52
Malta	-	-	-	-	-	-	-	-
Netherlands	1	0	-	-	-	1	1	2
Austria	-	-	-	-	-	-	-	-
Poland	37	85	-	12	0	11	108	145
Portugal	95	31	0	0	-	-	31	126
Romania	2	-	8	-	-	14	22	24
Slovenia	2	-	-	0	-	-	0	2
Slovakia	1	38	-	-	-	-	38	39
Finland	-	0	-	-	0	0	0	0
Sweden	11	-	-	0	-	-	0	11
United Kingdom	149	63	-	5	-	-	68	217
INTERREG	-	1	-	-	-	-	1	1
Total confirmed	**5 308**	**2 061**	**86**	**180**	**46**	**38**	**2 411**	**7 719**

N.B.: the figures above are rounded into millions of Euro and amounts shown as 0 represent actual figures of less than EUR 500 000

Note 6 – Annex 4: Total financial corrections implemented in 2009: Structural Actions

Split per Member State

EUR millions	Decisions implemented in 2009					
Member State	**ERDF**	**CF**	**ESF**	**FIFG**	**EAGGF Guidance**	**TOTAL**
1994-1999 period	**218**	**10**	**21**	**46**	**5**	**300**
Belgium	-	-	0	-	-	0
Denmark	2	-	-	-	-	2
Germany	109	-	-	0	4	113
Ireland	0	-	-	0	-	1
Greece	-	-	-	-	0	0
Spain	3	5	17	32	0	57
France	1	-	0	5	-	6
Italy	41	-	-	-	-	41
Luxembourg	0	-	4	-	-	4
Netherlands	7	-	-	9	-	16
Austria	0	-	-	-	0	0
Portugal	1	5	-	-	-	6
Finland	-	-	0	-	0	0
Sweden	0	-	-	-	-	0
United Kingdom	52	-	-	-	-	52
INTERREG	2	-	-	-	-	2
2000-2006 period	**116**	**79**	**185**	**4**	**25**	**409**
Belgium	-	-	3	-	-	3
Bulgaria	-	3	-	-	-	3
Czech Republic	-	0	-	-	-	0
Denmark	-	-	-	-	-	-
Germany	-	-	-	-	-	-
Estonia	-	0	-	-	-	0
Ireland	-	-	-	-	-	-
Greece	47	5	14	-	-	66
Spain	7	14	38	0	-	59
France	1	-	0	-	-	2
Italy	10	-	80	4	-	93
Cyprus	-	-	-	-	-	-
Latvia	-	-	0	-	-	0
Lithuania	-	1	-	-	-	1
Luxembourg	-	-	2	-	-	2
Hungary	-	40	1	-	0	41
Malta	-	-	-	-	-	-
Netherlands	-	-	-	-	-	-
Austria	-	-	-	-	-	-
Poland	42	-	42	-	11	95
Portugal	9	9	-	-	-	18
Romania	-	6	-	-	14	20
Slovenia	-	-	-	-	-	-
Slovakia	-	-	-	-	-	-
Finland	-	-	-	-	0	0
Sweden	-	-	-	-	-	-
United Kingdom	-	-	5	-	-	5
INTERREG	0	-	-	-	-	0
Total implemented	**334**	**89**	**206**	**50**	**30**	**709**

N.B.: the figures above are rounded into millions of Euro and amounts shown as 0 represent actual figures of less than EUR 500 000

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 (as amended by Council Regulation 2028/2004) and in the Financial Regulation (Council Regulation 1605/2002, amended by Council Regulation 1995/2006) and its Implementing Rules (Commission Regulation 2342/2002, amended by Commission Regulation 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.

– The balances of accounts held 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 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.

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 and 25 February 2008. 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, 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; their overnight balances are kept at very low levels in order to minimise any exposure to fluctuations in foreign currency exchange rates.

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 in 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.

Since all provisionally cashed 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 2.2 million arising from EUR equivalent 1.5 million housing loans and EUR equivalent 0.7 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 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 ECB marginal rate for its main refinancing operations, and is adjusted to reflect any fluctuations of this rate. For some other accounts the interest calculation is linked to the Euro over night index average. As a result no risk exists that the Commission earns interest at rates lower than market rates.

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 0.96 billion (2008: EUR 1.05 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 2009 (2008: EUR 85 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 six loans under the financial instrument BOP with fixed interest rates totalling EUR 9.2 billion in 2009 (2008: EUR 2 billion) and with a final maturity between one and five years (EUR 5 billion) and more than five years (EUR 4.2 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 97% of the investment portfolio at the balance sheet date (2008: 96%).

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 97% of the securities portfolio at the balance sheet date (2008: 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 (coupon) 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 50 million and EUR 150 million on average, spread over more than 30 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 2009 that totalled EUR 130 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 required in specific and duly justified circumstances.

– For commercial banks that have been specifically selected for the deposit of provisionally cashed fines, 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, will be managed under the new system and no longer be 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 the whole 2009.

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 2009 fixed the ceiling for the GNI resource at 1.24% of Member States' GNI and during 2009 1.01% was actually used to cover payment appropriations. This means that at 31 December 2009 there existed an available margin of 0.23% to cover this guarantee. It should be noted that from 2010 onwards the ceiling falls to 1.23%. 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, Latvia and Romania. These countries represent approximately 54%, 21% and 18% 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 2009 all investments (EUR 153 million) were made with such counterparties (2008: EUR 183 million). As at 31 December 2009, the fund invested in four short-term financial instruments and all such investments (EUR 37 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. 52% of the total amount of outstanding loans is covered by guarantees from a Member State or equivalent bodies (e.g. public institutions). 36% 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, 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 2009 these investments amounted to EUR 190 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 2009 this ratio stood at 27%.

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.

7.5 FAIR VALUE DISCLOSURES

7.5.1 Borrowing and lending activities (MFA, BOP and Euratom)

Initial situation:

It should be noted that the above mentioned loans are initially recognised at their nominal amount in accordance with the EU accounting rule 11. Had the private sector accounting standard IAS 39 been applied instead this would have meant recognising the loans initially at their fair value. The difference between the two accounting treatments for the BOP loans only, at their date of issuance, is shown in the following table:

EUR millions

	EU Accounting rule 11 (nominal amount)	IAS 39 (fair value)	Difference in accounting treatments
Valuation of BOP loans at issuance in 2009	7 200	6 649	**551**
Valuation of BOP loans at issuance in 2008	2 000	1 767	**233**

The reasons for applying the accounting treatment under EU accounting rule 11 are:

– 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 initial difference reflects the opportunity cost that one would have obtained through an alternative investment at the capital market. As the EU is not allowed to invest money on the capital markets, this opportunity cost "option" is not applicable and so does not fairly reflect the substance of the transactions.

– The initial difference shown above would be compensated by the interest income in the following years.

Current situation at 31/12/2009:

The estimated fair value is determined as follows:

– For loans: using a discounted cash flow model by applying country specific yield curves appropriate for the remaining term to maturity.

– For borrowings using a discounted cash flow model by applying AAA yield curves appropriate for the remaining term to maturity.

– Variable interest rate loans are assumed to approximate their nominal amount since re-pricing at market interest rates takes place every 6 months.

The following table shows the estimated fair value at the year-end of the MFA, BOP and Euratom fixed interest loans in a way that permits it to be compared with the corresponding book value in the balance sheet:

EUR millions

	Loans given 31/12/2009	Loans given 31/12/2008	Borrowings 31/12/2009	Borrowings 31/12/2008
Fair value	8 785	1 863	9 626	2 118
Book value	9 416	2 091	9 416	2 091
Difference	**(631)**	**(228)**	**210**	**27**

At the balance sheet date BOP accounted for 98.8% of these loans and borrowings. The above table reflects the fact that since the EU has a credit rating of AAA and market interest rates are currently higher than the rates the EU borrowed at, the fair value of its borrowings are higher than the nominal amount. Since Hungary, Latvia and Romania, being the main recipients of these loans, have ratings lower than AAA, even though the market interest rates are currently higher than the EU has charged, the fair value of the loans given is lower than the nominal amount.

7.5.2 ECSC in liquidation

The estimated fair value of loans and borrowings is determined using a discounted cash flow model. According to this model, expected future cash flows are discounted by applying AAA yield curves appropriate for the remaining term of maturity. The estimated fair value of floating rate loans are assumed to approximate their carrying amount since re-pricing at market interest rates takes place every 3 or 6 months. The estimated fair value of fixed interest bearing loans and borrowings could not be obtained and disclosed as the necessary data for calculating these values was not available.

The available-for-sale securities are presented at fair value which is the market price plus accrued interests. There are no financial instruments measured at fair value using a valuation technique that is not supported by observable market prices or rates. The nominal value less impairment provision of trade receivables and the nominal value of trade payables are assumed to approximate their fair values. The fair value of cash and cash equivalents including currents accounts and short-term deposits (of less than three months) is their carrying amount.

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 the 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 Union, such persons are shown here under five categories:

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

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

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

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

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

A summary of their entitlements are given below – further information can be found in the Official Journal of the European Union (L187 8/8/1967 last modified by Council Regulation (EC, Euratom) No. 202/2005 of 18/1/2005 (L33 5/2/2005) and L268 20/10/1977 last modified by Council Regulation (EC, Euratom) no. 1293/2004 of 30/4/2004 (L243 15/7/2004)). Other information is also available in the Staff Regulations published on the Europa website which is the official document describing the rights and obligations of all officials of the EU. Key management personnel have not received any preferential loans from the EU.

KEY MANAGEMENT FINANCIAL ENTITLEMENTS *EUR*

Entitlement (per employee)	Category 1	Category 2	Category 3	Category 4	Category 5
Basic salary (per month)	24 874.61	22 531.36 – 23 432.62	18 025.08 – 20 278.22	19 467.10 – 20 728.85	11 461.32 – 18 025.09
Residential/Expatriation allowance	15%	15%	15%	15%	16%
Family allowances:					
Household (% salary)	2% + 167.31	2% + 167.31	2% + 167.31	2% + 167.31	2% + 167.31
Dependent child	365.60	365.60	365.60	365.60	365.60
Pre-school	89.31	89.31	89.31	89.31	89.31
Education, or	248.06	248.06	248.06	248.06	248.06
Education outside place of work	496.12	496.12	496.12	496.12	496.12
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	49 749.22	45 062.72 – 46 865.24	36 050.16 – 40 556.44	38 934.20 – 41 457.70	reimbursed
Family travel expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Moving expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Leaving office:					
Resettlement expenses	24 874.61	22 531.36 – 23 432.62	18 025.08 – 20 278.22	19 467.10 – 20 728.85	reimbursed
Family travel expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Moving expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Transition (% salary)**	40% - 65%	40% - 65%	40% - 65%	40% - 65%	N/A
Sickness insurance	covered	covered	covered	covered	optional
Pension (% salary, before tax)	Max 70%	Max 70%	Max 70%	Max 70%	Max 70%
Deductions:					
Community tax	8% - 45%	8% - 45%	8% - 45%	8% - 45%	8% - 45%
Sickness insurance (% salary)	1.8%	1.8%	1.8%	1.8%	1.8%
Special levy on salary	4.64%	4.64%	4.64%	4.64%	4.64%
Pension deduction	N/A	N/A	N/A	N/A	11.3%
Number of persons at 31/12/2009	**3**	**7**	**91**	**27**	**81**

* with correction coefficient (“cc”) applied

** paid for the first 3 years following departure

9. EVENTS AFTER THE BALANCE SHEET DATE

At the date of adoption 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.

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) n° 407/2010). The mechanism is based on Art. 122.2 of the Treaty and enables the granting of financial assistance to a Member State in difficulties or seriously threatened with severe difficulties caused by exceptional occurrences beyond its control. The assistance may take the form of a loan or credit line guaranteed by the EU budget. In case of activation, the Commission would borrow funds on the capital markets or with financial institutions on behalf of the EU and then lend these funds to the beneficiary Member State. The ECOFIN Council conclusions restrict the facility to EUR 60 billion. The EFSM has been established in addition to the existing Balance of Payment facility that provides financial assistance to non-euro Member States.

It is worth noting that although it has no impact on either the EU accounts or the EU budget, a similar financial assistance package, the European Financial Stability Facility (EFSF), was also established by the euro area Member States and other participating Member States. This potential assistance to euro-area Member States would be given via a special purpose vehicle (SPV) and the participating Member States are providing guarantees of up to EUR 440 billion for this SPV. This facility expires in June 2013.

Finally, but again not affecting the EU accounts or budget, in addition to the above, the International Monetary Fund (IMF) will also participate in the above actions and this is expected to provide a further EUR 250 million in possible assistance.

10. CONSOLIDATED ENTITIES

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

* Consolidated for the first time in 2009

** Decentralised body of the EU falling under the former pillar "Police & Judicial Co-operation in criminal matters"

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 of 19/03/2008) which foresees the presentation of its own financial statements, separately from those of the EU. The EDF annual accounts and resource management are subject to the external control of the Court of Auditors and the Parliament. For information purposes, the balance sheet and the economic outturn account of the 8th, 9th and 10th EDFs are shown below:

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

EUR millions

	31.12.2009	31.12.2008
NON-CURRENT ASSETS	196	269
CURRENT ASSETS	1 389	957
TOTAL ASSETS	**1 585**	**1 226**
CURRENT LIABILITIES	(860)	(709)
TOTAL LIABILITIES	**(860)**	**(709)**
NET ASSETS	**725**	**517**
FUNDS & RESERVES		
Called fund capital	20 381	17 079
Other reserves	2 252	2 252
Economic outturn carried forward from previous years	(18 814)	(15 784)
Economic outturn of the year	(3 094)	(3 030)
NET ASSETS	**725**	**517**

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

EUR millions

	2009	2008
OPERATING REVENUE	**49**	**23**
OPERATING EXPENSES	**(3 192)**	**(3 066)**
DEFICIT FROM OPERATING ACTIVITIES	**(3 143)**	**(3 043)**
FINANCIAL ACTIVITIES	**49**	**13**
ECONOMIC OUTTURN OF THE YEAR	**(3 094)**	**(3 030)**

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 2009 totalled EUR 297 million (2008: EUR 288 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 2009 the PGF had total assets of EUR 580 million (2008: EUR 283 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 THE IMPLEMENTATION OF THE BUDGET OF THE EUROPEAN UNION AND EXPLANATORY NOTES

CONSOLIDATED REPORTS ON IMPLEMENTATION OF THE BUDGET

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

CONSOLIDATED REPORTS ON IMPLEMENTATION OF THE BUDGET:

RESULT OF IMPLEMENTATION OF THE BUDGET

1: BUDGET OUTTURN 2009

EUR millions

	TOTAL 2009	TOTAL 2008
Revenue for the financial year	**117 626**	**121 584**
Payments against current year appropriations	**(116 579)**	**(115 550)**
Payment appropriations carried over to year N+1	**(1 759)**	**(3 914)**
Cancellation of unused payment appropriations carried over from year N-1	**2 791**	**188**
Exchange differences for the year	**185**	**(498)**
Budget Outturn*	**2 264**	**1 810**

* Of which EFTA amounts total EUR 11 million in 2009 and EUR 14 million in 2008

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	114 736	110 238	110 462	110 373	-135	100.12 %	89
3. Surpluses, balances and adjustments	0	410	330	330	80	80.56 %	0
4. Revenue accruing from persons working with the institutions and with other Community bodies	1 120	1 120	1 033	1 025	94	91.59 %	7
5. Revenue accruing from the administrative operation of the institutions	77	85	436	335	-250	394.05 %	101
6. Contributions and refunds in connection with community agreements and programmes	10	368	4 834	4 559	-4 191	1 238.97%	275
7. Interest on late payments and fines	123	757	12 774	933	-176	123.25 %	11 841
8. Borrowing and lending operations	0	0	80	4	-4	-	76
9. Miscellaneous revenue	30	58	85	66	-8	114.11%	19
Total	**116 096**	**113 035**	**130 032**	**117 626**	**-4 590**	**104.06%**	**12 407**

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	46 000	47 520	44 684	2 837	94.03 %	2 381	456
2. Preservation & management of natural resources	52 566	57 107	55 877	1 230	97.85 %	986	244
3. Citizenship, freedom, security and justice	1 296	2 174	1 993	181	91.66 %	75	106
4. The EU as a global partner	8 324	8 804	7 983	821	90.67 %	220	601
5. Administration	7 701	8 754	7 615	1 139	86.99 %	857	281
6. Compensations	209	209	209	0	100.00 %	0	0
Total	**116 096**	**124 569**	**118 361**	**6 208**	**95.02 %**	**4 519**	**1 688**

* including appropriations carried over and assigned revenue

2. STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (CONTINUED)

EXPENDITURE – BY POLICY AREA

EUR millions

Policy Area	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
01 Economic and financial affairs	487	345	327	18	94.82 %	14	4
02 Enterprise	601	705	558	147	79.21 %	89	58
03 Competition	90	107	95	12	88.32 %	10	2
04 Employment and social affairs	11 203	9 929	8 906	1 023	89.70 %	755	268
05 Agriculture and rural development	51 478	56 413	55 209	1 204	97.87 %	954	249
06 Energy and transport	2 481	2 480	2 253	227	90.84 %	177	51
07 Environment	496	409	356	52	87.17 %	30	22
08 Research	4 960	5 644	4 826	818	85.50 %	789	30
09 Information society and media	1 356	1 552	1 375	177	88.58 %	173	5
10 Direct research	366	735	411	324	55.87 %	314	10
11 Fisheries and maritime affairs	927	715	592	122	82.87 %	19	103
12 Internal market	66	76	66	10	86.89 %	7	3
13 Regional policy	24 570	26 793	26 740	53	99.80 %	15	38
14 Taxation and customs union	106	131	120	11	91.54 %	9	3
15 Education and culture	1 363	1 654	1 495	159	90.38 %	153	6
16 Communication	211	229	204	25	89.22 %	16	8
17 Health and consumer protection	582	632	526	106	83.25 %	35	71
18 Area of freedom, security and justice	678	830	744	86	89.64 %	16	70
19 External relations	3 579	3 805	3 673	131	96.55 %	72	59
20 Trade	79	88	77	10	88.09 %	8	3
21 Development and relations with ACP States	1 680	1 872	1 698	174	90.68 %	138	37
22 Enlargement	1 661	1 437	1 308	128	91.08 %	18	110
23 Humanitarian aid	797	859	800	59	93.13 %	47	12
24 Fight against fraud	74	80	71	9	88.65 %	7	2
25 Commission’s policy coordination and legal advice	188	212	185	27	87.27 %	20	7
26 Commission’s administration	986	1 226	1 034	192	84.34 %	164	28
27 Budget	278	285	271	14	95.19 %	12	1
28 Audit	11	12	10	1	90.05 %	1	0
29 Statistics	101	138	120	18	87.27 %	15	3
30 Pensions and related expenditure	1 160	1 136	1 117	19	98.36 %	0	19
31 Language Services	389	479	422	58	87.91 %	53	5
40 Reserves	244	229	0	229	0.00 %	0	229
90 Other Institutions	2 848	3 334	2 771	563	83.12 %	392	171
Total	**116 096**	**124 569**	**118 361**	**6 208**	**95.02 %**	**4 519**	**1 688**

* including appropriations carried over and assigned revenue

3. SUMMARY OF THE IMPLEMENTATION OF BUDGET REVENUE 2009

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	114 736	110 238	109 103	1 358	110 462	109 098	1 275	110 373	100.12 %	89
3. Surpluses, balances and adjustments	0	410	330	0	330	330	0	330	80.56 %	0
4. Revenue accruing from persons working with the institutions and with other Community bodies	1 120	1 120	1 026	7	1 033	1 020	6	1 025	91.59 %	7
5. Revenue from administrative operations of institutions	77	85	345	90	436	309	26	335	394.05 %	101
6. Contributions and refunds in connection with community agreements and programmes	10	368	4 430	404	4 834	4 277	282	4 559	1238.97 %	275
7. Interest on late payments and fines	123	757	2 836	9 938	12 774	193	740	933	123.25 %	11 841
8. Borrowing and lending operations	0	0	53	27	80	1	3	4		76
9. Miscellaneous revenue	30	58	53	32	85	47	20	66	114.11 %	19
Total	**116 096**	**113 035**	**118 175**	**11 857**	**130 032**	**115 274**	**2 351**	**117 626**	**104.06 %**	**12 407**

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		
10. Agricultural duties	1 404	0	-350	350	0	-350	350	0		0
11. Sugar levies	147	139	104	28	132	104	28	132	94.40 %	0
12. Custom duties	17 656	14 441	13 505	980	14 485	13 499	897	14 397	99.69 %	89
13. VAT	19 616	13 668	13 743	0	13 743	13 743	0	13 743	100.54 %	0
14. GNI	75 914	81 989	82 413	0	82 413	82 413	0	82 413	100.52 %	0
15. Correction of budgetary imbalances	0	0	-315	0	-315	-315	0	-315	-	0
16. Reduction of GNI based contributions of NL & SW	0	0	4	0	4	4	0	4	-	0
Total	**114 736**	**110 238**	**109 103**	**1 358**	**110 462**	**109 098**	**1 275**	**110 373**	**100.12 %**	**89**

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	1 796	1 796	0	1 796	1 796	0	1 796	100.00 %	0
31. VAT balances	0	-954	-946	0	-946	-946	0	-946	99.17 %	0
32. GNI balances	0	-432	-431	0	-431	-431	0	-431	99.70 %	0
34. Adjustment for non-participation in JHAP	0	0	6	0	6	6	0	6	-	0
35. United Kingdom correction - adjustments	0	0	-6	0	-6	-6	0	-6	-	0
37. Adjustment own resources decision 2007/436/EC	0	0	-89	0	-89	-89	0	-89	-	0
Total	**0**	**410**	**330**	**0**	**330**	**330**	**0**	**330**	**80.56 %**	**0**

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	60 196	2 003	19	1 705	1 724	63 923	46 000	-795	176	2 139	2 315	47 520
2 Preservation and management of natural resources	56 121	585	0	6 011	6 012	62 718	52 566	-2 290	829	6 002	6 831	57 107
3 Citizenship, freedom, security and justice	1 515	617	83	113	196	2 328	1 296	725	23	131	153	2 174
4 The EU as a global partner	8 104	0	271	339	610	8 714	8 324	-224	378	326	704	8 804
5 Administration	7 701	-100	8	416	424	8 025	7 701	-101	725	429	1 154	8 754
6 Compensations	209	0	0	0	0	209	209	0	0	0	0	209
Total	**133 846**	**3 105**	**381**	**8 585**	**8 966**	**145 917**	**116 096**	**-2 686**	**2 132**	**9 026**	**11 158**	**124 569**

5. IMPLEMENTATION OF COMMITMENT APPROPRIATIONS BY FINANCIAL FRAMEWORK HEADING

EUR millions

Financial Framework Heading	Commitment appropriations authorised	Commitments made					Appropriations carried over to 2010				Appropriations lapsing				
		From the year's appropriations	From carry-overs	From assigned revenue	Total	%	Assigned revenue	Carry-overs by decision	Total	%	From the year's 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	63 923	61 630	19	796	62 444	97.69 %	908	64	972	1.52 %	505	0	1	507	0.79 %
2 Preservation and management of natural resources	62 718	56 413	0	5 072	61 484	98.03 %	940	253	1 193	1.90 %	41	0	0	41	0.07 %
3 Citizenship, freedom, security and justice	2 328	2 118	83	63	2 264	97.27 %	50	0	50	2.15 %	14	0	0	14	0.59 %
4 The EU as a global partner	8 714	8 038	271	173	8 481	97.34 %	166	0	166	1.91 %	66	0	0	66	0.76 %
5 Administration	8 025	7 398	8	255	7 662	95.48 %	161	11	172	2.14 %	191	0	0	191	2.38 %
6 Compensations	209	209	0	0	209	100.00 %	0	0	0	0.00 %	0	0	0	0	0.00 %
Total	**145 917**	**135 806**	**381**	**6 358**	**142 545**	**97.69 %**	**2 225**	**328**	**2 553**	**1.75 %**	**817**	**0**	**2**	**819**	**0.56 %**

6. IMPLEMENTATION OF PAYMENT APPROPRIATIONS BY FINANCIAL FRAMEWORK HEADING

EUR millions

Financial Framework Heading	Payment Approp-riations authorised	Payments made					Appropriations carried over to 2010					Appropriations lapsing				
		From the year's appropria-tions	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	47 520	43 866	133	684	44 684	94.03 %	129	808	1 443	2 381	5.01 %	401	43	12	456	0.96 %
2 Preservation and management of natural resources	57 107	50 026	773	5 078	55 877	97.85 %	47	15	924	986	1.73 %	188	56	0	244	0.43 %
3 Citizenship, freedom, security and justice	2 174	1 915	15	63	1 993	91.66 %	7	2	67	75	3.46 %	98	7	1	106	4.88 %
4 The EU as a global partner	8 804	7 564	224	195	7 983	90.67 %	43	46	131	220	2.50 %	447	154	0	601	6.83 %
5 Administration	8 754	6 745	637	233	7 615	86.99 %	651	11	196	857	9.79 %	193	88	0	281	3.21 %
6 Compensations	209	209	0	0	209	100.00 %	0	0	0	0	0.00 %	0	0	0	0	0.00 %
Total	**124 569**	**110 325**	**1 782**	**6 253**	**118 361**	**95.02 %**	**877**	**882**	**2 760**	**4 519**	**3.63 %**	**1 326**	**350**	**13**	**1 688**	**1.36 %**

7. MOVEMENT IN COMMITMENTS OUTSTANDING BY FINANCIAL FRAMEWORK HEADING

EUR millions

	Commitments outstanding at the end of the previous year				Commitments of the year				
Financial Framework Heading	**Commitments carried forward from previous years**	**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	119 797	-647	-39 892	79 259	62 444	-4 792	-10	57 642	136 901
2 Preservation and management of natural resources	14 123	-189	-7 370	6 564	61 484	-48 507	-0	12 977	19 541
3 Citizenship, freedom, security and justice	1 535	-144	-560	830	2 264	-1 433	0	832	1 662
4 The EU as a global partner	18 840	-876	-5 455	12 509	8 481	-2 528	-1	5 953	18 462
5 Administration	750	-90	-646	15	7 662	-6 970	-1	692	706
6 Compensations	0	0	0	0	209	-209	0	0	0
Total	**155 045**	**-1 946**	**-53 923**	**99 177**	**142 545**	**-64 438**	**-12**	**78 095**	**177 272**

8. BREAKDOWN OF COMMITMENTS OUTSTANDING BY THE COMMITMENT'S YEAR OF ORIGIN BY FINANCIAL FRAMEWORK HEADING

EUR millions

Financial Framework Heading	<2003	2003	2004	2005	2006	2007	2008	2009	Total
1 Sustainable growth	626	624	1 268	2 814	18 348	11 584	43 995	57 642	136 901
2 Preservation & management of natural resources	73	23	27	98	1 912	167	4 264	12 977	19 541
3 Citizenship, freedom, security and justice	18	15	36	45	86	257	373	832	1 662
4 The EU as a global partner	991	431	711	1 020	2 632	2 455	4 270	5 953	18 462
5 Administration	0	0	0	0	0	1	14	692	706
Total	**1 709**	**1 093**	**2 042**	**3 977**	**22 978**	**14 463**	**52 915**	**78 095**	**177 272**

9. BREAKDOWN AND CHANGES IN COMMITMENT AND PAYMENT APPROPRIATIONS BY POLICY AREA

EUR millions

	Commitment appropriations						Payment appropriations					
Policy Area	**Approps adopted**	**Modifications (Transfer /AB)**	**Carried over**	**Assigned revenue**	**Total additional**	**Total authorized**	**Approps adopted**	**Modifications (Transfer/ AB)**	**Carried over**	**Assigned revenue**	**Total additional**	**Total authorized**
	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	442	-17	0	20	20	445	487	-179	16	21	37	345
02 Enterprise	663	-2	0	96	96	757	601	-22	20	105	125	705
03 Competition	90	-0	0	4	4	94	90	-0	13	4	17	107
04 Employment and social affairs	11 188	51	2	14	16	11 255	11 203	-1 305	18	13	31	9 929
05 Agriculture and rural development	54 682	586	0	5 993	5 993	61 260	51 478	-2 030	972	5 993	6 964	56 413
06 Energy and transport	2 740	1 998	1	120	121	4 589	2 481	-171	21	150	171	2 480
07 Environment	483	-23	0	27	27	488	496	-126	20	19	39	409
08 Research	4 665	70	0	654	654	5 388	4 960	-411	46	1 049	1 095	5 644
09 Information society and media	1 512	-71	0	168	168	1 609	1 356	-71	16	252	267	1 552
10 Direct research	371	0	0	424	424	795	366	-5	38	337	374	735
11 Fisheries and maritime affairs	1 014	-35	0	6	6	985	927	-222	4	6	10	715
12 Internal market	66	-0	0	2	2	68	66	-0	7	2	10	76
13 Regional policy	37 901	629	24	6	30	38 560	24 570	2 027	192	3	195	26 793
14 Taxation and customs union	131	-1	0	3	3	134	106	13	9	3	12	131
15 Education and culture	1 401	-2	0	292	292	1 691	1 363	-38	17	312	328	1 654
16 Communication	214	-0	0	4	4	217	211	-3	17	3	20	229
17 Health and consumer protection	624	49	0	22	22	695	582	-1	30	22	52	632
18 Area of freedom, security and justice	924	1	75	31	107	1 032	678	110	14	28	43	830
19 External relations	4 072	-12	0	107	107	4 168	3 579	91	50	84	134	3 805
20 Trade	80	-2	0	2	2	81	79	1	6	2	9	88
21 Development and relations with ACP States	1 894	93	265	178	443	2 430	1 680	-21	32	180	213	1 872
22 Enlargement	1 081	0	6	45	51	1 132	1 661	-296	16	56	72	1 437
23 Humanitarian aid	797	110	0	8	8	915	797	49	6	7	13	859
24 Fight against fraud	78	0	0	0	0	78	74	0	6	0	6	80
25 Commission’s policy coordination and legal advice	188	-2	0	8	8	194	188	-2	18	8	25	212
26 Commission’s administration	981	12	0	99	99	1 093	986	13	126	101	227	1 226
27 Budget	278	-9	0	5	5	274	278	-9	10	5	16	285
28 Audit	11	-0	0	1	1	11	11	-0	1	1	1	12
29 Statistics	133	-1	0	11	11	143	101	14	7	16	23	138
30 Pensions and related expenditure	1 160	-24	0	0	0	1 136	1 160	-24	0	0	0	1 136
31 Language Services	389	-10	0	77	77	456	389	-10	24	77	101	479
40 Reserves	744	-241	0	0	0	503	244	-15	0	0	0	229
90 Other Institutions	2 848	-43	8	156	164	2 970	2 848	-43	361	167	528	3 334
Total	**133 846**	**3 105**	**381**	**8 585**	**8 966**	**145 917**	**116 096**	**-2 686**	**2 132**	**9 026**	**11 158**	**124 569**

10. IMPLEMENTATION OF COMMITMENT APPROPRIATIONS BY POLICY AREA

EUR millions

Policy Area	Commitment appropriations authorised	Commitments made					Appropriations carried over to 2010				Appropriations lapsing				
		From the year's approps	From carry-overs	Assigned revenue	Total	%	Assigned revenue	Carry-overs: decision	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=7+8	10=9/1	11	12	13	=11+12+13	15=14/1
01 Economic and financial affairs	445	421	0	19	440	98.90 %	2	0	2	0.35 %	3	0	0	3	0.76 %
02 Enterprise	757	657	0	41	698	92.12 %	55	0	55	7.32 %	4	0	0	4	0.56 %
03 Competition	94	90	0	2	92	97.29 %	2	0	2	1.96 %	1	0	0	1	0.75 %
04 Employment and social affairs	11 255	11 186	2	8	11 196	99.47 %	6	40	46	0.41 %	13	0	0	13	0.12 %
05 Agriculture and rural development	61 260	54 989	0	5 065	60 054	98.03 %	928	252	1 180	1.93 %	26	0	0	26	0.04 %
06 Energy and transport	4 859	4 727	1	76	4 803	98.86 %	44	0	44	0.91 %	11	0	0	12	0.24 %
07 Environment	488	451	0	9	460	94.25 %	19	0	19	3.83 %	9	0	0	9	1.92 %
08 Research	5 388	4 732	0	352	5 084	94.35 %	301	0	301	5.59 %	3	0	0	3	0.06 %
09 Information society and media	1 609	1 440	0	115	1 556	96.68 %	52	0	52	3.25 %	1	0	0	1	0.07 %
10 Direct research	795	365	0	67	433	54.39 %	357	4	361	45.37 %	2	0	0	2	0.24 %
11 Fisheries and maritime affairs	985	974	0	2	976	99.07 %	4	1	4	0.45 %	5	0	0	5	0.48 %
12 Internal market	68	65	0	1	66	96.60 %	1	0	1	1.62 %	1	0	0	1	1.78 %
13 Regional policy	38 560	38 495	24	5	38 523	99.90 %	2	20	22	0.06 %	15	0	0	15	0.04 %
14 Taxation and customs union	134	125	0	1	126	94.45 %	2	0	2	1.22 %	6	0	0	6	4.33 %
15 Education and culture	1 691	1 397	0	169	1 566	92.61 %	123	0	124	7.30 %	1	0	0	1	0.08 %
16 Communication	217	212	0	2	214	98.32 %	1	0	1	0.64 %	2	0	0	2	1.04 %
17 Health and consumer protection	695	665	0	11	675	97.17 %	11	0	11	1.59 %	9	0	0	9	1.24 %
18 Area of freedom, security and justice	1 032	916	75	17	1 008	97.67 %	15	0	15	1.42 %	9	0	0	9	0.91 %
19 External relations	4 168	4 052	0	53	4 105	98.51 %	54	0	54	1.29 %	8	0	0	8	0.20 %
20 Trade	81	76	0	1	78	96.18 %	1	0	1	1.63 %	2	0	0	2	2.20 %
21 Development & relations with ACP States	2 430	1 982	265	78	2 325	95.68 %	100	0	100	4.11 %	5	0	0	5	0.21 %
22 Enlargement	1 132	1 079	6	35	1 120	98.96 %	10	1	10	0.91 %	1	0	0	1	0.12 %
23 Humanitarian aid	915	906	0	7	913	99.79 %	1	0	1	0.11 %	1	0	0	1	0.10 %
24 Fight against fraud	78	77	0	0	77	98.64 %	0	0	0	0.00 %	1	0	0	1	1.36 %
25 Commission's policy coordination and legal advice	194	183	0	4	187	96.65 %	4	0	4	1.97 %	3	0	0	3	1.38 %
26 Commission's administration	1 093	985	0	63	1 048	95.92 %	36	0	36	3.34 %	8	0	0	8	0.74 %
27 Budget	274	268	0	3	272	99.07 %	2	0	2	0.74 %	1	0	0	1	0.19 %
28 Audit	11	10	0	0	11	96.77 %	0	0	0	1.93 %	0	0	0	0	1.30 %
29 Statistics	143	129	0	4	133	92.73 %	7	0	7	4.94 %	3	0	0	3	2.33 %
30 Pensions and related expenditure	1 136	1 117	0	0	1 117	98.36 %	0	0	0	0.00 %	19	0	0	19	1.84 %
31 Language Services	456	375	0	49	424	93.01 %	28	0	28	6.25 %	3	0	0	3	0.74 %
40 Reserves	503	0	0	0	0	0.00 %	0	0	0	0.00 %	503	0	0	503	100.00%
90 Other Institutions	2 970	2 659	8	100	2 767	93.16 %	56	10	66	2.22 %	137	0	0	137	4.62 %
Total	**145 917**	**135 806**	**381**	**6 358**	**142 545**	**97.69 %**	**2 225**	**328**	**2 553**	**1.75 %**	**817**	**0**	**2**	**819**	**0.56 %**

11. IMPLEMENTATION OF PAYMENT APPROPRIATIONS BY POLICY AREA

EUR millions

Policy Area	Payment Appro-priations authorised	Payments made					Appropriations carried over to 2010					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	345	300	15	13	327	94.82 %	6	0	9	14	4.10 %	3	1	0	4	1.08 %
02 Enterprise	705	514	16	28	558	79.21 %	13	0	76	89	12.57 %	52	4	2	58	8.22 %
03 Competition	107	82	11	2	95	88.32 %	8	0	2	10	9.40 %	1	2	0	2	2.28 %
04 Employment and social affairs	9 929	8 886	13	7	8 906	89.70 %	17	732	6	755	7.60 %	263	5	0	268	2.70 %
05 Agriculture and rural development	56 413	49 365	780	5 064	55 209	97.87 %	26	0	929	954	1.69 %	58	192	0	249	0.44 %
06 Energy and transport	2 480	2 177	16	61	2 253	90.84 %	17	75	85	177	7.12 %	41	5	4	51	2.04 %
07 Environment	409	328	16	12	356	87.17 %	18	6	7	30	7.40 %	19	3	0	22	5.44 %
08 Research	5 644	4 490	36	300	4 826	85.50 %	44	0	745	789	13.97 %	16	10	4	30	0.53 %
09 Information society and media	1 552	1 268	13	94	1 375	88.58 %	15	0	158	173	11.13 %	2	2	0	5	0.30 %
10 Direct research	735	321	34	56	411	55.87 %	32	2	280	314	42.73 %	6	4	0	10	1.40 %
11 Fisheries and maritime affairs	715	588	3	2	592	82.87 %	4	11	4	19	2.69 %	102	1	0	103	14.45 %
12 Internal market	76	59	6	1	66	86.89 %	6	0	1	7	9.47 %	1	1	0	3	3.64 %
13 Regional policy	26 793	26 564	174	1	26 740	99.80 %	13	0	2	15	0.06 %	20	18	0	38	0.14 %
14 Taxation and customs union	131	111	8	1	120	91.54 %	7	0	2	9	6.53 %	1	1	0	3	1.92 %
15 Education and culture	1 654	1 310	15	171	1 495	90.38 %	14	0	140	153	9.27 %	3	2	1	6	0.35 %
16 Communication	229	189	13	2	204	89.22 %	15	0	2	16	7.17 %	5	4	0	8	3.61 %
17 Health and consumer protection	632	484	28	14	526	83.25 %	28	0	7	35	5.58 %	68	2	0	71	11.16 %
18 Area of freedom, security and justice	830	718	7	19	744	89.64 %	6	0	9	16	1.89 %	63	7	0	70	8.47 %
19 External relations	3 805	3 576	38	59	3 673	96.55 %	43	6	24	72	1.90 %	46	12	0	59	1.54 %
20 Trade	88	71	5	1	77	88.09 %	6	0	1	8	8.56 %	2	1	0	3	3.35 %
21 Development and relations with ACP States	1 872	1 588	27	83	1 698	90.68 %	40	0	98	138	7.37 %	31	5	0	37	1.95 %
22 Enlargement	1 437	1 250	11	48	1 308	91.08 %	9	1	8	18	1.25 %	106	5	0	110	7.67 %
23 Humanitarian aid	859	788	5	7	800	93.13 %	6	40	1	47	5.42 %	12	0	0	12	1.45 %
24 Fight against fraud	80	67	4	0	71	88.65 %	7	0	0	7	8.51 %	1	2	0	2	2.84 %
25 Commission's policy coordination and legal advice	212	167	14	3	185	87.27 %	15	0	4	20	9.32 %	3	4	0	7	3.42 %
26 Commission's administration	1 226	875	108	50	1 034	84.34 %	113	0	51	164	13.35 %	10	18	0	28	2.30 %
27 Budget	285	259	9	2	271	95.19 %	9	0	3	12	4.29 %	1	1	0	1	0.52 %
28 Audit	12	10	0	0	10	90.05 %	1	0	0	1	7.43 %	0	0	0	0	2.52 %
29 Statistics	138	107	6	7	120	87.27 %	6	0	8	15	10.63 %	2	1	0	3	2.09 %
30 Pensions and related expenditure	1 136	1 117	0	0	1 117	98.36 %	0	0	0	0	0.00 %	19	0	0	19	1.64 %
31 Language Services	479	354	22	45	422	87.91 %	21	0	32	53	11.02 %	3	2	0	5	1.07 %
40 Reserves	229	0	0	0	0	0.00 %	0	0	0	0	0.00 %	229	0	0	229	100.00%
90 Other Institutions	3 334	2 344	327	100	2 771	83.12 %	315	10	67	392	11.75 %	137	34	0	171	5.13 %
Total	**124 569**	**110 325**	**1 782**	**6 253**	**118 361**	**95.02 %**	**877**	**882**	**2 760**	**4 519**	**3.63 %**	**1 326**	**350**	**13**	**1 688**	**1.36 %**

12. MOVEMENT IN COMMITMENTS OUTSTANDING BY POLICY AREA

EUR millions

	Commitments outstanding at the end of the previous year				Commitments of the year				
Policy Area	Commitments carried forward from previous years	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
01 Economic and financial affairs	329	-17	-129	183	440	-199	-0	241	424
02 Enterprise	653	-25	-238	390	698	-321	-0	377	767
03 Competition	13	-1	-11	1	92	-83	-0	8	9
04 Employment and social affairs	24 080	-90	-8 675	15 315	11 196	-231	-0	10 964	26 279
05 Agriculture and rural development	12 408	-98	- 6 854	5 457	60 054	-48 355	-0	11 699	17 155
06 Energy and transport	4 302	-139	-1 471	2 692	4 803	-782	-0	4 021	6 714
07 Environment	682	-36	-225	421	460	-131	-0	329	750
08 Research	8 253	-103	-3 319	4 831	5 084	-1 507	-7	3 569	8 400
09 Information society and media	2 255	-24	-947	1 283	1 556	-428	-1	1 127	2 411
10 Direct research	146	-10	-87	49	433	-324	-0	109	158
11 Fisheries and maritime affairs	1 347	-99	-364	884	976	-229	-1	747	1 631
12 Internal market	17	-2	-13	2	66	-53	-0	13	15
13 Regional policy	81 674	-225	-25 542	55 907	38 523	- 1 198	-0	37 325	93 232
14 Taxation and customs union	90	-13	-54	23	126	-67	-1	59	82
15 Education and culture	563	-48	-232	283	1 566	-1 263	-0	303	586
16 Communication	88	-8	-68	13	214	-136	-0	77	90
17 Health and consumer protection	614	-58	-289	268	675	-237	-0	438	706
18 Area of freedom, security and justice	866	-81	-308	477	1 008	-436	-0	572	1 049
19 External relations	8 785	-183	-2 492	6 110	4 105	-1 181	-0	2 924	9 034
20 Trade	21	-2	-14	5	78	-63	-0	14	19
21 Development/relations ACP States	2 818	-54	-790	1 974	2 325	-908	-0	1 417	3 391
22 Enlargement	3 905	-543	-989	2 373	1 120	-320	-0	800	3 173
23 Humanitarian aid	422	-23	-248	151	913	-551	-0	362	513
24 Fight against fraud	29	-3	-16	10	77	-55	0	22	32
25 Commission's policy coordination & legal advice	21	-4	-16	1	187	-169	-0	19	19
26 Commission’s administration	173	-18	-136	19	1 048	-898	-1	149	168
27 Budget	10	-1	-9	0	272	-262	-0	10	10
28 Audit	1	-0	-0	0	11	-10	-0	1	1
29 Statistics	92	-4	-44	45	133	-77	-0	56	101
30 Pensions and related expenditure	0	0	0	0	1 117	-1 117	0	0	0
31 Language Services	24	-2	-22	0	424	-400	-0	24	24
90 Other Institutions	366	-34	-321	11	2 767	-2 450	0	317	328
Total	**155 045**	**-1 946**	**-53 923**	**99 177**	**142 545**	**-64 438**	**-12**	**78 095**	**177 272**

13. BREAKDOWN OF COMMITMENTS OUTSTANDING BY THE COMMITMENT'S YEAR OF ORIGIN BY POLICY AREA

EUR millions

Policy Area	<2003	2003	2004	2005	2006	2007	2008	2009	Total
01 Economic and financial affairs	0	0	0	17	93	32	41	241	424
02 Enterprise	12	8	7	19	37	88	219	377	767
03 Competition	0	0	0	0	0	0	1	8	9
04 Employment and social affairs	133	17	28	466	4 283	1 363	9 024	10 964	26 279
05 Agriculture and rural development	35	0	2	26	1 737	4	3 653	11 699	17 155
06 Energy and transport	80	31	100	172	302	743	1 264	4 021	6 714
07 Environment	1	7	17	43	66	112	175	329	750
08 Research	84	235	238	440	841	1 232	1 761	3 569	8 400
09 Information society and media	3	16	29	113	195	329	598	1 127	2 411
10 Direct research	1	1	0	5	8	8	26	109	158
11 Fisheries and maritime affairs	39	17	9	34	301	32	451	747	1 631
12 Internal market	0	0	0	0	0	0	2	13	15
13 Regional policy	412	476	1 085	1 825	13 108	7 765	31 235	37 325	93 232
14 Taxation and customs union	0	0	0	0	1	6	16	59	82
15 Education and culture	12	8	7	23	43	54	136	303	586
16 Communication	0	0	0	0	0	2	11	77	90
17 Health and consumer protection	4	9	14	8	23	45	164	438	706
18 Area of freedom, security and justice	5	1	9	19	32	156	256	572	1 049
19 External relations	579	166	330	386	987	1 439	2 222	2 924	9 034
20 Trade	0	0	0	0	0	2	3	14	19
21 Development and relations with ACP States	131	56	103	215	346	442	682	1 417	3 391
22 Enlargement	174	45	62	164	561	566	801	800	3 173
23 Humanitarian aid	2	0	0	0	4	25	120	362	513
24 Fight against fraud	0	0	0	0	0	4	5	22	32
25 Commission's policy coordination & legal advice	0	0	0	0	0	0	0	19	19
26 Commission’s administration	0	0	0	0	0	5	13	149	168
27 Budget	0	0	0	0	0	0	0	10	10
28 Audit	0	0	0	0	0	0	0	1	1
29 Statistics	1	0	0	3	7	9	25	56	101
30 Pensions and related expenditure	0	0	0	0	0	0	0	0	0
31 Language Services	0	0	0	0	0	0	-0	24	24
90 Other Institutions	0	0	0	0	0	0	11	317	328
Total	**1 709**	**1 093**	**2 042**	**3 977**	**22 978**	**14 463**	**52 915**	**78 095**	**177 272**

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	99	99	164	86	250	137	4	141	142.54 %	109
Council	53	53	96	12	108	90	12	102	192.94 %	6
Commission	115 869	112 808	117 818	11 758	129 576	114 950	2 335	117 285	103.97 %	12 291
Court of Justice	38	38	41	0	41	41	0	41	106.26 %	0
Court of Auditors	19	19	19	1	19	18	0	19	98.50 %	0
Economic and Social Committee	10	10	16	0	16	16	0	16	164.23 %	0
Committee of the Regions	7	7	20	0	20	20	0	20	309.74 %	0
Ombudsman	1	1	1	0	1	1	0	1	112.93 %	0
European Data protection Supervisor	1	1	1	0	1	1	0	1	78.73 %	0
Total	**116 096**	**113 035**	**118 175**	**11 857**	**130 032**	**115 274**	**2 351**	**117 626**	**104.06 %**	**12 407**

15. IMPLEMENTATION OF COMMITMENT AND PAYMENT APPROPRIATIONS BY INSTITUTION

Commitment appropriations

EUR millions

Institution	Commitment appropriations authorised	Commitments made					Appropriations carried over to 2010				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 approps	Appropriations carried over	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	1 596	1 418	8	42	1 467	91.94 %	16	10	26	1.65 %	102	0	0	102	6.42 %
Council	642	551	0	41	593	92.33 %	38	0	38	5.88 %	12	0	0	12	1.80 %
Commission	142 947	133 147	373	6 258	139 779	97.78 %	2 169	318	2 487	1.74 %	680	0	2	682	0.48 %
Court of Justice	318	311	0	1	313	98.50 %	1	0	1	0.37 %	4	0	0	4	1.14 %
Court of Auditors	188	173	0	0	173	92.19 %	0	0	0	0.21 %	14	0	0	14	7.59 %
Economic and Social Committee	122	117	0	3	120	98.02 %	0	0	0	0.33 %	2	0	0	2	1.65 %
Committee of the Regions	88	75	0	12	87	98.37 %	0	0	0	0.08 %	1	0	0	1	1.56 %
Ombudsman	9	8	0	0	8	91.98 %	0	0	0		1	0	0	1	8.02 %
European Data protection Supervisor	7	5	0	0	5	81.44 %	0	0	0		1	0	0	1	18.56 %
Total	**145 917**	**135 806**	**381**	**6 358**	**142 545**	**97.69 %**	**2 225**	**328**	**2 553**	**1.75 %**	**817**	**0**	**2**	**819**	**0.56 %**

Payment appropriations

EUR millions

Institution	Payment appropriations authorised	Payments made					Appropriations carried over to 2010					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	1 799	1 237	186	43	1 466	81.50 %	180	10	22	212	11.78 %	102	19	0	121	6.72 %
Council	762	510	108	41	659	86.44 %	41	0	42	83	10.86 %	12	9	0	21	2.70 %
Commission	121 235	107 981	1 455	6 154	115 590	95.34 %	562	872	2 693	4 127	3.40 %	1 189	316	13	1 517	1.25 %
Court of Justice	332	293	13	1	307	92.47 %	18	0	1	19	5.84 %	4	2	0	6	1.69 %
Court of Auditors	200	112	11	0	123	61.35 %	61	0	0	62	30.76 %	14	2	0	16	7.89 %
Economic and Social Committee	128	110	4	3	117	91.69 %	6	0	1	8	5.95 %	2	1	0	3	2.37 %
Committee of the Regions	95	69	5	12	86	90.09 %	6	0	1	6	6.75 %	1	2	0	3	3.17 %
Ombudsman	10	8	1	0	8	84.57 %	1	0	0	1	7.57 %	1	0	0	1	7.86 %
European Data protection Supervisor	8	4	1	0	5	64.24 %	1	0	0	1	15.02 %	1	0	0	2	20.75 %
Total	**124 569**	**110 325**	**1 782**	**6 253**	**118 361**	**95.02 %**	**877**	**882**	**2 760**	**4 519**	**3 .63 %**	**1 326**	**350**	**13**	**1 688**	**1.36 %**

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	122	102	92	10	06
Frontex	89	80	80	0	18
European Centre for the Development of Vocational Training	19	18	17	1	15
European Police College	9	7	7	0	18
European Chemicals Agency	70	71	71	0	02
European Centre for Disease prevention and control	51	49	49	0	17
European Monitoring Centre for Drugs and Drug Addiction	15	16	15	0	18
European Environment Agency	40	42	42	0	07
Community Fisheries Control Agency	10	10	10	0	11
European Food Safety Authority	69	65	65	0	17
European GNSS supervisory authority	44	41	41	0	06
Fusion for Energy	174	174	143	31	08
Eurojust	28	28	28	0	18
European Maritime Safety Agency	53	51	51	0	06
Office For Harmonisation in the Internal Market	225	194	194	0	12
European Medicines Agency	194	198	196	1	02
European Network and Information Security Agency	8	8	8	0	09
European Union Agency for Fundamental Rights	17	13	13	0	18
European Railway Agency	21	21	21	0	06
European Agency for Safety and Health at Work	14	13	13	0	04
Translation Centre for the Bodies of the EU	63	52	45	7	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	20	20	20	0	04
Education, Audiovisual & Culture Executive Agency	48	48	48	0	15
Executive Agency for Competitiveness and Innovation	13	13	13	0	06
European Research Council Executive Agency	14	13	13	0	08
Research Executive Agency	22	22	21	0	08
Executive Agency for the Public Health Programme	6	6	6	0	17
Trans-European Transport Network Executive Agency	9	9	9	0	06
Total	**1 501**	**1 415**	**1 363**	**52**	

EUR millions

Type of revenue	Forecasted income budget	Entitlements established	Amounts received	Outstanding
Commission Subsidy	824	796	796	-0
Fee income	415	399	388	11
Other income	262	220	179	41
Total	**1 501**	**1 415**	**1 363**	**52**

17. AGENCIES: COMMITMENT & PAYMENT APPROPRIATIONS BY AGENCY

EUR millions

Agency	Commitment appropriations			Payment appropriations		
	Appro-priations	Commit-ments made	Carried to 2010	Appro-priations	Payments made	Carried to 2010
European Aviation Safety Agency	136	107	27	150	96	52
Frontex	90	82	2	119	77	25
European Centre for the Development of Vocational Training	21	19	1	22	18	2
European Police College	13	10	2	14	6	5
European Chemicals Agency	70	67	0	83	57	20
European Centre for Disease prevention and control	51	48	0	67	44	18
European Monitoring Centre for Drugs and Drug Addiction	16	16	0	17	15	1
European Environment Agency	42	42	0	48	40	7
Community Fisheries Control Agency	10	10	0	11	10	1
European Food Safety Authority	71	69	0	87	67	10
European GNSS supervisory authority	145	119	26	120	68	52
Fusion for Energy	404	400	4	206	133	60
Eurojust	28	26	1	31	23	6
European Maritime Safety Agency	49	46	0	57	46	2
Office For Harmonisation in the Internal Market	338	146	0	367	140	31
European Medicines Agency	194	185	0	230	181	40
European Network and Information Security Agency	8	8	0	10	8	2
European Union Agency for Fundamental Rights	17	17	0	24	17	7
European Railway Agency	21	21	0	25	20	5
European Agency for Safety and Health at Work	15	13	1	19	13	5
Translation Centre for the Bodies of the EU	63	36	0	66	36	4
European Training Foundation	21	20	2	23	20	2
Community Plant Variety Office	14	12	0	14	12	0
European Foundation for the Improvement of Living and Working Conditions	21	21	1	26	20	6
Education, Audiovisual & Culture Executive Agency	48	46	0	54	46	6
Executive Agency for Competitiveness and Innovation	13	12	0	15	12	1
European Research Council Executive Agency	14	13	0	21	17	2
Research Executive Agency	22	23	0	22	18	4
Executive Agency for the Public Health Programme	6	6	0	7	5	1
Trans-European Transport Network Executive Agency	9	8	0	10	8	1
Total	**1 972**	**1 647**	**68**	**1 964**	**1 272**	**377**

Type of expenditure	Commitment appropriations			Payment appropriations		
	Appropriations	Commitments made	Carried to 2010	Appropriations	Payments made	Carried to 2010
Staff	547	508	0	561	500	15
Administrative expenses	246	238	0	331	232	83
Operational expenses	1 179	901	67	1 072	540	279
Total	**1 972**	**1 647**	**68**	**1 964**	**1 272**	**377**

18. BUDGET OUTTURN INCLUDING AGENCIES

EUR millions

	EUROPEAN UNION	AGENCIES	Elimination of subsidies to agencies	TOTAL
Revenue for the financial year	117 626	1 363	(796)	**118 193**
Payments against current year appropriations	(116 579)	(1 082)	796	**(116 865)**
Payment appropriations carried over to year N+1	(1 759)	(377)	0	**(2 136)**
Cancellation of unused appropriations carried over from year N-1	2 791	188	0	**2 979**
Exchange differences for the year	185	(5)	0	**180**
Budget Outturn	**2 264**	**87**	**0**	**2 351**

EXPLANATORY NOTES TO THE CONSOLIDATED REPORTS ON IMPLEMENTATION OF THE BUDGET

1. Budgetary principles, structure and appropriations
2. Explanation of the reports on the 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 of 16 September 2002) on the Financial Regulation applicable to the general budget of the European Union and Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of this Financial Regulation. 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 EU'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:

  – 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;

  – 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

  – 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:

  – Refunds where the amounts are assigned revenue on the budget line which incurred the initial expenditure and may be carried over without limit,

  – 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;

  – 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);

  – Work for third parties: As part of their research activities, the EU's 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

– Appropriations made available again as a result of repayment of payments on account: These are EU's 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 2008 and 15 October 2009, provided that the accounting officer was notified of the commitment and authorisation by 31 January 2010. 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 2009 budget implementation statements and those carried over to the following year in the 2008 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 2008.

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 2009

EUR millions

	2009	2008
ECONOMIC OUTTURN FOR THE YEAR	**4 457**	**12 686**
Revenues		
Entitlements established in current year but not yet collected	(2 806)	(4 685)
Entitlements established in previous years and collected in current year	2 563	3 485
Accrued revenue (net)	436	(724)
Expenditure		
Accrued expenses (net)	5 381	6 353
Expenses prior year paid in current year	(432)	(219)
Net-effect pre-financing	(9 458)	(16 446)
Payment appropriations carried over to next year	(1 759)	(3 914)
Payments made from carry-overs & cancellation unused payment appropriations	4 573	1 182
Movement in provisions	(329)	4 316
Other	(153)	(88)
Economic outturn agencies + ECSC	(209)	(136)
BUDGET OUTTURN FOR THE YEAR	**2 264**	**1 810**

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 EU.

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 2008 *(Table 2)*

In the initial adopted budget, signed by the President of the European Parliament on 18 December 2008, the amount of payment appropriations was fixed at EUR 116 096 million and the amount to be financed by own resources totalled EUR 114 736 million. It should be noted that the revenue and expenditure estimates in the initial budget are subject to adjustment during the budgetary year, such modifications being presented in amending budgets. Adjustments in the Member States GNI-based own resources payments 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 2009 ten amending budgets were adopted. Their impact on the revenue side of the 2009 budget resulted in a final revenue of EUR 113 035 million. This was financed by own resources totalling EUR 110 238 million (thus EUR 4 498 million less than initially forecasted) and the remainder by other revenue. The reduced need for own resources was due mainly to the inclusion of EUR 1 796 million relating to the surplus of the previous year as well as the combined effect of a decrease in payment appropriations and an increase in the forecast of revenue in the Amending Budget No 10/2009. This latter case resulted in a supplementary reduction of the own resources by EUR 2 888 million.

As far as the own resources are concerned, it should be noted that the collection of traditional own resources was very close to the forecasted amount. This is explained by the fact that the budgetary estimates were modified at the time the Amending Budget No. 6/2009 was established (they were decreased by EUR 5 226 million) and further at the time the Amending Budget No 10/2009 was established (this time they were increased by EUR 600 million). These adjustments were based on one hand on the new macroeconomic forecasts of spring 2009, being less optimistic than the previous ones and on the other hand on the evolution of the actual collection of contributions.

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

Expenditure:

The year 2009 saw the EU Budget still in transition, from one multi-annual Financial Framework to the next. Commitment appropriations reflected the spending orientations agreed for the new programming period 2007 – 2013, whereas the part of the payment claims still related to the previous 2000 – 2006 Financial Framework was close to 12%.

For commitments, the initial budget and hence the political targets set were carried out virtually as planned. The implementation rate excluding the unused reserves (EUR 447 million for Globalisation Fund and EUR 56 million for Emergency Aid) reached 99.6% of the budget, it being slightly adjusted during the year. Heading 2, Natural Resources, commitments were increased by EUR 259 million (being a recovery plan increase of EUR 600 million for rural development, an end of year reduction of EUR 390 million, and blue tongue measures increase of EUR 49 million). Heading 5, Administration, decreased by EUR 55 million. These represent together an increase of only 0.15 % from the initial budget, if the increase of EUR 615 million for the European Solidarity Fund is not taken into account (because of its nature as a reserve for unforeseeable expenditure).
The implementation rate for payments, excluding unused Emergency Aid reserve, was 95% of the initial budget and 97% of the final budget. The main reductions in payment appropriations were made via amending budgets in Heading 1a, Competitiveness, totalling EUR 738 million (of which Research counted for EUR 448 million), in Heading 2, Natural Resources, EUR 2 632 million (Rural Development EUR 2 192 million) and Enlargement EUR 244 million.

The unused voted appropriations, excluding reserves, totalled EUR 2 395 million and was made up by mainly: the European Social Fund (Convergence EUR 674 million and Regional

Competitiveness EUR 248 million), the Instrument for Pre-accession (EUR 142 million), Commission Administration (EUR 394 million) and Competiveness (EUR 377 million spread throughout Heading 1a).

A more detailed analysis of budgetary adjustments, their relevant context, their justification and their impact is presented in the Commission's Report on Budgetary and Financial Management 2009, Part A overview at budget level and Part B dealing with each Financial Framework 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.

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

2.3.1 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 amounts recovered during the quarter in question,

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

– amounts written off,

– 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).

2.3.4 Gross reduction for Netherlands and Sweden

According to ORD 2007, the Netherlands and Sweden benefit from a gross reduction in their annual GNI-based contributions for the period 2007-2013. The gross reduction, being EUR 605 million for the Netherlands and EUR 150 million for Sweden (in 2004 prices), is adjusted to current prices by applying the GDP deflator for the EU expressed in EUR and it is granted after the calculation of the correction in favour of the United Kingdom and its financing.

2.3.5 Adjustment relating to the implementation of the ORD 2007 for years 2007 and 2008

Article 11 of the ORD 2007 stipulates that once the Decision enters into force, it shall take effect on 1 January 2007. This means that the financing for the years 2007 and 2008 had to be recalculated according to the new rules. The adjustment (the differences between the old and the new ORD for years 2007 and 2008) was entered in the Amending Budget No. 3/2009 and was implemented in one single payment on 1 June 2009.
Further information on the implementation of revenue can be found in the Report on Budgetary and Financial Management 2009.

2.4 EXPENDITURE *(Tables 4 to 13)*

2.4.1 Financial Framework 2007-2013

This section describes the main categories of EU expenditure, classified by heading of the financial framework 2007-2013. The 2009 financial year was the third covered by the financial framework 2007-2013. The overall ceiling on commitments appropriations for 2009 comes to EUR 134 722 million, equivalent to 1.13% of GNI. The corresponding ceiling on the appropriations for payments comes to EUR 120 445 million, i.e. 1.01 % of GNI. The above table shows the financial framework at current prices estimated for 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**

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 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.

Further information on the implementation of expenditure can be found in the Commission's Report on Budgetary and Financial Management 2009.

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.