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<u>Notice No</u>	Contents	Page
	IV <i>Notices</i>	
	NOTICES FROM EUROPEAN UNION INSTITUTIONS AND BODIES	
	Commission	
2008/C 287/01	Annual accounts of the European Communities — Financial year 2007 — Volume I — Consolidated financial statements and consolidated reports on implementation of the budget	1
2008/C 287/02	The Court's statement of assurance provided to the European Parliament and the Council	111

Note to the reader (see page 3 of the cover)


 The logo consists of the letters 'EN' in a bold, serif font, enclosed within a rectangular border.

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IV

(Notices)

NOTICES FROM EUROPEAN UNION INSTITUTIONS AND BODIES

COMMISSION

ANNUAL ACCOUNTS OF THE EUROPEAN COMMUNITIES

FINANCIAL YEAR 2007

Volume I

CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED REPORTS ON
IMPLEMENTATION OF THE BUDGET

(2008/C 287/01)

CONTENTS

	<i>Page</i>
Note accompanying the consolidated accounts	2
Principal events and key points	3
Implementing and accounting for the EU Budget	4
PART I: Consolidated financial statements of the European Communities and explanatory notes	10
A. Balance Sheet	11
B. Economic Outturn Account	12
C. Cashflow Table	13
D. Statement of changes in Net Assets	14
E. Notes to the financial statements	15
PART II: Consolidated reports on implementation of the budget of the European Communities and explanatory notes	84
A. Consolidated reports on implementation of the budget	85
B. Explanatory notes to the consolidated reports on implementation of the budget	101

NOTE ACCOMPANYING THE CONSOLIDATED ACCOUNTS

The consolidated annual accounts of the European Communities for the year 2007 have been prepared on the basis of the information presented by the other institutions and bodies under Article 129.2 of the Financial Regulation. I hereby declare that they were prepared in accordance with Title VII of the Financial Regulation of the EC and with the accounting principles, rules and methods set out in annex 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 Communities' 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 Communities in all material aspects.



Brian GRAY

Accounting Officer of the European Commission

PRINCIPAL EVENTS AND KEY POINTS

The 2007 annual accounts of the European Communities are the third set of accounts to be prepared under the accrual-accounting based rules brought in by the European Communities in 2005. 2007 also saw the updating of the Financial Regulation applicable to the general budget of the European Communities and the new version came into force on 1 May 2007.

As with any set of accounts, the Commission has been working to improve on what was previously published, aiming in particular to provide more understandable and relevant information to the reader.

With regard to the presentation of the 2007 accounts the following changes are highlighted:

- A new section explaining how the EU budget is implemented and accounted for has been introduced. This section gives explanation on how the Communities are funded and how the money is spent, controlled and accounted for.
- A section has also been added to better explain the recovery of undue payments, including details of the amounts involved (see Section E.6).
- Budgetary implementation tables are now presented in millions of euro. A summary table has also been added to give a better overview of budget revenue and expenditure.
- A reconciliation of the economic outturn to the budget outturn has also been provided, for the first time, in the notes.

Finally it should be noted that the scope of consolidation has been increased since 2006 — there are now three joint ventures compared to one in 2006, and there are now 26 agencies consolidated compared with 24 in 2006.

MAIN POINTS OF NOTE IN THE 2007 ANNUAL ACCOUNTS

- The budget surplus has continued to decrease, from EUR 1 848 million to EUR 1 529 million.
- The economic outturn for the year has increased from a surplus of EUR 197 million in 2006 to a surplus of EUR 7 462 million in 2007.
- Total assets increased from EUR 67 332 million in 2006 to EUR 75 386 million, with total liabilities increasing from EUR 131 550 million to EUR 134 006 million. The difference between assets and liabilities will be financed in the short-term from budgetary funds already voted, or guaranteed by the Member States in the longer-term.

IMPLEMENTING AND ACCOUNTING FOR THE EU BUDGET

1. ANNUAL BUDGET PREPARATION

The EU Budget finances a wide range of policies and programmes throughout the Union. 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.

Nearly 95 % 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 32 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 they feel them necessary. The updated budget then goes to the European Parliament, who can themselves 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 EC FUNDED?

The EC 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 (in 2007 it is 93 % of total revenue). 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 % 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, agricultural 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 and agricultural 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 around 15 % of total 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 Community 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 15 % 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 Community rules. The GNI-based resource usually accounts for around 70 % 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 (EC, Euratom) No 1150/2000, have been established by the Member States but not made available to the Communities 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 Community 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 Community budget in accordance with Article 17(2) of Regulation (EC, Euratom) No 1150/2000.

2.2. Sundry revenues

Sundry revenues arising from the activities of the European Communities are approximately 7 % of total revenue. These are, for instance, competition fines and recovery orders to private and public debtors with regard to the management of Community projects (as in the example above). 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 12 000 recovery orders per year. Any debt not paid at the due date is subject to default interest. Where debts of Community 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. Remaining debtors are chased up by the Legal Service with the help of external law firms.

3. HOW THE COMMUNITY BUDGET IS MANAGED AND SPENT

3.1. Primary operating expenditure

The European Communities' operating expenditure covers the various headings of the financial perspective and takes different forms, depending on how the money is paid out and managed. In accordance with the Financial Regulation, the Communities implement the general budget using the following methods:

Direct centralised management: this is where the implementation of the budget is done directly by the responsible Communities' Institution or body.

Indirect centralised management: this refers to cases where the Communities entrust the task of managing a portion of the budget to a Communities or Member State body.

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

Shared management: similarly under this method of management the Communities delegate certain tasks for implementation of the budget to Member States.

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

The majority of the expenditure, this year EUR 90 billion (2006: EUR 91 billion), falls under the heading 'Shared Management' involving the delegation of tasks to Member States, covering such areas as agricultural spending and Structural Actions.

3.2. The different financial actors

The **College of Commissioners** assumes collective political responsibility but has virtually no budget implementation powers. It delegates these tasks each year to individual civil servants accountable to the College and subject to 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 Community 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 and consolidating them with those of the other consolidated entities. 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 to verify the proper operation of budgetary implementation systems and procedures and to advise the institution on risk management issues. The Internal Auditor 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.

Once the budgetary commitment is launched by the person responsible for the project, known as the 'initiating agent', it must follow a pre-set procedure — or 'financial circuit' — which is a paper and electronic trail involving a minimum of two people (the so-called 'four eyes principle'), the initiator and the verifier. The financial circuits in place provide for financial and operational checks before the commitment is approved by the Authorising Officer responsible.

No money can be spent from the Community budget unless and until the Commission or another EC body and the possible recipient of Community 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 Communities comprises two separate but linked elements:

- (a) budget accounts, which provide a detailed record of budget implementation; and
- (b) general accounts, used to prepare the balance sheet and economic outturn.

The budget accounts chart the commitments and payments made on the 1 150 or so budget lines day by day. They are based on the modified cash accounting principle, whereby an item of expense or income is only recorded in the accounts when cash is committed, paid out or received. This type of accounting is typical of the public sector whose focus has, historically, tended to be on the budget and its implementation. The European Parliament, i.e. the institution to which the executive, the Commission, is accountable, is naturally keen to verify that the wishes it expressed in adopting the budget are being fulfilled by the executive. Each month the Commission publishes figures detailing the current state of budget implementation (spending) on the Europa website. The figures are given by financial perspective heading and by policy area.

The general accounts (or general ledger) use the double-entry method of bookkeeping to show all expenditure and revenue over the financial year (and thus the economic outturn) and to establish the financial position of the EC in the form of a balance sheet of assets and liabilities at 31 December of a given year.

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. When a payment needs to be made a compulsory workflow similar to that for a budgetary commitment has to be followed. This is done in the accounting system and with a parallel paper/electronic trail. Again the process is launched by the initiating agent and ultimately approved by the authorising officer by sub-delegation. Once the payment is approved, both the budgetary and the general accounts are automatically updated.

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, for example, through the treasury department of DG Budget, makes almost all of its payments by bank transfer. It has bank accounts with Member State Treasuries, Central Banks and commercial banks.

The Commission makes over one million payments a year. The Commission is a participant in SWIFT (Society for Worldwide Interbank Financial Telecommunication). Each day at least one payment run, launched under the control of the treasury department of Directorate-General for Budget, translates the approved payment orders into payment instructions that are sent automatically to the Commission banks, in order to pay the designated beneficiaries.

3.4.2. Pre-financing

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 Communities. 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 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. When a pre-financing amount is fully or partially accepted by the Communities, following analysis of the eligibility of a cost claim received (see below), then the accepted amount of eligible expenditure is removed from the balance sheet and taken as an expense in the economic outturn account. This may clear the pre-financing amount in whole or in part.

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). The ownership of this interest designates the two categories of pre-financing existing — European Communities and Third Party. The difference between the two categories is that the interest generated by 'European Communities' pre-financing amounts remains the property of the Communities and so must be returned to the Communities, while that earned on 'Third Party' pre-financing is the property of the beneficiary.

3.4.3. Cost claims and eligibility of expenditure

Some time after the payment of the advance, or pre-financing, a cost claim will be received by the relevant EC body so as to justify how that 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.

Cost statements received are registered immediately in the accounting system as a current payable with 'Eligibility to be checked' (a debit amount) the counterpart entry. This is known as a 'Step 1 invoice'. An expense is only recognised in the general accounts once the 'generating event' has occurred — namely when the cost claim is validated. Thus at the 'Step 1' stage no expense is yet recognised. The member of staff responsible is required to perform checks on the claim received and may request further justification where necessary before verifying in the system and on paper that the claim is valid and that the payment can be made. Once satisfied that the claim is valid, an accounting entry is made that transfers the eligible amounts to the economic outturn account as an expense ('Step 2 invoice'). The open pre-financing and creditor balances are also reduced by the validated amount. There is no impact on the budgetary accounts since the initial payment has already been recorded.

3.4.4. *Payment of further amounts*

If an amount in excess of the initial payment is claimed and verified or if a second or final payment is required to be paid in accordance with the contract, then a new payment request is launched following the same rules as before. It is the authorising officer by delegation who gives final approval before the payment can be made. 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 being realised has not yet been reached.

3.4.5. *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. Guarantees received related to pre-financing amounts are disclosed in the off-balance sheet as contingent assets.

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 Community funds but not yet reported to the EC. 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. **Recovering undue payments**

The eligibility of expenditure charged to the budget is verified by the relevant EC services, or in the case of shared management, by the Member States, on the basis of the supporting documents stipulated in the applicable rules 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 EC 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). Errors found during the implementation period may be corrected by adjustment of subsequent claims. Errors found ex post will be the subject of a recovery order. See also Section **E.6** for further information on this area.

4. YEAR-END REPORTING

4.1. **Annual accounts**

It is the Accounting Officer's responsibility 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 Communities' 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 EC 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 EC. 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 Communities' 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 three outcomes: the granting, postponement or refusal 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 COMMUNITIES AND
EXPLANATORY NOTES**

CONTENTS

	<i>Page</i>
A. Balance Sheet	11
B. Economic Outturn Account.....	12
C. Cashflow Table.....	13
D. Statement of changes in Net Assets.....	14
E. Notes to the financial statements	15
1. Significant accounting policies.....	16
2. Notes to the Balance Sheet	27
3. Notes to the Economic Outturn Account.....	46
4. Notes to the Cashflow table	57
5. Off-Balance Sheet disclosures	57
6. Recovery of undue payments.....	65
7. Financial risk management	70
8. Related party disclosures	79
9. Events after the balance sheet date.....	80
10. Consolidated entities	81
11. Non-consolidated entities	82

A. BALANCE SHEET

EUR millions

	Note	31.12.2007	31.12.2006
NON-CURRENT ASSETS:			
Intangible assets	2.1	44	37
Property, plant and equipment	2.2	4 523	4 586
Long-term investments	2.3	1 973	2 157
Loans	2.4	1 806	2 023
Long-term pre-financing	2.5	14 015	22 425
Long-term receivables	2.6	127	328
		22 488	31 556
CURRENT ASSETS:			
Inventories	2.7	88	115
Short-term investments	2.8	1 420	1 426
Short-term pre-financing	2.9	20 583	8 055
Short-term receivables	2.10	12 051	9 796
Cash and cash equivalents	2.11	18 756	16 384
		52 898	35 776
Total assets		75 386	67 332
NON-CURRENT LIABILITIES:			
Employee benefits	2.12	(33 480)	(32 200)
Long-term provisions	2.13	(1 079)	(989)
Long-term financial liabilities	2.14	(1 574)	(1 862)
Other long-term liabilities	2.15	(1 989)	(2 020)
		(38 122)	(37 071)
CURRENT LIABILITIES:			
Short-term provisions	2.16	(369)	(379)
Short-term financial liabilities	2.17	(135)	(20)
Accounts payable	2.18	(95 380)	(94 080)
		(95 884)	(94 479)
Total liabilities		(134 006)	(131 550)
NET ASSETS		(58 620)	(64 218)
Reserves	2.19	2 806	2 855
Amounts to be called from Member States:	2.20		
Employee benefits ⁽¹⁾		(33 480)	(32 200)
Other amounts ⁽²⁾		(27 946)	(34 873)
NET ASSETS		(58 620)	(64 218)

⁽¹⁾ Under Article 83 of the Staff Regulations (Council Regulation (EEC) No 259/68 of 29 February 1968 as amended), the Member States shall jointly guarantee the liability for pensions.

⁽²⁾ The European Parliament has adopted a budget on 13 December 2007 which provides for the payment of the Communities' short-term liabilities from own resources to be collected by, or called up from, the Member States in 2008.

B. ECONOMIC OUTTURN ACCOUNT

		<i>EUR millions</i>	
	Note	2007	2006
OPERATING REVENUE			
Own resource and contributions revenue	3.1	112 084	105 118
Other operating revenue	3.2	9 080	8 368
		121 164	113 486
OPERATING EXPENSES			
Administrative expenses	3.3	(7 120)	(6 619)
Operating expenses	3.4	(104 682)	(106 803)
		(111 802)	(113 422)
SURPLUS FROM OPERATING ACTIVITIES			
Financial revenue	3.5	674	621
Financial expenses	3.6	(354)	(331)
Movement in employee benefits liability	2.12	(2 207)	108
Share of net surplus (deficit) of associates & joint ventures	3.7	(13)	(265)
ECONOMIC OUTTURN FOR THE YEAR		7 462	197

C. CASHFLOW TABLE

		EUR millions	
	Note	2007	2006
Economic outturn for the year		7 462	197
<i>Operating activities</i>	4.2		
Amortisation		11	11
Depreciation		329	306
(Reversal of) impairment losses on investments		(3)	(3)
(Increase)/decrease in loans		217	374
(Increase)/decrease in long-term pre-financing		8 410	307
(Increase)/decrease in long-term receivables		201	(84)
(Increase)/decrease in inventories		27	11
(Increase)/decrease in short-term pre-financing		(12 528)	(1 422)
(Increase)/decrease in short-term receivables		(2 255)	(2 558)
Increase/(decrease) in long-term provisions		90	(108)
Increase/(decrease) in long-term financial liabilities		(288)	(58)
Increase/(decrease) in other long-term liabilities		(31)	167
Increase/(decrease) in short-term provisions		(10)	104
Increase/(decrease) in short-term financial liabilities		115	(2)
Increase/(decrease) in accounts payable		1 300	11 552
Prior year budgetary surplus taken as non cash revenue		(1 848)	(2 410)
Other non-cash movements		(15)	140
<i>Increase/(decrease) in employee benefits liability</i>		1 280	(956)
<i>Investing activities</i>	4.3		
(Increase)/decrease in intangible assets and property, plant and equipment		(284)	(772)
(Increase)/decrease in long-term investments		(5)	(156)
(Increase)/decrease in short-term investments		6	14
NET CASHFLOW		2 181	4 654
NET INCREASE IN CASH AND CASH EQUIVALENTS ⁽¹⁾		2 181	4 654
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR ⁽¹⁾	2.11	16 824	12 170
CASH AND CASH EQUIVALENTS AT YEAR-END ⁽¹⁾	2.11	19 005	16 824

⁽¹⁾ Includes the cash of the Guarantee Fund (see note 2.11).

D. 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 2005	81	2 727	(57 141)	(7 812)	(62 145)
Movement in Guarantee Fund reserve		22	(22)		0
Fair value movements	(77)				(77)
Other		72	145		217
Allocation of the economic outturn 2005		30	(7 842)	7 812	0
Budget result 2005 credited to Member States			(2 410)		(2 410)
Economic outturn for the year				197	197
BALANCE AS AT 31 DECEMBER 2006	4	2 851	(67 270)	197	(64 218)
Movement in Guarantee Fund reserve		(135)	135		0
Fair value movements	3		(26)		(23)
Other		60	(53)		7
Allocation of the economic outturn 2006		23	174	(197)	0
Budget result 2006 credited to Member States			(1 848)		(1 848)
Economic outturn for the year				7 462	7 462
BALANCE AS AT 31 DECEMBER 2007	7	2 799	(68 888)	7 462	(58 620)

E. NOTES TO THE FINANCIAL STATEMENTS

	<i>Page</i>
1. Significant accounting policies	16
2. Notes to the Balance Sheet.....	27
3. Notes to the Economic Outturn Account	46
4. Notes to the Cashflow table.....	57
5. Off-Balance Sheet disclosures.....	57
6. Recovery of undue payments	65
7. Financial risk management.....	70
8. Related party disclosures.....	79
9. Events after the balance sheet date	80
10. Consolidated entities.....	81
11. Non-consolidated entities.....	82

1. SIGNIFICANT ACCOUNTING POLICIES

1.1. LEGAL PROVISIONS AND THE FINANCIAL REGULATION

The accounts are kept in accordance with Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 (OJ L 248, 16.9.2002, p. 1, last amended by Council Regulation (EC, Euratom) No 1995/2006 of 13 December 2006, OJ L 390, 30.12.2006) on the Financial Regulation applicable to the general budget of the European Communities and Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of this Financial Regulation, last modified on 28 March 2007.

Article 133 of the Financial Regulation states that the Accounting Officer of the Commission adopts the accounting rules and methods to be applied by all the institutions and bodies. Thus, he adopted the current Communities' accounting rules on 28 December 2004. These accrual-based accounting policies are derived from International Public Sector Accounting Standards (IPSAS) or by default, International Financial Reporting Standards (IFRS) as respectively issued by the International Public Sector Accounting Standard Board (IPSASB) and the International Accounting Standard Board (IASB). These rules have been adopted by the Accounting Officer of the Commission after receiving the opinion of an Advisory Expert Group for Accounting Standards that provided professional guidance. The accounting rules are regularly reviewed and updated when necessary.

The valuation and accounting rules adopted by the Accounting Officer of the Commission are applied in all the European Institutions and 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 Commission's Accounting Officer must submit the consolidated provisional accounts to the Court of Auditors for audit by 31 March of the following year. The Commission must adopt the final consolidated accounts by 31 July and they are then published in the Official Journal by 15 November together with the Court of Auditors' statement of assurance. Both the provisional and final annual accounts are presented as follows: Volume I contains the consolidated accounts and Volume II the Commission's accounts.

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 a public sector entity such as the European Communities, 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.

If they are to present a true and fair view, financial statements must not only supply relevant information to describe the nature and range of an Institution's and Agencies' activities, explain how it is financed and supply definitive information on its operations, but do so in a clear and comprehensible manner which allows comparisons between financial years. It is with these goals in mind that the present document has been drawn up.

The accounting system of the European Institutions and Agencies comprises general accounts and budget accounts. These accounts are kept in euro on the basis of the calendar year. The budget accounts give a detailed picture of the implementation of the budget. They are based on the modified cash accounting principle. The general accounts allow for the preparation of the financial statements as they show all charges and income for the financial year based on accrual accounting rules and are designed to establish the financial position in the form of a balance sheet at 31 December.

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.

1.3. CONSOLIDATION

The scope of consolidation of the European Communities comprises 36 controlled entities, one associate and three joint ventures. The complete list of consolidated entities can be found in note **E.10**. In comparison with 2006, the scope of consolidation has been extended by two agencies and two joint ventures. The impact of these additions on the consolidated financial statements was not material.

Controlled entities

Controlled entities are all entities over which the European Communities have 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. The most common indicator of control, majority of voting rights, is in most of the cases not applicable for the European Communities as there are normally no capitalistic links between the entities.

The European Institutions falling within the scope of consolidation have been created through their founding treaties. They represent the basis of the organisational structure of the European Communities and contribute incontestably to the European Communities' objectives. These Institutions can therefore be considered as being under the exclusive control of the European Communities.

Under the same approach, the Communities Bodies and Executive Agencies created through a secondary act of legislation are considered as under the exclusive control of the European Communities and therefore are also included in the consolidation scope. It should be noted that the Office for Harmonisation in the Internal Market (Alicante) and the Community Plant Variety Office (Angers) do not receive any subsidies from the General Budget of the Communities. Also included in the scope of consolidation are two agencies of the 3rd pillar of the European Union that have received a subsidy from the General Budget of the European Communities (see also section **E.10**). Furthermore the European Coal and Steel Communities in Liquidation (ECSC) is also considered as a controlled entity.

Controlled entities are consolidated using the full consolidation method. All inter-company transactions and balances between European Communities' controlled entities are eliminated. Unrealised gains and losses on inter-entity transactions are not material and have therefore not been eliminated.

Associates

Associates are all entities over which the European Communities have significant influence but not control, generally accompanying a shareholding of between 20 % and 50 % of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost.

The European Communities' share of their associates' post-acquisition profits or losses is recognised in the economic outturn account, and their share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Distributions received from an associate reduce the carrying amount of the investment.

Unrealised gains and losses on transactions between the European Communities and their associate are not material and have therefore not been eliminated.

The accounting policies of associates may differ from those adopted by the European Communities for like transactions and events in similar circumstances. For practicable reasons, no adjustments were made to the associates' financial statements used in applying the equity method.

In cases where the European Communities hold 20 % or more of a venture capital fund, the Communities do not seek to exert significant influence. Such funds are therefore treated as financial assets available for sale and the equity method is not applied.

Joint ventures

A joint venture is a contractual arrangement whereby the European Communities 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 over an economic activity. Interests in jointly controlled entities are accounted for by the equity method of accounting and are initially recognised at cost.

The European Communities' interest of the profits or losses of their jointly controlled entities is recognised in the economic outturn account, and their interest of movements in reserves is recognised in reserves. The cumulative movements are adjusted against the carrying amount of the interest.

Unrealised gains and losses on transactions between the European Communities and their 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 Communities for like transactions and events in similar circumstances. For practicable reasons, no adjustments were made to the joint ventures' financial statements used in applying the equity method.

Non-consolidated entities

Not controlled by the European Communities and thus not consolidated in its accounts are the funds managed by the Communities on behalf of both the Sickness Insurance Scheme for staff of the European Communities, and the European Development Fund. At 31 December 2007 the total assets of both were EUR 287 million and EUR 1 350 million respectively — see note E.11.

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 euro, the euro being the European Communities' functional and reporting currency.

Transactions and balances

Foreign currency transactions are translated into euro 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.

Year-end balances of monetary assets and liabilities denominated in foreign currencies are converted into euro on the basis of the exchange rates applying on 31 December:

EURO Exchange Rates

Currency	31.12.2007	31.12.2006
BGN	1,9558	1,9558
CYP	0,5853	0,5782
CZK	26,6280	27,4850
DKK	7,4583	7,4560
EEK	15,6466	15,6466
GBP	0,73335	0,6715
HUF	253,7300	251,7700
LVL	0,6964	0,6972
LTL	3,4528	3,4528
MTL	0,4293	0,4293
PLN	3,5935	3,8310
RON	3,6077	3,3835
SKK	33,5830	34,4350
SEK	9,4415	9,0404
JPY	164,9300	156,9300
USD	1,4721	1,3170

Different conversion methods apply to the following headings:

- property, plant and equipment and intangible assets, which retain their value in euro 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.

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 cost less accumulated amortisation and impairment losses. The assets are amortised on a straight-line basis over their estimated useful lives, being four 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 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 associated with the item will flow to the European Communities and its cost can be measured reliably. Repairs and maintenance are charged to the economic outturn account during the financial period in which they are incurred. As the European Communities do 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 infinite 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 Communities have substantially all the risks and rewards of ownership, are classified as financial leases. Financial 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 acquired under financial 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 each balance sheet date. 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.

1.5.4. *Investments*

Investments in Associates and interests in Joint Ventures

Investments in associates and interests in joint ventures are accounted for by using the equity method.

Investments in Venture Capital Funds

Classification and measurement

Investments in Venture Capital Funds are classified as available-for-sale assets 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 and in the absence of any other reliable valuation technique, 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 in existence for less than two years at balance sheet date are valued based on the same principles, except in the case of unrealised losses due only to administrative expenses where, in view of the early stage of the underlying investment portfolio, these unrealised losses are not taken into account.

Under this method, the fair value of investments in Venture Capital Funds is achieved by applying the aggregated NAV concept, which implicitly assumes that if the NAVs of the funds can be considered as compliant with IAS 39, then the aggregation of the NAVs of all funds will itself be compliant with IAS 39.

In accordance with this method, the funds are classified into three categories:

- Category I — funds that have adopted the fair value requirements of IAS 39,
- Category II — funds that have adopted other valuation guidelines (i.e. AFIC, BVCA & EVCA valuation guidelines) or standards that can be considered as in line with IAS 39,
- Category III — funds that have not adopted the fair value requirements of IAS 39 or any other valuation guidelines in line with IAS 39.

For Categories I & II, 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 Communities' 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.

Investments belonging to category III are valued at cost less impairment losses (although no investments of this type are currently held).

Financial instruments

Classification

The European Communities classify their investments 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 investments is determined at initial recognition and re-evaluated at each balance sheet date.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. 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 Communities. Derivatives are also categorised as held for trading unless they qualify for hedge accounting. 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 Communities provide 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 Communities has the positive intention and ability to hold to maturity. During this financial year, the European Communities 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 included in non-current assets unless the Communities intend to dispose of the investment within 12 months of the balance sheet date.

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 Communities commit to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Investments 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 to officials granted by the ECSC in liquidation, the transaction price is used as fair value at inception independently from any preferential interest rate granted, for practicable reasons and based on materiality considerations.

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

Subsequent measurement

Available-for-sale financial assets and 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 assets at fair value through profit or loss' category are included in the economic outturn account in the period in which they arise.

Changes in the fair value of monetary financial assets denominated in a foreign currency and classified as available-for-sale that relate to a translation difference are recognised in the economic outturn account. Changes in the fair value of non-monetary financial assets classified as available-for-sale are recognised in the fair value reserve. When financial 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 European Communities 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 Communities establish 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.

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 effective interest method may not be applied separately to loans and borrowings, based on materiality considerations. The transaction costs incurred by the European Communities and then recharged to the beneficiary of the loan are directly recognised in the economic outturn account.

Impairment of financial assets

The European Communities assess 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 securities classified as available-for-sale, a significant or 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.

1.5.5. **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 direct 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 Communities would incur to acquire the asset on the reporting date.

1.5.6. *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 Communities. The amount of the pre-financing is reduced (wholly or partially) by the acceptance of eligible costs and amounts returned.

At year-end, outstanding pre-financing amounts 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.

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. Guarantees related to pre-financing amounts are disclosed in the off-balance sheet as contingent assets.

1.5.7. *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 Communities 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 in value of 20 % per year for outstanding recovery orders not already subject to a specific write-down.

See also note **1.5.13** below concerning the treatment of accrued income recognised at year-end.

1.5.8. *Cash and cash equivalents*

Cash and cash equivalents are defined as short-term 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. Bank overdrafts are shown within financial liabilities under current liabilities on the balance sheet.

1.5.9. *Employee benefits*

Pension obligations

The European Communities operate defined benefit pension plans. A defined benefit plan is a pension plan that generally defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. 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 less the fair value of any plan assets. The defined benefit obligation is calculated by independent 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 high-quality corporate 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 Communities provide 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).

1.5.10. **Provisions**

Provisions are recognised when the European Communities have a present legal or constructive obligation 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).

Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate used is a rate that reflects current market assessments of the time value of money and the risks specific to the liability but not the risks for which future cash flows estimates have been adjusted.

1.5.11. **Financial liabilities**

Financial liabilities include borrowings and held for trading liabilities. 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 separately to loans and borrowings, based on materiality considerations. The transaction costs incurred by the European Communities and then recharged to the beneficiary of the loan are directly recognised in the economic outturn account.

Held for trading liabilities include derivatives that do not qualify for hedge accounting when their fair value is negative. They follow the same accounting treatment as held for trading assets, see note 1.5.4.

1.5.12. **Payables**

A significant amount of the payables of the Communities are not related to the purchase of goods or services — instead they are unpaid cost claims from beneficiaries of grants or other Communities 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 Communities.

1.5.13. **Accrued and deferred income and charges**

A critical element in accrual accounting is the exercise of ensuring that transactions are recorded in the accounting year to which they relate. This exercise is referred to as the cut-off exercise. In particular an assessment has to be made concerning eligible expenses incurred by beneficiaries of Communities' funds but not yet reported to the Communities (accrued charges). Different methods are used depending on the type of activities and information available so as to arrive at the best estimate of these amounts. Conversely, some payments made in current year relate to subsequent periods (deferred charges) and these have to be identified and included in the subsequent period(s).

According to the European Communities 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 Commission 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 Communities' revenue and includes mainly direct and indirect taxes and own resource amounts. In addition to taxes the European Communities may also receive payments from other parties, such as duties, fines and donations.

GNI based resources and VAT resources

Receivables and related revenues are recognised when the European Communities send 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 Communities 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

Receivables and related revenues are recognised when the Communities' 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 Communities,
- or not to accept the decision, in which case they lodge an appeal under Communities' law.

However, 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). The debtors have two options; pay the fine provisionally or present a bank guarantee for the amount.

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 a Communities' 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, and the guarantee is disclosed as a contingent asset.

If it appears probable that the Court of First Instance may not rule in favour of the Communities, 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 Communities on the bank accounts where received payments are deposited is recognised as revenue, and any contingent liability is increased accordingly.

Recovery of expenses

For operations giving rise to reimbursement of expenditures previously paid by the European budget to a final beneficiary, third country or a Member State, recovery orders are established and accounted for as follows:

- Recovery of expenses: For these types of recoveries the accounting rules require that if the recovery order is issued in the same year of the original payment it should result in a receivable from the recipient with a corresponding reduction in the expenses of that year. If, however, the recovery order is issued in another year, it results in a receivable with the corresponding entry being income in the economic outturn account (under the heading recovery of expenses) for that year, or
- Recovery of pre-financing amounts: in this case the amount is included under the pre-financing heading.

Exchange revenue

Revenue from the sale of goods 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. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument (or, when appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the European Communities estimate 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.

In the case of loans granted on borrowed funds, the effective interest method may not be applied separately to loans and borrowings, based on materiality considerations. The transaction costs incurred by the European Communities and then recharged to the beneficiary of the loan are directly recognised in the economic outturn account.

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 Communities. They are valued at original invoice cost.

Non-exchange expenses are specific to the European Communities 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 any 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

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 Communities. A contingent asset is disclosed when an inflow of economic benefits or service potential is probable.

Contingent assets are assessed at each balance sheet date to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits or service potential will arise and the asset's value can be measured reliably, the asset and the related revenue are recognised in the financial statements of the period in which the change occurs.

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 Communities; 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.

A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits or service potential is remote. While the EC is exposed to some risks due to the nature of its day-to-day activities (e.g. implementing and enforcing EU laws and standards), and like many public entities some of these risks are self-insured, no contingent liability is disclosed until a specific event has occurred, since until then the possibility of an outflow of resources is remote.

Contingent liabilities are assessed at each balance sheet date to determine whether an outflow of resources embodying economic benefits or service potential has become probable. If it becomes probable that an outflow of resources embodying economic benefits or service potential will be required for an item dealt with as contingent liability, a provision is recognised in the financial statements of the period in which the change of probability occurs.

Commitments for future funding

A commitment for future funding represents a legal or constructive commitment, usually contractual, that the European Communities have entered into and which may require a future outflow of resources.

Guarantees

Guarantees are possible assets or obligations that arise from past events and whose existence will be confirmed by the occurrence or non-occurrence of the object of the guarantee. Guarantees thus qualify as contingent assets or liabilities. A guarantee is settled when the object of the guarantee no longer exists. It is crystallised when the conditions are fulfilled for calling a payment from the guarantor.

2. NOTES TO THE BALANCE SHEET

NON CURRENT ASSETS

2.1. INTANGIBLE ASSETS

<i>EUR millions</i>	
	Amount
Gross carrying amount at 31 December 2006	82
Additions	22
Disposals	(2)
Transfers between asset categories	13
Other changes	(10)
Gross carrying amount at 31 December 2007	105
Accumulated amortisation at 31 December 2006	45
Amortisation charge for the year	11
Disposals	(2)
Transfers between asset categories	8
Other changes	(1)
Accumulated amortisation at 31 December 2007	61
NET CARRYING AMOUNT AT 31 DECEMBER 2007	44
Net carrying amount at 31 December 2006	37

Intangible assets are identifiable non-monetary assets without physical substance. To qualify for recognition as an asset, they must be controlled by the entity and generate future economic benefits for the European Communities. The amounts relate primarily to computer software.

2.2. PROPERTY, PLANT AND EQUIPMENT

2.2.1. Land and buildings

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.

2.2.2. Assets under construction

On 1 February 2007, the Council signed the contract for the acquisition of the LEX building for a final price of EUR 260 million. The related value at 31 December 2006 included under this heading of EUR 224 million has been transferred to 'Land and Buildings' in 2007. In October 2004 the Parliament signed a financial lease with a purchase option for a building complex in Brussels and the construction began during 2004. In November 2004 the first advance payment of EUR 40 million was paid. Until the signature of the provisional approval report the Parliament has the right to make additional advance payments and at 31 December 2007 EUR 318 million has been paid, reflecting the work done up to this date (at 31 December 2006 EUR 253 million had been paid).

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 2006	3 580	331	181	427	110	1 926	483	7 038
Additions	54	34	10	64	15	16	76	269
Disposals	(2)	(8)	(6)	(38)	(10)	0	(1)	(65)
Transfers between asset categories	227	(10)	3	(9)	3	0	(227)	(13)
Other changes	1	3	6	2	(3)	1	1	11
Gross carrying amount at 31 December 2007	3 860	350	194	446	115	1 943	332	7 240
Accumulated depreciation at 31 December 2006	1 354	265	130	314	77	312		2 452
Depreciation charge for the year	154	28	14	61	9	63		329
Disposals	(2)	(8)	(5)	(36)	(9)	0		(60)
Transfers between asset categories		(7)	2	(7)	4	0		(8)
Other changes		3	1	1	0	(1)		4
Accumulated depreciation at 31 December 2007	1 506	281	142	333	81	374		2 717
NET CARRYING AMOUNT AT 31 DECEMBER 2007	2 354	69	52	113	34	1 569	332	4 523
Net carrying amount at 31 December 2006	2 226	66	51	113	33	1 614	483	4 586

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 E.2.15 and E.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	328	28	159	1 349	1 536	61	1 925	(372)	1 553	
Other tangible assets	3	4	11	0	15	0	18	(2)	16	
Total at 31.12.2007	331	32	170	1 349	1 551	61	1 943	(374)	1 569	
<i>Total at 31.12.2006</i>	<i>304</i>	<i>28</i>	<i>143</i>	<i>1 391</i>	<i>1 562</i>	<i>60</i>	<i>1 926</i>	<i>(312)</i>	<i>1 614</i>	

2.3. LONG-TERM INVESTMENTS

<i>EUR millions</i>			
	Note	Balance at 31.12.2007	Balance at 31.12.2006
Investment in Associates	2.3.1	246	208
Interest in Joint ventures	2.3.2	32	62
Guarantee Fund	2.3.3	1 149	1 371
Available-for-Sale assets	2.3.4	533	495
Held for trading assets	2.3.4	13	21
Total Investments		1 973	2 157

This heading covers investments made with a view to establishing permanent links and support of the activities of the European Communities. It also includes the net assets of the Guarantee Fund.

2.3.1. *Investments in associates: EIF*

<i>EUR millions</i>	
	Amount
Amount at 31 December 2006	208
Acquisitions	31
Share of net surplus/(deficit)	13
Other equity movements (dividend)	(6)
Amount at 31 December 2007	246

The European Investment Fund (EIF) is the European Union's financial institution specialising in providing risk capital and guarantees to SMEs. Under the Council Decision of 6 June 1994 the European Communities, represented by the Commission, subscribed for a total of ECU 600 million of the EIF's capital, being 600 shares or 30 % of the EIF's capital. As at 31 December 2006 the Commission had paid all the called-up capital, which amounted to 20 % of the total capital then, whilst its share of the non-called up capital (80 %) totalled EUR 480 million.

Council Decision 2007/247/EC of 19 April 2007 decided on the Communities participation in the capital increase of the EIF. Thus following this decision, during 2007 the Commission subscribed for 91 shares out of a total of 770 shares issued. The EC subscribed for a total nominal amount of EUR 91 million, of which 20 % of the nominal amount (EUR 18 million) and a total share premium of EUR 12 million were paid. The share premium was set by determining the new share price based upon the Net Asset Value per share as at 31 December 2006. As at 31 December 2007 the Commission had subscribed for a total amount of EUR 691 million (out of EUR 2 770 million) of the share capital of the EIF. This represents 24,95 % of the total EIF share capital. The Commission has paid in 20 %, the balance being uncalled corresponding to an amount of EUR 553 million as at 31 December 2007.

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 equity method is used to value the Communities' share in the EIF, in accordance with the EC accounting rules. The shareholding is thus valued at 24,95 % of the EIF's net assets, which at 31 December 2007 amounted to EUR 246 million (2006: EUR 208 million), of which EUR 13 million concerns the result for 2007. A dividend of EUR 6 million relating to the financial year 2006 was received in 2007.

2.3.2. *Interests in joint ventures*

	<i>EUR millions</i>			
	Galileo	SESAR	ITER	Total
Amount at 31 December 2006	62	0	0	62
Acquisitions	0	10	39	49
Disposals and withdrawals	(53)	0	0	(53)
Share of net surplus/(deficit)	(9)	0	(17)	(26)
Amount at 31 December 2007	0	10	22	32

Galileo

For the implementation of the development phase of the Galileo programme, a joint undertaking, within the meaning of Article 171 of the Treaty, was set-up by the Council Regulation (EC) No 876/2002 for a period of 4 years (2002 to 2006). The aim of this legal entity is to ensure the unity of the administration and the financial control of the Galileo programme for its development, and to this end to mobilise the funds assigned to that programme. The founding members were the European Communities, represented by the Commission, and the European Space Agency (ESA). The Commission, through grants given under the trans-European networks (TEN) budget, made available to the Galileo Joint Undertaking (GJU) the requested funds to co-finance the related activities of the development phase.

The European GNSS Supervisory Authority (GSA), a Community Agency created in 2004, officially took over responsibility from the GJU on 1 January 2007, as the GJU was put into liquidation. While this new body was originally intended to operate the public private partnership, following a decision of the Council made in November 2007 the Galileo programme is now to be financed from the EU budget. At the end of 2007, despite the signature of agreements between the interested parties (GJU, European Space Agency, GSA), ownership of the projects' assets from the ESA to the EC had not been completely transferred. As there is some uncertainty and delay in the transfer of assets, for reasons of prudence the EC has not recognised the assets of the programme on its balance sheet. Once these transfer issues have been resolved it is intended that the assets will then be recognised.

The net assets of the GJU in liquidation at year-end amounted to EUR 0 million. Galileo is accounted for using the equity method. For 2007, the Commission's share of the loss of the joint undertaking was EUR 9 million. The value of the investment at 31 December 2007 was EUR 0 million, being the investment of EUR 585 million less the accumulated share of losses, EUR 585 million. EUR 53 million of the paid in capital was reimbursed to the European Communities in 2007.

SESAR

The aim of this Joint Undertaking is to ensure the modernisation of the European air traffic management system by coordinating and concentrating all relevant research and development efforts in the EU. The SESAR Joint Undertaking has been established as from the day of publication of this Regulation in the *Official Journal of the European Union* and shall cease to exist eight years after an endorsement by the Council of the European Air Traffic Master Plan.

The founding members of the SESAR Joint Undertaking are:

- the European Communities, represented by the European Commission,
- the European Organisation for the Safety of Air Navigation (Eurocontrol), represented by its Agency.

The members shall have votes in accordance with their respective contributions. Both founding members have the same budgeted contributions and thus intend to have the same number of votes, precluding control by one party.

The programme started at the end of 2007 and as at 31 December 2007, the Commission has made an initial investment of EUR 10 million. In the absence of available financial statements for 2007, the investment has been measured at cost.

ITER

The ITER International Fusion Energy Organisation (ITER) involves the European Communities and other venturers from China, India, Russia, Korea, Japan and USA. ITER was created to:

- (a) construct, operate, exploit and de-activate the ITER facilities in accordance with the technical objectives and the general design presented in the final report of the ITER Engineering Design Activities;

- (b) 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;
- (c) promote public understanding and acceptance of fusion energy; and
- (d) undertake, in accordance with the Venturer's Agreement, any other activities that are necessary to achieve its purpose.

The Council is the principal organ of ITER and is composed of representatives of the members. Each member shall appoint up to four representatives to the Council. The main strategic decisions will be taken by unanimous vote. The respective weights of the votes of the Members reflects their contributions to ITER. The Communities have directly invested EUR 39 million in ITER as at 31 December 2007.

2.3.3. *Guarantee Fund*

NET ASSETS OF THE GUARANTEE FUND ⁽¹⁾

	<i>EUR millions</i>	
	Balance at 31.12.2007	Balance at 31.12.2006
Short-term investments: Available-for-sale assets	901	932
Cash and cash equivalents	249	440
Current assets	1 150	1 372
Current liabilities	(1)	(1)
Net assets	1 149	1 371

(¹) After elimination of MFA amounts.

The Guarantee Fund for external actions covers loans guaranteed by the Communities 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. The Fund is endowed by payments from the Communities' general budget 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 European Communities.

The European Communities are 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 1 118 million corresponds to the target amount of 9 % of the loans outstanding at 31 December 2007. The net assets of the Fund at 31 December 2007 total EUR 1 152 million (before elimination of the MFA debt certificate). The difference between the net assets and the amount of the reserve corresponds to the surplus to be repaid to the budget, i.e. EUR 34 million.

The Guarantee Fund holds one floating rate note issued by the European Communities (MFA) for an amount of EUR 3 million, and so both the assets (GF) and liabilities (MFA) have to be eliminated in the Communities' accounts. Fair-value changes of the AFS debt security portfolio have been recognised in equity in 2007 totalling EUR (19) million (2006: EUR (32) million).

The financial risk management policies of the Guarantee Fund are described in section E.7.

2.3.4. *Other investments*

2.3.4.1. *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 31.12.2006	157	211	74	49	4	495
Acquisitions	0	27	38	3	1	69
Disposals/withdrawals	0	(16)	(13)	0	0	(29)
Revaluation surplus/(deficit) t/f to equity	0	(2)	12	3	0	13
Impairment loss	0	(2)	(13)	0	0	(15)
Amounts at 31.12.2007	157	218	98	55	5	533

European Bank for Reconstruction and Development (EBRD) investment

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, of which EUR 154 million has been paid. Payments outstanding on called up capital (EUR 3 million) are recorded under long-term liabilities and accounted for at amortised cost. Payments outstanding on non-called up capital amount to EUR 443 million and are included as contingent liabilities in the off-balance sheet. 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. Although some of these contracts have the characteristics of loans, since the vast majority of these finance contracts do not have the basic and constituent characteristics of a loan (as there is no fixed reimbursement schedule or interest rate agreed for the principal consideration), the entire portfolio is treated as indirect equity investments. They are held at historic cost less any provisions for impairment, as there are no quoted market prices available in an active market and their fair value cannot currently be reliably measured.

Other investments

The most significant amounts concern the Growth & Employment programme and the MAP 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 98 million). Also included is EUR 55 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. The current voting rights of the Communities amount to 16 %.

2.3.4.2. Held for trading assets

The ECSC in liquidation (ECSC) entered into an interest rate swap agreement and combination of both interest rate swap and cross-currency interest rate swap agreement. The fair value of these interest rate swaps was obtained by discounting the net fixed cash flows using zero-coupon swap rates on the balance sheet date. This fair value (including accrued interests) of these swaps with final maturity of more than one year after the balance sheet date is EUR 13 million (2006: EUR 21 million).

2.4. LOANS

This heading covers loan amounts owed to the European Communities maturing in over one year.

2.4.1. Loans granted from the European Communities budget and the ECSC in liquidation

EUR millions

	Loans with special conditions	ECSC in Liquidation	Total
Total at 31.12.2006	161	39	200
Repayments	(18)	(8)	(26)
Changes in carrying amount	12	3	15
Total at 31.12.2007	155	34	189

Loans with Special Conditions

Loans with special conditions are loans granted at preferential rates as part of co-operation with non-member countries. The effective interest rates on these loans vary between 7,39 % 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 %.

2.4.2. Loans granted from borrowed funds

<i>EUR millions</i>				
	Macro Financial Assistance (MFA)	Euratom loans	ECSC in liquidation	Total
Total at 31.12.2006	977	442	499	1 918
New loans	0	39	88	127
Repayments	(183)	(1)	(71)	(255)
Exchange differences	0	0	(34)	(34)
Changes in carrying amount	1	2	(4)	(1)
Total at 31.12.2007	795	482	478	1 755
Amount due < 1 year	63	0	75	138
Amount due > 1 year	732	482	403	1 617

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 programme.

Based on materiality considerations, the effective interest rate method is not applied separately to loans and borrowings. The transaction costs are directly expensed in the economic outturn account.

Euratom loans

Euratom is a separate legal entity of the European Union represented by the European Commission. The objective of this entity is to grant loans to Member States and non-Member States as follows:

- Euratom loans to Member States are granted 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,
- Euratom loans to non-Member States are granted to 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.

Based on materiality considerations, the effective interest rate method is not applied separately to loans and borrowings. The transaction costs are directly expensed in the economic outturn account.

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 two 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:

Borrowings	31.12.2007	31.12.2006
Macro Financial Assistance (MFA)	3,82 % — 4,822 %	3,222 % — 4,54 %
Euratom	4,446 % — 5,76 %	3,372 % — 5,76 %
ECSC in liquidation	4,375 % — 12,077 % ⁽¹⁾	3,064 % — 12,077 % ⁽¹⁾

⁽¹⁾ Higher bound value relates to the fixed rate loan covered by the interest rate swap (see point 2.3.4.2).

2.5. LONG-TERM PRE-FINANCING

<i>EUR millions</i>		
Management type	Balance at 31.12.2007	Balance at 31.12.2006
Pre-financing European Communities:		
Direct centralised management	382	300
Indirect centralised management	315	549
Decentralised management	31	50
Other	11	21
Total	739	920
Pre-financing Third parties:		
Direct centralised management	41	57
Indirect centralised management	3	30
Decentralised management	33	224
Shared management	12 875	20 744
Joint management	324	450
Total	13 276	21 505
Total long-term Pre-financing	14 015	22 425

The most significant long-term pre-financing amounts relate to Structural Fund actions. 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 significant reduction in the shared management pre-financing amount comes from the Structural Funds, where the transactions relating to the 2000-2006 programmes have now been reclassified under short term pre-financing (see note E.2.9). This is because these programmes concern measures to be carried out up until the end of 2008. The corresponding pre-financing amounts will therefore either be cleared in the course of 2008, or as part of the year-end accounting closure exercise.

2.6. LONG-TERM RECEIVABLES

<i>EUR millions</i>		
	Balance at 31.12.2007	Balance at 31.12.2006
Due from Member States	93	272
ECSC staff loans	15	17
Other	13	34
Guarantees and deposits	6	5
Total	127	328

Amounts to be received from Member States refer to amounts due to the ECSC in liquidation from former accession countries. The total contribution amounts to EUR 212 million (including Bulgaria and Romania) and is to be paid in four instalments up to 2012. The net present value of these contributions was EUR 144 million at year-end (2006: EUR 138 million), being split up between long-term receivables, EUR 93 million (2006: EUR 104 million) and short-term receivables, EUR 51 million (2006: EUR 34 million). At 31 December 2006 there was also an amount of EUR 168 million due from Member States related to a Commission decision of 2005 reducing the assistance granted from the ERDF to one Member State. This amount is now included as a short-term receivable as it falls due in 2008.

CURRENT ASSETS

2.7. INVENTORIES

EUR millions

Description	Balance at 31.12.2007	Balance at 31.12.2006
Scientific Equipment:		
Scientific material	9	11
Fissile material & heavy water	19	30
Scientific material for re-sale	45	60
Vaccinations	8	7
Production materials	7	7
Publications & goods for re-sale	0	0
Total	88	115

The stock of publications held and/or managed by the Publications Office is valued at the lower of cost and net realisable value, which is approximately zero. Additionally, publications distributed for free have been fully written down as their net realisable value is zero. These write downs total EUR 18 million and result in the zero carrying amount for publications shown above.

2.8. SHORT-TERM INVESTMENTS

Short-term investments consist of available-for-sale securities, 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.

2.8.1. Short-term available-for-sale assets

EUR millions

	ECSC in Liquidation	Other	Total
Amounts at 31.12.2006	1 401	25	1 426
Acquisitions	593	0	593
Disposals and withdrawals	(542)	(22)	(564)
Adjustment to amortised cost	(18)	0	(18)
Change in carrying amount	3	0	3
Revaluation surplus/(deficit) t/f to equity	(20)	0	(20)
Amounts at 31.12.2007	1 417	3	1 420

ECSC in liquidation

All investments are debt securities denominated in EUR and quoted in an active market. Details of the investment portfolio by issuer type and by rating are described in section E.7. At 31 December 2007 debt securities (expressed at their fair value) reaching final maturity in the course of 2008 amount to EUR 146 million (2006: EUR 135 million).

2.9. SHORT-TERM PRE-FINANCING

The split of amounts outstanding between management types reflects the pre-financing payments made since 2005. The unallocated pre-financing amounts are those first included in the opening balance sheet of 2005 and are shown separately on a single line since no information on the split by budget management type is available before 31 December 2004.

Accrued charges represent the amount of eligible costs that were estimated to have been incurred by the beneficiaries of the outstanding pre-financing amounts at year-end, but not yet reported to the Communities. These amounts are taken as expenses in the economic outturn account.

The significant increase compared to 2006 is primarily due to the transfer of Structural Funds amounts from long-term to short-term (see note E.2.5 above). Although these amounts concern shared management, they are presented on the 'unallocated amounts' line as these are pre-financing payments made before 31 December 2004 (see above).

SHORT-TERM PRE-FINANCING AMOUNTS

		EUR millions	
Management type		Balance at 31.12.2007	Balance at 31.12.2006
Pre-financing European Communities gross amounts:			
Direct centralised management	<i>Action grants</i>	9 715	8 850
	<i>Functioning grants</i>	142	167
Indirect centralised management	<i>National agencies</i>	1 736	778
	<i>Financial activities</i>	3	12
	<i>Other</i>	497	6
Decentralised management		545	381
Other		615	686
Pre-financing implemented by Institutions and Agencies		189	8
Unallocated pre-financing balances		2 126	3 577
Total gross pre-financing amounts		15 568	14 465
Less accrued charges:			
Direct centralised management		(9 234)	(8 189)
Indirect centralised management		(1 973)	(1 135)
Decentralised management		(595)	(232)
Other		(336)	(75)
Total Pre-financing European Communities		3 430	4 834
Pre-financing Third parties:			
Direct centralised management	<i>Procurement</i>	638	545
	<i>Operational</i>	457	470
Indirect centralised management		29	3
Decentralised management		735	599
Shared management		3 229	937
Joint management		1 135	578
Pre-financing implemented by Institutions and Agencies		15	177
Unallocated pre-financing balances		19 278	2 930
Total gross pre-financing amounts		25 516	6 239
Less accrued charges:			
Direct centralised management		(1 235)	(1 532)
Decentralised management		(699)	(468)
Shared management		(5 579)	(906)
Joint management		(798)	(79)
Other		(52)	(33)
Total Pre-financing Third parties:		17 153	3 221
Total short-term pre-financing		20 583	8 055

2.10. SHORT-TERM RECEIVABLES

		EUR millions	
		Balance at 31.12.2007	Balance at 31.12.2006
Current portion of long-term receivables		160	119
Current receivables		5 441	4 193
Sundry receivables		27	26
Accrued income and deferred charges		6 423	5 458
Total		12 051	9 796

2.10.1. Current portion of long-term receivables

These amounts concern primarily loans with remaining final maturities less than 12 months after the balance sheet date (EUR 138 million, see note 2.4 above for more details).

2.10.2. Current receivables

EUR millions

Account Group	At 31.12.2007			At 31.12.2006		
	Gross amount	Write down	Net Value	Gross amount	Write down	Net Value
Customers	3 897	(171)	3 726	2 865	(169)	2 696
Member States	2 873	(1 256)	1 617	2 724	(1 257)	1 467
Others	111	(13)	98	42	(12)	30
Total	6 881	(1 440)	5 441	5 631	(1 438)	4 193

2.10.2.1. Customers

These are recovery orders entered in the accounts at 31 December 2007 as established entitlements to be recovered and not already included under other headings on the assets side of the balance sheet. The largest portion of this balance relates to fines issued by the Commission, being a gross amount of EUR 3 650 million. These receivables are significantly higher than in 2006, when they totalled EUR 2 687 million.

2.10.2.2. Receivables from Member States

EUR millions

	Balance at 31.12.2007	Balance at 31.12.2006
EAGF receivables		
EAGF receivables	902	1 009
Written down	(483)	(477)
Total	419	532
VAT paid and recoverable from Member States	24	22
Own resources		
Established in the A account, pending recovery	75	79
Established in the separate account, pending recovery	1 333	1 347
Written down	(773)	(779)
Other	38	0
Total	673	647
Other receivables from Member States	501	266
Total	1 617	1 467

EAGF Guarantee receivables

This item covers the amounts owed by beneficiaries of EAGF at 31 December 2007, as declared and certified by the Member States at 15 October 2007, and less 20 % of the amount, which the Member States are allowed to retain to cover administrative costs. An estimation has had to be made for the receivables arising after this declaration and up to 31 December 2007. The Commission also estimates a write-down for the amounts owed by beneficiaries that are unlikely to be recovered. The fact that this adjustment is entered in the accounts 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 773 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 19 million of recovery of expenses and EAGF advances of EUR 227 million. This heading also includes EUR 168 million relating to a Commission decision of 2005 reducing the assistance granted from the ERDF to one Member State.

2.10.3. *Accrued income and deferred charges*

The main amount under this heading is accrued income of EUR 6 129 million. The most significant accrued income amounts concern traditional own resources (agricultural duties, sugar levies and custom duties). At 31 December 2007 these amounted to EUR 2,7 billion. Other significant amounts are EUR 1,3 billion of agricultural assigned revenues for November and December 2007, EUR 1,5 billion from the temporary restructuring of the sugar sector, EUR 350 million relating to non-executed EAGF conformity correction decisions and EUR 82 million relating to foreseeable recoveries of expenses from the fisheries Structural Fund programme 1994-1999. Other amounts included as accrued income are late interest income, accrued bank interest and accrued interest on pre-financing amounts.

Also included are deferred charges totalling EUR 243 million of which the main amounts are anticipated payments of EUR 49 million for office rental and EUR 24 million for office transformation and EUR 57 million paid for bilateral fisheries agreements with third countries.

2.11. CASH AND CASH EQUIVALENTS

	<i>EUR millions</i>	
	Balance at 31.12.2007	Balance at 31.12.2006
Unrestricted cash:		
Accounts with Treasuries & Central Banks	11 313	11 467
Current accounts	956	933
Imprest accounts	81	82
Transfers (cash in transit)	2	3
Short-term deposits and other cash equivalents	1 367	975
Total	13 719	13 460
Restricted cash	5 037	2 924
Total	18 756	16 384

2.11.1. *Unrestricted cash*

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

The relatively high balance with Treasuries and Central Banks is due to the fact that following the rectifying budget at year-end, EUR 5 889 million had to be repaid to Member States, which was done on the first working day of 2008. The related liability is shown under current payables — see also note **2.18.2** below.

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.

Cash & cash equivalents include the following for the purposes of the cash flow statement:

	<i>EUR millions</i>	
	Balance at 31.12.2007	Balance at 31.12.2006
Cash and cash equivalents	18 756	16 384
Cash and cash equivalents — Guarantee Fund (see note 2.3.3)	249	440
Total	19 005	16 824

NON CURRENT LIABILITIES

2.12. EMPLOYEE BENEFITS

	<i>EUR millions</i>			
	Amount at 31.12.2006	Change in provision	Amounts Used	Amount at 31.12.2007
Pensions — Staff	29 204	1 844	(836)	30 212
Pensions — Others	225	267	(11)	481
Joint Sickness Insurance Scheme	2 771	96	(80)	2 787
Total	32 200	2 207	(927)	33 480

2.12.1. Pensions — Staff

At 31 December 2007, the rules concerning the PSEO (Pension Scheme of European Officials) are defined by the latest version of the Staff Regulations of Officials of the European Communities (in force since 1 May 2004). The rules regarding the staff pensions are directly applicable in all Member States. The arrangement covers the various types of pensions and allowances (seniority, invalidity, survival).

In accordance with Article 83 of the Staff Regulations, the payment of the benefits provided for in the pension scheme constitutes a charge on the Communities' budget. The provision for this charge is not funded, but the Member States guarantee the payment of these benefits collectively according to the scale fixed for the financing of this expenditure. In addition, officials contribute one third to the long-term financing of this scheme via a compulsory contribution.

The liabilities of the PSEO were evaluated on the basis of the population at 31 December 2007 and the applicable rules in the statute at this date. This valuation covered the benefits connected with seniority, invalidity and survival (different types of pensions as well as invalidity allowance). It was carried out in accordance with the methodology of IAS 19. This accounting standard requires the employer to determine his actuarial commitment on an ongoing basis, taking into account both the promised benefits during the active lifetime of employees, and 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:

1. The nominal discount rate was based on government bonds in the Euro zone in December 2007 for a duration close to that of the scheme (19 years), as an estimation of the zero coupon Euro yield curve in December 2007 for the same duration, being 4,7 %. According to IAS 19, the inflation rate must be an expected inflation rate over the duration of the scheme: it must then be determined prospectively and was based on prospective values as expressed by index-linked bonds on the European financial markets. The expected long-term inflation rate was 2,3 %, so the real discount rate was 2,4 %.
2. The Life table is the same as used in liability valuations from 2004 ('EU-2004 Life table').
3. The general salary growth (GSG), being equal to the general pension revaluation, was based on a 12 years moving average of revaluation statistics of salaries and pensions of the period 1996 to 2007, being equal to 0,4 %; The individual salary progression (ISP) beyond the rate of the GSG was updated to take account of 2007 promotions. This table details the ISP rate by grade and step and the expected retirement year from 2008 till 2052.
4. The matrimonial coefficients for active officials at the time of their departure on retirement were based on statistics of the population of officials and are equal to 90 % for men and 60 % for women — the actual marriage situation was taken for former officials (pensioners and invalids).
5. 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.

Liabilities cover the rights previously defined for the following persons:

1. Staff in active employment at 31 December 2007 in all the Institutions and Agencies included in the PSEO;
2. Staff in a deferred situation, i.e. who have temporally or definitively left the Institutions but leaving their pension rights in the PSEO (exclusively those having cumulated 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 population of the PSEO at 31 December 2007 was extracted from the Commission database. The results obtained within the framework of this study were compared with the estimates based on the previous actuarial valuation on 31 December 2006.

The principal points to note are:

- The gross actuarial liability was valued at EUR 34 567 million at 31 December 2007.
- The real discount rate changed from 1,9 % in 2006 to 2,4 % in 2007; considering also the general salary growth effect (0,5 % in 2006 and 0,4 % in 2007), the net discount rate changed from 1,4 % in 2006 to 2,0 % in 2007. This is one of the main reasons for the decrease in the overall liability.
- The service cost for 2007 was valued at EUR 1 300 million and the interest cost EUR 1 313 million.
- The estimated actuarial gains for the year were EUR 1 943 million.
- The population of members of the staff pension scheme increased by 3 317 individuals.
- The calculations of gross pensions and family allowances are based on the Staff Regulations.
- Taxes payable by beneficiaries are deducted from the gross liability to arrive at the net liability included on the balance sheet with regards to these future payments (since tax is deducted on the payment of pensions and credited to the Communities' revenue in the year of payment).

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 Court of First Instance) 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, for the first time, 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 Communities have regarding its contributions to the Joint Sickness Insurance Scheme in relation to its retired staff.

2.13. LONG-TERM PROVISIONS

EUR millions

	Amount at 31.12.2006	Additional provisions	Unused amounts reversed	Amounts used	Transfer to short-term	Present value discounting	Amount at 31.12.2007
Legal cases	75	226	(3)	(1)	0	0	297
Nuclear site dismantlement	806	0	0	0	(42)	(20)	744
Financial	105	0	(50)	0	(44)	3	14
Emergency Vet Fund	0	21	0	0	0	0	21
Other	3	1		(1)	0	0	3
Total	989	248	(53)	(2)	(86)	(17)	1 079

Legal cases

This is the estimate of amounts that will probably have to be paid out after 2008 in relation to a number of ongoing legal cases. The largest portion, EUR 277 million, concerns court cases pending at 31 December 2007 in relation to financial corrections for EAGF Guarantee expenditure and other court cases concerning agricultural expenditure.

Nuclear site dismantlement

In 2002 a consortium of independent experts conducted a study into the estimated costs of the decommissioning of the JRC nuclear facilities and waste management programme. Their estimate of EUR 1 145 million (including EUR 76 million as an estimate of the cost required for the 'green field' option, i.e. total destruction of all the buildings) is taken as the basis for the provision to be included in the financial statements. In accordance with the Communities' accounting rules, this provision is indexed for inflation (at a rate of 2,5 %) and then discounted to its net present value (using the Euro zero-coupon swap curve). At 31 December 2007, this resulted in a provision of EUR 960 million, less the costs incurred to date of EUR 138 million, giving EUR 822 million split between amounts expected to be paid in 2008 (EUR 78 million) and afterwards (EUR 744 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 and the SME Guarantee Facility 2001, 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 (using the Euro zero-coupon swap curve).

Emergency Veterinary Fund provision

This provision concerns the estimates of the Communities' contributions to various Member States under the Emergency Veterinary Fund for certain animal disease outbreaks, totalling EUR 42 million (2006: EUR 35 million) split between amounts expected to be settled in 2008 (EUR 21 million) and afterwards (EUR 21 million). Amounts of EUR 9 million already agreed to be paid are included as a payable to Member States.

2.14. LONG-TERM FINANCIAL LIABILITIES

2.14.1. Borrowings

EUR millions

Name	Balance at 31.12.2006	New borrowings	Repayments	Exchange differences	Change in carrying amount	Balance at 31.12.2007
MFA	969	0	(177)	0	0	792
Euratom	442	39	(1)	0	2	482
ECSC in liquidation	463	0	(2)	(37)	0	424
Total	1 874	39	(180)	(37)	2	1 698

Split of borrowings between long-term & short-term

EUR millions

Borrowings	Maturity < 1 year	Maturity > 1 year	Total at 31.12.2007
MFA	60	732	792
Euratom	0	482	482
ECSC in liquidation	71	353	424
Total	131	1 567	1 698

This heading includes borrowings due by the European Communities maturing in over one year (note that all figures are net of amounts held by the Guarantee Fund). Borrowings include debts evidenced by certificates amounting (after elimination) to EUR 1 344 million (2006: EUR 1 502 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	31.12.2007	31.12.2006
Macro Financial Assistance (MFA)	3,816 % — 4,822 %	3,222 % — 4,54 %
Euratom	4,366 % — 5,6775 %	3,292 % — 5,6775 %
ECSC in liquidation	4,375 % — 11,875 % ⁽¹⁾	3,0 % — 11,875 % ⁽¹⁾

⁽¹⁾ Higher bound value relates to the fixed rate borrowing covered by the interest rate swap (see note 2.3.4.2).

2.14.2. Held for trading liabilities

EUR millions

ECSC in liquidation held swaps	Balance at 31.12.2007	Balance at 31.12.2006
Long-term	7	8
Short-term	4	0
Total	11	8

See held for trading assets, note 2.3.4.2 above, for more details.

2.15. OTHER LONG-TERM LIABILITIES

EUR millions

	Balance at 31.12.2007	Balance at 31.12.2006
Finance Leasing debts	1 519	1 534
Buildings paid for in instalments	427	425
Other	43	61
Total	1 989	2 020

This item covers primarily leasing liabilities due in more than one year (see note 2.2 above) and amounts relating to certain buildings that the Commission bought, where the purchase price will be paid off in instalments. It is not a leasing contract since title passed to the Commission immediately.

CURRENT LIABILITIES

2.16. SHORT-TERM PROVISIONS

EUR millions

	Amount at 31.12.2006	Additional provisions	Unused amounts reversed	Amounts used	Transfers to/from other headings	Present value discounting	Amount at 31.12.2007
Legal cases	72	19	(16)	(47)	0	0	28
Nuclear site dismantlement	64	0	0	(30)	42	2	78
Emergency Veterinary Fund	35	1	(8)	(7)	0	0	21
Financial provisions	173	57	(2)	(41)	44	2	233
Other	35	0	(4)	0	(22)	0	9
Total	379	77	(30)	(125)	64	4	369

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 of EUR 131 million that mature during the 12 months following the balance sheet date (note 2.14.1) and EUR 4 million relating to held for trading liabilities (note 2.14.2).

2.18. ACCOUNTS PAYABLE

	<i>EUR millions</i>	
	Balance at 31.12.2007	Balance at 31.12.2006
Current portion of long-term liabilities	65	60
Current payables	13 939	24 723
Sundry payables	189	220
Accrued charges and deferred income	81 187	69 077
Total	95 380	94 080

2.18.1. Current portion of long-term liabilities

	<i>EUR millions</i>	
	Balance at 31.12.2007	Balance at 31.12.2006
Finance leasing liabilities	32	28
Other	33	32
Total	65	60

2.18.2. Current payables

	<i>EUR millions</i>	
Type	Balance at 31.12.2007	Balance at 31.12.2006
Member States	12 328	22 943
Suppliers and other	2 244	2 888
Eligibility to be checked	(633)	(1 108)
Total	13 939	24 723

Current payables concern mainly cost statements received by the Commission under the framework of the grant activities. They are credited for the amount being claimed from the moment the demand is received. If the counterpart is a Member State, they are classified as such. It is the same procedure for invoices and credit notes received under procurement activities.

The cost claims concerned have been taken into account for the year-end cut off procedures (see note **2.18.3** below). Following these cut off entries, estimated eligible amounts have therefore been recorded as accrued charges, 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.

The large decrease seen under this heading is primarily due to a movement of amounts between the current payables and accrued charges headings. This arose due to an earlier closing of the accounting system at year-end, which resulted in less amounts being captured as payables in comparison with the prior year. It also meant that accrued charges were higher than in 2006, since amounts previously recorded as payables had to be recorded as accrued charges.

Member States

The primary amounts here related to EUR 6 287 million in unpaid cost claims for structural fund actions and also EUR 5 889 million due back to Member States following a rectifying budget made at the end of 2007 (2006: EUR 7 415 million).

Suppliers and other

As well as amounts relating to grant activities, also included under this heading are amounts owed following procurement activities. This heading also covers amounts payable to several public bodies (universities, institutes, chambers of commerce, United Nations, EIB, etc.) and non-consolidated entities, including the EDF.

Eligibility to be checked

Payables are reduced by EUR 633 million, being that part of the requests for reimbursement received, but not yet checked, that was considered to be ineligible. The most important amounts concern DG REGIO (EUR 229 million), DG EMPL (EUR 194 million), DG AGRI (EUR 109 million), DG ENV (EUR 20 million) and DG FISH (EUR 21 million).

A balance of EUR 18 million remains open as 'invoices to be checked' mainly in the framework of procurement activities. It concerns invoices received and requests for reimbursement for which the invoice has still to be checked with the delivered goods and services and requests for pre-financing.

2.18.3. Accrued charges and deferred income

<i>EUR millions</i>		
	Balance at 31.12.2007	Balance at 31.12.2006
Accrued charges	80 937	68 937
Deferred income	47	26
Other	203	114
Total	81 187	69 077

The most significant accrued charges amounts represent accrued charges relating to EAGF expenditure. At 31 December 2007 these amounted to EUR 45,5 billion compared to EUR 45,2 billion the previous year. The main amounts concerned were: EUR 28,6 billion (EUR 26,6 billion in 2006) cover expenses incurred between 16 October and 31 December 2007 which are declared by Member States and paid in January and February 2008, EUR 13,8 billion (EUR 16,7 billion in 2006) covering direct aid (this consists of entitlements incurred in 2007 with financial consequences in 2008), EUR 3,1 billion regarding the temporary restructuring of the sugar sector.

Another significant element was accrued charges concerning structural funds (this consists of eligible expenditure incurred by operators or the payment authorities up to 31 December 2007, for which no payment request was yet sent to the Commission). The main amounts were: EUR 6,7 billion concerning EARDF, EUR 16,9 billion for ERDF 2000-2006, ISPA, innovative actions (EUR 12,2 billion in 2006), EUR 7,8 billion for ESF (EUR 5,6 billion in 2006). The remaining accrued charges of EUR 3,9 billion cover other policies, the most significant of which is the research area with approximately EUR 1,2 billion accrued.

As mentioned in note **2.18.2** above, the increase in these amounts in comparison with 2006 is due to the earlier closing of the accounting system at year-end.

NET ASSETS

2.19. RESERVES

<i>EUR millions</i>		
	Balance at 31.12.2007	Balance at 31.12.2006
Fair value reserve	7	4
Other reserves:		
Guarantee Fund	1 118	1 253
Revaluation reserve	57	57
Borrowing and lending activities	1 525	1 459
Other	99	82
Total	2 799	2 851
Total	2 806	2 855

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. As stated earlier, any surplus of the assets of the Fund above this 9 % target amount is repaid to the budget.

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

These amounts comprise the reserves relating to the Communities' borrowing and lending activities. The main amount relates primarily to the ECSC in liquidation reserves, the largest of these being the 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, and totalled EUR 1 169 million at 31 December 2007.

2.20. AMOUNTS TO BE CALLED FROM MEMBER STATES

	<i>EUR millions</i>
	Amount
Amounts to be called from Member States at 31 December 2006	67 073
Return of 2006 budget surplus to Member States	1 848
Movement in Guarantee Fund reserve	(135)
Other reserve movements	79
ECSC in liquidation: allocation of 2006 result	23
Economic outturn (surplus) for the year	(7 462)
Total amounts to be called from Members States at 31 December 2007	61 426

This amount represents that part of the expenses already incurred by the Communities up to 31 December 2007 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 2007 was EUR 28,6 billion. The majority of the amounts to be called are in fact paid by the Member States in less than 12 months after the end of the financial year in question as part of the budget of the following year.

It is essentially only the employee benefits obligations of the Communities 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:

	<i>EUR millions</i>
	Amount
Short-term: amounts to be paid in 2008	981
Long-term: amounts to be paid after 2008	32 499
Total employee benefits liability at 31.12.2007	33 480

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

<i>EUR millions</i>			
	Note	2007	2006
Own resource revenue:	3.1.1		
GNI resources		73 922	70 134
VAT resources		19 442	17 207
Traditional own resources:			
Agricultural duties		1 429	1 300
Custom duties		15 288	13 764
Sugar levies		(36)	183
Total traditional own resources		16 681	15 247
Budgetary adjustments	3.1.2	1 892	2 395
Contributions of third countries (incl. EFTA countries)		147	135
Total		112 084	105 118

Own resources revenue is the primary element of the European Communities' 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 resource and the GNI resource. Traditional own resources, in turn, comprise agricultural duties, sugar levies and customs duties. A correction mechanism in respect of budgetary imbalances (UK Rebate) is 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 own resources derive from the application of a uniform rate, for all Member States, to the harmonised VAT base, a base which is capped at 50 % of GNI for all Member States. The GNI 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.

The increase in these revenues can be directly linked to the increased budgeted revenue for 2007 compared to 2006 (a EUR 6 billion increase). More specifically, for customs duties an increase in imports in value terms, a growth in the average tariff and the accession of Bulgaria and Romania led to higher revenues. The VAT revenue increased following an increase in the VAT bases, offset by a slight decrease in the uniform rate. As the GNI resource covers the remaining revenue requirements, it too rose in line with the increased budgetary expenditure.

3.1.2. *Budgetary adjustments*

The budgetary adjustments include the budget surplus from 2006 (EUR 1 848 million) which is indirectly refunded to Member States by deduction of the amounts of own resources they have to transfer to the Community in the following year — thus it is a revenue for 2007. According to Council Decision 2000/597/EC, Euratom on the system of the European Communities' own resources, 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 57 million was registered under this heading being the differences in the Euro rates used for budgetary purposes (see Article 10(3) of Regulation (EC, Euratom) No 1150/2000) and the rates in force at the time when those Member States not part of the EMU actually made their payments.

3.2. OTHER OPERATING REVENUE

<i>EUR millions</i>			
	Note	2007	2006
Fines	3.2.1	3 339	2 217
Agricultural levies	3.2.2	2 634	1 695
Recovery of expenses:	3.2.3		
Direct centralised management		93	50
Indirect centralised management		10	(22)
Decentralised management		133	8
Shared management		577	1 244
Joint management		1	16
Total		814	1 296
Revenue from administrative operations:	3.2.4		
Staff		908	856
Property, plant and equipment related revenue		26	23
Other administrative revenue		181	103
Total		1 115	982
Miscellaneous operating revenue:	3.2.5		
Adjustments/provisions		23	43
Exchange gains		276	111
Other		879	2 024
Total		1 178	2 178
Total		9 080	8 368

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. Not included in the above is a fine of EUR 899 million notified by the European Commission in February 2008 to a software company for continued anti-competitive behaviour. The same company, which had previously been fined EUR 280 million in 2006 and EUR 497 million in March 2004, has appealed this current fine.

3.2.2. *Agricultural levies*

These amounts concern milk levies of EUR 232 million (2006: EUR 436 million) and sugar levies of EUR 2 402 million (2006: EUR 1 259 million). Milk levies are in fact a market management tool aimed at penalising the 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. 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. The scheme is due to last for four years. It is considered as revenue for a specific purpose.

3.2.3. *Recovery of expenses*

This heading represents the recovery orders issued by the Commission, and 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 EC 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. Recovery of pre-financing amounts are also not included as revenue, in accordance with the EC accounting rules. For further information on recovery of undue payments see Section E.6.

Recovery of expenses: Shared management

The total of EUR 577 million included under this sub-heading is made up of EUR 500 million concerning the European Agricultural Guarantee Fund (EAGF) and EUR 77 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 500 million, made up as follows:

- conformity corrections decided during the year, EUR 532 million less a decrease in the accrued income at the year end of EUR 172 million,
- reimbursements due to fraud and irregularities declared by Member States and recovered during the year of EUR 247 million,
- the decrease in the outstanding amounts declared by Member States to be recovered at year-end concerning fraud and irregularities, EUR 107 million (EUR 902 million at year-end 2007 compared to EUR 1 009 million at year-end 2006) — see also note **E.2.10.2.2**.

At 31 December 2007 the amount of EAGF expenditure subject to future corrections following audits which were not yet finalised totals EUR 1,5 billion. This amount is disclosed as a contingent asset in the off-balance sheet (see note **E.5.4.1**).

(b) Structural Actions

The recovery of expenditure under the Structural actions included under this heading amounted to EUR 77 million. Equivalent amounts for 2006 were EUR 483 million higher compared to the current year — this is due principally to a Commission decision reducing the assistance granted from ERDF to one Member State whereby EUR 418 million was accounted for as income in 2006.

This sub-heading includes recovery orders issued by the Commission to recover undue expenditure made in previous years, EUR 113 million, a recovery order for EUR 6 million related to the Solidarity Fund and the variation of the accrued income at year-end EUR (42) 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.

Recovery orders issued in 2007 for the recovery of expenses, totalling EUR 119 million, can be split as follows: EUR 6 million for the Solidarity Fund, EUR 6 million for financial corrections decided in 2006, EUR 18 million for financial corrections decided in 2007 and EUR 89 million for recovery orders not classified as financial corrections. Other recovery orders issued under Structural Actions concern the recovery of pre-financing (EUR 35 million), of which EUR 20 million concern financial corrections decided in 2007. These amounts are not shown as revenue, but credited to the pre-financing heading on the balance sheet.

An amount of EUR 2,9 billion relating to potential financial corrections in the process of being recovered from Member States is disclosed as a contingent asset (see note **E.5.4.1**).

Recovery of expenses: Other management types

This sub-heading includes recovery orders issued by the Commission to recover undue payments made in previous years, EUR 194 million, and the variation of the accrued income at the year-end (EUR 52 million). Other recoveries under the other management types concern the recovery of pre-financing (EUR 162 million). These amounts are not shown as revenue, but credited to the pre-financing heading on the balance sheet.

3.2.4. Revenue from administrative operations

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

3.2.5. *Miscellaneous operating revenue*

An amount of EUR 296 million (2006: EUR 358 million) relates to amounts received from accession countries. One of the main reasons for the decrease in miscellaneous operating revenues compared with last year is that the prior year included a revenue of EUR 397 million relating to the decrease in the value reduction for EAGF receivables. Additionally the prior year also included an exceptional amount of EUR 778 million relating to pre-financing amounts included on the balance sheet for the first time, the counter-party of which appears under this heading — the largest amount, EUR 652 million, related to money paid out under the Schengen Facility. In 2007 the corresponding figure is EUR 33 million.

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.

3.3. ADMINISTRATIVE EXPENSES

	<i>EUR millions</i>	
	2007	2006
Staff expenses	4 289	3 998
Intangible and PPE related expenses	343	348
Other administrative expenses	2 488	2 273
Total	7 120	6 619

These are administrative expenses incurred as part of the activities of the Communities and include staff costs and costs relating to intangible assets and property, plant and equipment (such as depreciation, maintenance costs, etc).

3.4. OPERATING EXPENSES

	<i>EUR millions</i>		
	Note	2007	2006
Primary operating expenses:	3.4.1		
Direct centralised management		9 504	12 273
Indirect centralised management		1 185	677
Decentralised management		1 978	1 809
Shared management		89 778	90 828
Joint management		949	34
Total		103 394	105 621
Other operating expenses:	3.4.2		
Adjustments/provisions		260	116
Exchange losses		399	126
Other		629	940
Total		1 288	1 182
Total		104 682	106 803

3.4.1. *Primary operating expenses*

The European Communities' 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, 87 %, falls under the heading 'Shared Management' involving the delegation of tasks to Member States, covering such areas as EAGF spending and Structural Actions.

Much of the decrease in operating expenditure can be attributed to the fact that since 2006 some projects being funded were in the process of winding down, while others were less advanced than foreseen in 2006. For shared management there was a decrease of EUR 4,5 billion for structural actions, principally ERDF, due mainly to the aforementioned reasons. This decrease was partially offset by an increase of EUR 3,3 billion in agriculture expenditure due to the introduction of a new fund for rural development, EARDF.

The decrease of EUR 2,7 billion in direct centralised management expenditure is partially offset by an increase of EUR 0,9 billion in joint management expenditure, caused by a better classification of these projects. The remaining decrease can also be explained by the above mentioned reasons, i.e. the winding down of some projects and some projects being less advanced than foreseen in 2006.

3.4.2. Other operating expenses

Exchange losses, except on financial activities dealt with in note 3.6 below, occur on the everyday activities and related transactions made in currencies other than the euro, as well as the year-end revaluation required to prepare the accounts — they are both realised and unrealised.

The 'other' sub-heading includes pre-financing corrections and amounts written down/lost on realisation concerning Commission debtors. Also included is an amount of EUR 224 million in relation to a consolidated agency — this concerns the implementation of the CARDS programme in Kosovo, Serbia and Montenegro.

3.5. FINANCIAL REVENUE

	<i>EUR millions</i>	
	2007	2006
Dividend income (from Venture Capital Funds)	6	6
Interest income:		
On pre-financing	33	43
On late payments	81	65
On swaps	19	20
On available for sale assets	97	92
On loans	106	96
On cash & cash equivalents	263	123
Other	12	1
Total	611	440
Other financial income:		
Realised gain on sale of financial assets	6	25
Reversal of impairment losses on financial assets	1	2
Other	23	104
Total	30	131
Present value adjustments	24	43
Exchange gains	3	1
Total	674	621

The Communities' financial income consists of interest income derived from loans, either granted from the general budget or from borrowed funds, as well as from debt securities and derivative instruments. Interest is also earned on amounts held in bank accounts and short-term bank deposits.

3.6. FINANCIAL EXPENSES

	<i>EUR millions</i>	
	2007	2006
Interest expenses:		
Leasing	101	102
On swaps	17	16
On borrowings	91	81
Other	5	1
Total	214	200
Other financial expenses:		
Adjustments to financial provisions	11	38
Financial charges on budgetary instruments	57	55
Realised loss on sale of financial assets	9	0
Impairment losses on financial assets	15	10
Other	35	23
Total	127	126
Present value adjustments	7	0
Exchange losses	6	5
Total	354	331

The main financial expense incurred by the European Communities consists of interest; primarily on financial lease contracts and on borrowings taken out to fund lending activities. In addition to losses on the sale and the write down in the value of financial assets, other financial expenses also include the adjustments made to financial provisions and the management fees paid to the fiduciaries.

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

In accordance with the equity method of accounting, the Communities include in its economic outturn account its share of the net surplus of its associate, EIF, and its joint ventures (see also notes E.2.3.1 & E.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 can be grouped under three larger headings — Activities within the European Union, Activities outside the European Union and Services & other.

'Activities within the European Union' is the largest of these headings as it covers the many policy areas within the European Union. 'Activities outside the European Union' concerns the policies operated outside the Union, such as trade and aid. 'Services & other' are the internal and horizontal activities necessary for the functioning of the Communities' 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
Operating revenue:							
Fines	3 339	0	0	0	0	0	3 339
Agricultural levies	2 634	0	0	0	0	0	2 634
Recovery of expenses	611	211	1	0	0	(9)	814
Revenue from admin operations	78	26	749	0	360	(98)	1 115
Other operating revenue	1 419	319	264	1	1	(826)	1 178
TOTAL OPERATING REVENUE	8 081	556	1 014	1	361	(933)	9 080
Administrative expenses:	(2 069)	(958)	(1 804)	0	(2 438)	149	(7 120)
Staff expenses	(1 497)	(678)	(950)	0	(1 172)	8	(4 289)
Intangible assets and PPE related expenses	(88)	(10)	(108)	0	(137)	0	(343)
Other administrative expenses	(484)	(270)	(746)	0	(1 129)	141	(2 488)
Operating expenses:	(98 267)	(6 192)	(955)	(52)	0	784	(104 682)
Direct centralised management	(6 403)	(2 917)	(637)	0	0	453	(9 504)
Indirect centralised management	(1 159)	(258)	(2)	0	0	234	(1 185)
Decentralised management	(17)	(1 961)	0	0	0	0	(1 978)
Shared management	(89 778)	0	0	0	0	0	(89 778)
Joint management	(151)	(799)	0	0	0	1	(949)
Other operating expenses	(759)	(257)	(316)	(52)	0	96	(1 288)
TOTAL OPERATING EXPENSES	(100 336)	(7 150)	(2 759)	(52)	(2 438)	933	(111 802)
NET OPERATING EXPENSES	(92 255)	(6 594)	(1 745)	(51)	(2 077)	0	(102 722)
Own resource and contributions revenue							112 084
Surplus from operating activities							9 362
Net financial income							320
Movement in employee benefits liability							(2 207)
Share of associates/joint venture results							(13)
Economic outturn for the year							7 462

SEGMENT REPORTING — ACTIVITIES WITHIN THE EU

EUR millions

	Economic & Financial affairs	Enterprise & Industry	Competition	Employment	Agriculture	Transport & Energy	Environment	Research	Information Society
Operating revenue:									
Fines	0	0	3 339	0	0	0	0	0	0
Agricultural levies	0	0	0	0	2 634	0	0	0	0
Recovery of expenses	0	0	0	91	504	3	0	4	8
Revenue from administrative operations	0	9	0	0	0	2	1	0	9
Other operating revenue	0	152	0	36	41	207	36	339	19
TOTAL OPERATING REVENUE	0	161	3 339	127	3 179	212	37	343	36
Administrative expenses:	(48)	(181)	(60)	(88)	(97)	(180)	(86)	(171)	(119)
Staff expenses	(42)	(129)	(56)	(69)	(83)	(137)	(64)	(146)	(91)
Intangible assets and PPE related expenses	0	(8)	0	(1)	0	(1)	(1)	0	0
Other administrative expenses	(6)	(44)	(4)	(18)	(14)	(42)	(21)	(25)	(28)
Operating expenses:	(32)	(310)	(22)	(9 848)	(55 493)	(995)	(205)	(3 215)	(890)
Centralised direct management	(32)	(241)	0	(182)	(30)	(652)	(180)	(3 193)	(818)
Centralised indirect management	0	0	0	0	0	(58)	(10)	(2)	(43)
Decentralised management	0	0	0	0	(1)	(16)	0	0	0
Shared management	0	0	0	(9 643)	(55 227)	0	0	0	0
Joint management	0	0	0	0	0	(136)	0	0	0
Other operating expenses	0	(69)	(22)	(23)	(235)	(133)	(15)	(20)	(29)
TOTAL OPERATING EXPENSES	(80)	(491)	(82)	(9 936)	(55 590)	(1 175)	(291)	(3 386)	(1 009)
NET OPERATING EXPENSES	(80)	(330)	3 257	(9 809)	(52 411)	(963)	(254)	(3 043)	(973)

10.11.2008

EN

Official Journal of the European Union

C 287/53

	Joint Research Centre	Fisheries	Internal Market	Regional Policy	Taxation & Customs	Education & Culture	Health & Consumer protection	Justice, Freedom & Security	Total Activities within the EU
Operating revenue:									
Fines	0	0	0	0	0	0	0	0	3 339
Agricultural levies	0	0	0	0	0	0	0	0	2 634
Recovery of expenses	0	(46)	0	30	0	11	5	1	611
Revenue from administrative operations	53	0	0	0	0	4	0	0	78
Other operating revenue	52	1	189	(1)	0	181	85	82	1 419
TOTAL OPERATING REVENUE	105	(45)	189	29	0	196	90	83	8 081
Administrative expenses:	(355)	(32)	(138)	(63)	(41)	(196)	(135)	(79)	(2 069)
Staff expenses	(224)	(27)	(93)	(51)	(35)	(96)	(93)	(61)	(1 497)
Intangible assets and PPE related expenses	(67)	0	(3)	0	(1)	(2)	(3)	(1)	(88)
Other administrative expenses	(64)	(5)	(42)	(12)	(5)	(98)	(39)	(17)	(484)
Operating expenses:	(107)	(792)	(51)	(24 239)	(37)	(1 216)	(379)	(436)	(98 267)
Centralised direct management	(90)	(274)	(7)	(20)	(37)	(147)	(322)	(178)	(6 403)
Centralised indirect management	0	0	0	(31)	0	(998)	(16)	(1)	(1 159)
Decentralised management	0	0	0	0	0	0	0	0	(17)
Shared management	0	(516)	0	(24 173)	0	0	0	(219)	(89 778)
Joint management	0	0	0	(15)	0	0	0	0	(151)
Other operating expenses	(17)	(2)	(44)	0	0	(71)	(41)	(38)	(759)
TOTAL OPERATING EXPENSES	(462)	(824)	(189)	(24 302)	(78)	(1 412)	(514)	(515)	(100 336)
NET OPERATING EXPENSES	(357)	(869)	0	(24 273)	(78)	(1 216)	(424)	(432)	(92 255)

SEGMENT REPORTING — ACTIVITIES OUTSIDE THE EU

EUR millions

	External Relations	Trade	Development	Enlargement	Humanitarian Aid	Total Activities outside the EU
Operating revenue:						
Recovery of expenses	61	0	6	142	2	211
Revenue from administrative operations	25	0	1	0	0	26
Other operating revenue	69	0	(2)	252	0	319
TOTAL OPERATING REVENUE	155	0	5	394	2	556
Administrative expenses:	(684)	(46)	(133)	(74)	(21)	(958)
Staff expenses	(451)	(41)	(119)	(53)	(14)	(678)
Intangible assets and PPE related expenses	(8)	0	0	(2)	0	(10)
Other administrative expenses	(225)	(5)	(14)	(19)	(7)	(270)
Operating expenses:	(2 943)	(9)	(853)	(1 709)	(678)	(6 192)
Direct centralised management	(1 540)	(8)	(508)	(389)	(472)	(2 917)
Indirect centralised management	(32)	0	(1)	(225)	0	(258)
Decentralised management	(711)	0	(348)	(902)	0	(1 961)
Joint management	(644)	(1)	15	34	(203)	(799)
Other operating expenses	(16)	0	(11)	(227)	(3)	(257)
TOTAL OPERATING EXPENSES	(3 627)	(55)	(986)	(1 783)	(699)	(7 150)
NET OPERATING EXPENSES	(3 472)	(55)	(981)	(1 389)	(697)	(6 594)

10.11.2008

EN

Official Journal of the European Union

C 287/55

SEGMENT REPORTING — SERVICES & OTHER

EUR millions

	Press & Communication	Anti-Fraud Office	Co-ordination	Personnel & Administration	Eurostat	Budget	Audit	Languages	Other	Total Services & Other
Operating revenue:										
Recovery of expenses	0	0	0	2	(1)	0	0	0	0	1
Revenue from administrative operations	2	5	0	616	0	43	0	83	0	749
Other operating revenue	(2)	(1)	5	15	0	10	0	2	235	264
TOTAL OPERATING REVENUE	0	4	5	633	(1)	53	0	85	235	1 014
Administrative expenses:	(93)	(45)	(146)	(1 152)	(62)	(45)	(8)	(316)	63	(1 804)
Staff expenses	(59)	(31)	(120)	(414)	(57)	(36)	(7)	(252)	26	(950)
Intangible assets and PPE related expenses	(2)	0	0	(106)	0	0	0	0	0	(108)
Other administrative expenses	(32)	(14)	(26)	(632)	(5)	(9)	(1)	(64)	37	(746)
Operating expenses:	(82)	(11)	(2)	(44)	(56)	(473)	0	(1)	(286)	(955)
Direct centralised management	(79)	(11)	(1)	(39)	(56)	(470)	0	(1)	20	(637)
Indirect centralised management	(2)	0	0	0	0	0	0	0	0	(2)
Other operating expenses	(1)	0	(1)	(5)	0	(3)	0	0	(306)	(316)
TOTAL OPERATING EXPENSES	(175)	(56)	(148)	(1 196)	(118)	(518)	(8)	(317)	(223)	(2 759)
NET OPERATING EXPENSES	(175)	(52)	(143)	(563)	(119)	(465)	(8)	(232)	12	(1 745)

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 Communities to generate cash and cash equivalents, and its needs to utilise those cash flows.

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

Cash flows arising from transactions in a foreign currency are recorded in the European Communities' 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 shown above reports cash flows during the period classified by operating and investing activities (the Communities do not have financing activities).

4.2. OPERATING ACTIVITIES

Operating activities are the activities of the Communities 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 Communities. 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 Communities.

It should be noted that EUR 5 037 million of cash and cash equivalent balances held by the Communities are not available for use by the Communities. 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. OFF-BALANCE SHEET DISCLOSURES

CONTINGENT ASSETS

	Note	31.12.2007	31.12.2006
<i>EUR millions</i>			
Guarantees received:	5.1		
Guarantees received in respect of pre-financing	5.1.1	1 147	1 182
Guarantees received in respect of fines' cases pending	5.1.2	2 563	1 783
Other guarantees received	5.1.3	784	954
Total		4 494	3 919
Borrowing agreements signed	5.2	0	0
Contingent assets relating to cases of fraud & irregularities concerning structural actions	5.3	1 701	1 477
Other contingent assets	5.4	4 455	1 274
Total Contingent Assets		10 650	6 670

CONTINGENT LIABILITIES & COMMITMENTS FOR FUTURE FUNDING

EUR millions

Contingent Liabilities	Note	31.12.2007	31.12.2006
Guarantees given:	5.5		
Guarantees given for EIB loans	5.5.1	15 787	14 792
Other guarantees given	5.5.2	76	0
Total		15 863	14 792
Fines — appeals to the Court of Justice	5.6	8 682	5 611
EAGF — court judgements pending	5.7	1 095	1 255
Amounts relating to legal cases and other disputes	5.8	2 043	2 429
Other contingent liabilities	5.9	19	7
Total Contingent Liabilities		27 702	24 094
Commitments for future funding			
Undrawn commitments	5.10	239	256
Commitments against appropriations not yet consumed	5.11	95 992	90 040
Legal Commitments concerning multi-annual actions	5.12		
Structural operations	5.12.1	385 722	0
Protocols with Mediterranean Countries	5.12.2	262	260
Fisheries agreements	5.12.3	225	337
Total		386 209	597
Contributions to related organisations	5.13		
Uncalled Share capital EBRD	5.13.1	443	443
Uncalled Share capital EIF	5.13.2	553	480
Total		996	923
Operating lease commitments	5.14	2 003	1 660
Contractual commitments	5.15	806	567
Total Commitments for future funding		486 245	94 043

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

CONTINGENT ASSETS

5.1. GUARANTEES RECEIVED

5.1.1. *Guarantees received in respect of pre-financing*

These are guarantees that the European Communities request 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. The nominal value is disclosed as contingent asset. For the 'on-going' value, the guarantee's generating event is the pre-financing payment and/or subsequent clearings. The 'on-going' value is disclosed in the notes to the financial statements.

At 31 December 2007 the 'nominal' value of guarantees received by the Commission in respect of pre-financing amounts EUR 1 007 million compared to EUR 772 million for the 'on-going' value. See also note E.2.5 and E.2.9 for further details concerning long and short-term pre-financing.

5.1.2. *Guarantees received in respect of fines' cases pending*

These are guarantees received from the recipient of a Communities' fine who wishes to appeal this fine. A bank guarantee can be given for the amount of the fine (and interest) in question instead of making a provisional payment.

5.1.3. *Other guarantees received*

	<i>EUR millions</i>	
	31.12.2007	31.12.2006
Euratom loans: guarantees by third countries	474	436
Performance guarantees	217	402
Guarantees received as part of tenders	4	5
Guarantees for payment delays	6	18
Other	83	93
Total	784	954

The Commission has received guarantees from third-party guarantors in respect of loans granted through Euratom. The Commission has not received third-party guarantees for loans granted under the financial assistance (MFA) scheme. However, these loans are guaranteed by the Guarantee Fund. Performance guarantees are sometimes requested to ensure that beneficiaries of Communities funding meet the obligations of their contracts with the Communities. Other guarantees include EUR 73 million at 31 December 2007 (2006: EUR 83 million) concerning guarantees received by the ECSC in liquidation for loans granted (as specified in the related contracts).

5.2. **BORROWING AGREEMENTS SIGNED**

These are borrowing agreements entered into by the Communities but not yet drawn down before the year-end — there were none at 31 December 2007 or 2006.

5.3. **FRAUD AND IRREGULARITIES — STRUCTURAL ACTIONS**

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 (EC) No 1681/94, with amounts broken down by Member State.

The table below shows the amounts identified by Member States as still to be recovered.

CONTINGENT ASSETS: FRAUD & IRREGULARITIES CASES

	<i>EUR millions</i>	
Member State	31.12.2007	31.12.2006
Austria	15	15
Belgium	16	15
Czech Republic	1	0
Denmark	10	12
Estonia	1	0
Finland	3	3
France	12	13
Germany	592	580
Greece	69	65
Hungary	1	0
Ireland	1	2
Italy	434	412
Latvia	1	0
Netherlands	12	12
Poland	11	1

Member State	EUR millions	
	31.12.2007	31.12.2006
Portugal	83	73
Slovakia	1	0
Slovenia	0	1
Spain	249	157
Sweden	2	1
United Kingdom	178	115
Total	1 692	1 477

The figures given in this table represent a theoretical maximum rather than the amounts that will actually be made available to the Communities' 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 Commission Regulation (EC) 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 2007. 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 2006 concern increases relating to: European Social Fund cases (Italy: EUR 11 million); European Regional and Development Fund cases (UK: EUR 40 million, Spain: EUR 109 million, Poland: EUR 10 million and Germany EUR 10 million); European Agriculture Guarantee Guidance Fund (UK: EUR 23 million); and Cohesion Fund cases (Spain: EUR 30 million). The amounts due from Spain concerning European Social Fund cases have decreased by EUR 50 million compared to 2006.

Also included under this heading is EUR 9 million in relation to EAGGF Guidance amounts for the period 1994-1999.

5.4. OTHER CONTINGENT ASSETS

Much of EC expenditure is by its very nature provisional since, for reasons of control and good financial management, the Commission retains the right to audit/control/clear monies paid out before declaring them final. Thus until a given amount/project/programme has been declared properly eligible in accordance with the relevant contract and or regulation, there remains the possibility of recovering monies from beneficiaries, or having future payments reduced. The Commission has the right to make checks after the final payment, and if necessary recover amounts unduly paid.

5.4.1. Quantified amounts

For agriculture and rural development, the amounts declared by Member States remain provisional until the annual accounts are cleared, in principle by 30 April N+1 on the basis of an annual certification and a review by the Commission. The Commission can also make financial corrections under 'conformity decisions' but only for a period limited to the 24 months before an audit is undertaken on a specific area of expenditure declared by a specific Member State. Thus an amount of EUR 1 515 million is included here as a contingent asset, being estimated amounts to be received under the agricultural conformity financial corrections decisions for audits covering certain expenditure declared over the period 2001-2006. As the amounts are not yet definitive, they are not recognised on the balance sheet.

This year an amount of EUR 2,9 billion has also been included as a contingent asset in relation to potential financial corrections to be recovered from Member States. The amount is based on audit findings of the Commission and those of the European Court of Auditors, all of which are being followed up by the DGs. This is the best estimate at the time of closure of the 2007 accounts, taking into account the state of play of the follow up of the audits, implementation of remedial action plans and final position letters issued. This amount is subject to change following the procedure for suspensions and financial corrections, under which Member States are given the opportunity to present, in a hearing, further evidence to support their claims.

5.4.2. *Non-quantified amounts*

The Participants Guarantee Fund

The Participants Guarantee Fund (PGF) is a mutual benefit instrument set up under the Seventh Framework Programme for research and technological development (FP7). Its primary aim is to cover the financial risks incurred by the Communities 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 to its capital for the duration of the action. As such they are the owners of the PGF, the Communities being represented by the Commission 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 guarantees the financial interest of both the Communities and the participants. As such, the PGF can be viewed as a contingent asset of the Communities, however, the amount of the contingent asset will depend on the occurrence or non-occurrence of a series of uncertain future events and so it cannot be reliably estimated at present. Thus no amount is disclosed as a contingent asset. For information, as at 31 December 2007 a total amount of EUR 38 million has been contributed to the PGF by the participants.

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 31.12.2007	Non-risk Sharing 31.12.2007		Outstanding 31.12.2007 Total	Outstanding 31.12.2006
		Public authority	Private company		
65 % guarantee	1 756	7 063	1 319	10 138	8 040
70 % guarantee	191	2 799	235	3 225	3 747
75 % guarantee	0	1 116	129	1 245	1 487
100 % guarantee	0	886	293	1 179	1 518
Total	1 947	11 864	1 976	15 787	14 792

The Communities' Budget guarantees loans signed and granted by the EIB from its own resources to third countries at 31 December 2007 (including loans granted to Member States before accession). However, the Communities' 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 Communities' guarantee covers the full amount. At 31 December 2007 the amount outstanding totalled EUR 15 787 million (2006: EUR 14 792 million) and this, therefore, is the maximum exposure faced by the Communities.

For loans covered by the Communities' 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 Communities' 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 Communities' 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 Communities' budget might also have to cover the commercial risk.

5.5.2. *Other guarantees given*

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 34 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 EC.

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 2007 the total volume of credit facilities amounts to MAD 1 050 million, of which MAD 465 million (EUR 41 million) falls under the Commission guarantee.

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 309 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 (EUR 216 million) has been included as a long-term provision on the balance sheet — see note **E.2.13**.

5.8. AMOUNTS RELATED TO LEGAL CASES AND OTHER DISPUTES

This heading relates to actions for damages currently being brought against the Communities, other legal disputes and the estimated legal costs. The most significant amounts are summarised below:

- Action brought against it in June 2003 in relation to a ruling made by the Commission. The initial claim was for GBP 518 million. The Commission submitted its rejoinder in February 2005. In May 2008, the claim was reduced to GBP 257 million. The judgment is expected later in 2008,
- Action for damages brought in October 2003, in relation to a ruling made by the Commission. The claim was for an amount of EUR 1 664 million. The Court of First Instance (CFI) issued a judgement in this case in July 2007 condemning the Commission to pay damages. However, these damages were not quantified by the Court. An independent expert has yet to be appointed and no reliable estimate of the damages is available. Furthermore, the Commission's appeal against the judgment of the CFI is still pending. In view of these elements of uncertainty, the contingent liability is maintained at the value of the original claim.

Other 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

The main amount included under this heading is the possible liability, estimated at EUR 5 million, concerning certain disease eradication costs that may have to be borne by the Commission's budget.

COMMITMENTS FOR FUTURE FUNDING

5.10. UNDRAWN COMMITMENTS

These are lending and equity investment agreements entered into by the Commission and ECSC in liquidation (not covered by the RAL) but not yet drawn down by the other party before the year-end.

5.11. COMMITMENTS AGAINST APPROPRIATIONS NOT YET CONSUMED

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. At 31 December 2007 the budgetary RAL totalled EUR 138 740 million. The amount disclosed as a future commitment to be funded is this budgetary RAL less related amounts that have been included as expenses in the 2007 Economic Outturn Account giving a total of EUR 95 992 million.

The budgetary RAL is the normal consequence of the existence of multi-annual programmes. In order to have a more precise view of the composition of this amount, it was decided to identify separately the oldest commitments or those for which no movements were noted. Thus the concept 'Potentially Abnormal RAL' (PAR) was defined. It is composed of the commitments which answer the one of the two following conditions:

- a commitment of more than five years old,
- commitments for which no accounting transaction (payment or de-commitment) was noted during the last two years.

As a result of the joint statements of November 2002 and 2003, the Commission, the European Parliament and the Council stressed the need to eliminate gradually this potentially abnormal RAL. Thus at the beginning of each financial year the commitments meeting this definition are identified and are the subject of an individual examination. These commitments are classified in eight separate categories according to the identified hypothetical case. It is essential to note that the majority of commitments fulfilling the PAR criterion are classified by the services as normal commitments or contracts still open (despite the fact that the due date for the required invoice/supporting documentation is passed). The objective of the annual PAR exercise is to minimise the share of unjustified RAL by examining each potentially abnormal commitment, updating the classifications of the services and by monitoring that commitments related to contracts that can be closed are actually eliminated.

5.12. LEGAL COMMITMENTS CONCERNING MULTI-ANNUAL ACTIONS

These commitments originated because the Commission decided to enter into long-term legal commitments in respect of amounts that were not yet covered by commitment appropriations in the budget. 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 Operations*

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 (perspective) 2007-2013:

EUR millions

	Financial perspective amounts 2007-2013 (A)	Legal commitments concluded (B)	Budget commitments 2007 (C)	Legal commitments less budget commitments (=B-C)	Maximum commitment (=A-C)
Cohesion policy funds	346 542	341 514	44 822	296 692	301 720
Natural Resources	92 599	67 816	9 941	57 875	82 658
Instrument for Pre-Accession Assistance	1 629	1 629	285	1 344	1 344
Total	440 770	410 959	55 048	355 911	385 722

Structural Operations represent aid planned for the period 2007-2013. A new Financial Framework period started in 2007 and the format and objectives are different to those of the prior period. As it is the start of a new period, the legal commitments are quite significant, particularly in comparison with 2006 where there were no amounts to be disclosed since no commitments were outstanding at 31 December 2006.

5.12.2. *Protocols with Mediterranean countries*

The commitments made under 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*

Fisheries agreements cover commitments entered into with third parties for other operations under external and fisheries actions, over a fixed time period.

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*

<i>EUR millions</i>		
EBRD	Total EBRD capital	Commission subscription
Capital	19 794	600
Paid-in	(5 198)	(157)
Uncalled	14 596	443

5.13.2. *Uncalled share capital: EIF*

<i>EUR millions</i>		
EIF	Total EIF capital	Commission subscription
Capital	2 770	691
Paid-in	(554)	(138)
Uncalled	2 216	553

At the EIF Annual General Meeting of Shareholders held on 7 May 2007, it was decided to issue 1 000 new shares identical to the 2 000 existing ones (nominal value of EUR 1 million each; paid in ratio of 20 %). The shareholders of the Fund have the option to subscribe pro-rata, at their discretion, over a four year period starting in 2007 and ending in 2010 to these new shares. The EIB will subscribe by 30 June 2010 to all shares that the other shareholders have not yet subscribed to.

During 2007 a total of 770 shares with a nominal amount of EUR 1 million per share were subscribed for by the shareholders of the EIF. The share premium per share was EUR 136 544,84. The Communities subscribed for 91 shares, of which 20 % of the nominal amount and the premium were paid in 2007. The participation of the Communities is limited to 900 shares (of EUR 900 million).

5.14. OPERATING LEASE COMMITMENTS

<i>EUR millions</i>				
Description	Future amounts to be paid			
	< 1 year	1-5 years	> 5 years	Total
Buildings	268	889	823	1 980
IT materials and other equipment	8	12	3	23
Total	276	901	826	2 003

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 2007, EUR 275 million was recognised as an expense in the economic outturn account in respect of operating leases.

5.15. CONTRACTUAL COMMITMENTS

This heading covers amounts that the European Communities are committed to pay in the future under contracts existing at the balance sheet date. They cover primarily multi-annual contracts relating to the provision of services such as security, cleaning, etc., but also contractual commitments concerning specific projects such as building works. The amounts indicated correspond to amounts committed to be paid during the term of the contracts.

Included here is the outstanding contractual obligation of EUR 22 million concerning building related contracts of the Council, as well as EUR 367 million relating to building contracts of the Parliament. The other significant amount included here is EUR 348 million, which concerns the extension of a Court of Justice building in Luxembourg.

6. RECOVERY OF UNDUE PAYMENTS

6.1. INTRODUCTION

The recovery of undue payments is the last stage in the operation of control systems, and the evaluation of these recoveries is essential in order to demonstrate sound financial management. The amounts recovered usually relate to expenditure booked in earlier years, due to the time which elapses between the date of a payment and that of an ex post audit, and to the time necessary for contradictory procedures and for establishing the amount finally due. In the field of agriculture, this time is further extended if the Member State concerned requests a conciliation procedure.

When checking an EU-funded project, auditors seek to verify the correct application of the, sometimes complicated, financial and contractual rules. Although errors, irregularities and fraud may occur at any stage of an EU project or contract, they are most likely to be discovered at the final stage: i.e. when the beneficiary sends in his final payment claim.

The objective of this chapter is to give an overview of the procedure in place for the recovery of undue payments and to present a best estimate of the total amount. There are a variety of ways by which undue payments are recovered by the European Commission when there is a clear case of a financial error or irregularity, which are explained below. For Structural Actions, when advances made are higher than the final costs of a project, unused pre-financing has to be recovered. Such recoveries are not considered as being recovery of errors or irregularities, and are thus excluded from the analysis below.

6.2. RECOVERY OF UNDUE PAYMENTS MADE UNDER SHARED MANAGEMENT

Some 80 % of the budget is managed jointly by European Commission and the Member States. This shared management expenditure includes principally expenditure on agriculture, structural actions and fisheries.

When the European Commission implements the budget under shared management, implementation tasks and responsibilities, including the correction of ineligible expenditure, are delegated to Member States: thus they are primarily responsible for correcting irregularities committed by beneficiaries. The European Commission has an overall supervisory role: it checks the sufficiency of Member States' financial management and imposes corrections if it finds that a Member State had not adequately protected the EC budget from irregularities. Such corrections may also result from audits and controls carried out by European Court of Auditors or from OLAF investigations.

The control chain would indeed not be complete without a mechanism which ensures that the Member States carry out their work properly and which, if they fail to do so, imposes the necessary financial consequences.

The Commission has the power to apply *extrapolated or flat-rate corrections* in certain cases where it is not possible or practicable to quantify the amount of irregular expenditure precisely, or when it would be disproportionate to cancel the expenditure in question entirely. 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 because it is subject to too many variables or diffuse in its effects.

6.2.1. *Recovery of expenditure charged to agriculture and rural development*

Under EAGF and EARDF, which have replaced the EAGGF Guarantee section, the mechanism of recovery consists of the clearance of accounts and the recovery of irregularities.

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 EARDF, 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 reusable 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 declarations, and of the certificates and reports from the certification bodies.

Conformity clearance is designed to exclude expenditure from EU financing which has not been paid in conformity with EU rules, thus shielding the EU budget from expenditure that should not be charged to it. The conformity clearance is, therefore, not a mechanism by which irregular payments are recovered directly from the final beneficiaries. However, financial corrections are 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, otherwise an infringement procedure may be launched. Whereas the financial clearance is an annual exercise, conformity clearance does not follow an annual cycle. It covers expenditure incurred in more than one financial year, with the exception of expenditure made more than 24 months before the Commission officially notifies the Member State of its audit findings.

Financial clearance of payments executed without respect the regulatory dead-lines: for the most important support regimes under the EAGF, the regulations foresee that Member States must make the payments to the beneficiaries within certain deadlines. The respect of the fixed deadlines is systematically controlled three times a year in accordance with Article 9 of Commission Regulation (EC) No 883/2006. 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. The reductions are made in the context of the monthly payments and in the annual financial clearance. The financial corrections for the non respect of payment deadlines are treated as 'negative payments' and accounted for in the economic outturn account as a reduction of expenses.

Recovery of irregularities declared by Member States

Member States are obliged to recover sums lost as a result of irregularities following their national rules and procedures. 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. However, it is not always easy to recover the sums spent irregularly. If the Member State needs more than four years to recover, or eight years in the case of national court proceedings against the beneficiary, the Commission charges 50 % of the outstanding sum to the Member State concerned, thereby protecting the financial interests of the EU (the so-called 50/50 rule). This is done via the financial clearance procedure described above. After this accounting exercise, the Member State is still obliged to continue its recovery actions. 50 % of the sums thus recovered are to be handed over to the EU budget. It should be noted that amounts recovered are permitted to be transferred to the Commission after a reduction of 20 % by the Member States to cover their costs. Under all circumstances, the Commission keeps an eye on the Member States' recovery actions. 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.

6.2.2. *Recovery of expenditure under Structural Actions*

In this domain, the mechanism of recovery of errors, irregularity and fraud mainly consist of financial corrections.

Financial corrections: Expenditure not meeting the conditions of funding, because of irregularity, must be excluded from co-financing by the EU budget. This exclusion is called a 'financial correction'. The purpose of such corrections is to restore a situation where 100 % of the expenditure declared for co-financing from Structural Actions is in line with the applicable national and Community rules and regulations.

Financial corrections can result from controls and audits at any level of the control system in the Member States or from audits by the Commission or the European Court of Auditors or OLAF investigations. Member States are primarily responsible for making financial corrections in relation to irregularities committed by beneficiaries. Where the Member State agrees to make a correction as a result of its own or EC control and audit activity, it may withdraw the irregular expenditure and re-use the EC funding released for other expenditure under the programme concerned, but not related to the operation or operations that were the subject of the correction. The European Commission may take a formal decision to apply financial corrections to the Member State where the Member State has failed to make the required corrections or where there are serious failings in the management and control systems which could lead to systemic irregularities. A financial correction applied by Commission decision involves a reduction of the EC funding of the programme concerned. The corrections effected by Member States following their own or EC audits are not registered in the Commission's accounting system, and the information is reported by Member States once a year. Only the financial corrections implemented by a recovery order or by a reduction in a final payment are included in the EC accounts.

6.3. RECOVERY OF UNDUE PAYMENTS — OTHER MANAGEMENT TYPES

The mechanisms foreseen are recovery orders or reduction of the next payment. Many EU projects run over several years and corrections are usually applied, by adjustment of subsequent claims and/or final payments, following periodic checks or scrutiny of independent audit certificates. Information on all recoveries made by deduction against subsequent payment, and thus where no recovery order is issued, is not yet easily identifiable in the Commission's accounting system as only the amount of the adjusted payment is recorded in the accounts.

At or after the closure of a project, the European Commission may also apply further corrections on the basis of its own or the Court of Auditors' audits on the spot. These corrections can be made in later years and a recovery order will be issued.

6.4. ANALYSIS OF RECOVERY OF UNDUE PAYMENTS DECIDED IN 2007

The figures presented below are established where possible on an 'accrual basis' under which the recovery is allocated to the year in which:

- the recovery order was issued, or a reduced payment was made,
- a correction was decided by the Commission or agreed by Member States, or
- under the EAGF and EARDF, the amount of irregularities is recovered & declared by Member States.

6.4.1. Shared Management

6.4.1.1. Recovery of expenditure charged to agriculture and rural development: EAGF and EARDF

During the calendar year 2007, the Commission decided, concerning EAGF, to recover from Member States EUR 607 million following financial corrections. In addition, during the same year, Member States repaid to the Commission EUR 247 million representing irregular expenditure which they had recovered from beneficiaries. Concerning EARDF, it being the first year of this fund, there was no recovery of undue payments in 2007. All these recoveries are recorded in the Commission's accounting system and included in the economic outturn account.

	<i>EUR millions</i>
	2007
Financial corrections decided, being:	
<i>Conformity clearance</i>	532
<i>Financial clearance and non-respected payment deadlines</i>	75
Total	607
Irregularities declared by Member States	247
Total	854

The Commission can make financial corrections under 'conformity decisions' only for expenditure declared in a period limited to the 24 months before an audit is undertaken on a specific area of expenditure declared by a specific Member State. The amount to be received under the agricultural conformity financial corrections decisions still to be taken following the Commission's audits is estimated at EUR 1,5 billion. This concerns certain expenditure declared over the period 2001-2007 and is disclosed as a contingent asset in the notes to these financial statements.

6.4.1.2. Recovery of expenditure under Structural actions

The total financial corrections made to programmes, resulting from Commission audit work, audit work by the Court of Auditors and the closure process for the two programme periods are given below:

TOTAL FINANCIAL CORRECTIONS CONCERNING 2000-2006 PROGRAMMES/PROJECTS

<i>EUR millions</i>				
	Total Financial Corrections at 31.12.2006	Fin. Corrections 2007 without Commission Decision	Fin. Corrections 2007 by Commission Decision	Total Financial Corrections at 31.12.2007
Cohesion Fund	99	4	0	103
ERDF	1 382	179	0	1 561
ESF	438	37	0	475
FIFG	0	0	0	0
EAGGF Guidance	1	0	0	1
Total	1 920	220	0	2 140

The figures given in the notes to the 2006 final accounts, point 3.1.4 (total EUR 1 915 million), for ERDF the Cohesion Fund and the ESF included some estimated amounts which were established for ERDF and the Cohesion Fund in initial letters to Member States launching financial correction procedures. These figures, totalling EUR 20,7 million (EUR 18,7 million Cohesion Fund, EUR 1 million ERDF and EUR 1 million for ESF), are excluded from the calculation of total financial corrections because of their provisional character. For ERDF and the Cohesion Fund a further EUR 25,7 million of financial corrections representing formal Commission decisions adopted in or before 2006 (EUR 17,7 million Cohesion Fund and EUR 8 million ERDF) not previously reported have been added.

TOTAL FINANCIAL CORRECTIONS CONCERNING 1994-1999 PROGRAMMES/PROJECTS

<i>EUR millions</i>				
	Total Financial Corrections at 31.12.2006	Fin. Corrections 2007 without Commission Decision	Fin. Corrections 2007 by Commission Decision	Total Financial Corrections at 31.12.2007
Cohesion Fund	202	0	23	225
ERDF	818	4	36	858
ESF	340	0	5	345
FIFG	15	24	0	39
EAGGF Guidance	30	4	80	114
Total	1 405	32	144	1 581

The figures given in the notes to the 2006 final accounts, point 3.1.4 (total EUR 1 677 million), for ERDF and the Cohesion Fund included some estimated amounts established in initial letters to Member States launching financial correction procedures. These figures, totalling EUR 300 million (EUR 58 million Cohesion Fund and EUR 242 million ERDF), are excluded from the calculation of total financial corrections because of their provisional character. A further EUR 16 million of financial corrections of ERDF and EUR 10 million for ESF, representing formal Commission decisions adopted in or before 2006, and EUR 2 million for FIFG not previously reported have been added.

The total financial corrections for Structural Actions in 2007, which amount to EUR 396 million, can be split as follows:

	EUR millions					
	ERDF	CF	ESF	FIFG	EAGGF_G	Total
Financial Corrections 1994-1999 period:						
With recovery order ⁽¹⁾	29	3	3	2	15	52
Reduction of payment	11	20	2	22	69	124
Sub-total 1994-1999 period	40	23	5	24	84	176
Financial Corrections 2000-2006:						
Agreement to withdraw ineligible expenditures	179	4	37	0	0	220
Sub-total 2000-2006 period	179	4	37	0	0	220
Total financial corrections	219	27	42	24	84	396

⁽¹⁾ Recovery orders for an amount of EUR 15 million will be issued in 2008 (EUR 3 million for Cohesion fund, EUR 10 million for ERDF and EUR 2 million for EAGGF-G). For financial corrections applied at the closure of the programme, the amount of the recovery order results from both the amount of the financial correction and the balance of the final payment claim.

This table does not include the results of the Member States' own checks of Structural fund expenditure. Moreover, an amount of EUR 2,9 billion concerns potential financial corrections to be recovered from Member States. The amount is based on audit findings of the Commission and those of the European Court of Auditors, all of which are being followed up by the DGs. This is the best estimate at the time of closure of the 2007 accounts, taking into account the state of play of the follow up of the audits, implementation of remedial action plans and final position letters issued.

Financial correction activity (withdrawals, recoveries and pending recoveries) by Member States for Structural Actions for 2007

The Commission requests that Member States provide information, by 31 March each year, on withdrawals, recoveries and pending recoveries of Structural actions for the year in question and cumulatively for the whole of the programming period 2000-06, for all Structural Funds and Community Initiatives (ERDF, ESF, EAGGF and FIFG). The provisional figures for withdrawals and recoveries in 2007 (approximately EUR 540 million) have been received by the Commission and will be adjusted after the Commission has clarified certain matters with the Member States concerned. The revised figures will be presented in an annex to the 19th Annual Report on the Implementation of the Structural Funds to be issued later in 2008. In relation to financial corrections proposed by the Commission on the basis of its own or other EC bodies' audit work but accepted and executed by Member States, there is a potential overlap with data on withdrawals communicated by Member States.

It should also be noted that the Commission is currently verifying the information provided by a number of Member States under Action 6.2 of the Action Plan to strengthen the Commission's supervisory role in shared management of structural actions (COM(2008)97). The results of this work will allow definite conclusions to be drawn on the completeness and reliability of the data as a basis for follow-up action to bring about the necessary improvements in the reporting of financial corrections.

6.4.2. Recovery of expenditure under other management types

For other management types, the information regarding debts established by recovery orders is presented in the following table. The recoveries made by deduction from a subsequent payment were not recorded in the accounting records in 2007. Recovery orders issued during the year to recover previously paid amounts totalled EUR 259 millions. Of this, EUR 138 million concerns recuperation of expenses and EUR 121 million recuperation of pre-financing. For this last category, the accounting records do not allow the differentiation between amounts concerning recovery of unused advances and amounts concerning the recovery of undue expenditure claimed by the beneficiary. However, unlike for structural actions, materially all pre-financing recovered, except that relating to the outturn of the Agencies, is considered as the recovery of wrongly claimed amounts.

<i>EUR millions</i>	
Recovery orders for undue payments issued in 2007	2007
External actions	178
Internal policies	81
Total	259

6.5. SUMMARY OF THE RECOVERY OF UNDUE PAYMENTS 2007

The following table presents a best estimate of the total amount decided in 2007 to be recovered. As explained above, they do not include the results of the Member States' own checks of Structural Actions expenditure, nor do they include all recoveries made by deduction from a subsequent payment on external actions and internal policies. The recovery orders established on pre-financing risks being overstated by amounts concerning the repayment of unused advances (not related to irregular payments).

Summary of the recovery of undue payments

<i>EUR millions</i>		
	2007	2006
EAGGF:		
— financial corrections	607	839
— irregularities declared by Member States	247	108
Structural and cohesion funds (1994-1999 and 2000-2006 programmes)	396	807
Recovery orders for undue payments:		
— external actions	178	172
— internal policies	81	85
Total	1 509	2 011

7. FINANCIAL RISK MANAGEMENT

EUROPEAN COMMISSION TREASURY OPERATIONS

The following disclosures relate to the treasury operations carried out by the European Commission in order to implement its budget. The rules and principles for the management of the Commission treasury operations for the implementation of the budget are laid down in the Regulation (EC, Euratom) No 1150/2000 (as amended by Regulation (EC, Euratom) No 2028/2004) and in the Financial Regulation (Regulation (EC, Euratom) No 1605/2002, amended by Regulation (EC, Euratom) No 1995/2006) and its Implementing Rules (Regulation (EC, Euratom) No 2342/2002, amended by Regulation (EC, Euratom) No 478/2007).

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

- The 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 (within the respect of Regulation (EC, Euratom) No 1150/2000, when this concerns funds held on the own resources accounts).

In addition to the own resources accounts, other bank accounts have been 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. All these accounts (with the exception of the accounts for receipts) are replenished daily on the basis of the payments to be executed from them. Minimum cash balances are kept on all these accounts in order to allow for the execution of urgent payments should any delay in their funding exceptionally occur. The balances of the receipts accounts are regularly transferred to the own resources accounts or to other accounts, depending on the treasury needs.

All commercial banks where the Commission holds bank accounts are selected by call for tenders. Imprest accounts are opened in accordance with Article 63 of the Financial Regulation and bank accounts are opened for their needs, with banks selected by simplified tendering procedure.

7.1. OPERATIONAL RISK

Treasury and payment operations are highly automated and rely on modern informatics 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 regulate 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 and compliance with the guidelines and procedures is checked regularly. They include in particular:

- Opening and closing of bank accounts,
- Parameterisation of financial systems,
- Treasury planning and forecasting,
- Payments execution and cash management,
- Foreign exchange operations,
- Selection of banks,
- Monitoring of transactions and bank reconciliation,
- Maintenance and control of the third party files.

7.2. FINANCIAL RISK

Currency risk:

Own resources paid by Member States in currencies other than EUR are kept on the own resources accounts. They are converted into EUR when they are needed to cover the execution of payments in EUR or, in a limited number of cases, they 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; as a consequence their overnight balances are kept very low and only represent a limited 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 other accounts in the same currencies, if they are needed to cover the execution of payments, or converted in EUR and transferred to other EUR accounts depending on the treasury needs. 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.

Credit risk:

Most of the Commission's treasury resources are kept, in accordance with Regulation (EC, Euratom) No 1150/2000, 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 virtually no credit risk for the Commission.

A small part of the Commission's treasury resources are kept with commercial banks, in order to cover the execution of payments, or other banking operations. It is normal practice to replenish commercial bank accounts on a just-in-time basis. As a consequence the amounts kept overnight on these accounts are constantly very low (between EUR 100 million and EUR 200 million on average, spread over more than 30 accounts) and thus the Commission exposure to credit risk is limited. In addition specific guidelines are applied for the selection of commercial banks in order to further minimise credit risk.

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 circumstances. All contracts provide for the possibility of immediate termination by the Commission in case the counterparty's rating is revised and falls below the minimum level required.

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 country to country. In order to limit credit risk exposure, balances on these accounts are kept at the lowest possible levels (taking into accounts operational needs), they are regularly replenished, and the applied ceilings are reviewed on a yearly basis.

Interest rate risk:

Accounts opened with Member States Treasuries or National Central Banks in accordance with Article 9 of Regulation (EC, Euratom) No 1150/2000, are non-interest bearing and free of charges. For all other accounts held with National Central Banks remuneration depends on the specific conditions offered by each bank; interest rates applied are variable and adjusted to market fluctuations.

For most accounts held with commercial banks interest is calculated on a variable basis, linked to the ECB marginal rate for its main refinancing operations, and adjusted to reflect any fluctuations of this rate. As a result no interest rate risk is taken on by the Commission.

7.3. MANAGEMENT OF PROVISIONALLY CASHED FINES

The following disclosures relate to the treasury operations carried out by the European Commission for the administration of fines provisionally cashed (restricted cash).

Currency risk:

Since all fines are imposed and paid in EUR, the Commission is not exposed to any risk of fluctuations in foreign currency exchange rates.

Credit risk:

Guidelines are applied for the selection of banks where funds are held, and exposure with any single counterpart is limited. All funds are held on current accounts and can be drawn at any time, without previous notice. Banks are selected by call for tenders. The minimum banks' deposit long-term rating required for admission to the tendering procedures is Moody's Aa or equivalent (that is, S&P AA-or Fitch AA-).

Exposure with any single counterpart is limited to 5 % of its 'Capital + reserves + subordinated loans', as resulting from its certified consolidated accounts. This limit is revised at least on a yearly basis. All contracts provide for the possibility of immediate termination by the Commission in case the counterpart's rating is revised and falls below the minimum level required.

Interest rate risk:

Interest for all accounts is calculated on a variable basis, which is linked to the ECB minimum rate for its main refinancing operations, and adjusted to reflect any fluctuations of this rate. As a result no interest rate risk is taken on by the Commission.

BORROWING & LENDING ACTIVITIES AND GUARANTEE FUND

The following disclosures relate to lending and borrowing activities carried out by the European Commission through **Macro Financial Assistance (MFA)** and **Euratom**, as well as the **Guarantee fund**.

7.4. RISK MANAGEMENT POLICIES AND HEDGING ACTIVITIES

MFA & Euratom:

The lending and borrowing transactions, as well as related treasury management, are carried out by the Communities according to the respective Euratom Council Decisions ⁽¹⁾, 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 hedging activities carried-out as lending operations are financed by 'back-to-back' operations and as there are no open currency positions existing.

⁽¹⁾ Council Decision 90/212/Euratom of 23 April 1990 amending Decision 77/271/Euratom on the implementation of Decision 77/270/Euratom empowering the Commission to issue Euratom loans for the purpose of contributing to the financing of nuclear power stations (OJ L 112, 3.5.1990, p. 26).

Council Decision 77/271/Euratom of 29 March 1977 on the implementation of Decision 77/270/Euratom empowering the Commission to issue Euratom loans for the purpose of contributing to the financing of nuclear power stations (OJ L 88, 6.4.1977, p. 11).

Council Decision 94/179/Euratom of 21 March 1994 amending Decision 77/270/Euratom, to authorize the Commission to contract Euratom borrowings in order to contribute to the financing required for improving the degree of safety and efficiency of nuclear power stations in certain non-member countries (OJ L 84, 29.3.1994, p. 41).

Guarantee Fund:

The rules and principles for the asset management of the Guarantee Fund (see Section E.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 and 8 May 2002.

The main principles, as extracted directly from the Convention, are as follows:

- The Guarantee Fund will operate in one single currency: EURO. It will exclusively invest in this currency in order to avoid any exchange rate risk,
- Management of the assets will be based upon the traditional rules of prudence adhered to for financial activities. It will have to pay particular attention to reducing the risks and to ensuring that the managed assets have a sufficient degree of liquidity and transferability, taking into account the commitments to which the Guarantee Fund will be confronted,
- The Guarantee Fund will be able to use all the hedging instruments against the market and interest risks, already used by the Portfolio Division of the EIB,
- The portfolio management will be based on the optimal duration and on the best possible allocation between short term and long-term, in order to draw a real advantage from the rates curve. In order to be able to quickly modify the duration of the portfolio according to the forecast of the future conditions of the market, the promoter will use, with the exclusive aim of hedging, the instruments available on the market for which the EIB already has the necessary experience.

7.5. CURRENCY RISK

Since all financial assets and liabilities are denominated in euro, the Communities do not take on exposure to effects of fluctuations in foreign currency exchange rates on its financial position and cash flows.

7.6. INTEREST RATE RISK

Due to the nature of its lending and borrowing activities, the Communities have significant interest-bearing assets and liabilities.

MFA & Euratom:

Borrowings issued at variable rates expose the Communities to cash flow interest rate risk. They represent approximately 93 % of the total volume of borrowings. However, the interest rate risks that arise from borrowings are offset by equivalent loans in terms and conditions ('back-to-back' operations). At the balance sheet date, the Communities have loans (expressed in nominal amounts) with variable rates of EUR 1,18 billion (2006: EUR 1,32 billion), with a re-pricing taking place every 6 months. The Communities also have loans (expressed in nominal amounts) with fixed rates for EUR 85 million in 2007 (2006: EUR 85 million), they have a final maturity date of more than five years.

Guarantee Fund:

Hedging instruments could be used to manage the interest rate (market) risk for the Guarantee Fund. However as agreed between the Commission and the EIB, no significant risk is currently taken and therefore hedging is not performed. As the transactions and operations are only denominated in euro, no other hedging is required. The distribution of the Guarantee Fund's holdings at 31 December 2007 and 2006 (market value excluding accrued interest) is detailed in the table below:

EUR millions

Segments	Fixed rate investments						Variable rate securities		Total	
	Less than 3 months		3 months to 1 year		1 to 10 years		2007	2006	2007	2006
	2007	2006	2007	2006	2007	2006				
Current accounts	1	1	0	0	0	0	0	0	1	1
Short term deposits — nominal	247	437	0	0	0	0	0	0	247	437
Available-for-sale assets	25	57	84	51	703	733	71	76	883	917
Total	273	495	84	51	703	733	71	76	1 131	1 355
Percentage	24 %	36 %	7 %	4 %	63 %	54 %	6 %	6 %	100 %	100 %

At 31 December 2007, for the cash and cash equivalents (fixed term deposits), the effective interest rate range is between 4,12 % and 4,83 %. For the Available-for-Sale (AFS) securities portfolio, the effective interest rate range is between 2,94 % and 5,52 %.

7.7. CREDIT RISK

The Communities take on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Exposure to credit risk is managed, firstly by obtaining country guarantees in the case of Euratom, then through the Guarantee Fund. The Guarantee Fund for external actions ⁽¹⁾ was set up in 1994 to cover default risks related to borrowings which finance loans to countries outside the European Union. In order to avoid any delays in payments due by the Entity, such borrowings are serviced by means of cash advances from the Communities' budget. If, three months after a payment is due, it is confirmed that a recipient country has defaulted, the cash advances are repaid to the budget by the Guarantee Fund for external actions.

MFA & Euratom:

The largest concentrations of credit risk that the Communities have are towards Bulgaria, Romania and Serbia-Montenegro. These countries represent approximately 27 %, 28 % and 22 % respectively of the total volume of loans. As far as treasury operations are concerned, guidelines on the choice of counterparties must be applied. Accordingly, the operating unit will be able to enter into deals only with eligible banks being part of a 'trading list of authorised banks' and having sufficient counterparty limits.

Guarantee Fund:

Guarantee Fund Fixed Term Deposits — Profile of counterparties

In accordance with the agreement between the Community and the EIB on the management of the Guarantee Fund, all the inter-bank investments should have a minimum credit rating of A1. Short-term inter-bank investments, including accrued interest, by type of counterparty at 31 December 2007 are as follows:

EUR millions

Rating	31.12.2007		31.12.2006	
	A1	75	30 %	171
A2	0	0 %	0	0 %
Aa1	20	8 %	44	10 %
Aa2	53	22 %	57	13 %
Aa3	100	40 %	167	38 %
Total	248	100 %	439	100 %

Guarantee Fund Available-for-sale assets — Profile of issuers

The profile of issuers, market value excluding accrued interest, at 31 December 2007 is as follows:

EUR millions

Issuer	31.12.2007		31.12.2006	
	Other issuers AAA	310	35 %	361
Supra Aaa	5	1 %	15	2 %
Govt./Agencies Aaa	196	22 %	225	25 %
Govt./Agencies Aa1	72	8 %	58	6 %
Govt./Agencies Aa2	0	0 %	0	0 %
Govt./Agencies Aa3	81	9 %	67	7 %
Govt./Agencies A1	73	8 %	49	5 %
Govt./Agencies A2	132	15 %	122	13 %
Govt./Agencies A3	4	1 %	10	1 %
Govt./Agencies Baa1	10	1 %	10	1 %
Govt./Agencies NR	0	0 %	0	0 %
Total	883	100 %	917	100 %

⁽¹⁾ Council Regulation (EC, Euratom) No 2728/94 of 31 October 1994 establishing a Guarantee Fund for external actions (OJ L 293, 12.11.1994, p. 1).

All the securities held meet the following criteria:

- Either they are issued by states in, or by institutions guaranteed by, the European Union, the G10 or supranational bodies,
- Or they are issued by another sovereign state with a rating of at least AA3,
- Or they are issued by another issuer with a rating of AAA.

7.8. FAIR VALUE

The estimated fair value of the MFA and Euratom 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 to maturity. The estimated fair value of floating rates loans are assumed to approximate their carrying amount since re-pricing at market interest rates takes place every 6 months.

At the balance sheet date the estimated fair value of fixed interest bearing loans and borrowings amount to EUR 90 million (2006: EUR 93 million) and EUR 89 million (2006: EUR 93 million), respectively, compared to corresponding book value of EUR 87 million (2006: EUR 87 million) and EUR 87 million (2006: EUR 87 million), respectively.

7.9. LIQUIDITY POSITION

The table below provides an analysis of assets and liabilities of the Guarantee Fund into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date. Those assets and liabilities that do not have a contractual maturity date are grouped together in the 'Maturity undefined' category.

<i>EUR millions</i>					
Maturity	Less than 3 months	3 months to 1 year	1 to 10 years	Maturity undefined	Total
Assets in EUR:					
Current accounts	1	0	0	0	1
Short term deposits	248	0	0	0	248
<i>Of which accrued interests</i>	1	0	0	0	1
Available-for-sale assets	38	109	754	3	904
<i>Of which accrued interests</i>	7	13	0	0	20
Total	287	109	754	3	1 153
Liabilities in EUR:					
Equity	0	0	0	1 152	1 152
Account payables	1	0	0	0	1
Total	1	0	0	1 152	1 153
Net liquidity position at 31.12.2007	286	109	754	(1 149)	0
Cumulative liquidity position at 31.12.2007	286	395	1 149	0	

EUROPEAN COAL & STEEL COMMUNITIES (in liquidation)

The following disclosures relate to lending and borrowing, as well as treasury activities carried out by the European Communities through the **European Coal & Steel Communities (in Liquidation)**. Further information is available in the accounts of the ECSC in liquidation.

7.10. RISK MANAGEMENT POLICIES AND HEDGING ACTIVITIES

Following the expiry of the ECSC Treaty on 23 July 2002, in accordance with Decision 2003/76/EC the assets and liabilities of the ECSC be passed to the European Community, and that the liquidation of the liabilities of the ECSC be managed by the Commission. Thus, no new loans and no corresponding funding are foreseen for the ECSC in liquidation. New ECSC borrowings are restricted to refinancing with the aim of reducing the cost of funds.

The asset and liability management is carried out by the Commission in accordance with internal guidelines. Written procedures 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 with internal guidelines and procedures is checked regularly. As far as treasury operations are concerned, the principles of prudent management with a view to limit operational risk, counterparty risk and market risk are to be applied. Investments are restricted basically to the following categories: term deposits with banks, money market instruments, fixed and floating rate bonds.

The main investment limits per category are as follows:

- For term deposits, the lower of either EUR 100 million per bank or 5 % of the bank's own funds provided that the respective short-term rating is at least A-1 (S&P) or equivalent,
- For bonds issued or guaranteed by Member States or institutions of the European Union, up to EUR 250 million per Member State or institution depending on its rating,
- For bonds of other sovereign or supranational issuers with a long-term credit rating of not less than AA (S&P) or equivalent up to EUR 100 million per issuer or guarantor,
- For bonds of other issuers having a minimum rating of AA or AAA (S&P) or equivalent, up to EUR 25 or 50 million respectively, depending on the rating and issuer status.

The ECSC in liquidation uses derivative financial instruments to hedge certain risk exposures (see also note E.2.3.4.2).

7.11. MARKET RISK

Foreign exchange risk

The ECSC in liquidation is exposed to foreign exchange risk arising from currency exposures with respect to the US dollar and the UK pound. The table below summarises the ECSC in liquidation's exposure to foreign currency exchange rate risk at 31 December 2007.

The ECSC in liquidation's assets and liabilities at their EUR equivalent nominal values, categorised by currency are disclosed in the table.

	<i>EUR millions</i>	
	GBP	USD
Assets	207	68
Liabilities	(285)	(68)
Net balance sheet position	(78)	0
<i>Effect of cross currency interest rate swaps</i>	81	—
Net exposure	3	0

The GBP assets and liabilities position is mainly composed of euro equivalent 204 million unquoted debt securities issued by the European Investment Bank as substitute of a defaulted debtor (see note E.2.4.2). According to the procedures manual, buying euro is the only foreign exchange operation authorised for EC business. All exceptions to this rule must be duly justified.

Price risk

The ECSC in liquidation is exposed to debt securities price risk because of investments classified on the balance sheet as available for sale.

7.12. INTEREST RATE RISK

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Due to the nature of its activities, the ECSC in liquidation is exposed to the effect of fluctuations in the prevailing levels of market interest rate on both its fair value and cash flow risks.

(a) Loans granted from borrowed funds

The interest rate risks that arise from borrowings are generally offset by equivalent loans in terms and conditions (back-to-back operations). If no perfect matching can be reached, derivative financial instruments are used to reduce the exposure to interest rate movements (see note E.2.3.4.2).

(b) *Debt securities*

Debt securities issued at variable rates expose the ECSC in liquidation to cash flow interest rate risk whereas debt securities at fixed rates expose the Community to fair value interest rate risk. Fixed rate bonds represent approximately 94 % of the investment portfolio at the balance sheet date (2006: 93 %).

The table below shows the distribution of the ECSC in liquidation holdings (market value excluding accrued interest) at 31 December 2007:

<i>EUR millions</i>					
Segments	Fixed rate investments			Variable rate securities	Total
	Less than 3 months	3 months to 1 year	1 to 10 years		
Current accounts	7	0	0	0	7
Short term deposits — nominal	42	0	0	0	42
AFS portfolio	15	106	1 179	87	1 387
Total	64	106	1 179	87	1 436
Percentage	4 %	7 %	83 %	6 %	100 %

As at 31 December 2007, the accrued interest amounted to EUR 29 million for the AFS portfolio.

(c) *Interest rate sensitivity analysis*

The market price of a debt security depends on the time to maturity, its coupon and the actual yield to maturity. For the shock analysis all debt securities of the portfolio (incl. Floating Rate Notes) are once priced at actual yields, then re-priced at yields shifted upwards by 100 bps. The change in market price is the reported hypothetical loss for the shock analysis. The 100 bps parallel shift is assumed to happen instantaneously, no time horizon is considered. At 31 December 2007 this hypothetical loss was about EUR 53 million.

7.13. **CREDIT RISK**

The ECSC in liquidation takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. Guidelines on the choice of counterparties must be applied. Accordingly, the operating unit will be able to enter into deals only with eligible banks being part of a 'trading list of authorized banks' and having sufficient counterparty limits. 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. At 31 December 2007, EUR 265 million was broken down as follows:

<i>EUR millions</i>	
	Nominal Amount
Loans granted to credit institutions	41
Loans granted to customers	224
Total	265

77 % of the total amount outstanding is covered by guarantees from a Member State or equivalent bodies (public institutions or public-sector industrial groupings in the Member States). 17 % of loans outstanding have been granted to banks or have been guaranteed by banks. 6 % of the outstanding debt (EUR 15 million) is made up of loans granted to European institutions officials from the former ECSC pension fund (in the summary table above, loans to officials are included in loans to customers), which are covered by life-and disability insurances and the respective salaries.

The outstanding loan balance, i.e. 0,1 %, should be considered as presenting a higher degree of risk. It means that the guarantees received (guarantee bonds put up by private industrial groupings and other special guarantees) do not generally provide the same level of security in the event of problems.

From a liquidity perspective, the loans granted on borrowed funds are fully covered by a dedicated reserve. This reserve amounts to EUR 134 million at 31 December 2007. The loans granted on own funds were covered by another reserve, formerly called 'ECSC Special Reserve'. This special reserve amounts to EUR 48 million at 31 December 2007.

(a) *Cash and deposits with credit institutions — profile of counterparties*

At the balance sheet date, 43 % and 57 % of deposits and current account balances are placed with banks rated (Fitch) F1+ (or equivalent) and F1 (or equivalent), respectively. All deposits and current account balances are held with banks within the OECD.

(b) *Loans and advances — profile of borrowers*

Geographical concentrations of the loans granted from borrowed funds (expressed at their outstanding nominal amount) at the balance sheet date are shown below. Note also that these loans were backed by guarantees from public bodies, banks or industrial groups except for the United Kingdom where no guarantee is received.

<i>EUR millions</i>		
	31 December 2007	Number of loans
Greece	68	1
France	134	2
Italy	0	8
United Kingdom	0	0
Total	202	11

Following a restructuring of debts of a defaulting debtor in 1998, the Commission acquired EUR 204 million promissory notes from European Investment Bank (rated AAA) in order to re-establish the back-to back character of the lending/borrowing transaction and thus cover interest rate and currency risk. These promissory notes are not included in the tables above.

Regarding the geographical concentrations of the loans granted on own funds — without loans to European Institutions officials — (expressed at their outstanding nominal amount) at the balance sheet date, 50 % of the total of EUR 48 million are granted in Germany, with the rest spread across 12 EU Member States. All loans were backed by guarantees.

(c) *Derivative financial instruments — profile of counterparties*

See note E.2.3.4.2.

(d) *Available-for-sale securities — profile of issuers*

Details of the debt securities (expressed at their fair value) by issuer type and by rating (Standard & Poor's) at the balance sheet date are as follows:

<i>EUR millions</i>		
	31 December 2007	%
Sovereign	430	30 %
Multinational Organisations	91	6 %
Banks & Financial Institutions	622	44 %
Other Public Issuer	274	20 %
Total	1 417	100 %

<i>EUR millions</i>		
	31 December 2007	%
AAA	839	59 %
AA+	124	9 %
AA	215	15 %
A+	94	7 %
A	82	6 %
A-	40	3 %
BBB+	6	0 %
BBB	17	1 %
Total	1 417	100 %

Concerning the geographical concentrations of the debt securities (expressed at their fair value) at the balance sheet date 18 % are in Germany, 9 % in the US, 8 % in the UK, 5 % in France and 6 % each in Austria, Spain and Supranational. The remainder are spread through countries within the OECD.

7.14. LIQUIDITY RISK

The liquidity risk that arises from borrowings is generally offset by equivalent loans in terms and conditions (back-to-back operations). In case that no perfect matching can be reached, derivative financial instruments are used to match cash flows.

For the asset and liability management of ECSC in liquidation, the Commission manages liquidity requirements based on disbursement forecast with an 11 years horizon obtained through consultations with the responsible Commission services. Investments are carried out accordingly to meet respective annual requirements.

7.15. FAIR VALUE

Loans and borrowings

The estimated fair value of loan 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 as the necessary data for calculating these values was not available.

Available-for-sale securities

The available-for-sale securities are presented at fair value which is the market price plus accrued interests.

Financial instruments measured at fair value

The total amount of the change in fair value estimated using a valuation technique that was recognised in the economic outturn account during the year is EUR 9 million (net loss) compared to EUR 1 million (net profit) in 2006. There are no financial instruments measured at fair value using a valuation technique that is not supported by observable market prices or rates.

Receivables and payables

The nominal value less impairment provision of trade receivables and the nominal value of trade payables are assumed to approximate their fair values.

Cash and cash equivalents

The fair value of cash and cash equivalents including current accounts and short-term deposits (of less than three months) is their carrying amount.

8. RELATED PARTY DISCLOSURES

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

Category 1: the President of the Commission and the President of the Court of Justice

Category 2: the Vice-presidents of the Commission

Category 3: the Members of the Commission, the Judges and Advocates General of the Court of Justice, the President and Members of the Court of First Instance, 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.

KEY MANAGEMENT FINANCIAL ENTITLEMENTS

EUR					
Entitlement (per employee)	Category 1	Category 2	Category 3	Category 4	Category 5
Basic salary (per month)	23 617,91	21 393,04	17 114,43 — 19 253,73	18 483,59 — 19 681,60	10 882,28 — 17 114,43
Residential allowance (% salary)	15 %	15 %	15 %	15 %	N/A
Expatriation allowance (% salary)	N/A	N/A	N/A	N/A	16 %
Family allowances:					
Household (% salary)	2 % + 158,86	2 % + 158,86	2 % + 158,86	2 % + 158,86	2 % + 158,86
Dependent child	319,27	319,27	319,27	319,27	319,27
Pre-school	67,83	67,83	67,83	67,83	67,83
Education, or	235,53	235,53	235,53	235,53	235,53
Education outside place of work	471,06	471,06	471,06	471,06	471,06
Presiding judges allowance	N/A	N/A	500 — 810,74	N/A	N/A
Representation allowance	1 418,07	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 ⁽¹⁾	Yes	Yes	Yes	Yes	Yes
% of salary ⁽¹⁾	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	47 235,82	42 786,08	38 507,46	36 967,17	reimbursed
Family travel expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Moving expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Leaving office:					
Resettlement expenses	23 617,91	21 393,04	19 253,73	18 483,59 — 19 681,60	reimbursed
Family travel expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Moving expenses	reimbursed	reimbursed	reimbursed	reimbursed	reimbursed
Transition (% salary) ⁽²⁾	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	3,79 %	3,79 %	3,79 %	3,79 %	3,79 %
Pension deduction	N/A	N/A	N/A	N/A	10,25 %
Number of persons at 31.12.2007	2	5	92	27	77

⁽¹⁾ With correction coefficient (cc) applied.

⁽²⁾ Paid for the first 3 years following departure.

9. EVENTS AFTER THE BALANCE SHEET DATE

At the date of approval of these accounts, no material issues came 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 above.

10. CONSOLIDATED ENTITIES**A. CONTROLLED ENTITIES****1. Institutions and consultative bodies**

Committee of the Regions
Council of the European Union
Court of Justice of the European Union
European Commission
European Court of Auditors
European Data Protection Supervisor
European Economic and Social Committee
European Ombudsman
European Parliament

2. Community Agencies

European Agency for Reconstruction
European Agency for Safety and Health at Work
European Aviation Safety Agency
European Centre for Disease Prevention and Control
European Centre for the Development of Vocational Training
European Environment Agency
European Food Safety Authority
European Foundation for the Improvement of Living and Working Conditions
European Maritime Safety Agency
European Medicines Agency
European Monitoring Centre for Drugs and Drug Addiction
European Union Agency for Fundamental Rights
European Network and Information Security Agency
European Training Foundation
Translation Centre for the Bodies of the European Union
European Agency for the Management of Operational Co-operation at the External Borders of the Member States of the European Union
European GNSS Supervisory Authority
Office for Harmonisation in the Internal Market (Trade Marks and Designs)
European Railway Agency
Community Plant Variety Office
Community Fisheries Control Agency ⁽¹⁾

3. Executive Agencies

Executive Agency for Competitiveness and Innovation
Education, Audiovisual & Culture Executive Agency
Executive Agency for the Public Health Programme ⁽¹⁾

4. Other controlled entities

European Coal and Steel Community (in liquidation)
Eurojust ⁽²⁾
European Police College (CEPOL) ⁽²⁾

⁽¹⁾ Consolidated for the first time in 2007.

⁽²⁾ Decentralised body of the EU falling under the pillar 'Police & Judicial Co-operation in criminal matters'.

B. JOINT VENTURES

ITER International Fusion Energy Organisation (portion of interest/voting power: 45,5 %)

SESAR Joint Undertaking (valued at cost)

Galileo Joint Undertaking in liquidation (portion of interest/voting power: 91,6 %/49,3 %)

C. ASSOCIATES

European Investment Fund (portion of interest/voting power: 25 %)

11. NON-CONSOLIDATED ENTITIES

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

11.1. THE EUROPEAN DEVELOPMENT FUND (EDF)

The European Development Fund (EDF) is the main instrument for Community aid for development cooperation in the ACP countries and the Overseas Countries and Territories (OCT). Each Fund is concluded for a period of five years. Since the conclusion of the first partnership convention in 1964 (Yaoundé I Convention), the EDF cycles have generally followed that of the partnership conventions of Yaoundé and Lomé. The ninth EDF was concluded at the same time as the most recent partnership convention, the so-called Cotonou Agreement, on June 2000. The Cotonou Agreement was signed by 77 States: 48 countries of Sub-Saharan Africa; 15 countries of the Caribbean and 14 countries of the Pacific. The ninth EDF has been allocated EUR 13,5 billion over a period of five years, that expired in December 2007. The Cotonou agreement makes provision for only 2 financial instruments under the EDF: an instrument for granting subsidies for long-term development support (non-reimbursable aid); and an investment facility to promote the private sector in ACP States. The Cotonou agreement was revised in Luxembourg in June 2005 and the related 10th EDF will enter into force in 2008.

The EDF is not funded from the Communities' Budget but from direct contributions from Member States, which are agreed in negotiations. The amount a Member State pays is, amongst other things, partly based on their GNP and partly based on their historical links (i.e. previous colonies) with the ACP States involved. The Commission and EIB manage the resources of the EDF.

The EDF is governed by its own Financial Regulation (OJ L 83, 1.4.2003, p. 1) which foresees the presentation of its own financial statements, separately from those of the Communities. The EDFs are subject to the external control of the Court of Auditors and the Parliament. For information purposes, the balance sheet and economic outturn account of the EDF are shown:

BALANCE SHEET — EDF

EUR millions

	31.12.2007	31.12.2006
Current assets:		
Receivables	8	217
Pre-financing	957	2 809
Other current assets	(3)	1
Cash & cash equivalents	388	291
Total	1 350	3 318
Total assets	1 350	3 318
Current liabilities:		
Accounts payable	(704)	(2 096)
Total liabilities	(704)	(2 096)
Net assets	646	1 222
Funds & reserves		
Called-up fund capital	25 019	29 900
Result for the year	(3 256)	(2 924)
Results carried forward from previous years	(22 411)	(26 788)
Reserves	1 294	1 034
Funds & reserves	646	1 222

ECONOMIC OUTTURN ACCOUNT — EDF

	EUR millions	
	2007	2006
Total revenue	0	0
Operating expenses		
<i>Operating Expenses:</i>		
Programme aid	638	750
Macro-economic support	427	408
Interest-rate subsidies	1	1
Emergency aid	155	130
Refugee aid	(6)	7
Risk capital	58	63
Stabex	98	189
Sysmin	32	30
Transfers from former EDFs	5	15
Structural adjustments	(6)	1
Debt relief	180	17
Sectorial policy	1 149	911
Compensation export receipts	84	53
Institutional support	30	32
Intra ACP projects	382	339
Congo Fund	17	(13)
Total	3 244	2 933
<i>Administrative expenses:</i>	31	24
	3 275	2 957
(Deficit) from operating activities	(3 275)	(2 957)
Non-operating activities		
Financial income	19	31
Provisions	0	2
Surplus from non-operating activities	19	33
Result for the year	(3 256)	(2 924)

11.2. THE SICKNESS INSURANCE SCHEME

The Sickness Insurance Scheme is the scheme that provides medical assurance to the staff of the various European Communities bodies. The funds of the Scheme are its own property and are not controlled by the European Communities, 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 Communities, and three smaller schemes covering staff in the European University of Florence, the European schools and staff working outside the EC such as staff in the EU delegations. The total assets of the Scheme at 31 December 2007 totalled EUR 287 million (2006: EUR 279 million).

PART II

**CONSOLIDATED REPORTS ON IMPLEMENTATION OF THE BUDGET OF THE EUROPEAN
COMMUNITIES AND EXPLANATORY NOTES**

CONTENTS

	<i>Page</i>
A. Consolidated reports on implementation of the budget:	
1. 2007 budget outturn	85
2. Overview of budget implementation.....	85
Revenue:	
3. Consolidated summary of the implementation of budget revenue.....	87
4. Consolidated summary of implementation of budget revenue by Institution	88
Expenditure:	
5. Breakdown and changes in commitment and payment appropriations by policy area.....	89
6. Implementation of commitment appropriations by policy area.....	90
7. Implementation of payment appropriations by policy area	92
8. Breakdown and changes in commitment and payment appropriations by financial perspective	93
9. Implementation of commitment appropriations by financial perspective.....	94
10. Implementation of payment appropriations by financial perspective	94
11. Implementation of commitment and payment appropriations by Institution.....	95
RAL:	
12. Consolidated summary of commitments outstanding	96
13. Breakdown of commitments outstanding by year of origin.....	96
Agencies:	
14. Agency income: budget forecasts, entitlements and amounts received	98
15. Commitment and payment appropriations by Agency.....	99
16. Budget outturn including Agencies	100
B. Explanatory notes to the consolidated reports on implementation of the budget:	
1. Budgetary principles, structures and appropriations.....	101
2. Explanation of budgetary revenue and expenditure and commentary on the 2007 outturn ...	105

SECTION A: CONSOLIDATED REPORTS ON IMPLEMENTATION OF THE BUDGET ⁽¹⁾

RESULT OF IMPLEMENTATION OF THE BUDGET

1. BUDGET OVERTURN 2007

EUR millions

	EFTA — EEA	European Communities	Total 2007	Total 2006
Revenue for the financial year	137	117 426	117 563	108 423
Payments against current year appropriations	(122)	(112 906)	(113 028)	(105 412)
Payment appropriations carried over to year N+1	0	(3 114)	(3 114)	(1 401)
EFTA appropriations carried over from year N-1	(2)	0	(2)	0
Cancellation of unused payment appropriations carried over from year N-1	0	246	246	263
Exchange differences for the year	0	(123)	(123)	(16)
Budget Outturn	13	1 529	1 542	1 857

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

2. OVERVIEW OF BUDGET REVENUE AND BUDGET IMPLEMENTATION 2007

REVENUE

EUR millions

Title	Income Appropriations	Entitlements established	%	Revenue	Receipts as % of budget	Outstanding
	1	2	3=2/1	4	5=4/1	6=2-4
1. Own resources	106 203	107 574	101,29 %	106 159	99,96 %	1 415
3. Surpluses, balances and adjustments	5 939	5 937	99,96 %	5 937	99,97 %	0
4. Revenue accruing from persons working with the institutions & other Community bodies	950	941	99,07 %	933	98,13 %	9
5. Administrative operation of the institution	81	334	414,67 %	251	311,04 %	83
6. Contributions by third parties, repayment of expenditure, financial corrections	190	3 951	2 085,13 %	3 744	1 975,68 %	207
7. Interest on late payments and fines	438	8 921	2 036,76 %	472	107,83 %	8 449
8. Borrowing and lending operations	25	39	156,08 %	39	156,08 %	0
9. Miscellaneous revenue	20	70	345,92 %	28	140,36 %	41
Total	113 846	127 767	112,23 %	117 563	103,27 %	10 205

⁽¹⁾ It should be noted that due to the rounding of figures into millions of euro, some financial data in these budgetary tables may appear not to add-up.

EXPENDITURE

EUR millions

Heading		Payment Appropriations	Payments made	%	Appropriations carried over	%	Appropriations lapsing	%
		1	2	3=2/1	4	5=4/1	6=1-2-4	7=6/1
1.	Sustainable growth	45 462	43 713	96,15 %	1 359	2,99 %	390	0,86 %
2.	Preservation & management of natural resources	57 020	56 648	95,84 %	1 958	3,43 %	414	0,73 %
3.	Citizenship, freedom, security and justice	1 356	1 050	77,41 %	163	11,99 %	144	10,60 %
4.	The EU as a global partner	7 780	7 292	93,73 %	184	2,37 %	304	3,90 %
5.	Administration	7 960	6 806	85,50 %	940	11,81 %	214	2,69 %
6.	Compensations	445	445	100,00 %	0	0,00 %	0	0,00 %
Total		120 021	113 953	94,94 %	4 603	3,84 %	1 465	1,22 %

3. CONSOLIDATED SUMMARY OF THE IMPLEMENTATION OF BUDGET REVENUE 2007

EUR millions

Title		Income appropriations		Entitlements established			Revenue			Receipts as % of budget	Outstanding
		Initial	Final	Current year	Carried	Total	Current year	Carried	Total		
1.	Own resources	114 288	106 203	106 145	1 429	107 574	104 806	1 353	106 159	99,96 %	1 415
3.	Surpluses, balances and adjustments	0	5 939	5 936	0	5 937	5 937	0	5 937	99,97 %	0
4.	Revenue accruing from persons working with the institutions & other Community bodies	950	950	915	26	941	908	24	933	98,13 %	9
5.	Administrative operation of the institution	81	81	309	25	334	230	20	251	311,04 %	83
6.	Contributions by third parties, repayment of expenditure, financial corrections	10	190	3 734	217	3 951	3 639	105	3 744	1 975,68 %	207
7.	Interest on late payments and fines	123	438	3 446	5 475	8 921	(74)	546	472	107,83 %	8 449
8.	Borrowing and lending operations	25	25	39	0	39	39	0	39	156,08 %	0
9.	Miscellaneous revenue	20	20	59	10	70	26	2	28	140,36 %	41
Total		115 497	113 846	120 585	7 183	127 767	115 512	2 051	117 563	103,27 %	10 205

Detail Title 1: Own resources

EUR millions

Chapter		Income appropriations		Entitlements established			Revenue			Receipts as % of budget	Outstanding
		Initial	Final	Current year	Carried	Total	Current year	Carried	Total		
10.	Agricultural duties	1 487	1 487	1 406	388	1794	1 016	388	1 404	94,43 %	390
11.	Sugar levies	533	(38)	(30)	28	(3)	(58)	28	(31)	81,44 %	28
12..	Custom duties	15 288	15 084	15 179	1 010	16 189	14 262	937	15 200	100,77 %	989
13.	VAT	17 827	18 517	18 469	0	18 469	18 468	0	18 468	99,73 %	2
14.	GNI	79 153	71 153	71 062	2	71 065	71 057	0	71 057	99,87 %	7
15.	Correction of budgetary imbalances	0	0	59	0	59	61	0	61		(2)
Total		114 288	106 203	106 145	1 429	107 574	104 806	1 353	106 159	99,96 %	1 415

Detail Title 3: Surpluses available

EUR millions

Chapter		Income appropriations		Entitlements established			Revenue			Receipts as % of budget	Outstanding
		Initial	Final	Current year	Carried	Total	Current year	Carried	Total		
30.	Surplus from previous year	0	2 109	2 109	0	2 109	2 109	0	2 109	100,00 %	0
31.	VAT surplus	0	961	973	0	973	973	0	973	101,22 %	0
32.	GNI surplus	0	2 869	2 857	0	2 857	2 857	0	2 857	99,60 %	0
34.	Adjustment for non-participation in JHAP	0	0	0	0	0	0	0	0		0
35.	United Kingdom correction	0	0	(2)	0	(2)	(2)	0	(2)		0
Total		0	5 939	5 936	0	5 937	5 937	0	5 937	99,97 %	0

4. CONSOLIDATED SUMMARY OF THE IMPLEMENTATION OF BUDGET REVENUE 2007 BY INSTITUTION

EUR millions

Title	Income appropriations		Entitlements established			Revenue			Receipts as % of budget	Outstanding
	Initial	Final	Current year	Carried	Total	Current year	Carried	Total		
European Parliament	85	85	198	20	218	135	10	144	170,21 %	74
Council	52	52	86	13	100	85	10	94	181,38 %	5
Commission	115 290	113 639	120 227	7 148	127 375	115 220	2 030	117 250	103,18 %	10 125
Court of Justice	35	35	37	1	38	37	1	37	106,17 %	0
Court of Auditors	17	17	17	1	17	16	1	17	99,39 %	1
Economic and Social Committee	11	11	13	0	13	13	0	13	116,93 %	0
Committee of the Regions	6	6	5	0	5	5	0	5	97,24 %	0
Ombudsman	1	1	1	0	1	1	0	1	99,49 %	0
European Data protection Supervisor	1	1	0	0	0	0	0	0	75,36 %	0
Total	115 497	113 846	120 585	7 183	127 767	115 512	2 051	117 563	103,27 %	10 205

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

EUR millions

Policy Area	Commitment appropriations						Payment appropriations					
	Approp adopted	Modifications	Approp carried over	Assigned revenue	Total additional	Total authorized	Approp adopted	Modifications	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	495	(182)	0	18	18	330	510	(203)	5	17	22	329
02 Enterprise	540	(10)	0	44	45	575	584	(116)	17	65	81	550
03 Competition	72	0	0	3	3	74	72	0	7	3	10	82
04 Employment and social affairs	11 431	(546)	5	18	24	10 908	11 662	(27)	15	14	30	11 664
05 Agriculture and rural development	54 940	(401)	0	2 532	2 532	57 041	53 652	(401)	24	2 527	2 551	55 802
06 Energy and transport	1 809	(13)	9	80	88	1 885	1 195	(186)	17	116	133	1 142
07 Environment	353	0	0	21	21	374	329	(87)	23	19	41	284
08 Research	3 565	77	0	408	408	4 049	2 693	(226)	42	803	844	3 312
09 Information society and media	1 435	(57)	0	159	159	1 537	1 175	(24)	16	269	285	1 436
10 Direct research	348	0	0	314	314	663	359	0	35	262	297	656
11 Fisheries and maritime affairs	955	0	0	4	4	959	1 223	(20)	39	6	44	1 248
12 Internal market	56	(1)	0	2	2	57	58	(1)	5	2	7	64
13 Regional policy	34 694	732	0	8	8	35 434	27 129	(457)	13	8	21	26 693
14 Taxation and customs union	110	0	0	4	4	114	114	0	5	4	9	123
15 Education and culture	1 223	0	0	218	218	1 440	1 158	31	14	246	260	1 450
16 Communication	201	0	0	3	3	204	192	0	27	3	30	223
17 Health and consumer protection	545	1	0	26	26	572	288	1	267	27	294	582
18 Area of freedom, security and justice	671	0	0	21	22	693	522	(120)	6	21	27	428
19 External relations	3 527	281	0	75	75	3 883	3 008	288	55	80	134	3 429
20 Trade	72	0	0	2	2	74	68	0	5	2	7	76
21 Development and relations with ACP States	1 244	(3)	0	169	169	1 410	1 163	(19)	35	165	200	1 344
22 Enlargement	1 065	(19)	0	87	87	1 133	1 853	(128)	13	55	69	1 793
23 Humanitarian aid	750	0	0	10	10	759	750	0	4	10	15	764
24 Fight against fraud	73	0	0	0	0	73	69	0	6	0	6	75
25 Commission's policy coordination and legal advice	169	1	0	8	8	178	169	1	18	7	25	194
26 Commission's administration	922	58	1	67	68	1 048	922	59	106	68	174	1 155
27 Budget	519	(14)	0	3	3	509	519	(14)	9	3	12	518
28 Audit	9	0	0	0	0	10	9	0	1	0	1	11
29 Statistics	121	(1)	0	9	9	130	119	(1)	7	8	16	134

Policy Area		Commitment appropriations					Payment appropriations						
		Approp adopted	Modifications	Approp carried over	Assigned revenue	Total additional	Total authorized	Approp adopted	Modifications	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
30	Pensions	997	0	0	0	0	997	997	0	0	0	0	997
31	Language Services	359	(2)	0	47	47	403	359	(2)	13	47	59	416
40	Reserves	735	(68)	0	0	0	667	0	0	0	0	0	0
90	Other Institutions	2 577	0	5	116	121	2 698	2 577	0	326	143	469	3 047
Total		126 551	(168)	21	4 477	4 498	130 881	115 497	(1 651)	1 174	5 002	6 176	120 021

6. IMPLEMENTATION OF COMMITMENT APPROPRIATIONS BY POLICY AREA

Policy Area		Commitment appropriations authorised	Commitments made				Appropriations carried over to 2008				Appropriations lapsing					
			From the year's approp	From carry-overs	Assigned revenue	Total	%	Assigned revenue	Carry-overs by decision	Total	%	From the year's approp	Approp 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
01	Economic and financial affairs	330	293	0	16	309	93,57 %	1	0	1	0,41 %	20	0	0	20	6,02 %
02	Enterprise	575	521	0	17	538	93,47 %	28	0	28	4,86 %	9	0	0	10	1,67 %
03	Competition	74	70	0	2	72	96,74 %	1	0	1	1,90 %	1	0	0	1	1,36 %
04	Employment and social affairs	10 908	10 847	5	9	10 861	99,57 %	9	14	23	0,21 %	24	0	0	24	0,22 %
05	Agriculture and rural development	57 041	51 471	0	556	52 027	91,21 %	1 976	1 409	3 386	5,94 %	1 628	0	0	1 628	2,85 %
06	Energy and transport	1 885	1 786	8	42	1 836	97,41 %	37	0	38	2,01 %	10	1	0	11	0,59 %
07	Environment	374	342	0	7	349	93,22 %	13	0	13	3,59 %	12	0	0	12	3,19 %
08	Research	4 049	3 635	0	204	3 839	94,80 %	204	0	204	5,05 %	6	0	0	6	0,15 %
09	Information society and media	1 537	1 374	0	117	1 491	97,01 %	42	0	42	2,73 %	4	0	0	4	0,26 %
10	Direct research	663	348	0	53	402	60,61 %	261	0	261	39,36 %	0	0	0	0	0,03 %
11	Fisheries and maritime affairs	959	706	0	1	706	73,68 %	3	2	5	0,55 %	247	0	0	247	25,77 %
12	Internal market	57	54	0	1	55	96,48 %	1	0	1	1,54 %	1	0	0	1	1,98 %
13	Regional policy	35 434	34 874	0	6	34 880	98,44 %	1	134	135	0,38 %	419	0	0	419	1,18 %
14	Taxation and customs union	114	99	0	2	101	88,67 %	2	0	2	1,61 %	11	0	0	11	9,72 %
15	Education and culture	1 440	1 220	0	107	1 327	92,12 %	111	0	111	7,69 %	3	0	0	3	0,18 %
16	Communication	204	195	0	2	197	96,50 %	1	0	1	0,61 %	6	0	0	6	2,89 %

Policy Area	Commitment appropriations authorised	Commitments made					Appropriations carried over to 2008				Appropriations lapsing					
		From the year's approp	From carry-overs	Assigned revenue	Total	%	Assigned revenue	Carry-overs by decision	Total	%	From the year's approp	Approp 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
17	Health and consumer protection	572	486	0	16	502	87,82 %	9	0	9	1,65 %	60	0	0	60	10,52 %
18	Area of freedom, security and justice	693	613	0	12	626	90,29 %	9	2	11	1,53 %	57	0	0	57	8,17 %
19	External relations	3 883	3 743	0	39	3783	97,42 %	35	2	37	0,95 %	63	0	0	63	1,63 %
20	Trade	74	70	0	1	72	97,02 %	1	0	1	1,27 %	1	0	0	1	1,71 %
21	Development and relations with ACP States	1 410	1 212	0	93	1 305	92,55 %	75	22	97	6,90 %	8	0	0	8	0,55 %
22	Enlargement	1 133	1 029	0	23	1 053	92,90 %	64	14	78	6,86 %	3	0	0	3	0,24 %
23	Humanitarian aid	759	749	0	9	758	99,83 %	1	0	1	0,10 %	1	0	0	1	0,07 %
24	Fight against fraud	73	69	0	0	69	94,72 %	0	0	0	0,01 %	4	0	0	4	5,27 %
25	Commission's policy coordination and legal advice	178	165	0	5	169	95,39 %	3	0	3	1,96 %	5	0	0	5	2,65 %
26	Commission's administration	1 048	957	1	38	995	94,97 %	29	0	29	2,77 %	24	0	0	24	2,25 %
27	Budget	509	498	0	2	499	98,10 %	2	0	2	0,35 %	8	0	0	8	1,55 %
28	Audit	10	9	0	0	9	91,82 %	0	0	0	1,74 %	1	0	0	1	6,44 %
29	Statistics	130	107	0	7	114	87,71 %	2	0	2	1,58 %	14	0	0	14	10,72 %
30	Pensions	997	994	0	0	994	99,70 %	0	0	0	0,00 %	3	0	0	3	0,30 %
31	Language Services	403	352	0	38	390	96,63 %	8	0	9	2,12 %	5	0	0	5	1,26 %
40	Reserves	667	0	0	0	0	0,00 %	0	0	0	0,00 %	667	0	0	667	100,0 %
90	Other Institutions	2 698	2 400	4	67	2 472	91,63 %	49	119	168	6,21 %	58	1	0	58	2,16 %
Total		130 881	121 285	19	1 494	122 798	93,82 %	2 982	1 717	4 699	3,59 %	3 381	2	1	3 383	2,59 %

7. IMPLEMENTATION OF PAYMENT APPROPRIATIONS BY POLICY AREA

EUR millions

Policy Area	Payment approp authorised	Payments made					Appropriations carried over to 2008					Appropriations lapsing					
		From the year's approp	From carry-overs	Assigned revenue	Total	%	Automatic carry-overs	Carry-overs by decision	Assigned revenue	Total	%	From the year's approp	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	329	242	4	16	262	79,75 %	5	0	2	7	2,11 %	59	1	0	60	18,14 %
02	Enterprise	550	336	12	22	370	67,28 %	22	0	40	63	11,37 %	110	5	2	117	21,34 %
03	Competition	82	64	6	1	71	86,65 %	7	0	2	9	10,74 %	1	1	0	2	2,61 %
04	Employment and social affairs	11 664	11 531	11	5	11 547	99,00 %	19	0	9	28	0,24 %	84	4	0	89	0,76 %
05	Agriculture and rural development	55 802	53 045	16	624	53 685	96,21 %	24	37	1 904	1 965	3,52 %	145	8	0	152	0,27 %
06	Energy and transport	1 142	886	13	20	919	80,43 %	17	50	95	163	14,25 %	56	4	0	61	5,32 %
07	Environment	284	203	17	12	232	81,64 %	16	0	7	23	8,11 %	24	5	0	29	10,25 %
08	Research	3 312	2 415	27	236	2 678	80,88 %	43	0	567	609	18,40 %	9	15	0	24	0,72 %
09	Information society and media	1 436	1 112	12	103	1 227	85,40 %	15	0	166	181	12,58 %	24	4	0	29	2,02 %
10	Direct research	656	318	32	56	406	61,87 %	33	0	206	239	36,39 %	8	4	0	11	1,74 %
11	Fisheries and maritime affairs	1 248	1 034	3	2	1 039	83,25 %	5	4	3	13	1,05 %	160	36	0	196	15,71 %
12	Internal market	64	49	4	1	54	85,18 %	5	0	1	7	10,24 %	2	1	0	3	4,58 %
13	Regional policy	26 693	26 568	9	6	26 583	99,59 %	13	0	1	14	0,05 %	92	4	0	96	0,36 %
14	Taxation and customs union	123	78	5	2	85	68,93 %	6	0	2	8	6,44 %	30	0	0	30	24,63 %
15	Education and culture	1 450	1 150	12	99	1 261	86,95 %	15	0	147	162	11,17 %	25	2	0	27	1,88 %
16	Communication	223	159	22	2	183	81,94 %	17	2	2	21	9,31 %	14	5	0	20	8,75 %
17	Health and consumer protection	582	228	210	10	448	76,88 %	26	0	17	43	7,31 %	35	57	0	92	15,81 %
18	Area of freedom, security and justice	428	240	5	13	259	60,41 %	8	82	8	97	22,76 %	71	1	0	72	16,83 %
19	External relations	3 429	3 171	38	55	3 265	95,20 %	44	0	24	68	1,98 %	80	17	0	97	2,83 %
20	Trade	76	60	4	1	65	85,87 %	5	0	1	6	8,45 %	4	1	0	4	5,68 %
21	Development and relations with ACP States	1 344	1 081	23	89	1 193	88,77 %	29	0	77	106	7,87 %	33	12	0	45	3,36 %
22	Enlargement	1 793	1 690	6	52	1 749	97,51 %	17	0	3	20	1,09 %	18	7	0	25	1,40 %
23	Humanitarian aid	764	742	4	9	756	98,87 %	6	0	1	7	0,90 %	1	1	0	2	0,23 %
24	Fight against fraud	75	56	4	0	60	79,62 %	6	0	0	6	7,77 %	7	2	0	9	12,60 %
25	Commission's policy coordination and legal advice	194	150	17	4	170	87,53 %	15	0	4	19	9,54 %	4	1	0	6	2,93 %

Policy Area	Payment approp authorised	Payments made					Appropriations carried over to 2008					Appropriations lapsing					
		From the year's approp	From carry-overs	Assigned revenue	Total	%	Automatic carry-overs	Carry-overs by decision	Assigned revenue	Total	%	From the year's approp	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
26	Commission's administration	1 155	844	91	30	965	83,60 %	113	0	37	151	13,06 %	23	15	0	38	3,33 %
27	Budget	518	489	8	1	498	96,16 %	9	0	2	11	2,08 %	8	1	0	9	1,76 %
28	Audit	11	8	1	0	9	83,04 %	1	0	0	1	9,42 %	1	0	0	1	7,54 %
29	Statistics	134	95	5	2	102	76,37 %	7	0	6	13	9,44 %	17	2	0	19	14,18 %
30	Pensions	997	994	0	0	994	99,70 %	0	0	0	0	0,00 %	3	0	0	3	0,30 %
31	Language Services	416	328	11	34	373	89,78 %	24	0	12	36	8,66 %	5	1	0	6	1,56 %
40	Reserves	0	0	0	0	0	0,00 %	0	0	0	0	0,00 %	0	0	0	0	0,00 %
90	Other Institutions	3 047	2 085	295	67	2 447	80,31 %	316	119	76	511	16,77 %	58	31	0	89	2,92 %
Total		120 021	111 452	925	1 576	113 953	94,94 %	888	295	3 421	4 603	3,84 %	1 211	249	5	1 465	1,22 %

8. BREAKDOWN AND CHANGES IN COMMITMENT AND PAYMENT APPROPRIATIONS BY FINANCIAL PERSPECTIVE

Financial Perspective Heading	Commitment appropriations						Payment appropriations						
	Appropriations adopted	Modifications (Transfers and AB)	Appropriations 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	54 854	(2)	15	1 193	1 208	56 060	44 861	(1 239)	124	1 716	1 840	45 462
2	Preservation and management of natural resources	56 250	(400)	0	2 549	2 549	58 399	54 719	(562)	321	2 543	2 863	57 020
3	Citizenship, freedom, security and justice	1 247	198	0	98	98	1 544	1 178	51	19	109	128	1 356
4	The EU as a global partner	6 812	0	0	330	330	7 142	7 353	64	63	300	363	7 780
5	Administration	6 942	36	6	307	313	7 291	6 942	36	647	335	982	7 960
6	Compensations	445	0	0	0	0	445	445	0	0	0	0	445
Total		126 551	(168)	21	4 477	4 498	130 881	115 497	(1 651)	1 174	5 002	6 176	120 021

9. IMPLEMENTATION OF COMMITMENT APPROPRIATIONS BY FINANCIAL PERSPECTIVE

EUR millions

Financial Perspective Heading		Commitment appropriations authorised	Commitments made				Appropriations carried over to 2008				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	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
1	Sustainable growth	56 060	53 702	14	540	54 256	96,78 %	652	131	783	1,40 %	1 020	1	1	1 022	1,82 %
2	Preservation and management of natural resources	58 399	52 563	0	558	53 122	90,96 %	1 990	1 363	3 354	5,74 %	1 924	0	0	1 924	3,29 %
3	Citizenship, freedom, security and justice	1 544	1 368	0	54	1 422	92,10 %	44	2	46	2,98 %	76	0	0	76	4,92 %
4	The EU as a global partner	7 142	6 479	0	158	6 637	92,92 %	171	102	274	3,83 %	232	0	0	232	3,25 %
5	Administration	7 291	6 729	5	183	6 918	94,88 %	124	119	243	3,34 %	129	1	0	130	1,78 %
6	Compensations	445	445	0	0	445	100,0 %	0	0	0	0,00 %	0	0	0	0	0,00 %
Total		130 881	121 285	19	1 494	122 798	93,82 %	2 982	1 717	4 699	3,59 %	3 381	2	1	3 383	2,59 %

10. IMPLEMENTATION OF PAYMENT APPROPRIATIONS BY FINANCIAL PERSPECTIVE

EUR millions

Financial Perspective Heading		Payment approp authorised	Payments made				Appropriations carried over to 2008					Appropriations lapsing					
			From the year's appropriations	From carry-overs	From assigned revenue	Total	%	Automatic carry-overs	Carry-overs by decision	Assigned revenue	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	10=7+8+9	11=10/1	12	13	14	15=12+13+14
1	Sustainable growth	45 462	43 085	90	539	43 713	96,15 %	136	50	1 173	1 359	2,99 %	352	34	4	390	0,86 %
2	Preservation and management of natural resources	57 020	53 796	220	632	54 648	95,84 %	40	7	1 911	1 958	3,43 %	313	101	0	414	0,73 %
3	Citizenship, freedom, security and justice	1 356	995	15	39	1 050	77,41 %	10	84	69	163	11,99 %	139	4	1	144	10,60 %
4	The EU as a global partner	7 780	7 054	37	201	7 292	93,73 %	50	35	99	184	2,37 %	277	26	0	304	3,90 %
5	Administration	7 960	6 077	563	166	6 806	85,50 %	652	119	169	940	11,81 %	130	84	0	214	2,69 %
6	Compensations	445	445	0	0	445	100,00 %	0	0	0	0	0,00 %	0	0	0	0	0,00 %
Total		120 021	111 452	925	1 576	113 953	94,94 %	888	295	3 421	4 603	3,84 %	1 211	249	5	1 465	1,22 %

11. IMPLEMENTATION OF COMMITMENT AND PAYMENT APPROPRIATIONS BY INSTITUTION

Commitment appropriations

EUR millions

Institution	Commitment appropriations authorised	Commitments made					Appropriations carried over to 2008				Appropriations lapsing				
		From the year's approp	From carry-overs	From assigned revenue	Total	%	From assigned revenue	Carry-overs by decision	Total	%	From the year's approp	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
European Parliament	1 454	1 338	4	38	1 380	94,92 %	13	44	57	3,94 %	16	1	0	17	1,14 %
Council	650	508	0	24	532	81,89 %	33	75	108	16,57 %	10	0	0	10	1,54 %
Commission	128 183	118 885	15	1 427	120 327	93,87 %	2 934	1 598	4 532	3,54 %	3 323	1	1	3 325	2,59 %
Court of Justice	275	265	0	1	266	96,84 %	2	0	2	0,59 %	7	0	0	7	2,57 %
Court of Auditors	122	109	0	0	110	90,21 %	0	0	0	0,22 %	12	0	0	12	9,58 %
Economic and Social Committee	116	104	0	3	107	91,64 %	1	0	1	0,54 %	9	0	0	9	7,82 %
Committee of the Regions	68	65	0	1	66	96,22 %	0	0	0	0,13 %	2	0	0	2	3,65 %
Ombudsman	8	7	0	0	7	90,48 %	0	0	0		1	0	0	1	9,52 %
European Data protection Supervisor	5	4	0	0	4	86,14 %	0	0	0		1	0	0	1	13,86 %
Total	130 881	121 285	19	1 494	122 798	93,82 %	2 982	1 717	4 699	3,59 %	3 381	2	1	3 383	2,59 %

Payment appropriations

EUR millions

Institution	Payment appropriations authorised	Payments made					Appropriations carried over to 2008					Appropriations lapsing				
		From the year's approp	From carry-overs	From assigned revenue	Total	%	Automatic carry-overs	Carry-overs by decision	From assigned revenue	Total	%	From the year's approp	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
European Parliament	1 668	1 112	179	38	1 329	79,68 %	225	44	39	308	18,49 %	16	15	0	31	1,83 %
Council	741	453	80	24	558	75,21 %	55	75	33	163	21,98 %	10	11	0	21	2,81 %
Commission	116 975	109 367	630	1 509	111 506	95,33 %	572	176	3 345	4 093	3,50 %	1 154	217	5	1 376	1,18 %
Court of Justice	288	252	12	1	265	91,93 %	13	0	2	15	5,04 %	7	2	0	9	3,03 %
Court of Auditors	129	101	6	0	107	83,11 %	9	0	0	9	7,08 %	12	1	0	13	9,80 %
Economic and Social Committee	128	98	9	3	109	85,66 %	6	0	2	8	6,17 %	9	1	0	10	8,17 %
Committee of the Regions	78	59	8	1	68	86,89 %	6	0	1	6	8,02 %	2	1	0	4	5,09 %
Ombudsman	9	7	0	0	7	84,00 %	0	0	0	1	6,42 %	1	0	0	1	9,58 %
European Data protection Supervisor	6	3	1	0	4	66,73 %	1	0	0	1	15,96 %	1	0	0	1	17,31 %
Total	120 021	111 452	925	1 576	113 953	94,94 %	888	295	3 421	4 603	3,84 %	1 211	249	5	1 465	1,22 %

12. CONSOLIDATED SUMMARY OF COMMITMENTS OUTSTANDING

EUR millions

	Non-Differentiated Appropriations	Differentiated Appropriations	Total
Commitments carried forward from previous year	1 114	130 511	131 655
Decommitments/Revaluations	(61)	(1 535)	(1 596)
Payments	872	45 836	46 709
Cancellations	151	0	151
Commitments outstanding at year-end	60	83 140	83 200
Commitments for the year	50 718	72 080	122 798
Payments	49 825	17 420	67 245
Cancellation of commitments that cannot be carried over	14	0	14
Commitments outstanding at year-end	880	54 661	55 540
Total commitments outstanding at year-end	939	137 801	138 740

13a. Consolidated breakdown of commitments outstanding by the commitment's year of origin

EUR millions

Financial Perspective Heading		< 2001	2001	2002	2003	2004	2005	2006	2007	Total
1	Sustainable growth	646	374	691	1 650	4 384	16 532	38 372	44 870	107 519
2	Preservation & management of natural resources	195	18	51	62	122	1 299	3 939	4 218	9 905
3	Citizenship, freedom, security and justice	10	7	16	31	91	170	251	778	1 354
4	The EU as a global partner	849	664	885	1 258	2 007	3 373	5 201	5 013	19 250
5	Administration	1	0	0	0	0	0	51	660	712
Total		1 701	1 063	1 643	3 001	6 605	21 374	47 813	55 540	138 740

13b. Consolidated breakdown of commitments outstanding by the commitment's year of origin

EUR millions

Policy Area	< 2001	2001	2002	2003	2004	2005	2006	2007	Total
01 Economic and financial affairs	3	0	0	0	28	41	145	127	344
02 Enterprise	5	8	7	22	22	63	119	334	581
03 Competition	0	0	0	0	0	0	0	7	8
04 Employment and social affairs	191	14	57	101	298	3 072	9 405	9 162	22 299
05 Agriculture and rural development	152	0	1	47	78	1 213	3 525	3 475	8 491
06 Energy and transport	60	60	63	113	250	505	651	1 601	3 303
07 Environment	0	9	17	35	67	89	118	244	580
08 Research	35	99	155	577	854	1 414	2 046	3 263	8 443
09 Information society and media	2	1	10	71	165	461	679	1 051	2 440
10 Direct research	1	1	1	4	2	14	24	95	140
11 Fisheries and maritime affairs	43	10	36	32	57	261	608	277	1 324
12 Internal market	0	0	0	0	1	0	2	12	15
13 Regional policy	411	354	627	1 233	3 115	11 357	25 807	29 347	72 250
14 Taxation and customs union	0	0	0	1	0	4	27	47	80
15 Education and culture	21	7	12	21	32	64	123	291	571
16 Communication	0	0	0	0	0	1	11	67	79
17 Health and consumer protection	1	0	3	13	21	27	54	324	444
18 Area of freedom, security and justice	1	2	6	8	20	60	80	453	629
19 External relations	475	266	435	387	870	1 295	1 901	2 728	8 358
20 Trade	0	0	0	0	0	1	4	17	22
21 Development and relations with ACP States	104	80	102	142	282	486	678	845	2 719
22 Enlargement	193	152	111	189	433	915	1 675	936	4 604
23 Humanitarian aid	2	0	0	2	4	22	80	273	383
24 Fight against fraud	0	0	0	0	0	0	3	21	24
25 Commission policy coordination & legal advice	0	0	0	0	0	0	0	18	19
26 Commission's administration	0	0	0	0	0	0	0	127	128
27 Budget	0	0	0	0	0	0	0	9	9
28 Audit	0	0	0	0	0	0	0	1	1
29 Statistics	0	0	1	1	4	9	20	44	81
30 Pensions	0	0	0	0	0	0	0	0	0
31 Language Services	0	0	0	0	0	0	0	27	27
90 Other Institutions	0	0	0	0	0	0	27	316	343
Total	1 701	1 063	1 643	3 001	6 605	21 374	47 813	55 540	138 740

14. AGENCY INCOME: BUDGET FORECASTS, ENTITLEMENTS AND AMOUNTS RECEIVED

EUR millions

Agency	Forecasted income	Entitlements established	Amounts received	Outstanding	Policy Area
European Aviation Safety Agency	72	93	85	7	06
Frontex	42	43	42	1	18
European Centre for the Development of Vocational Training	17	17	17	0	15
European Police College	9	8	8	0	18
European Centre for Disease prevention and control	29	29	29	0	17
European Monitoring Centre for Drugs and Drug Addiction	14	14	14	0	18
European Environment Agency	35	38	38	0	07
Community Fisheries Control Agency	5	2	2	0	11
European Food Safety Authority	52	49	48	0	17
European Union Agency for Fundamental Rights	14	15	15	0	18
European GNSS supervisory authority	210	210	183	27	06
Eurojust	19	19	19	0	18
European Maritime Safety Agency	46	38	38	0	06
Office For Harmonisation in the Internal Market	276	199	199	0	12
European Medicines Agency	163	166	165	1	02
European Network and Information Security Agency	8	8	8	0	09
European Railway Agency	17	17	17	0	06
European Agency for Reconstruction	250	251	251	0	22
European Agency for Safety and Health at Work	14	14	14	0	04
Translation Centre for the Bodies of the EU	46	43	42	1	31
European Training Foundation	23	21	21	0	15
Community Plant Variety Office	10	10	10	0	17
European Foundation for the Improvement of Living and Working Conditions	20	20	20	0	04
Education, Audiovisual & Culture Executive Agency	36	36	36	0	15
Executive Agency for Competitiveness and Innovation	7	7	7	0	06
Executive Agency for the Public Health Programme	4	5	5	0	17
Total	1 440	1 370	1 332	37	

EUR millions

Type of revenue	Forecasted income	Entitlements established	Amounts received	Outstanding
Commission Subsidy	771	749	729	20
Fee income	334	371	363	8
Other income	336	249	240	9
Total	1 440	1 370	1 332	37

15. COMMITMENT AND PAYMENT APPROPRIATIONS BY AGENCY

EUR millions

Agency	Commitment appropriations				Payment appropriations			
	Approp	Commit	Carried	Lapsing	Approp	Commit	Carried	Lapsing
European Aviation Safety Agency	87	70	15	1	106	68	35	4
Frontex	43	39	0	3	54	20	22	11
European Centre for the Development of Vocational Training	18	16	1	1	19	15	3	1
European Police College	10	6	2	2	12	6	4	2
European Centre for Disease prevention and control	29	28	0	1	36	22	12	2
European Monitoring Centre for Drugs and Drug Addiction	15	15	0	0	15	14	1	0
European Environment Agency	41	40	2	0	47	37	9	1
Community Fisheries Control Agency	5	1	0	4	5	0	1	4
European Food Safety Authority	52	48	0	5	60	45	9	6
European Union Agency for Fundamental Rights	15	14	0	0	16	8	8	0
European GNSS supervisory authority	210	135	74	1	184	95	87	2
Eurojust	19	18	1	0	22	16	5	1
European Maritime Safety Agency	48	43	0	5	50	34	2	14
Office For Harmonisation in the Internal Market	276	143	0	132	302	139	29	135
European Medicines Agency	163	159	0	4	193	155	32	5
European Network and Information Security Agency	8	8	0	0	9	7	2	0
European Railway Agency	17	13	0	3	19	13	3	4
European Agency for Reconstruction	714	302	410	2	714	259	454	2
European Agency for Safety and Health at Work	15	14	0	1	18	13	4	1
Translation Centre for the Bodies of the EU	55	43	0	13	58	41	4	13
European Training Foundation	24	21	2	2	27	19	5	2
Community Plant Variety Office	15	12	0	2	14	11	2	2
European Foundation for the Improvement of Living and Working Conditions	21	20	0	1	24	19	5	1
Education, Audiovisual & Culture Executive Agency	36	34	0	2	43	33	7	3
Executive Agency for Competitiveness and Innovation	7	6	0	1	8	5	2	1
Executive Agency for the Public Health Programme	4	4	0	0	5	3	2	1
Total	1 947	1 254	508	185	2 061	1 097	745	219

EUR millions

Type of expenditure	Commitment appropriations				Payment appropriations			
	Approp	Commitments made	Carried to 2008	Amounts lapsing	Approp	Payments made	Carried to 2008	Amounts lapsing
Administrative expenses	185	164	1	20	233	149	59	24
Operational expenses	1 385	737	507	141	1 441	600	675	167
Staff	377	353	0	24	387	348	11	28
Total	1 947	1 254	508	185	2 061	1 097	745	219

16. BUDGET OUTTURN INCLUDING AGENCIES

EUR millions

	European Communities	Agencies	Elimination of subsidies to agencies	Total
Revenue for the financial year	117 563	1 332	(729)	118 166
Payments against current year appropriations	(113 028)	(976)	729	(113 275)
Payment appropriations carried over to year N+1	(3 114)	(745)	—	(3 859)
EFTA appropriations carried over from year N-1	(2)	0	—	(2)
Cancellation of unused payment appropriations carried over from year N-1	246	477	—	723
Exchange differences for the year	(124)	(3)	—	(126)
Budget Outturn	1 542	86	0	1 628

SECTION B: EXPLANATORY NOTES TO THE CONSOLIDATED REPORTS ON IMPLEMENTATION OF THE BUDGET

1. BUDGETARY PRINCIPLES, STRUCTURES AND APPROPRIATIONS

1.1. BUDGETARY PRINCIPLES

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

- **unity and budget accuracy:** all Communities' expenditure and revenue must be incorporated in a single budget document, must be booked on a budget line and expenditure must 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:** the appropriations entered are authorised for a single year and must therefore 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 euro and the accounts are presented in euro,
- **sound financial management:** budget appropriations are used in accordance with the principle of sound financial management, namely in accordance with the principles of economy, efficiency and effectiveness,
- **transparency:** the budget is established and implemented and the accounts presented in compliance with the principle of transparency — the budget and amending budgets are published in the *Official Journal of the European Union*.

1.2. BUDGET STRUCTURE

The budget consists of:

- a) a general statement of revenue;
- b) separate sections divided into 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 1 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.

1.3. STRUCTURE OF THE BUDGETARY ACCOUNTS

Only the Commission budget contains administrative appropriations and operating appropriations. The other Institutions have only administrative appropriations.

The budget distinguishes between two types of appropriation: non-differentiated appropriations and differentiated appropriations. Non-differentiated appropriations are used to finance operations of an annual nature (which comply with the principle of annuality). Differentiated appropriations were introduced in order to reconcile the principle of annuality with the need to manage multi-annual operations.

a) **Non-differentiated appropriations** cover:

- all the administrative sections of the budget (Chapter 1 of the Commission Section and the whole of every other section),
- EAGGF Guarantee 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.

b) **Differentiated appropriations** are intended to cover multi-annual operations and comprise the appropriations in all Chapters except Chapter 1 of the Commission Section (not including EAGGF).

These differentiated appropriations break down into commitment appropriations 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. For the differentiated appropriations, budget commitments not yet made for future years are shown as a contingent liability in the off balance sheet,
- **payment appropriations:** cover expenditure arising from commitments entered into in the current financial year and/or earlier financial years.

1.4. ORIGIN OF APPROPRIATIONS

The main source of appropriations is the Communities' 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.

1.4.1. *Final Budget Appropriations*

Initial budget appropriations adopted

Transfers

Appropriations may be transferred between lines in accordance with the rules laid down in Articles 22 to 24 of the Financial Regulation (Regulation (EC, Euratom) No 1605/2002).

Amending budgets

The budget adopted may be amended or increased by an amending budget. The rules are set out in Articles 37 and 38 of the Financial Regulation.

1.4.2. *Appropriations carried over from previous year or made available again*

Appropriations automatically carried over

These are non-differentiated payment appropriations which may be carried over automatically for one financial year only (no limits for the ECSC in liquidation) in accordance with Article 9(4) of the Financial Regulation.

Appropriations carried over by decision of the Institutions

An Institution may decide to carry over appropriations from the previous budget 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)).

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).

1.4.3. *Assigned revenue*

Refunds

These appropriations arise from the refund of amounts paid in error, proceeds from the supply of goods/services to other Communities' bodies, insurance payments received and revenue from lettings and publication sales — the amounts are assigned revenue on the budget line which incurred the initial expenditure (Financial Regulation Article 10 and Article 18(1)(e), (f), (g), (h), (i), and (j)), 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 Communities' budget. The budget lines concerned and the amounts projected are published in Annex III of the Communities' 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

As with the EFTA appropriations other countries have concluded agreements with the European Communities involving a financial contribution to Communities' 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 Communities' 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).

Appropriations made available again as a result of repayment of payments on account

These are Communities' funds which have been repaid by the beneficiaries. Repayments of payments on account are entered as assigned revenue (Articles 10 and 18(2) of the Financial Regulation) 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).

1.5. 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.

1.6 BUDGET IMPLEMENTATION

Article 48(1) of the Financial Regulation 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.

1.6.1. *Execution of revenue*

The budget takes over the revenue forecasts subject to any changes resulting from the adoption of amending budgets which adjust the forecasts in the initial budget in line with the reductions or increases in revenue established during implementation. The budget revenue covers appropriations for payment.

The revenue outturn comprises established entitlements, revenue actually collected against these established entitlements and the balance to be recovered.

The actual revenue for a financial year corresponds to the revenue collected against entitlements established in the course of the year and amounts collected against entitlements still to be recovered from previous years.

1.6.2. *Execution of expenditure*

As with revenue, expenditure is forecast in the initial budget. The execution of expenditure shows how commitments appropriations and payments appropriations are changed, used, carried over and lapse during the year.

Utilisation of appropriations:

Appropriations for commitments:

The appropriations authorised are available during the financial year for entering into commitments.

Appropriations for payments:

The appropriations authorised are available during the financial year for making payments.

Carryovers to the following year:

Appropriations for commitments:

Some types of appropriation which are not committed may be carried over automatically, as is the case with assigned revenue (Article 10 of the Financial Regulation).

Carryovers may be authorised by the Institutions:

- if most of the preparatory stages of the commitment procedure have been completed by 31 December (Article 9(2)(a) of the Financial Regulation); or
- if the legal base is adopted in the final quarter of the financial year (Article 9(2)(b) of the Financial Regulation).

The budgetary authority must be notified of this decision (Article 9(5) of the Financial Regulation).

Appropriations for payments:

As is the case for commitment appropriations, unused payment appropriations from assigned revenue are carried over automatically.

- non-differentiated appropriations: carryover is generally automatic if it is to cover outstanding commitments (Article 9(4) of the Financial Regulation);
- differentiated appropriations: unused payment appropriations usually lapse; however, they may be carried over by Commission decision if the payment appropriations for the following financial year will not cover existing commitments or commitments linked to commitment appropriations which have themselves been carried over (Article 9(3) of the Financial Regulation).

Cancellation of appropriations:

Any appropriations for commitment and for payment not used and not carried over are cancelled at year-end (Article 9(1) of the Financial Regulation).

1.7. BUDGET OUTTURN FOR THE YEAR

1.7.1. *Revenue*

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.

1.7.2. *Expenditure*

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 2006 and 15 October 2007, provided that the accounting officer was notified of the commitment and authorisation by 31 January 2008. EAGF expenditure may be subject to a conformity decision following controls in the Member States.

1.7.3. *Budget Outturn for the year*

The budget outturn comprises two elements: the result of the European Communities and the result of the participation of the EFTA countries belonging to the EEA. In accordance with Article 15 of Regulation (EC, Euratom) 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 ⁽¹⁾.

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.

1.8. OUTSTANDING COMMITMENTS

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 BUDGETARY REVENUE AND EXPENDITURE AND COMMENTARY ON THE 2007 OUTTURN

2.1. LEGAL BASIS AND THE FINANCIAL REGULATION

The budgetary accounts are kept in accordance with Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 (OJ L 248, 16.9.2002, p. 1, last amended by Regulation (EC, Euratom) No 1995/2006 of 13 December 2006 (OJ L 390, 30.12.2006)) on the Financial Regulation applicable to the general budget of the European Communities and Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of this Financial Regulation, last modified on 28 March 2007. The general budget, the main instrument of the Communities' financial policy, is the instrument which provides for and authorises the Communities' revenue and expenditure every year.

The budgetary procedure is set out in Article 272 of the EC Treaty which stipulates the sequence of stages and the time-limits which must be respected by the two arms of the budgetary authority: the Council and Parliament. Every year, the Commission estimates all the European Institutions' revenue and expenditure for the coming 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.

2.2. BUDGETARY CONSOLIDATION

The consolidated reports on the implementation of the general budget of the European Communities include, as in previous years, the budget implementation of all Institutions since within the Communities' budget a separate budget for each Institution is established.

Agencies do not have a separate budget inside the Communities' 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. Those reports are:

- A table on budgetary income, indicating the amount received from the Commission budget,

⁽¹⁾ In the case of the EFTA-EEA countries, the volume of appropriations carried over from year N to year N+1 is known after the accounts have been closed. As a result the calculation of the balance includes carryovers of appropriations from year N-1 to year N.

- Two tables on budgetary expenditure (commitments, payments) giving the detail by agency and splitting budget and additional appropriations,
- At the bottom of each table a sub-total has been inserted that gives information on the Agencies total financial impact by type of expenditure/income,
- A budget outturn table, adding the Agencies' budget result to the Communities' result (by eliminating subsidies paid from Communities' expenditure and subsidies received as Agencies revenue).

2.3. REVENUE

The revenue of the general budget of the European Communities can be divided into two main categories: own resources and other revenue. This is laid down in Article 269 of the Treaty establishing the European Communities, 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 agricultural duties, sugar levies and customs duties. A correction mechanism in respect of budgetary imbalances is also part of the own resources system.

2.3.1. *Traditional own resources*

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

- In the ordinary account provided for in Article 6(3)(a) of Regulation (EC, Euratom) No 1150/2000: all amounts recovered or guaranteed.
- In the separate account provided for in Article 6(3)(b) of Regulation (EC, Euratom) 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,
- balance to be recovered at the end of the quarter in question.

The information sent in by the Member States does not allow the amounts recovered during the year to be assigned to the year in which the entitlements arose. Hence the column for amounts received against carry-overs in the table 'Summary of the implementation of general budget revenue, 2007' includes amounts received during the year and the amount of entitlements cancelled and replaced by the new amount of entitlements declared by the Member States when making their new statement. A value reduction is applied to own resources entitlements.

When the traditional own resources from the separate account are recovered, they must be entered in the Commission's account with the treasury or the body appointed 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. Member States retain, by way of collection costs, 25 % of traditional own resources.

2.3.2. *VAT resources and GNI resources*

VAT 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 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 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 final 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 final 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 1 December of the year following the budget year in question. Corrections may still be made to the final VAT and GNI bases in subsequent years. 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. It should be noted that corrections made in 2007 relating to the period 1995-2006 for GNI resources were EUR 2 857 million. Similarly, corrections relating to the period 1996-2006 for VAT Resources were EUR 973 million.

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 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 Communities.

2.4. EXPENDITURE

2.4.1. Financial Framework 2007-2013

	EUR millions						
	2007	2008	2009	2010	2011	2012	2013
1. Sustainable Growth	53 979	57 653	59 700	61 782	63 638	66 628	69 621
2. Preservation & management of natural resources	55 143	59 193	59 639	60 113	60 338	60 810	61 289
3. Citizenship, freedom, security & justice	1 273	1 362	1 523	1 693	1 889	2 105	2 376
4. EU as a global partner	6 578	7 002	7 440	7 893	8 430	8 997	9 595
5. Administration	7 039	7 380	7 699	8 008	8 334	8 670	9 095
6. Compensations	445	207	210	0	0	0	0
Commitment appropriations	124 457	132 797	136 211	139 489	142 629	147 210	151 976
Total payment appropriations	122 190	129 681	123 858	133 505	133 452	140 200	142 408

This section describes the main categories of Communities' expenditure, classified by heading of the financial perspective 2007-2013. The 2007 financial year was the first covered by the financial perspective 2007-2013. The overall ceiling on commitments appropriations for 2007 comes to EUR 124 457 million, equivalent to 1,04 % of GNI. The corresponding ceiling on the appropriations for payments comes to EUR 122 190 million, i.e. 1,02 % of GNI. The above table shows the financial perspective at current prices

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 Union 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 partner

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

Heading 5 — Administration

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

Heading 6 — Compensations

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

2.4.2. Policy areas

As part of its use of Activity Based Management (ABM) the Commission implements Activity Based Budgeting (ABB) in its planning and management processes. ABB involves a budget structure in which 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. In total 32 policy areas have been identified, each policy area corresponding, in general, to a DG, and encompassing an average of about 6 or 7 individual Activities. These policy areas are predominantly operational, since their core activities aim at benefiting a third-party beneficiary, each within their respective domains of activity. The operational budget is completed with the necessary administrative expenditure for each policy area.

2.5. COMMENTS ON 2007 BUDGET IMPLEMENTATION

2.5.1. 2007 budget outturn

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 2007 budget implementation statements and those carried over to the following year in the 2006 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 EFTA-EEA part of the payment appropriations carried over by the Communities from 2007 to 2008 could not be included in the 2007 balance as this is subject to the approval by EFTA of the amounts in question, and this will not be given until mid-2008.

The payment appropriations carried over include: automatic carryovers and carryovers by decision. It also includes the increase of appropriations on earmarked revenue as appropriations not used at the end of the year shall be carried over automatically. The cancellation of unused payment appropriations carried over from the previous year now shows only the cancellations on appropriations carried over automatically and by decision.

2.5.2. *Summary of main points concerning implementation of the 2007 budget*

In accordance with the principle of equilibrium, budget revenue and expenditure (payment appropriations) must be in balance. The amount of payment appropriations in the initial adopted budget, signed by the President of the European Parliament on 15 December 2006, was fixed at EUR 115 497 million, to be financed by own resources amounting to EUR 114 288 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.

During 2007 seven amending budgets were adopted. Their impact on the revenue side of the 2007 budget resulted in a total final revenue of EUR 113 846 million. This was financed by own resources totalling EUR 106 203 million (thus EUR 8 085 million less than initially forecasted) and the remainder by other revenue. The reduced need for own resources was due to various factors such as the inclusion of EUR 2 109 million relating to the surplus of the previous year plus the surplus from the Guarantee Fund for external measures. Finally, the combined effect of a decrease in payment appropriations and an increase in the forecast of revenue in the Amending Budget No 7/2007 resulted in a supplementary reduction of the GNI resources of EUR 5 976 million.

As far as the own resources are concerned it should be noted that the collection of traditional own resources reached 100 % of forecast amounts. This is explained by the fact that the budgetary estimates were modified at the time that Amending Budget No 5/2007 was established (they were decreased by EUR 775 million). This adjustment was based mainly on the new macroeconomic forecasts of spring 2007, being less optimistic than the previous ones.

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 Member States, not part of the EMU, actually made their payments.

On the expenditure side, the implementation of payment appropriations in the 2007 budget, the first year of the new Financial Framework, amounted to EUR 109 billion (98 %). After carryover of approximately EUR 750 million in payment appropriations, mostly relating to (non-differentiated) administrative expenditure, the implementation rate of payment appropriations in the 2007 budget reached 99 %, similar to that of commitment appropriations. This compares favourably to previous years.

The implementation of commitment appropriations in the 2007 budget amounted to EUR 119 billion (96 %). The commitment appropriations remaining unused at year-end were primarily related to the delayed adoption of some operational programmes for Cohesion and Natural Resources. These appropriations will be either carried forward to 2008, or reprogrammed to the later years of the Financial Framework. After carry forward and requested reprogramming (amounting in total to approximately EUR 3,6 billion), the implementation rate of commitment appropriations in the 2007 budget reached 99 %. This compares favourably to previous years, and especially to 2000, the first year of the previous Financial Framework, when carry forward and reprogramming had to be used on a large scale.

2.5.3. *Reconciliation of the 2007 budget outturn with the 2007 economic outturn*

The economic outturn for the year presented on Part I, Section B 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.

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 Community funds but not yet reported to the EC.

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 (EC, Euratom) 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 outturn of the **agencies and the CECA** that are included in the consolidated economic outturn need to be excluded since their budgetary execution is not part of the consolidated budget outturn.

RECONCILIATION: ECONOMIC OUTTURN — BUDGET OUTTURN

	<i>EUR millions</i>
	2007
ECONOMIC OUTTURN FOR THE YEAR	7 462
Revenues	
Entitlements established in current year but not yet collected	(5 036)
Entitlements established in previous years and collected in current year	2 543
Accrued revenue (net)	(1 068)
Expenditure	
Accrued expenses (net)	8 814
Expenses prior year paid in current year	(3 635)
Net-effect pre-financing	(6 810)
Payment appropriations carried over to next year	(3 116)
Payments made from carry-overs & cancellation unused payment appropriations	1 171
Movement in provisions	1 395
Other	(33)
Economic outturn result agencies + CECA	(145)
BUDGET OUTTURN FOR THE YEAR	1 542

THE COURT'S STATEMENT OF ASSURANCE PROVIDED TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

(2008/C 287/02)

- I. Pursuant to the provisions of Article 248 of the Treaty the Court has audited
- (a) the 'Annual Accounts of the European Communities' ⁽¹⁾ which comprise the 'Consolidated financial statements' ⁽²⁾ and the 'Consolidated reports on implementation of the budget' ⁽³⁾ for the financial year ended 31 December 2007; and
 - (b) the legality and regularity of the transactions underlying those accounts.

Management's responsibility

II. In accordance with Articles 268 to 280 of the Treaty and the Financial Regulation, management ⁽⁴⁾ is responsible for the preparation and fair presentation of the 'Annual Accounts of the European Communities' and the legality and regularity of the transactions underlying them:

- (a) Management's responsibility in respect of the 'Annual Accounts of the European Communities' includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies, on the basis of the accounting rules adopted by the Commission's accounting officer ⁽⁵⁾; and making accounting estimates that are reasonable in the circumstances. According to Article 129 of the Financial Regulation, the Commission approves the 'Annual Accounts of the European Communities' after the Commission's accounting officer has consolidated them on the basis of the information presented by the other institutions ⁽⁶⁾ and bodies ⁽⁷⁾ and established a note, accompanying the consolidated accounts, declaring, inter alia, that he has reasonable assurance that they present a true and fair view of the financial position of the European Communities in all material aspects.

⁽¹⁾ The 'Annual Accounts of the European Communities' are presented in volume I of the Annual Accounts of the European Communities financial year 2007.

⁽²⁾ The 'Consolidated financial statements' comprise the balance sheet, the economic outturn account (including segment reporting), the cash flow table, the statement of changes in net assets and a summary of significant accounting policies and other explanatory notes.

⁽³⁾ The 'Consolidated reports on implementation of the budget' comprise the consolidated reports on implementation of the budget and a summary of budgetary principles and other explanatory notes.

⁽⁴⁾ At the level of the European institutions and bodies management includes the members of the institutions, Directors of the Agencies, Authorising Officers by delegation and sub-delegation, Accounting Officers and the leading staff of financial, audit or control units. At the level of Member and Beneficiary States, management includes Authorising Officers, Accounting Officers and the leading staff of paying authorities, certifying bodies and implementing agencies.

⁽⁵⁾ The accounting rules adopted by the Commission's accounting officer are derived from International Public Sector Accounting Standards (IPSAS) issued by the International Federation of Accountants or, in their absence, International Accounting Standards (IAS)/International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. In accordance with the Financial Regulation, the 'Consolidated financial statements' for the 2007 financial year are prepared (as they have been since the 2005 financial year) on the basis of these accounting rules adopted by the Commission's accounting officer, which adapt accruals based accounting principles to the specific environment of the Communities, while the 'Consolidated reports on implementation of the budget' continue to be primarily based on cash movements.

⁽⁶⁾ Before the adoption of the Annual Accounts by the institutions, the different accounting officers sign them off, thereby certifying that they have a reasonable assurance that the accounts present a true and fair view of the financial situation of the institution (Article 61 of the Financial Regulation).

⁽⁷⁾ The Annual Accounts are drawn up by the respective directors and sent to the Commission's accounting officer together with the opinion of the management board concerned. In addition, the respective accounting officers sign them off, thereby certifying that they have a reasonable assurance that the accounts present a true and fair view of the financial situation of the bodies (Article 61 of the Financial Regulation).

- (b) The way in which management exercises its responsibility for legality and regularity of underlying transactions depends on the method of implementation of the budget. In the case of direct centralised management, implementation tasks are performed by the Commission's departments. Under shared management, implementation tasks are delegated to Member States, under decentralised management to third countries and under indirect centralised management to other bodies. In the case of joint management, implementation tasks are shared between the Commission and international organisations (Article 53 to 57 of the Financial Regulation). Implementation tasks have to comply with the principle of sound financial management, requiring designing, implementing and maintaining effective and efficient internal control including adequate supervision and appropriate measures to prevent irregularities and fraud and, if necessary, legal proceedings to recover funds wrongly paid or used. Regardless of the method of implementation applied, the Commission bears the ultimate responsibility for the legality and regularity of the transactions underlying the accounts of the European Communities (Article 274 of the Treaty).

Auditor's responsibility

III. The Court's responsibility is to provide, on the basis of its audit, the European Parliament and the Council with a statement of assurance as to the reliability of the accounts and the legality and regularity of the underlying transactions. The Court conducted its audit in accordance with the IFAC International Standards on Auditing and Codes of Ethics and the INTOSAI International Standards of Supreme Audit Institutions, in so far as these are applicable in the European Community context. These standards require that the Court plans and performs the audit to obtain reasonable assurance whether the 'Annual Accounts of the European Communities' are free from material misstatement and the transactions underlying them are legal and regular.

IV. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts and the legality and the regularity of the transactions underlying them. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated accounts and of material non-compliance of the underlying transactions with the requirements of the legal framework of the European Communities, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the consolidated accounts, and supervisory and control systems implemented to ensure legality and regularity of underlying transactions, in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated accounts and the annual activity reports.

V. In the case of Revenue, the scope of the Court's audit work was limited. Firstly, VAT and GNI own resources are based on macroeconomic statistics for which the underlying data cannot be audited directly by the Court, and secondly, the audits of traditional own resources cannot cover imports that have not been subject to custom supervision.

VI. The Court considers that the audit evidence obtained is sufficient and appropriate to provide a basis for its statement of assurance.

Opinion on the reliability of the accounts

VII. In the Court's opinion, the 'Annual Accounts of the European Communities' present fairly, in all material respects, the financial position of the Communities as of 31 December 2007, and the results of their operations and cash flows for the year then ended, in accordance with the provisions of the Financial Regulation and the accounting rules adopted by the Commission's accounting officer.

VIII. Without calling into question the opinion expressed in paragraph VII, the Court notes that weaknesses in the accounting systems, which are partly due to the complex legal and financial framework, still put at risk the quality of financial information of certain Directorates-General of the Commission (in particular for pre-financing, the related cut-off and for invoices/cost claims) and decentralised bodies whose accounts are subject to consolidation (in particular for fixed assets of the European GNSS ⁽¹⁾ Supervisory Authority (GSA)). These weaknesses led to a number of corrections after the presentation of the provisional accounts.

Opinion on the legality and regularity of the transactions underlying the accounts

IX. In the Court's opinion, revenue, commitments and payments for 'Administrative and other expenditure' and 'Economic and financial affairs' are free from material error. In these areas the supervisory and control systems are implemented in a manner which ensures adequate management of the risk of illegality and irregularity.

X. In the Court's opinion, in the other areas of expenditure payments are still materially affected by errors, although to different levels. The Commission and the Member States and other beneficiary states need to make further efforts to implement adequate supervisory and control systems, so as to improve the management of the risk of illegality and irregularity. These areas are: 'Agriculture and natural resources', 'Cohesion', 'Research, energy and transport', 'External aid, Development and enlargement' and 'Education and citizenship'.

- (a) In 'Agriculture and natural resources', the Court found that the transactions underlying the expenditure declared for this policy group, taken as a whole, are affected by a material level of error of legality and/or regularity. On the basis of its audit work, the Court concludes that supervisory and control systems are only partially effective in providing assurance as to compliance with EU rules. However, the Court concludes that the Integrated Administration and Control System (IACS) continues to be effective in limiting the risk of irregular expenditure where properly implemented and if accurate and reliable data are entered into the system.
- (b) In 'Cohesion', the Court found that the reimbursement of expenditure to Cohesion policies projects is affected by a material level of error of legality and/or regularity. The Court concludes on the basis of its audit work that the supervisory system of the Commission and the control systems of the Member States are generally only partially effective in preventing overstated or ineligible expenditure.
- (c) In 'Research, energy and transport', the Court found that payments for the policy group are affected by a material level of error of legality and/or regularity. The Court concludes on the basis of its audit work that, despite some improvements, the Commission's supervisory and control systems are only partially effective in mitigating the risk of reimbursement of overstated or ineligible costs.
- (d) In 'External aid, development and enlargement', the Court found that transactions underlying the expenditure in the policy group are affected by a material level of error of legality and/or regularity, mostly at the level of implementing organisations. The Court concludes on the basis of its audit work that, despite the improvements at the level of the Commission, the supervisory and control systems are only partially effective in providing assurance that expenditure is eligible and supported by adequate evidence.
- (e) In 'Education and citizenship', the Court found that payments for the policy group are affected by a material level of error of legality and/or regularity. The Court concludes on the basis of its audit work that the supervisory and control systems are only partially effective in providing assurance that expenditure is eligible and supported by adequate evidence.

⁽¹⁾ GNSS: Global Navigation Satellite Systems.

XI. The Court emphasises that:

- (a) Rural development accounts for a disproportionately large part of the overall error rate estimated for the area of 'Agriculture and natural resources'; for EAGF expenditure the Court estimates the value of the error rate to be slightly below materiality whereas for EAFRD expenditure it is estimated to be significantly above.
- (b) Complicated or unclear legal requirements (such as eligibility rules) have a considerable impact on the legality and/or regularity of transactions underlying the expenditure in the areas of 'Agriculture and natural resources', 'Cohesion', 'Research, energy and transport' as well as 'Education and citizenship'.

XII. The Court has identified further progress in the Commission's supervisory and control systems, in particular concerning, on the one hand, the impact of the reservations on the assurance given in the declarations by the Directors-General; and, on the other hand, the greater consistency of these declarations with the Court's findings. However, the Court notes that the Commission is not yet able to demonstrate that its actions to improve supervisory and control systems have been effective in mitigating the risk of error in large areas of the budget.

24 and 25 September 2008.

Vítor Manuel DA SILVA CALDEIRA

President

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NOTE TO THE READER

The institutions have decided no longer to quote in their texts the last amendment to cited acts.

Unless otherwise indicated, references to acts in the texts published here are to the version of those acts currently in force.