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CONSOLIDATED ANNUAL ACCOUNTS OF THE EUROPEAN UNION 2016

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FOREWORD

It is my pleasure to present the 2016 annual accounts of the European Union. These accounts provide a complete overview of the finances of the EU for 2016 – this includes information on the financial position of the Union, how the budget has been implemented for the year, its contingent liabilities, as well as the financial commitments and obligations that the Union has undertaken. Reflecting the multiannual nature of the Union's activities, the accounts include explanations of the key financial figures and their evolution.

2016 was a year full of achievements but also challenges for the European Union. The EU budget focused on **strengthening economy, boosting jobs and growth and investing in research**. The European economy and labour market conditions improved and unemployment in the EU went down.

Less than a year and a half after its launch, the **European Fund for Strategic Investments (EFSI)**, the centrepiece of the Investment Plan for Europe, has already delivered tangible results. Active in all 28 Member States this Fund mobilized more than EUR 190 billion of investments by mid May 2017, which is more than half of the target of EUR 315 billion set for mid-2018, contributing to the economic recovery. At the end of 2016, the guarantee fund which covers the EFSI operations undertaken by the EIB group had been provisioned by funds from the EU budget and totalled EUR 1 billion in these annual accounts.

Boosting jobs, growth and investment remains the overarching priority for the EU budget. The Commission continues its efforts to strengthen EU's economic recovery and to invest in its youth and jobseekers, as well as in start-ups and small and medium sized enterprises (SMEs). A good example is the Loan Guarantee Facility under the '**COSME**' programme ('Competitiveness of enterprises and small and medium-sized enterprises') which continued to be very successful in 2016, also thanks to the additional risk-bearing capacity from EFSI. At the end of 2016, more than 143 000 small and medium sized enterprises in 21 countries have already received financing of more than EUR 5.5 billion with the support of the COSME programme.

The research and innovation programme **Horizon 2020** is key for building an innovation and knowledge-based economy and society within the EU. It succeeded in reaching 49 000 participations and grant agreements were signed for a total amount of EUR 20.5 billion. Over 21 % of all participations were SMEs. The increase of the Horizon 2020 activities is evidenced by the almost 40 % increase in the Horizon 2020 guarantee instruments included in these accounts when compared to last year.

Following the declaration of Initial Services in 2016, the **Galileo-programme**, setting up Europe's own global satellite navigation system, transitioned from the deployment to the exploitation phase in 2016. The value of the operational Galileo satellites and ground infrastructure included in these accounts amounted to EUR 2 billion at the end of 2016. The implementation of projects under Horizon 2020 encouraged the development of new Galileo applications. These projects have already led to 13 innovations being brought to the market, 5 patents, 34 advanced prototypes, two products on the market and 223 published scientific papers. The Global Navigation Satellite System market is expected to grow from 5.8 billion devices in use in 2017 to an estimated 8 billion by 2020.

The **Connecting Europe Facility (CEF)** for Transport with its objective to facilitate infrastructure projects' access to financing in the sectors of transport, telecommunications and energy contributed to the 64 km long Brenner Base Rail tunnel which will be the longest high capacity rail tunnel in the world. The CEF debt instrument included in the accounts offers risk-sharing for debt financing in the form of senior and subordinated debt or guarantee as well as support for project bonds.

In 2016 the European response to new challenges emerging from the shifting geopolitical situation continued. The EU budget provided support to Member States in **properly managing migration flows**, addressing the root causes of migration and safeguarding the Schengen area. The implementation of Member States' national programmes under the Asylum, Migration and Integration Fund and the Internal Security Fund gathered pace in 2016.

The Commission also established the **Facility for refugees in Turkey** which became operational on 17 February 2016 and for which the accounts include EUR 630 million of Member States contributions cashed in 2016. This enabled the Commission, among other initiatives, to launch an innovative programme called the Emergency Social Safety Net, aiming at assisting up to one million of the most vulnerable refugees in Turkey with regular cash allocations. This is an example of an increasing use of assistance from the EU budget as an efficient and effective way of getting aid to people in emergency situations.

In June 2016, the Commission proposed a new Partnership Framework with third countries under the European Agenda on Migration. The Framework is a European approach to deepening cooperation with countries of origin, transit and destination of migratory flows. It is supported by most of the 'Global Europe' programmes of the budget, and also by the relevant EU Trust Funds, in particular the **Trust Fund** for Syria, which is included in the annual accounts. Adequate funding for the Partnership Framework is essential to be able to intensify cooperation with the priority partner countries and continue the efforts on the Central Mediterranean migration route.

Other global challenges, such as addressing climate change, continued to be a priority of the EU budget. In 2016 the total contribution to climate mainstreaming was estimated at 20.9 %, in line with the target set for the current MFF period 2014-2020.

In budgetary terms, the **European Structural and Investment Funds** and the **Common Agricultural Policy** remain the main investment instruments of the EU. The EU budget spent EUR 57.4 billion in 2016 on farming and rural development and, despite earlier delays in the start-up and implementation of the current MFF, EUR 37.8 billion was spent on the Economic, Social and Territorial Cohesion.

The Commission has launched a debate on the future and priorities of an EU with 27 Member States. We will continue working together to build a more prosperous, competitive and secure future.

Günther H. Oettinger

Commissioner for Budget and Human Resources, European Commission

EUROPEAN UNION POLITICAL FRAMEWORK, GOVERNANCE AND ACCOUNTABILITY

The European Union (EU) is a union on which its 28[1] European countries (the Member States) confer competences to attain objectives they have in common. The Union is founded on the values of respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. These values are common to the Member States in a society in which pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men prevail.

1. POLITICAL FRAMEWORK

EU Treaties

The overarching objectives and principles that guide the Union and the European Institutions are defined in the Treaties. The Union and the EU institutions may only act within the limits of the competences conferred by the Treaties so as to attain the objectives set out therein and must do this in accordance with the principles[2] of subsidiarity and proportionality.
To attain its objectives and carry out its policies, the Union provides itself with the necessary financial means. The Commission is responsible for implementing the objectives in cooperation with the Member States and in accordance with the principle of sound financial management.

The EU pursues the objectives established in the Treaty with a number of tools, one of which is the EU budget. Others are, for example, proposing legislation or pursuing policy strategies.

Europe 2020 strategy

The Europe 2020 strategy agreed in 2010 by the Heads of State or Government of EU Member States defines a 10 year jobs and growth strategy at EU level for the EU[3]. The strategy put forward three mutually reinforcing priorities of smart, sustainable and inclusive growth with five EU headline targets. Its success depends on all the actors of the Union, acting collectively.
The EU budget is only one of the EU levers contributing to the delivery of the Europe 2020 objectives. A wide range of actions at national, EU and international levels are being mobilised to deliver concrete results on the Europe 2020 strategy.

Commission political priorities

The Commission's political priorities are defined in the political guidelines set by the President of the Commission, providing a roadmap for the Commission's action that is fully consistent and compatible with Europe 2020 as Europe's long-term growth strategy.

[1] On 29 March 2017, the United Kingdom (UK) gave formal notification of its intention to leave the EU thus triggering the withdrawal process under Article 50 of the Treaty on the European Union.

[2] Under the principle of subsidiarity, the Union shall act only if and in so far as the objectives of the proposed action cannot be sufficiently achieved by the Member States but can rather, by reason of the scale or effects, be better achieved at Union level. Under the principle of proportionality, the content and form of Union action shall not exceed what is necessary to achieve the objectives of the Treaties. See Article 5 of the TFEU.

[3] See Communication from the Commission, Europe 2020, *A strategy for smart, sustainable and inclusive growth,* COM(2010)2020, 3 March 2010.

10 PRIORITIES

- A new boost for jobs, growth and investment.
- A connected digital single market.
- A resilient Energy Union with a forward-looking climate change policy.
- A deeper and fairer internal market with a strengthened industrial base.
- A deeper and fairer Economic and Monetary Union (EMU).
- A reasonable and balanced free trade agreement with the United States.
- An area of Justice and Fundamental Rights based on mutual trust.
- Towards a new policy on migration.
- Europe as a stronger global actor.
- A Union of democratic change.

The policies supported by the EU budget are implemented in accordance with the multiannual financial framework (MFF).

MFF

The MFF translates the EU's political priorities into financial terms for at least 5 years. It sets maximum annual amounts (ceilings) for EU expenditure as a whole and for the main categories of expenditure (headings). The sum of the ceilings of all headings gives the total ceiling of commitment appropriations.

The MFF supports EU actions to deliver on the objectives of EU policies over a period long enough to be effective and to provide a coherent long-term vision for its beneficiaries and co-financing national authorities. The 2014-2020 MFF and its constituent programmes, which set maximum budget commitments for the period at EUR 960 billion and payments at EUR 908 billion (at 2011 prices), have been designed with a strong European logic and focus on added value to help deliver on the commonly agreed goals of the Europe 2020 jobs and growth strategy.

The MFF is agreed by unanimity indicating the agreement of all Member States to the objectives and spending. The EU budget finances a wide range of policies and programmes throughout the EU. In accordance with the priorities set by the European Parliament and the Council in the MFF, the Commission implements spending programmes, activities and projects. Under the main spending area of the European Structural and Investment Funds (ESIF), the EU legally commits to implementing these actions by adopting the operational programmes.

Interinstitutional agreement

The MFF is complemented with the interinstitutional agreement on budgetary discipline on cooperation in budgetary matters and on sound financial management[4] which is a political agreement between the European Parliament, the Council and the Commission. The purpose of this agreement, adopted in 2013 in accordance with Article 295 of the TFEU, is to implement budgetary discipline and improve the functioning of the annual budgetary procedure and cooperation between the institutions on budgetary matters as well as to ensure sound financial management.

[4] Interinstitutional Agreement of 2 December 2013 between the European Parliament, the Council and the Commission on budgetary discipline, on cooperation in budgetary matters and on sound financial management (2013/C 373/01).

Annual budget

The annual budget is prepared by the Commission and usually agreed by mid-December by the European Parliament and the Council, based on the procedure of Art. 314 TFEU. According to the principle of budget equilibrium, total revenue must equal total expenditure (payment appropriations) for a given financial year.

The main source of funding of the EU are own resources revenues which are complemented by other revenues. There are three types of own resources: traditional own resources (such as custom duties and sugar levies), the own resource based on value added tax (VAT) and the own resource based on gross national income (GNI). Other revenues arising from the activities of the EU (e.g. competition fines) normally represent less than 10 % 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 1.23 % of the sum of gross national income (GNI) of the Member States.

The EU's operational expenditure covers the various headings of the MFF and takes different forms, depending on how the money is paid out and managed. The EU budget is implemented in three management modes:

Shared management: under this method of budget implementation tasks are delegated to Member States. About 80 % of the expenditure falls under this management mode covering such areas as agricultural spending and structural actions.

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

Indirect management: this refers to cases where the Commission confers tasks of implementation of the budget to bodies of EU law or national law, such as the EU agencies or international organisations.

Financial Regulation

The Financial Regulation (FR) applicable to the general budget is a central act in the regulatory architecture of the EU´s finances defining EU financial rules. It provides the general rules governing the EU budget.

2. GOVERNANCE AND ACCOUNTABILITY IN THE EU

2.1. INSTITUTIONAL STRUCTURE

The organisational governance of the EU consists of institutions, agencies and other EU bodies which are listed in note **9** of the notes to the consolidated financial statements. The main institutions, in the sense of being responsible for drafting policies and taking decisions, are the European Parliament, the European Council, the Council and the Commission.

The Commission is the executive of the EU and promotes its general interest. It does this by proposing legislation; implementing EU policies; overseeing the correct implementation of the Treaties and European law; managing the EU budget; and by representing the Union outside Europe.

The Commission's internal functioning is based on a number of key principles underpinning good governance: clear roles and responsibilities, a strong commitment to performance management and compliance with the legal framework, clear accountability mechanisms, a high quality and inclusive regulatory framework, openness and transparency, and high standards of ethical behaviour.

2.2. THE COMMISSION'S GOVERNANCE STRUCTURE

The European Commission has a unique governance system, with a clear distinction between political and administrative oversight structures and well-defined lines of responsibility and financial accountability. The system is based on the Treaties and the structure has evolved to adapt to a changing environment and to remain in line with best practice as set out in relevant international standards[5].

- The College of Commissioners assumes collegial political responsibility for the work of the Commission. Operational implementation of the budget is delegated to Directors-General and Heads of Service who lead the administrative structure of the Commission[6].

- The College delegates financial management tasks to the Directors-General or Heads of Service who thereby become Authorising Officers by Delegation (AOD). These tasks can further be delegated to Directors, Heads of Unit and others, who thereby become 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.

In the Commission, the roles and responsibilities in financial management are thus clearly defined and applied. This is a decentralised approach with clear responsibilities with the aim of creating an administrative culture that encourages civil servants to take responsibility for activities over which they have control and to give them control over the activities for which they are responsible.

Within the context of the Commission's Strategic Planning and Programming cycle, each authorising officer is required to prepare an "annual activity report" (AAR) on the activities and policy achievements and results of the year where he/she declares that resources have been used based on the principles of sound financial management and that he has set in place control procedures which provide the necessary guarantee concerning the legality and regularity of the underlying transactions. At Commission's level these results are adopted and published in an aggregated form in the Annual Management and Performance Report for the budget and sent to the European Parliament and the Council and is the main instrument through which the College of Commissioners takes political responsibility for the management of the budget.

The Accounting Officer of the Commission is centrally responsible for the treasury management, recovery procedures, laying down accounting rules based on International Public Sector Accounting Standards and methods, validating accounting systems and the preparation of the Commission's and consolidated annual accounts of the EU. Furthermore, the Accounting Officer is required to sign the annual accounts declaring that they present fairly, in all material aspects, the financial position, the results of the operations and the cash flows. The Accounting Officer is an independent function and bears a major responsibility as regards financial reporting in the Commission. The Internal Auditor of the Commission is likewise a centralised and independent function.

The Corporate Management Board plays a role in the corporate governance of the Commission by providing oversight and strategic orientations on major corporate management issues, including in relation to the management of financial and human resources. Chaired by the Secretary-General, it brings together on a regular basis Directors-General and Cabinets responsible for budget, human resources and IT to ensure that the necessary organisational and technical structures are in place in the Commission to deliver on the political priorities of the President in an efficient and effective manner.

2.3. ROBUST PERFORMANCE FRAMEWORK

Implementing robust performance frameworks is essential for ensuring a strong focus on results, EU added value and sound management of EU programmes. The performance of the EU budget must consider the multiplicity of objectives as well as the complementarity and mainstreaming of policies and

[5] E.g. internal control standards are based on the COSO 2013 Internal Control principles.

[6] As a result, the term 'European Commission' is used to denote both the institution – the College - formed by the Members of the Commission, and its administration managed by the Directors-General of its departments (and heads of other administrative structures such as services, offices and executive agencies).

programmes and the key role of the Member States in implementing the EU Budget. The Commission is committed to ensuring that the EU budget achieves better outcomes for citizens and that supports the political priorities. To ensure resources are allocated to priorities and that every action brings high performance and added value, the Commission implements its EU Budget Focused on Results initiative. Building on the 2014–2020 performance framework, it promotes a better balance between compliance and performance. The 2014-2020 performance frameworks have been included as a new compulsory element and as a key pillar of the increased result orientation of this programming period. It foresees the establishment of clear and measureable objectives, indicators and targets as well as monitoring, reporting and evaluation arrangements.

The Annual Management and Performance Report for the EU budget provides a comprehensive overview on the performance, management and protection of the EU budget. It explains how the EU budget supports the European Union's political priorities, the results achieved with the EU budget, and the role the Commission plays in ensuring and promoting the highest standards of budgetary and financial management.

2.4. FINANCIAL REPORTING

The main element of EU financial reporting is the Integrated Financial Reporting Package (IFRP) of the EU which comprises the consolidated annual accounts of the EU and other reports accompanying the accounts, i.e. the Annual Management and Performance Report for the budget and the report on the follow-up to the discharge. The IFRP provides the public with a comprehensive view of the financial and operational situation of the EU each year.

The consolidated annual accounts of the EU provide financial information on the activities of the institutions, agencies and other bodies of the EU from both an accrual accounting and budgetary perspective. These accounts do not comprise the annual accounts of Member States.

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

a) the consolidated financial statements; and

b) the reports on implementation of the budget, which provide an aggregated record of budget implementation.

In addition, the consolidated annual accounts of the EU are accompanied by a Financial Statement Discussion and Analysis (FSDA) which summarises significant changes and trends in the financial statements and explains significant risks and uncertainties the EU has faced and needs to address in future.

Reporting and Accountability in the Commission:

Integrated Financial Reporting Package	**Consolidated Annual Accounts of the EU** **Annual Management and Performance Report for the budget** **Report on the follow up to the discharge**
Other reports	**General Report on the activities of the EU** **Annual Activity Reports of the Directorates-General** **Report on Budgetary and Financial Management**

2.5. CONTROLS

External audit

The European Court of Auditors (the Court) is the external auditor of the EU institutions (and bodies). The Court's mission is to contribute to improving EU financial management, promote accountability and transparency, and act as the independent guardian of the financial interests of the citizens of the EU. The Court's role as the EU's independent external auditor is to check that EU funds are correctly accounted for, are raised and spent in accordance with the relevant rules and regulations and have achieved value for money.

The EU's annual accounts and its resource management are audited by the Court, which, as part of its activities, draws up for the EP and the Council:

(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 and payments to final beneficiaries; and

(3) special reports covering specific areas.

Discharge

The final step of a budget lifecycle is the discharge of the budget for a given financial year. A discharge is given to the Commission and all other EU institutions and bodies. The discharge represents the political aspect of the external control of budget implementation and is the decision by which the European Parliament , acting on a Council recommendation, "releases" the Commission (and other EU bodies) from its responsibility for management of a given budget by marking the end of that budget's existence. The European Parliament is the discharge authority within the EU. This means that following the audit and finalisation of the annual accounts it falls to the Council to recommend and then to the European Parliament to give a discharge to the Commission and other EU bodies for implementing the EU budget for a given financial year. This decision is based on an examination of the annual accounts, the Commission's annual management and performance report for the budget, the annual report, the audit opinion and special reports of the Court, and replies of the Commission to questions and further information requests.

This discharge procedure may produce three outcomes: the granting, postponement or the refusal of the discharge. Integral to the annual budgetary discharge procedure in the European Parliament are the hearings with Commissioners who are questioned by the MEP's in the Budgetary Control Committee regarding the policy areas under their responsibility. The final discharge report including specific recommendations to the Commission for action is adopted in Plenary of the European Parliament. The Council discharge recommendations are adopted by the Economic and Financial Affairs Council (ECOFIN). Both, the European Parliament's discharge report as well as the Council discharge recommendations are subject to an annual follow up report in which the Commission outlines the concrete actions it has taken to implement the recommendations made.

NOTE ACCOMPANYING THE CONSOLIDATED ACCOUNTS

The consolidated annual accounts of the European Union for the year 2016 have been prepared on the basis of the information presented by the institutions and bodies under Article 148(2) of the Financial Regulation applicable to the general budget of the European Union. I hereby declare that they were prepared in accordance with Title IX of this Financial Regulation and with the accounting principles, rules and methods set out in the notes to the financial statements.

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

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

[signed]

Rosa ALDEA BUSQUETS

Accounting Officer of the Commission

23 June 2017

EUROPEAN UNION
FINANCIAL YEAR 2016

CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES

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

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BALANCE SHEET

EUR millions

	Note	31.12.2016	31.12.2015
NON-CURRENT ASSETS			
Intangible assets	*2.1*	*381*	*337*
Property, plant and equipment	*2.2*	*10 068*	*8 700*
Investments accounted for using the equity method	*2.3*	*528*	*497*
Financial assets	*2.4*	*62 247*	*56 965*
Pre-financing	*2.5*	*21 901*	*29 879*
Exchange receivables and non-exchange recoverables	*2.6*	*717*	*870*
		95 842	**97 248**
CURRENT ASSETS			
Financial assets	*2.4*	*3 673*	*9 907*
Pre-financing	*2.5*	*23 569*	*15 277*
Exchange receivables and non-exchange recoverables	*2.6*	*10 905*	*9 454*
Inventories	*2.7*	*165*	*138*
Cash and cash equivalents	*2.8*	*28 585*	*21 671*
		66 897	**56 448**
TOTAL ASSETS		**162 739**	**153 696**
NON-CURRENT LIABILITIES			
Pension and other employee benefits	*2.9*	*(67 231)*	*(63 814)*
Provisions	*2.10*	*(1 936)*	*(1 716)*
Financial liabilities	*2.11*	*(55 067)*	*(51 764)*
		(124 234)	**(117 293)**
CURRENT LIABILITIES			
Provisions	*2.10*	*(675)*	*(314)*
Financial liabilities	*2.11*	*(2 284)*	*(7 939)*
Payables	*2.12*	*(40 005)*	*(32 191)*
Accrued charges and deferred income	*2.13*	*(67 580)*	*(68 402)*
		(110 544)	**(108 846)**
TOTAL LIABILITIES		**(234 778)**	**(226 139)**
NET ASSETS		**(72 040)**	**(72 442)**
Reserves	*2.14*	*4 841*	*4 682*
*Amounts to be called from Member States**	*2.15*	*(76 881)*	*(77 124)*
NET ASSETS		**(72 040)**	**(72 442)**

* *The European Parliament adopted a budget on 1 December 2016 which provides for the payment of the Union's short-term liabilities from own resources to be collected by, or called up from, the Member States in 2017. Additionally, under Article 83 of the Staff Regulations (Council Regulation 259/68 of 29 February 1968 as amended), the Member States shall jointly guarantee the liability for pensions.*

STATEMENT OF FINANCIAL PERFORMANCE

EUR millions

	Note	2016	2015
REVENUE			
Revenue from non-exchange transactions			
GNI resources	*3.1*	*95 578*	*95 355*
Traditional own resources	*3.2*	*20 439*	*18 649*
VAT resources	*3.3*	*15 859*	*18 328*
Fines	*3.4*	*3 858*	*531*
Recovery of expenses	*3.5*	*1 947*	*1 547*
Other	*3.6*	*5 740*	*5 067*
		143 422	**139 478**
Revenue from exchange transactions			
Financial income	*3.7*	*1 769*	*1 846*
Other	*3.8*	*996*	*1 562*
		2 765	**3 408**
Total Revenue		**146 187**	**142 886**
EXPENSES			
Implemented by Member States	*3.9*		
European Agricultural Guarantee Fund		*(44 152)*	*(45 032)*
European Agricultural Fund for Rural Development and other rural development instruments		*(12 604)*	*(16 376)*
European Regional Development Fund and Cohesion Fund		*(35 045)*	*(38 745)*
European Social Fund		*(9 366)*	*(9 849)*
Other		*(1 606)*	*(2 380)*
Implemented by the Commission, executive agencies and trust funds	*3.10*	*(15 610)*	*(15 626)*
Implemented by other EU agencies and bodies	*3.11*	*(2 547)*	*(1 209)*
Implemented by third countries and international organisations	*3.11*	*(3 258)*	*(3 031)*
Implemented by other entities	*3.11*	*(2 035)*	*(2 107)*
Staff and pension costs	*3.12*	*(9 776)*	*(10 273)*
Changes in employee benefits actuarial assumptions	*3.13*	*(1 068)*	*(2 040)*
Finance costs	*3.14*	*(1 904)*	*(1 986)*
Share of result of joint ventures and associates	*3.15*	*2*	*(641)*
Other expenses	*3.16*	*(5 486)*	*(6 623)*
Total Expenses		**(144 454)**	**(155 919)**
ECONOMIC RESULT OF THE YEAR		**1 733**	**(13 033)**

CASHFLOW STATEMENT

EUR millions

	2016	2015
Economic result of the year	*1 733*	*(13 033)*
Operating activities		
Amortisation	*88*	*74*
Depreciation	*575*	*489*
(Increase)/decrease in loans	*1 774*	*1 591*
(Increase)/decrease in pre-financing	*(314)*	*7 439*
(Increase)/decrease in exchange receivables and non-exchange recoverables	*(1 297)*	*5 253*
(Increase)/decrease in inventories	*(26)*	*(10)*
Increase/(decrease) in pension and employee benefits liability	*3 417*	*5 198*
Increase/(decrease) in provisions	*581*	*(253)*
Increase/(decrease) in financial liabilities	*(2 351)*	*(977)*
Increase/(decrease) in payables	*7 813*	*(10 989)*
Increase/(decrease) in accrued charges and deferred income	*(821)*	*12 429*
Prior year budgetary surplus taken as non-cash revenue	*(1 349)*	*(1 435)*
Other non-cash movements	*18*	*32*
Investing activities		
(Increase)/decrease in intangible assets and property, plant and equipment	*(2 073)*	*(1 381)*
(Increase)/decrease in investments accounted for using the equity method	*(31)*	*(87)*
(Increase)/decrease in available for sale financial assets	*(822)*	*(213)*
(Increase)/decrease in financial assets at fair value through surplus or deficit	(0)	-
NET CASHFLOW	**6 914**	**4 126**
Net increase/(decrease) in cash and cash equivalents	*6 914*	*4 126*
Cash and cash equivalents at the beginning of the year	*21 671*	*17 545*
Cash and cash equivalents at year-end	*28 585*	*21 671*

STATEMENT OF CHANGES IN NET ASSETS

EUR millions

	Reserves (A)		Amounts to be called from Member States (B)		Net Assets =(A)+(B)
	Fair value reserve	Other reserves	Accumulated Surplus/(Deficit)	Economic result of the year	
BALANCE AS AT 31.12.2014	**238**	**4 197**	**(51 161)**	**(11 280)**	**(58 006)**
Movement in Guarantee Fund reserve	–	189	(189)	–	–
Fair value movements	54	–	–	–	54
Other	–	2	(24)	–	(22)
Allocation of the 2014 economic result	–	3	(11 283)	11 280	–
2014 budget result credited to Member States	–	–	(1 435)	–	(1 435)
Economic result of the year	–	–	–	(13 033)	(13 033)
BALANCE AS AT 31.12.2015	**292**	**4 390**	**(64 091)**	**(13 033)**	**(72 442)**
Movement in Guarantee Fund reserve	–	82	(82)	–	–
Fair value movements	33	–	–	–	33
Other	–	39	(54)	–	(15)
Allocation of the 2015 economic result	–	5	(13 038)	13 033	–
2015 budget result credited to Member States	–	–	(1 349)	–	(1 349)
Economic result of the year	–	–	–	1 733	1 733
BALANCE AS AT 31.12.2016	**325**	**4 516**	**(78 614)**	**1 733**	**(72 040)**

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

1.1. LEGAL BASIS AND ACCOUNTING RULES

The accounts of the EU are kept in accordance with Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26 October 2012, p. 1) hereinafter referred to as the 'Financial Regulation' and Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 (OJ L 362, 31 December 2012, p. 1) laying down detailed rules of application of this Financial Regulation.

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

1.2. ACCOUNTING PRINCIPLES

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

The overall considerations (or accounting principles) to be followed when preparing the financial statements are laid down in EU accounting rule 1 "Financial Statements" and are the same as those described in IPSAS 1: fair presentation, accrual basis, going concern, consistency of presentation, materiality, aggregation, offsetting and comparative information. The qualitative characteristics of financial reporting according to article 144 of the Financial Regulation are relevance, reliability, understandability and comparability.

1.3. CONSOLIDATION

Scope of consolidation

The consolidated financial statements of the EU comprise all significant controlled entities (i.e. the EU institutions (including the Commission) and the EU agencies), associates and joint ventures. The complete list of consolidated entities can be found in note **9** of the EU financial statements. It now comprises 52 controlled entities and 1 associate. Entities that fall under the consolidation scope, but which are immaterial to the EU consolidated financial statements as a whole, need not be consolidated or accounted for using equity method where to do so would result in excessive time or cost to the EU. Those entities are referred to as 'Minor entities' and are separately listed in note **9**. In 2016, 7 entities have been classified as minor entities.

Controlled entities

The decision to include an entity in the scope of consolidation is based on the control concept. Controlled entities are all entities for which the EU is exposed, or has right, to variable benefits from its involvement and has the liability to affect the nature and amount of those benefits through its power over the other entity. This power must be presently exercisable and must relate to the relevant activities of the entity. Controlled entities are fully consolidated. The consolidation begins at the first date on which control exists, and ends when such control no longer exists.

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

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

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

Joint Arrangements

A joint arrangement is an agreement over which the EU and one or more parties have joint control. Joint control is contractually agreed sharing of control over an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of parties sharing control. Joint agreements can be either joint operations or joint ventures. In case a joint arrangement is structured through a separate vehicle and parties to the joint arrangement have rights to the net assets of the arrangement, this joint arrangement classifies as a joint venture. Participations in joint ventures are accounted for using the equity method (see note **1.5.4**). In case the parties have rights to the assets, and obligations for the liabilities, related to the arrangement, this joint arrangement is classified as a joint operation. In relation to its interest in joint operations, the EU recognises in its financial statements: its assets and liabilities, revenue and expense, as well as its share of assets, liabilities, revenue and expense held or incurred jointly.

Associates

Associates are entities over which the EU has, directly or indirectly, significant influence but not control. It is presumed that significant influence exists if the EU holds directly or indirectly 20 % or more of the voting rights. Participations in associates are accounted for using the equity method (see note **1.5.4**).

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

The funds of the Joint Sickness Insurance Scheme for staff of the EU, the European Development Fund and the Participants Guarantee Fund are managed by the Commission on their behalf. However, since these entities are not controlled by the EU, they are not consolidated in its financial statements.

1.4. BASIS OF PREPARATION

Financial statements are presented annually. The accounting year begins on 1 January and ends on 31 December.

1.4.1. Currency and basis for conversion

Functional and reporting currency

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

Transactions and balances

Foreign currency transactions are translated into euros using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the re-translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance. Translation differences on non-monetary financial instruments classified as available for sale financial assets are included in the fair value reserve.

Different conversion methods apply to property, plant and equipment and intangible assets, which retain their value in euros at the rate that applied at the date when they were purchased.

Year-end balances of monetary assets and liabilities denominated in foreign currencies are converted into euros on the basis of the European Central Bank (ECB) exchange rates applying on 31 December:

Euro exchange rates

Currency	31.12.2016	31.12.2015	Currency	31.12.2016	31.12.2015
BGN	**1.9558**	*1.9558*	**PLN**	**4.4103**	*4.2639*
CZK	**27.0210**	*27.0230*	**RON**	**4.5390**	*4.5240*
DKK	**7.4344**	*7.4626*	**SEK**	**9.5525**	*9.1895*
GBP	**0.8562**	*0.7340*	**CHF**	**1.0739**	*1.0835*
HRK	**7.5597**	*7.6380*	**JPY**	**123.4000**	*131.0700*
HUF	**309.8300**	*315.9800*	**USD**	**1.0541**	*1.0887*

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 receivable, accrued income and charges, contingent assets and liabilities, degree of impairment of intangible assets and property, plant and equipment and amounts disclosed in the notes concerning financial instruments. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

1.5. BALANCE SHEET

1.5.1. Intangible assets

Acquired computer software licences are stated at historical cost less accumulated amortisation and impairment losses. The assets are amortised on a straight-line basis over their estimated useful lives (3-11 years). The estimated useful lives of intangible assets depend on their specific economic lifetime or legal lifetime determined by an agreement. Internally developed intangible assets are capitalised when the relevant criteria of the EU accounting rules are met and relate solely to the development phase of the asset. The costs capitalisable include all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Costs associated with research activities, non-capitalisable development costs and maintenance costs are recognised as expenses as incurred.

1.5.2. Property, plant and equipment

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

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

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

Type of asset	Straight line depreciation rate
Buildings	*4 % to 10 %*
Space assets	*8 % to 20 %*
Plant and equipment	*10 % to 25 %*
Furniture and vehicles	*10 % to 25 %*
Computer hardware	*25 % to 33 %*
Other	*10 % to 33 %*

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

Leases

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

1.5.3. Impairment of non-financial assets

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

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

1.5.4. Investments accounted for using the equity method

Participations in associates and joint ventures

Investments accounted for using the equity method are initially recognised at cost. The EU's interest in these investments is recognised in the statement of financial performance, and its share in the movements in reserves is recognised in the fair value reserve in net assets. The initial cost together with all movements (further contributions, share of economic results and reserve movements, impairments, and dividends) give the book value of the investment in the financial statements at the balance sheet date. Distributions received from the investment reduce the carrying amount of the asset.

If the EU's share of deficits of an investment accounted for using the equity method equals or exceeds its interest in the investment, the EU discontinues recognising its share of further losses ("unrecognised losses"). After the EU's interest is reduced to zero, additional losses are provided for and a liability is recognised, only to the extent that the EU has incurred legal or constructive obligation or made payments on behalf of the entity.

If there are indications of impairment, a write-down to the lower recoverable amount is necessary. The recoverable amount is determined as described under note **1.5.3**. If the reason for impairment ceases to apply at a later date, the impairment loss is reversed to the carrying amount that would have been determined had no impairment loss been recognised.

In cases where the EU holds 20 % or more of an investment capital fund, it does not seek to exert significant influence. Such funds are therefore treated as financial instruments and categorised as available for sale financial assets.

Associates and joint ventures classified as minor entities are not accounted for under the equity method. EU contributions to those entities are accounted for as an expense of the period.

1.5.5. Financial assets

Classification

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

(i) Financial assets at fair value through surplus or deficit

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the EU provides money, goods or services directly to a debtor with no intention of trading the receivable, or in case the EU is subrogated to the rights of the original lender following a payment made by the EU under a guarantee contract. Payments due within 12 months of the balance sheet date are classified as current assets. Payments due after 12 months from the balance sheet date are classified as non-current assets. Loans and receivables include term deposits with the original maturity above three months.

(iii) Held-to-maturity investments

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

(iv) Available for sale financial assets

Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are classified as either current or non-current assets, depending on the period of time the EU expects to hold them, which is usually the maturity date. Investments in entities that are neither consolidated nor accounted for using the equity method and other equity-type investments (e.g. Risk Capital Operations) are also classified as available for sale financial assets.

Initial recognition and measurement

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

The fair value of a financial asset on initial recognition is normally the transaction price (i.e. the fair value of the consideration received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets (e.g. in case of some derivative contracts). However, when a long-term loan that carries no interest or an interest below market conditions is granted, its fair value can be estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating.

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

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

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

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

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

Subsequent measurement

(i) Financial assets at fair value through surplus or deficit are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the ‘financial instruments at fair value through surplus or deficit’ category are included in the statement of financial performance in the period in which they arise.

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

(iii) Held to maturity assets are carried at amortised cost using the effective interest method. The EU currently holds no held to maturity investments.

(iv) Available for sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available for sale financial assets are recognised in the fair value reserve, except for translation differences on monetary assets which are recognised in the statement of financial performance. When assets classified as available for sale financial assets are derecognised or impaired, the cumulative fair value adjustments previously recognised in the fair value reserve are recognised in the statement of financial performance. Interest on available for sale financial assets calculated using the effective interest method is recognised in the statement of financial performance. Dividends on available for sale equity instruments are recognised when the EU's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities and over-the–counter derivatives), the EU establishes a fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cashflow analysis, option pricing models and other valuation techniques commonly used by market participants.

Investments in Venture Capital Funds, classified as available for sale financial assets, which do not have a quoted market price in an active market are valued at the attributable net asset value, which is considered as an equivalent of their fair value.

In cases where the fair value of investments in equity instruments that do not have a quoted market price in an active market cannot be reliably measured, these investments are valued at cost less impairment losses.

Impairment of financial assets

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

(a) *Assets carried at amortised cost*

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

(b) *Assets carried at fair value*

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

1.5.6. Inventories

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

1.5.7. Pre-financing amounts

Pre-financing is a payment intended to provide the beneficiary with a cash advance, i.e. a float. It may be split into a number of payments over a period defined in the particular contract, decision, agreement or basic legal act. 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 expenditure, they have the obligation to return the pre-financing advance to the EU. The amount of the pre-financing may be reduced (wholly or partially) by the acceptance of eligible costs (which are recognised as expenses).

Pre-financing is, on subsequent balance sheet dates, measured at the amount initially recognised on the balance sheet less eligible expenses (including estimated amounts where necessary) incurred during the period.

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 on the balance sheet.

Other advances to Member States which originate from reimbursement by the EU of amounts paid as advances by the Member States to their beneficiaries (including "financial instruments under shared management") are recognised as assets and presented under the pre-financing heading. Other advances to Member States are subsequently measured at the amount initially recognised on the balance sheet less a best estimate of the eligible expenses incurred by final beneficiaries, calculated on the basis of reasonable and supportable assumptions.

The EU contributions to the trust funds of the European Development Fund or other unconsolidated entities are also classified as pre-financing since their purpose is to give a float to the trust fund to allow it to finance specific actions defined under the trust fund's objectives. The EU contributions to trust funds are measured at the initial amount of the EU contribution less eligible expenses, including estimated amounts where necessary, incurred by the trust fund during the reporting period and allocated to the EU contribution in accordance with the underlying agreement.

1.5.8. Exchange receivables and non-exchange recoverables

As the EU accounting rules require a separate presentation of exchange and non-exchange transactions, for the purpose of drawing up the accounts, receivables are defined as stemming from exchange transactions and recoverables are defined as stemming from non-exchange transactions, i.e. when the EU receives value from another entity without directly giving approximately equal value in exchange (for example recoverables from Member States related to own resources).

Receivables from exchange transactions meet the definition of financial instruments and are thus classified as loans and receivables and measured accordingly (see note **1.5.5**). The financial instruments notes disclosures concerning receivables from exchange transactions include accrued income and deferred charges from exchange transactions as they are not material.

Recoverables from non-exchange transactions are carried at original amount (adjusted for interest and penalties) less write-down for impairment. A write-down for impairment of recoverables from non-exchange transactions is established when there is objective evidence that the EU will not be able to collect all amounts due according to the original terms of recoverables from non-exchange transactions. The amount of the write-down is the difference between the asset’s carrying amount and the recoverable amount. The amount of the write-down is recognised in the statement of financial performance. A general write-down, based on past experience, is also made for outstanding recovery orders not already subject to a specific write-down. See note **1.5.14** concerning the treatment of accrued income at year-end. Amounts displayed and disclosed as recoverables from non-exchanges transactions are not financial instruments as they do not arise from a contract that would give rise to a financial liability or equity instrument. However, in the notes to the financial statements recoverables from non-exchange transactions are disclosed together with receivables from exchange transactions where appropriate.

1.5.9. Cash and cash equivalents

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

1.5.10. Pension and other employee benefits

Pension obligations

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

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

Post-employment sickness benefits

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

1.5.11. Provisions

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

1.5.12. Financial liabilities

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

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

EU trust funds that are considered as part of the Commission's operational activities are accounted for in the Commission accounts and further consolidated in the EU annual accounts. Therefore, contributions from other donors to the EU trust funds fulfil the criteria of revenues from non-exchange transactions under conditions and they are presented as financial liabilities until the conditions attached to the contributions transferred are met, i.e. eligible costs are incurred by the trust fund. The trust fund is required to finance specific projects and return remaining funds at the time of winding-up. At the balance sheet date the outstanding contribution liabilities are measured at contributions received less the expenses incurred by the trust fund, including estimated amounts when necessary. For reporting purposes the net expenses are allocated to the contributions of other donors in proportion to net contributions paid as at 31 December. This allocation of contributions is only indicative. When the trust fund is wound up the actual split of remaining resources will be decided by the trust fund board.

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

1.5.13. Payables

A significant amount of the payables of the EU are unpaid cost claims from beneficiaries of grants or other EU funding (non-exchange transactions). They are recorded as payables for the requested amount when the cost claim is received. Upon verification and acceptance of the eligible costs, the payables are valued at the accepted and eligible amount.

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

1.5.14. Accrued and deferred income and charges

Transactions and events are recognised in the financial statements in the period to which they relate. At year-end, if an invoice is not yet issued but the service has been rendered, the supplies have been delivered by the EU or a contractual agreement exists (e.g. 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.

Expenses are also accounted for in the period to which they relate. At the end of the accounting period, accrued expenses are recognised based on an estimated amount of the transfer obligation of the period. The calculation of accrued expenses is done in accordance with detailed operational and practical guidelines issued by the Commission which aim at ensuring that the financial statements provide a faithful representation of the economic and other phenomena they purport to represent. By analogy, if payment has been made in advance for services or goods that have not yet been received, the expense will be deferred and recognised in the subsequent accounting period.

1.6. STATEMENT OF FINANCIAL PERFORMANCE

1.6.1. Revenue

REVENUE FROM NON-EXCHANGE TRANSACTIONS

The vast majority of the EU's revenue relates to non-exchange transactions:

GNI based resources and VAT resources

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

Traditional own resources

Recoverables from non-exchange transactions 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 Commission is estimated and recognised as accrued income. 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. In addition, a value reduction is recognised for the amount of the estimated recovery gap.

Fines

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

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

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

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

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

Since 2010, all provisionally cashed fines are managed by the Commission in a specifically created fund (BUFI) and invested in financial instruments.

REVENUE FROM EXCHANGE TRANSACTIONS

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

Interest income and expense

Interest income and expense are recognised in the statement of financial performance using the effective interest method. This is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. When calculating the effective interest rate, the EU estimates cashflows considering all contractual terms of the financial instrument (for example prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest to discount the future cashflows 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. Expenses

Expenses from non-exchange transactions account for the majority of the EU's expenses. They relate to transfers to beneficiaries and can be of three types: entitlements, transfers under agreement and discretionary grants, contributions and donations.

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

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

Expenses from exchange transactions arising from the purchase of goods and services are recognised when the supplies are delivered and accepted by the EU. They are valued at original invoice amount. Furthermore, at the balance sheet date expenses related to the service delivered during the period for which an invoice has not yet been received or accepted are estimated and recognised in the statement of financial performance.

1.7. CONTINGENT ASSETS AND LIABILITIES

1.7.1. Contingent assets

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

1.7.2. Contingent liabilities

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

1.8. CASHFLOW STATEMENT

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

The cashflow statement is prepared using the indirect method. This means that the economic result 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 cashflows.

Cashflows arising from transactions in a foreign currency are recorded in the EU’s reporting currency (Euro), by applying to the foreign currency amount the exchange rate between the euro and the foreign currency at the date of the cashflow.

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

Operating activities are the activities of the EU that are not investing activities. These are the majority of the activities performed. Loans granted to beneficiaries (and the related borrowings, when applicable) are not considered as investing (or financing) activities as they are part of the general objectives and thus daily operations of the EU. Operating activities also include investments such as investments in the European Investment Fund (EIF), the European Bank for Reconstruction and Development (EBRD) and venture capital funds. Indeed, the aim of these activities is to contribute to the achievement of policy objectives.

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

2. NOTES TO THE BALANCE SHEET

ASSETS

2.1. INTANGIBLE ASSETS

EUR millions

Gross carrying amount at 31.12.2015	*698*
Additions	*137*
Disposals	*(22)*
Transfer between asset categories	*0*
Other changes	*7*
Gross carrying amount at 31.12.2016	*820*
Accumulated amortisation at 31.12.2015	*(361)*
Amortisation charge for the year	*(88)*
Disposals	*12*
Transfer between asset categories	*0*
Other changes	*(2)*
Accumulated amortisation at 31.12.2016	*(439)*
Net carrying amount at 31.12.2016	**381**
Net carrying amount at 31.12.2015	*337*

The above amounts relate primarily to computer software.

2.2. PROPERTY, PLANT AND EQUIPMENT

The Space assets category covers fixed assets related to the two EU space programmes: the Global Navigation Satellite Systems (GNSS) – Galileo and EGNOS, and the Copernicus European Earth observation programme. In 2015 fixed assets related to EGNOS and Copernicus, amounting to EUR 584 million, had been included under the Plant and Equipment category.

For Galileo, following the declaration of the Galileo Initial Services on 15 December 2016, a balance of EUR 2 165 million of satellites and ground segment assets was transferred from assets under construction to fixed assets, including 14 operational Galileo satellites as well as ground infrastructure. The Galileo operational fixed assets amounted to EUR 2 146 million at 31 December 2016, net of depreciation. The remaining assets under construction totalling EUR 756 million (2015: EUR 2 110 million) include 4 satellites launched in 2016 but for which the in-orbit testing had not yet been completed at the balance sheet date. The development of the Galileo system will continue until the system reaches its full operational capacity. When completed, the Galileo constellation will comprise 30 satellites.

Regarding Copernicus, EUR 1 073 million concerning the Copernicus satellites in operation (Sentinels 1A, 2A, 3A and 1B) are recognised under the heading Space assets (2015: EUR 498 million), net of accumulated depreciation. Another EUR 1 133 million related to Copernicus satellites is recognised as assets under construction (2015: EUR 1 188 million).

Fixed assets related to the European Geostationary Navigation Overlay System (EGNOS) ground infrastructure of EUR 83 million (2015: EUR 85 million) are also included under the Space assets heading. In addition, EGNOS assets under construction amount to EUR 21 million (2015: EUR 14 million).

The assets related to the EU space programmes are being built with the assistance of the European Space Agency (ESA).

Property, plant and equipment

EUR millions

	Land and Buildings	Space assets	Plant and Equipment	Furniture and Vehicles	Computer Hardware	Other	Finance leases	Assets under construction	Total
Gross carrying amount at 31.12.2015	*4 856*	*725*	*563*	*248*	*627*	*277*	*2 784*	*3 832*	*13 911*
Additions	*145*	*14*	*28*	*22*	*73*	*20*	*5*	*1 639*	*1 945*
Disposals	*(2)*	*(1)*	*(14)*	*(10)*	*(49)*	*(10)*	*(3)*	*0*	*(90)*
Transfer between asset categories	*294*	*2 864*	*3*	*6*	*3*	*9*	*(2)*	*(3 177)*	*–*
Other changes	*5*	*1*	*4*	*3*	*4*	*2*	*0*	*(3)*	*16*
Gross carrying amount at 31.12.2016	**5 297**	**3 603**	**583**	**269**	**658**	**298**	**2 783**	**2 292**	**15 783**
Accumulated depreciation at 31.12.2015	*(2 701)*	*(141)*	*(440)*	*(176)*	*(517)*	*(182)*	*(1 054)*	*-*	*(5 211)*
Depreciation charge for the year	*(166)*	*(160)*	*(47)*	*(19)*	*(62)*	*(29)*	*(100)*	*-*	*(583)*
Depreciation written back	*-*	*-*	*1*	*0*	*6*	*1*	*-*	*-*	*8*
Disposals	*2*	*0*	*13*	*10*	*42*	*7*	*3*	*-*	*77*
Transfer between asset categories	*0*	*-*	*0*	*0*	*(2)*	*0*	*2*	*-*	*–*
Other changes	*0*	*0*	*(2)*	*(1)*	*(2)*	*0*	*(1)*	*-*	*(6)*
Accumulated depreciation at 31.12.2016	**(2 865)**	**(301)**	**(474)**	**(186)**	**(535)**	**(203)**	**(1 150)**	**–**	**(5 715)**
NET CARRYING AMOUNT AT 31.12.2016	**2 432**	**3 302**	**109**	**83**	**122**	**95**	**1 633**	**2 292**	**10 068**
NET CARRYING AMOUNT AT 31.12.2015	*2 155*	*584*	*124*	*72*	*110*	*94*	*1 730*	*3 832*	*8 700*

2.3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

EUR millions

	Note	31.12.2016	31.12.2015
Participations in joint ventures	*2.3.1*	*–*	*5*
Participations in associates	*2.3.2*	*528*	*491*
Total		**528**	**497**

2.3.1. Participations in joint ventures

There are a number of entities partially funded by the EU that meet the requirements to be accounted for using the equity method in the EU consolidated financial statements but are immaterial to the financial statements as a whole, and therefore have not been accounted for using the equity method in the 2016 consolidated financial statements. These entities are referred to as 'Minor Entities' - see note **1.3**. An annual assessment of immateriality is performed to determine whether this exclusion continues to be justified. The EU contributions to these entities have been accounted for as an expense. Note **9** includes the list of those entities in 2016.

2.3.2. Participations in associates

The participation of the EU in the European Investment Fund (EIF) is treated as an associate using the equity method of accounting. The EIF is the EU's financial institution specialising in providing risk capital and guarantees to Small and Medium-sized Entities (SMEs). The EIF is located in Luxemburg and operates as a private-public partnership, whose members are the European Investment Bank (EIB), the EU and a group of financial institutions. At 31 December 2016 the EU held 28.1 % of ownership interests in EIF (2015: 26.5 %) and 28.1 % of the voting rights (2015: 26.5 %). In accordance with its statutes, the EIF is required to allocate to a statutory reserve at least 20 % of its annual net profit until the aggregate reserve amounts to 10 % of subscribed capital. This reserve is not available for distribution.

EUR millions

	European Investment Fund
Participation at 31.12.2015	*491*
Contributions	*41*
Dividends received	*(6)*
Share of net result	*34*
Changes in fair value reserve	*(0)*
Other equity movements	*(32)*
Participation at 31.12.2016	**528**

The following carrying amounts are attributable to the EU based on its percentage of participation:

EUR millions

	31.12.2016		31.12.2015	
	Total EIF	EU's share	Total EIF	EU's share
Assets	*2 301*	*647*	*2 183*	*578*
Liabilities	*(423)*	*(119)*	*(328)*	*(87)*
Revenue	*240*	*67*	*192*	*51*
Expenses	*(118)*	*(33)*	*(95)*	*(25)*
Surplus/(deficit)	*122*	*34*	*97*	*26*

The EU has paid in 20 % of its participation, the balance being uncalled, corresponding to an amount of EUR 986 million.

EUR millions

	Total EIF capital	EU subscription
Total share capital	*4 382*	*1 232*
Paid-in	*(876)*	*(246)*
Uncalled	**3 506**	**986**

2.4. FINANCIAL ASSETS

EUR millions

	Note	31.12.2016	31.12.2015
Non-current financial assets			
Available for sale financial assets	*2.4.1*	*9 131*	*7 222*
Financial assets at fair value through surplus or deficit	*2.4.2*	*–*	*–*
Loans	*2.4.3*	*53 116*	*49 743*
		62 247	**56 965**
Current financial assets			
Available for sale financial assets	*2.4.1*	*1 311*	*2 399*
Financial assets at fair value through surplus or deficit	*2.4.2*	*0*	*–*
Loans	*2.4.3*	*2 361*	*7 508*
		3 673	**9 907**
Total		**65 920**	**66 871**

2.4.1. Available for sale financial assets

EUR millions

	31.12.2016	31.12.2015
BUFI investments	*2 013*	*2 647*
ECSC in Liquidation	*1 685*	*1 699*
European Bank for Reconstruction and Development	*188*	*188*
	3 886	**4 534**
Guarantee Funds for budgetary guarantees:		
Guarantee Fund for external actions	*2 069*	*2 002*
EFSI Guarantee Fund	*948*	*-*
	3 017	**2 002**
Financial Instruments financed by the EU budget:		
Horizon 2020	*1 213*	*765*
Risk Sharing Finance Facility	*719*	*773*
*Connecting Europe Facility**	*483*	*425*
ETF Start up	*476*	*485*
Risk Capital Operations	*132*	*152*
European Fund for South East Europe	*118*	*118*
Other	*398*	*366*
	3 539	**3 084**
Total	**10 442**	**9 620**
Non-current	*9 131*	*7 222*
Current	*1 311*	*2 399*

* *Previous year amounts relate to Project Bond Initiative and Loan Guarantee Instrument for TEN-T projects. These two instruments were merged in 2016 into the Connecting Europe Facility.*

Out of the total of EUR 10 442 million, the EU holds available for sale financial assets in the form of debt securities (e.g. bonds) of EUR 8 920 million, equity instruments of EUR 1 302 million and investments in the EIB Unitary Fund (money market fund) of EUR 221 million. The debt securities and units in the EIB Unitary Fund are mainly used to temporarily invest the amounts allocated to the EU guarantee and risk-sharing instruments until they are used to satisfy the guarantee calls.

BUFI investments

Provisionally cashed fines related to competition cases are allocated to a dedicated fund (BUFI Fund - 'Budget Fines' Fund) and invested by the Commission in debt instruments categorised as available for sale financial assets.

ECSC in Liquidation

Regarding the European Coal and Steel Community (ECSC) in liquidation, all available for sale financial assets are debt securities denominated in EUR and quoted in an active market.

European Bank for Reconstruction and Development

As the European Bank for Reconstruction and Development (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 EU's shareholding is valued at cost.

EUR millions

	Total EBRD capital	Commission subscription at 31.12.2016
Total subscribed share capital	*29 703*	*900*
Paid-in	*(6 207)*	*(188)*
Uncalled	**23 496**	**712**

GUARANTEE FUNDS FOR BUDGETARY GUARANTEES

Guarantee Fund for external actions

The Guarantee Fund for external actions covers loans guaranteed by the EU budget, in particular EIB lending operations outside the EU financed from the EIB's own resources and loans under macro-financial assistance (MFA) and Euratom loans outside the EU – see note **4.1.1**. It is a long-term instrument (non-current part: EUR 1 946 million) managed by the EIB and intended to cover any defaulting loans guaranteed by the EU. The Fund is endowed by payments from the EU budget, 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. The Fund should be maintained at a target amount corresponding to the 9 % of the guaranteed loans outstanding at year-end. The difference between the target amount and the value of the Fund's assets at year-end shall be covered from the EU budget in year n+2, while any surplus is paid back to the EU budget.

EFSI Guarantee Fund

Pursuant to the EFSI Regulation the EFSI Guarantee Fund has been established to provide a liquidity cushion against potential losses incurred by the EIB in relation to its financing and investment operations eligible for the EFSI EU guarantee under the EFSI Agreement - see note **4.1.1**. The EFSI Guarantee Fund is financed by contributions from the EU budget. It is also endowed by returns on guarantee fund resources invested, revenues received by the EU as remuneration for the guarantee under the EFSI Agreement, and amounts recovered by the EIB from defaulting debtors in respect of previous guarantee calls. The fund is managed by the Commission, which is authorised to invest the assets of the EFSI Guarantee Fund on the financial markets in accordance with the principle of sound financial management following appropriate prudential rules. The EFSI Guarantee Fund started its operations in April 2016. It will be progressively provisioned and gradually reach EUR 8 billion, i.e. 50 % of the total EU EFSI guarantee over a time horizon spanning from 2016 to 2022.

FINANCIAL INSTRUMENTS FINANCED BY THE EU BUDGET

For an overview of all financial instruments financed by the budget see the Financial Statement Discussion and Analysis.

Horizon 2020

Under the EU Regulation establishing Horizon 2020 – the Framework Programme for Research and Innovation (2014-2020), new financial instruments have been established in order to enhance access to finance to entities engaged in research and innovation (R&I). These instruments are: *the InnovFin Loan and Guarantee Service for R&I* under which the Commission shares the financial risk related to a portfolio of new financing operations entered into by the EIB; *the InnovFin SME Guarantee including the SME Initiative Uncapped Guarantee Instrument (SIUGI)* – guarantee facilities managed by the EIF providing guarantees and counter-guarantees to the financial intermediaries for the new portfolios of loans (under SIUGI the Commission shares the financial risk related to the guarantee given with Member States, EIF and EIB); and *the InnovFin Equity Facility for R&I* providing for investments in venture capital funds and managed by the EIF.

Risk-Sharing Finance Facility

The Risk-Sharing Finance Facility (RSFF) is managed by the EIB and the Commission's investment portfolio is used to provision financial risk for loans and guarantees given by the EIB to eligible research projects. In total, an EU budget of up to EUR 1 billion was allocated to the RSFF under the 2007-2013 MFF. Under the 2014-2020 MFF, there are no new budget contributions foreseen to the RSFF. The EU overall risk is limited to the amount it contributes to the Facility.

Connecting Europe Facility

Pursuant to Regulation (EU) No 1316/2013, the Connecting Europe Facility (CEF) debt instrument has been established with the objective to facilitate infrastructure projects' access to financing in the sectors of transport, telecommunications and energy. It is managed by the EIB under an agreement with the EU. The CEF debt financial instrument is the continuity of the Loan Guarantee Instrument for TEN-T projects (LGTT) and of the pilot phase of the Project Bond Initiative (PBI). The LGTT and the PBI Portfolio were merged into the CEF financial instrument with effect from 1 January 2016. It offers risk-sharing for debt financing in the form of senior and subordinated debt or guarantee as well as support for project bonds.

ETF Start up

These are equity instruments that were financed by the Growth & Employment programme, the MAP programme, the CIP programme and the Technology Transfer Pilot Project, under the trusteeship of the EIF, supporting the creation and financing of Start-Up SMEs by investing in suitable specialised venture capital funds.

2.4.2. Financial assets at fair value through surplus or deficit

EUR millions

	31.12.2016			31.12.2015		
	Notional amount receive leg	Notional amount pay leg	Fair value	Notional amount receive leg	Notional amount pay leg	Fair value
Foreign currency forward contract	*50*	*(50)*	*0*	–	–	–

In 2016 the EU entered into two foreign currency forward contracts in order to hedge the foreign currency risk related to USD denominated debt securities held in the EFSI Guarantee Fund. Under these currency forward contracts the EU shall deliver the contractually agreed notional amount in foreign currency ('pay leg') and will receive the notional amount in EUR ('receive leg') at the maturity date. These derivative contracts are measured at fair value at the balance sheet date and classified as either financial assets or financial liabilities at fair value through surplus or deficit depending on whether their fair value is positive or negative. At 31 December 2016, one foreign currency forward contract, with a notional amount of EUR 50 million, resulted in positive fair value of EUR 0.5 million and has been recognised under financial assets. The other contract, for the notional amount of EUR 101 million, resulted in negative fair value and as such has been recognised as a financial liability - see note **2.11.2**.

At 31 December 2016 all financial assets at fair value through surplus or deficit are categorised into level 2 of the fair value hierarchy – see table below.

Fair value hierarchy of financial assets measured at fair value

EUR millions

	31.12.2016	31.12.2015
Level 1: Quoted prices in active markets	*8 910*	*8 123*
Level 2: Observable inputs other than quoted prices	*231*	*188*
Level 3: Valuation techniques with inputs not based on observable market data	*1 302*	*1 310*
Total	**10 442**	**9 620**

During the period there were no transfers between level 1 and level 2.

Reconciliation of financial assets measured using valuation techniques with inputs not based on observable market data (level 3)

EUR millions

Opening balance at 31.12.2015	*1 310*
Purchases and sales	*32*
Gains or losses for the period in financial income or finance costs	*(54)*
Gains or losses in net assets	*13*
Transfers into level 3	*–*
Transfers out of level 3	*–*
Other	*–*
Closing balance at 31.12.2016	**1 302**

2.4.3. Loans

EUR millions

	Note	31.12.2016	31.12.2015
Loans for financial assistance	*2.4.3.1*	*55 134*	*56 874*
Other loans	*2.4.3.2*	*343*	*377*
Total		**55 477**	**57 251**
Non-current		*53 116*	*49 743*
Current		*2 361*	*7 508*

2.4.3.1. Loans for financial assistance

EUR millions

	EFSM	BOP	MFA	Euratom	ECSC in Liqui-dation	Total
Total at 31.12.2015	*47 509*	*5 811*	*3 024*	*301*	*229*	*56 874*
New loans	*4 750*	*-*	*10*	*–*	*-*	*4 760*
Repayments	*(4 750)*	*(1 500)*	*(70)*	*(49)*	*-*	*(6 369)*
Exchange differences	*-*	*-*	*–*	*–*	*(33)*	*(33)*
Changes in carrying amount	*(53)*	*(40)*	*–*	*–*	*(5)*	*(98)*
Impairment	*-*	*-*	*–*	*–*	*-*	*–*
Total at 31.12.2016	**47 456**	**4 272**	**2 964**	**252**	**191**	**55 134**
Non-current	*46 800*	*3 050*	*2 889*	*199*	*101*	*53 039*
Current	*656*	*1 222*	*75*	*53*	*90*	*2 096*

The change in carrying amount corresponds to the change in accrued interests.

Nominal value of loans for financial assistance at 31 December 2016 total EUR 54 373 million (2015: EUR 56 011 million).

EFSM enables the granting of financial assistance to a Member State in difficulties or seriously threatened with severe difficulties caused by exceptional circumstances beyond its control. The assistance may take the form of a loan or credit line. The ECOFIN Council conclusions of 9 May 2010 restrict the facility to EUR 60 billion but the legal limit restricts the outstanding amount of loans or credit lines to the margin available under the own resources ceiling. Borrowings related to loans disbursed under the EFSM are guaranteed by the EU budget. It is not foreseen that the EFSM will engage in new financing programmes or enter into new loan facility agreements.

The BOP facility, a policy-based financial instrument, provides medium-term financial assistance to Member States of the EU that have not adopted the Euro. It enables the granting of loans to Member States who are experiencing, or are seriously threatened with, difficulties in their balance of payments or capital movements. The maximum outstanding amount of loans granted under the instrument is limited to EUR 50 billion. Borrowings related to these BOP loans are guaranteed by the EU budget.

MFA is a policy-based financial instrument of untied and undesignated balance of payment and/or budget support to partner countries currently following an IMF programme. It takes the form of medium/long term loans or grants or an appropriate combination of both and generally complements financing provided in the context of an IMF-supported adjustment and reform program. These loans are guaranteed by the Guarantee Fund for external actions. At 31 December 2016, EUR 1 313 million relating to a loan facility agreement under MFA assistance were granted to Ukraine (EUR 1 200 million), to Tunisia (EUR 100 million), to Georgia (EUR 13 million) but not yet disbursed – see note **4.1.2**.

The Euratom legal entity (represented by the Commission) lends money to both Member States and non-Member States to finance projects relating to energy installations. At 31 December 2016, loans of EUR 300 million were granted to Ukraine but not yet disbursed – see note **4.1.2**. Guarantees from third-parties of EUR 252 million (2015: EUR 301 million) have been received covering Euratom loans.

ECSC in Liquidation loans were granted on borrowed funds in accordance with articles 54 and 56 of the ECSC Treaty.

Loans effective interest rates (expressed as a range of interest rates)

	31.12.2016	31.12.2015
Macro Financial Assistance (MFA)	*0 % - 4.54 %*	*0 % - 4.54 %*
Euratom	*0 % - 5.76 %*	*0.08 % - 5.76 %*
Balance of Payment (BOP)	*2.37 % - 3.37 %*	*2.37 % - 3.62 %*
European Financial Stability Mechanism (EFSM)	*0.62 % - 3.75 %*	*0.62 % - 3.75 %*
ECSC in Liquidation	*5.23 % - 5.81 %*	*5.23 % - 5.81 %*

2.4.3.2. Other loans

EUR millions

	31.12.2016	31.12.2015
Loans with special conditions	*93*	*113*
Subrogated loans	*–*	*–*
ECSC in liquidation housing loans	*5*	*6*
Term deposits between 3 and 12 months	*245*	*257*
Total	**343**	**377**
Non-current	*77*	*88*
Current	*266*	*290*

Nominal value of other loans at 31 December 2016 total EUR 673 million (2015: EUR 609 million).

Loans with special conditions are granted at preferential rates as part of co-operation with non-Member States.

Subrogated loans are defaulting loans which were granted by the EIB and for which all rights have been subrogated to the EU following the payment from the Guarantee Fund for external actions. These loans are fully impaired for an amount of EUR 332 million (2015: EUR 218 million).

Impairment on other loans

EUR millions

	31.12.2015	Additions	Reversals	Write-off	Other	31.12.2016
Loans with special conditions	*13*	*0*	*(6)*	*0*	*0*	*7*
Subrogated loans	*218*	*114*	*0*	*0*	*0*	*332*
ECSC in liquidation housing loans	*–*	*–*	*–*	*–*	*–*	*–*
Total	**231**	**114**	**(6)**	**0**	**0**	**339**

2.5. PRE-FINANCING

EUR millions

	Note	31.12.2016	31.12.2015
Non-current pre-financing			
Pre-financing	*2.5.1*	*20 219*	*28 543*
Other advances to Member States	*2.5.2*	*1 651*	*1 332*
Contribution to Trust Funds		*31*	*4*
		21 901	**29 879**
Current pre-financing			
Pre-financing	*2.5.1*	*21 386*	*11 498*
Other advances to Member States	*2.5.2*	*2 183*	*3 779*
		23 569	**15 277**
Total		**45 470**	**45 156**

The level of pre-financing amounts in the various programmes must be sufficient to ensure the necessary funding for the beneficiary to start the project, while also safeguarding the financial interests of the EU and taking into consideration legal, operational and cost-effectiveness constraints. All these elements have been given due consideration by the Commission in an effort to improve the follow-up of pre-financing.

2.5.1. Pre-financing

EUR millions

	Gross amount	Cleared via cut-off	Net amount at 31.12.2016	Gross amount	Cleared via cut-off	Net amount at 31.12.2015
Shared management						
EAFRD & other rural development instruments	*3 955*	*–*	*3 955*	*4 726*	*(1 629)*	*3 097*
ERDF & CF	*19 858*	*(4 727)*	*15 131*	*24 268*	*(7 416)*	*16 852*
ESF	*6 477*	*(617)*	*5 860*	*7 251*	*(1 325)*	*5 926*
Other	*4 219*	*(2 393)*	*1 826*	*4 359*	*(2 365)*	*1 994*
	34 509	**(7 737)**	**26 772**	**40 604**	**(12 735)**	**27 869**
Direct Management						
Implemented by:						
Commission	*12 424*	*(8 843)*	*3 581*	*12 512*	*(9 536)*	*2 976*
EU executive agencies	*13 136*	*(8 348)*	*4 788*	*11 065*	*(7 767)*	*3 298*
Trust funds	*142*	*(82)*	*60*	*14*	*(5)*	*9*
	25 701	**(17 273)**	**8 429**	**23 591**	**(17 308)**	**6 283**
Indirect Management						
Implemented by:						
Other EU agencies & bodies	*616*	*(157)*	*459*	*627*	*(95)*	*532*
Third countries	*1 861*	*(1 135)*	*726*	*2 151*	*(1 229)*	*922*
International organisations	*7 230*	*(4 432)*	*2 797*	*6 640*	*(4 014)*	*2 626*
Other entities	*6 498*	*(4 077)*	*2 422*	*5 330*	*(3 521)*	*1 809*
	16 206	**(9 801)**	**6 404**	**14 748**	**(8 859)**	**5 889**
Total	**76 416**	**(34 811)**	**41 605**	**78 943**	**(38 902)**	**40 041**
Non-current	*20 219*	*–*	*20 219*	*28 543*	*–*	*28 543*
Current	*56 197*	*(34 811)*	*21 386*	*50 401*	*(38 902)*	*11 498*

Pre-financing represents money paid out, and thus implementation of payment appropriations. As explained in note **1.5.7**, these are advances and so not yet expensed. Thus while pre-financing reduces outstanding RAL (see note **5.1**) it represents expenses still to be recognised in the statement of financial performance.

The closure of programming period 2007-2013 and the gradual set-up of programs under the period 2014-2020 are the major factors influencing the amounts on the balance sheet: pre-financing related to the old programs is decreasing due to the acceptance of costs, while further pre-financings have been paid out concerning the new programming period.

For shared management this transition between programming periods also explains the movement between current and non-current balances. The programming period 2007-2013 is in its closing phase and thus more amounts become due within twelve months. Concerning the programming period 2014 - 2020, the initial pre-financing paid is booked as non-current, while the annual pre-financing is booked as current.

The table above shows a significant decrease in the gross pre-financing amounts under shared management, which is explained by the clearing of EUR 18 521 million of costs offset partially by the payment of new pre-financing of EUR 12 426 million.

Guarantees received in respect of pre-financing

These are guarantees that the Commission requests from beneficiaries that are not Member States in certain cases when paying out advance payments (pre-financing). There are two values to disclose for this type of guarantee, the "nominal" and the "on-going" values. For the nominal value, the generating event is linked to the existence of the guarantee. For the on-going value, the guarantee's generating event is the pre-financing payment and/or subsequent clearings. At 31 December 2016 the nominal value of guarantees received in respect of pre-financing amounted to EUR 683 million while the on-going value of those guarantees was EUR 496 million (2015: EUR 844 million and EUR 626 million respectively).

Certain pre-financing amounts paid out under the 7th Research Framework Programme for research and technological development (FP7) and under Horizon 2020 are effectively covered by a Participants Guarantee Fund (PGF). The PGF is a mutual benefit instrument set up to cover the risks relating to non-payment of amounts by the beneficiaries during the implementation of the indirect actions of FP7 and Horizon 2020. All participants of indirect actions receiving a grant from the EU contribute 5 % of the total amount received to the PGF's capital.

At 31 December 2016 pre-financing amounts covered by the PGF totalled EUR 1.8 billion (2015: EUR 1.7 billion). The EU (represented by the Commission) acts as an executive agent of the participants of the PGF, but the fund is owned by the participants.

At year-end, the PGF had total assets of EUR 1 951 million (2015: EUR 1 838 million). The assets of the PGF also include financial assets that are managed by the Directorate-General for Economic and Financial Affairs of the Commission. As the PGF is a separate entity the assets of the fund are not consolidated in these EU annual accounts.

2.5.2. Other advances to Member States

EUR millions

	31.12.2016	31.12.2015
Advances to Member States for financial instruments under shared management	*2 534*	*3 287*
Aid Schemes	*1 300*	*1 824*
Total	**3 834**	**5 111**
Non-current	*1 651*	*1 332*
Current	*2 183*	*3 779*

Advances to Member States for financial instruments under shared management

Under the framework of the European Structural and Investment Funds (ESIF) programmes, it is possible to make advance payments from the EU budget to Member States so as to allow them to contribute to financial instruments (i.e. loans, equity investments or guarantees). These financial instruments are set up and managed under the responsibility of the Member States, not the Commission. Nevertheless, monies that are unused by these instruments at year-end are the property of the EU (as with all pre-financing) and are thus treated as an asset on the EU's balance sheet.

2014-2020 Period:

Under cohesion policy the Member States have contributed an amount of EUR 3 681 million, of which it is estimated that EUR 1 842 million was still to be implemented at 31 December 2016. This includes the contribution of the Member States to the SME Initiative, an instrument aimed at stimulating additional lending by the banking sector to SMEs (EUR 745 million paid, out of which EUR 481 million is estimated as not yet implemented).

For rural development, EUR 6 million remained unused at year-end.

2007-2013 Period:

In the previous programming period, the basic legal acts do not oblige the Member States to provide periodic reports to the Commission on the use of these advances, and in some cases not even to identify them in the statements of expenditure submitted to the Commission.

For cohesion policy, every year the Commission collects information from the Member States on these financial instruments and consolidates it in an annual implementation report. The next report will be the final implementation report but this report will not be available in time for inclusion in these accounts. Consequently, and consistent with previous years, the measurement is estimated on the basis of the most recent reliable information available, i.e. the annual implementation report as at 31 December 2015 and disbursements made during 2016. The estimate also relies on the assumption that funds will be used in full and used evenly over the remaining period of operation (ending 31 March 2017). It is estimated that at year-end 2016 an amount of EUR 686 million was still to be used for investments in final beneficiaries.

For rural development, at year-end, all amounts have been implemented or re-allocated to other measures before the end of the programming period.

Aid Schemes

Similar to the above, advances paid by the Member States for various aid schemes (state aid, market measures of EAGF or investment measures of EAFRD) that were not used at year-end are recorded as assets on the EU's balance sheet. The Commission has estimated the value of these advances based on information provided by the Member States; the resulting amounts are included under the Aid Schemes sub-heading above.

2014-2020 Period:

For cohesion policy, EUR 117 million was unused at year-end.

For agriculture policy, the Commission requested information on the unused amounts directly from the paying agencies in the Member States. On the basis of this information, it is estimated that EUR 721 million remained unused at year-end.

2007-2013 Period:

It is estimated that EUR 461 million representing advances paid in the context of the agricultural policy remained unused at the end of 2016.

2.6. EXCHANGE RECEIVABLES AND NON-EXCHANGE RECOVERABLES

EUR millions

	Note	31.12.2016	31.12.2015
Non-current			
Recoverables from non-exchange transactions	*2.6.1*	*700*	*857*
Receivables from exchange transactions	*2.6.2*	*16*	*13*
		717	**870**
Current			
Recoverables from non-exchange transactions	*2.6.1*	*10 347*	*8 882*
Receivables from exchange transactions	*2.6.2*	*558*	*572*
		10 905	**9 454**
Total		**11 621**	**10 324**

2.6.1. Recoverables from non-exchange transactions

EUR millions

	Note	31.12.2016	31.12.2015
Non-current			
Member States	*2.6.1.1*	*700*	*857*
		700	**857**
Current			
Member States	*2.6.1.1*	*8 162*	*6 845*
Fines	*2.6.1.2*	*1 808*	*1 601*
Accrued income and deferred charges	*2.6.1.3*	*329*	*369*
Other recoverables		*47*	*67*
		10 347	**8 882**
Total		**11 047**	**9 739**

2.6.1.1. Recoverables from Member States

EUR millions

	31.12.2016	31.12.2015
TOR established in the A account	*3 261*	*3 041*
TOR established in the separate account	*1 437*	*1 283*
Own resources to be received	*1 764*	*-*
Impairment	*(753)*	*(760)*
Other	*36*	*10*
Own resources recoverables	**5 745**	**3 573**
European Agricultural Guarantee Fund (EAGF)	*2 606*	*3 846*
European Agricultural Fund for Rural Development (EAFRD)	*924*	*750*
Temporary Rural Development Instrument (TRDI)	*30*	*26*
Special Accession Programme for Agriculture and Rural Development (SAPARD)	*167*	*175*
Impairment	*(999)*	*(1 092)*
EAGF and rural development recoverables	**2 729**	**3 705**
Pre-financing recovery expected	**293**	**313**
VAT paid and recoverable	**41**	**36**
Other recoverables from Member States	**55**	**75**
Total	**8 863**	**7 701**
Non-current	*700*	*857*
Current	*8 162*	*6 845*

The non-current amounts due from Member States relate to non-executed conformity clearance decisions for the European Agricultural Guarantee Fund (EAGF) and the European Agricultural Fund for Rural Development (EAFRD) to be implemented in annual instalments and/or deferrals.

Own resources recoverables

Traditional own resources (TOR), composed of customs duties and sugar levies, are collected by Member States on behalf of the Commission. Member States establish TOR and communicate the amounts of the entitlements established to the Commission by means of monthly 'A account' statements. Established entitlements that have not been included in the 'A accounts', because they have not been recovered by Member States and no security has been provided (or if security has been provided but are anyway contested), are shown in the 'separate account'.

The Member States' contribution based on VAT and GNI is subject to an annual adjustment which takes place every year on the first working day of December. The own resources to be received included also the adjustments for the financial years 2014, 2015 and 2016 related to the new provisions introduced by the Own Resources Decision (ORD) 2014 following the completion of the ratification process and the entry into force on 1 October 2016, which were due for payment by Member States on 1 January 2017.

Corrections may still be made to the actual VAT and GNI bases during the subsequent four years, unless a reservation is issued. These reservations have to be seen as potential claims on the Member States for uncertain amounts as their financial impact cannot be estimated with accuracy. When the exact amount can be determined, the corresponding VAT and GNI-based resources are called either in connection with VAT and GNI balances or by individual calls for funds.

EAGF and Rural Development recoverables

This item primarily covers the amounts owed by Member States at 31 December 2016, as declared and certified by the Member States at 15 October 2016. An estimation is made for the recoverables arising after this declaration and up to 31 December 2016. The Commission also estimates a write-down for the amounts owed by beneficiaries that are unlikely to be recovered. The fact that such an adjustment is made does not mean that the Commission is waiving future recovery of these amounts. A deduction of 20 % is also included in the adjustment, and corresponds to what Member States are allowed to retain to cover administrative costs.

2.6.1.2. Fines

This refers to fines issued by the Commission which were not (provisionally) cashed at year end (EUR 1 986 million) less amounts written-down (EUR 178 million). Guarantees totalling EUR 1 012 million were received for the fines outstanding at year-end (2015: EUR 1 428 million). It should be noted that EUR 651 million of these receivables were due for payment after 31 December 2016.

2.6.1.3. Accrued income and deferred charges

EUR millions

	31.12.2016	31.12.2015
Cohesion, agriculture and rural development funds: Financial corrections	*9*	*10*
Other accrued income	*64*	*162*
Deferred charges relating to non-exchange transactions	*256*	*196*
Total	**329**	**369**
Non-current	*–*	*–*
Current	*329*	*369*

2.6.2. Receivables from exchange transactions

EUR millions

	31.12.2016	31.12.2015
Non-current		
Other receivables	*16*	*13*
	16	**13**
Current		
Customers	*246*	*225*
Impairment on receivables from customers	*(128)*	*(107)*
Deferred charges relating to exchange transactions	*250*	*228*
Other	*191*	*227*
	558	**572**
Total	**574**	**585**

The impairment on receivables from customers disclosed above includes EUR 55 million of impairment determined on an individual basis.

2.7. INVENTORIES

EUR millions

	31.12.2016	31.12.2015
Scientific materials	*54*	*55*
Other	*111*	*83*
Total	**165**	**138**

2.8. CASH AND CASH EQUIVALENTS

EUR millions

	Note	31.12.2016	31.12.2015
Accounts with Treasuries and Central Banks		*24 566*	*17 119*
Current accounts		*127*	*110*
Imprest accounts		*5*	*4*
Transfers (cash in transit)		*–*	*–*
Other term deposits		*–*	*28*
Bank accounts for budget implementation and other term deposits	2.8.1	**24 698**	**17 262**
Cash belonging to financial instruments	2.8.2	**1 390**	**1 298**
Cash relating to fines	2.8.3	**1 325**	**1 908**
Cash relating to other institutions, agencies and bodies		**1 006**	**1 012**
Cash relating to trust funds		**167**	**192**
Total		**28 585**	**21 671**

2.8.1. Bank accounts for budget implementation and other term deposits

This heading covers the funds which the Commission keeps in its bank accounts in each Member State and EFTA country (treasury or central bank), as well as in commercial bank current accounts, imprest accounts and petty cash. The exceptionally high treasury balance at the end of 2016 is due to the following main elements:

- As regards own resources, the end of year balance includes a total net amount of EUR 7.7 billion to be returned to Member States in early 2017 as result of amending budgets adopted late in 2016. In addition, advances on own resources amounting to EUR 1.5 billion were received in the final days of 2016.

- A significant amount of fines imposed by the Commission for breach of competition rules of EUR 4.3 billion were definitively cashed in 2016 and are part of the year-end treasury balance.
- The treasury balance also includes the assigned revenue and payment appropriations not spent by the end of 2016 of EUR 11 billion.

2.8.2. Cash belonging to financial instruments

Amounts shown under this heading primarily concern cash equivalents managed by fiduciaries on behalf of the Commission for the purpose of implementing particular financial instrument programmes funded by the EU budget (see note **2.4.1**). The cash belonging to financial instruments can only be used in the programme concerned.

2.8.3. Cash relating to fines

This is cash received in connection with fines issued by the Commission for which the case is still open. These amounts are kept in specific deposit accounts that are not used for any other activities. Where an appeal has been lodged or where it is unknown if an appeal will be made by the other party, the underlying amount is shown as contingent liability in note **4.1.4**.

The decrease in this balance is due to the fact that since 2010, all new provisionally cashed fines are managed by the Commission in the BUFI fund and invested in financial instruments categorised as available for sale (see note **2.4.1**).

LIABILITIES

2.9. PENSION AND OTHER EMPLOYEE BENEFITS

Net employee benefit scheme liability

EUR millions

	Pension Scheme of European Officials	Other retirement benefit schemes	Joint Sickness Insurance Scheme	31.12.2016 Total	31.12.2015 Total
Defined Benefit Obligation	*58 746*	*1 882*	*7 036*	*67 664*	*64 242*
Plan assets	*N/A*	*(139)*	*(293)*	*(432)*	*(428)*
Net liability	**58 746**	**1 743**	**6 742**	**67 231**	**63 814**

The increase in the total employee benefits liability is primarily due to an increase in the net liability of the Pension Scheme of European Officials. This increase is mainly due to the reduction in the real discount rate from 0.6 % to 0.3 %, together with the fact that additional rights gained by scheme members exceeded benefit payments out of the scheme.

2.9.1. Pension Scheme of European Officials

This defined benefit obligation represents the present value of expected future payments that the EU is required to make so as to settle the pension obligations resulting from employee service in the current and prior periods. The scheme is ongoing, and as such, all payments required to be made from the scheme on an annual basis are included in the EU budget each year.

In accordance with Article 83 of the Staff Regulations, the payment of the benefits provided for in the staff pension scheme constitutes a charge to the EU's budget. The scheme is unfunded, but the Member States guarantee the payment of these benefits collectively. A compulsory pension contribution is deducted from the basic salaries of active members, currently 9.8 %. These contributions are treated as budget revenue of the year and contribute to the funding of EU expenditure in general, see also note **3.6**.

The liabilities of the pension scheme were assessed on the basis of the number of staff and retired staff at 31 December 2016 and on the rules of the Staff Regulations applicable at this date. This valuation was carried out in accordance with the methodology of IPSAS 25 (and therefore also EU accounting rule 12). During 2016, the Commission has taken steps to strengthen the processes and the reliability of the basic data collection used for calculating the employee benefits liability. The work will continue during 2017 – possible results, where appropriate, will be reflected in the 2017 accounts.

2.9.2. Other retirement benefit schemes

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

2.9.3. Joint Sickness Insurance Scheme

In addition to the above retirement benefit schemes, a valuation is made for the estimated liability that the EU has regarding the Joint Sickness Insurance Scheme in relation to healthcare costs which must be paid during employees' post-activity periods (net of their contributions).

Movement in present value of employee benefits defined benefit obligation

The present value of the defined benefit obligation is the discounted, without deducting any plan assets, expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

An analysis of the current year movement in the defined benefit obligation is shown below:

EUR millions

	Pension Scheme of European Officials	Other retirement benefit schemes	Joint Sickness Insurance Scheme	Total
Present value as at 31.12.2015	**54 967**	**1 613**	**7 662**	**64 242**
Current Service Cost	*2 267*	*83*	*283*	*2 634*
Interest cost	*1 264*	*29*	*161*	*1 454*
Net Actuarial (gains) and losses	*2 142*	*148*	*(1 039)*	*1 251*
Contributions from members	*–*	*–*	*24*	*24*
Benefits paid	*(1 330)*	*(44)*	*(55)*	*(1 429)*
Liability increase/(decrease) due to taxes on pensions	*(565)*	*52*	*–*	*(513)*
Present value as at 31.12.2016	**58 746**	**1 882**	**7 036**	**67 664**

Current service costs are the increase in the present value of the defined benefit obligation arising from current members' service in the current period.

Interest costs are the increase during the period in the present value of the defined benefit obligation because the benefits are one period closer to settlement.

Net Actuarial gains and losses comprise:

- Experience adjustments (the effects of differences between the previous actuarial assumptions for 2016 and what has actually occurred in 2016); and

- Effects of changes in actuarial assumptions, either financial (such as projected salary increases) or demographic (such as mortality rates). These assumptions are inherently uncertain and therefore can show significant movements from year to year.

Benefits are paid during the year according to the rules of the scheme. These benefits paid lead to a decrease in the defined benefit obligation as they are no longer to be paid in the future.

Actuarial assumptions - employee benefits

The principle actuarial assumptions used in the valuation of the two main employee benefit schemes of the EU are shown below:

	Pension Scheme of European Officials	Joint Sickness Insurance Scheme
2016		
Nominal discount rate	*1.7 %*	*1.9 %*
Expected inflation rate	*1.4 %*	*1.5 %*
Real discount rate	*0.3 %*	*0.4 %*
Expected rate of salary increases	*1.2 %*	*1.1 %*
Medical cost trend rates	*N/A*	*3.0 %*
Retirement age	*63/64/66*	*63/64/66*
2015		
Nominal discount rate	*2.0 %*	*2.1 %*
Expected inflation rate	*1.4 %*	*1.4 %*
Real discount rate	*0.6 %*	*0.7 %*
Expected rate of salary increases	*1.2 %*	*1.2 %*
Medical cost trend rates	*N/A*	*3.0 %*
Retirement age	*63/64/65*	*63/64/66*

Mortality rates are based on the International Civil Servants Life Table (ICSLT 2013).

The nominal discount rate is determined as the value of the Euro zero-coupon yield (with a maturity of 21 years as of December 2016 for the Pension Scheme of European Officials (PSEO), and 26 years for the Joint Sickness Insurance Scheme). The inflation rate used is the expected inflation rate over the equivalent period. It must be determined empirically, based on prospective values as expressed by index-linked bonds on the European financial markets. The real discount rate is calculated from the nominal discount rate and the expected long-term inflation rate.

Movement in present value of plan assets

EUR millions

	Other retirement benefit schemes	Joint Sickness Insurance Scheme	Total
Present value as at 31.12.2015	**149**	**280**	**428**
Net movement in plan assets	*(10)*	*14*	*4*
Present value as at 31.12.2016	**139**	**293**	**432**

5 year trend

EUR millions

	2012	2013	2014	2015	2016
Employee benefits liability	*42 503*	*46 818*	*58 616*	*63 814*	*67 231*

The significant increase in the employee benefits liability over the five years can largely be explained by a reduction in the real discount rate used to discount the future cash flows. This reduction is linked to the underlying economic conditions, particularly the fall in interest rates. For the main PSEO scheme, for example, the real discount rate fell from 1.6 % at the end of 2012 to 0.3 % at the end of 2016.

Amounts recognised in the Statement of Financial Performance

EUR millions

	Pension Scheme of European Officials	Other retirement benefit schemes	Joint Sickness Insurance Scheme	Total
2016				
Current service cost	*2 042*	*97*	*283*	*2 422*
Interest cost	*1 138*	*33*	*161*	*1 332*
Past service cost	*–*	*–*	*–*	*–*
Change in plan assets	*–*	*(7)*	*(45)*	*(52)*
Staff and pension costs	**3 180**	**124**	**399**	**3 702**
Actuarial gains and losses	**1 929**	**179**	**(1 039)**	**1 068**
Total	**5 108**	**302**	**(640)**	**4 770**

Joint Sickness Insurance Scheme sensitivity

A one percentage point change in assumed medical cost trend rates would have the following effects:

EUR millions

	One percentage point increase	One percentage point decrease
The aggregate of the current service cost and interest cost components of net periodic post-employment medical costs	*89*	*(74)*
The accumulated post-employment benefit obligation for medical costs	*2 201*	*(1 828)*

2.10. PROVISIONS

EUR millions

	Amount at 31.12.2015	Additional provisions	Unused amounts reversed	Amounts used	Transfer between categories	Change in estimation	Amount at 31.12.2016
Legal cases:							
Agriculture	–	40	*(21)*	*0*	*129*	–	*149*
Cohesion	–	19	–	–	*198*	–	*217*
Other	*459*	8	*(2)*	*(33)*	*(327)*	*(2)*	*102*
Nuclear site dismantling	*1 078*	–	–	*(29)*	–	*64*	*1 113*
Financial	*411*	536	*(7)*	*(53)*	–	*(6)*	*880*
Fines	*4*	20	–	–	–	–	*23*
Other	*79*	*24*	*9*	*(23)*	–	*38*	*127*
Total	**2 030**	**647**	**(21)**	**(138)**	**–**	**94**	**2 611**
Non-current	**1 716**	**491**	**(22)**	**(9)**	**(304)**	**65**	**1 936**
Current	**314**	**156**	**1**	**(128)**	**304**	**29**	**675**

Provisions are amounts, arising from past events, that will probably have to be paid by the EU budget in the future.

Legal cases

This is the estimate of amounts that will probably have to be paid out after the year-end in relation to a number of on-going legal cases.

Nuclear site dismantlement

In 2014 the basis for the provision was updated as per the "2014 updated JRC Strategy on Decommissioning and Waste Management" (D&WM). It represents the follow up of the comments raised by the Review of the JRC D&WM programme made by external experts in 2012. In accordance with EU accounting rules, this provision is indexed for inflation and then discounted to its net present value (using the Euro zero-coupon swap curve). At 31 December 2016, this resulted in a provision of EUR 1 113 million, split between amounts expected to be used in 2016 (EUR 27 million) and afterwards (EUR 1 086 million).

In view of the estimated duration of this programme (around 20 years), it should be pointed out that there is some uncertainty about this estimate, and the final cost could be different from the amounts currently recorded.

Financial provisions

These concern mainly provisions which represent the estimated losses that will be incurred in relation to the guarantees given by the different financial instruments, where the EIF and the EIB are empowered to issue guarantees in their own name but on behalf of and at the risk of the EU. The financial risk of the EU linked to the guarantees is, however, capped. Non-current financial provisions are discounted to their net present value (using the Euro Swap annual rate).

The increase in financial provisions relates mainly to additional provisions for outstanding loans to Syria guaranteed under the EIB external lending mandate guarantee and to increased activities under H2020 and COSME guarantee instruments.

2.11. FINANCIAL LIABILITIES

EUR millions

	Note	31.12.2016	31.12.2015
Non-current financial liabilities			
Financial liabilities at amortised cost	*2.11.1*	*55 067*	*51 764*
Financial liabilities at fair value through surplus or deficit	*2.11.2*	*–*	*–*
Financial guarantee liabilities	*2.11.3*	*–*	*–*
		55 067	**51 764**
Current financial liabilities			
Financial liabilities at amortised cost	*2.11.1*	*2 283*	*7 939*
Financial liabilities at fair value through surplus or deficit	*2.11.2*	*1*	*–*
Financial guarantee liabilities	*2.11.3*	*–*	*–*
		2 284	**7 939**
Total		**57 351**	**59 703**

2.11.1. Financial liabilities at amortised cost

EUR millions

	Note	31.12.2016	31.12.2015
Borrowings for financial assistance	*2.11.1.1*	*55 128*	*56 860*
Other financial liabilities	*2.11.1.2*	*2 222*	*2 842*
Total		**57 350**	**59 703**
Non-Current		*55 067*	*51 764*
Current		*2 283*	*7 939*

2.11.1.1. Borrowings for financial assistance

EUR millions

	EFSM	BOP	MFA	Euratom	ECSC in Liquid-dation	Total
Total at 31.12.2015	*47 509*	*5 811*	*3 024*	*301*	*215*	*56 860*
New borrowings	*4 750*	*–*	*10*	*–*	*–*	*4 760*
Repayments	*(4 750)*	*(1 500)*	*(70)*	*(49)*	*–*	*(6 369)*
Exchange differences	*–*	*–*	*–*	*–*	*(30)*	*(30)*
Changes in carrying amounts	*(53)*	*(40)*	*–*	*–*	*(1)*	*(94)*
Total at 31.12.2016	**47 456**	**4 272**	**2 964**	**252**	**184**	**55 128**
Non-current	*46 800*	*3 050*	*2 889*	*199*	*96*	*53 034*
Current	*656*	*1 222*	*75*	*53*	*88*	*2 094*

Borrowings mainly include debts evidenced by certificates amounting to EUR 54 951 million (2015: EUR 56 656 million). The changes in carrying amount correspond to the change in accrued interests.

Aside from ECSC in liquidation, the repayment of the above borrowings are ultimately guaranteed by the EU budget – see note **4.1.2**, and by extension each Member State.

Borrowings effective interest rates (expressed as a range of interest rates)

	31.12.2016	31.12.2015
Macro Financial Assistance (MFA)	*0 % - 4.54 %*	*0 % - 4.54 %*
Euratom	*0 % - 5.68 %*	*0 % - 5.67 %*
Balance of Payment (BOP)	*2.37 % - 3.37 %*	*2.37 % - 3.62 %*
European Financial Stability Mechanism (EFSM)	*0.62 % - 3.75 %*	*0.62 % - 3.75 %*
ECSC in Liquidation	*6.92 % - 9.78 %*	*6.92 % - 9.78 %*

2.11.1.2. Other financial liabilities

EUR millions

	31.12.2016	31.12.2015
Non-current		
Finance lease liabilities	*1 545*	*1 648*
Buildings paid for in instalments	*329*	*352*
Other	*160*	*122*
	2 034	**2 122**
Current		
Fines to be reimbursed	*25*	*625*
Finance lease liabilities	*84*	*75*
Buildings paid for in instalments	*22*	*21*
Other	*58*	*(0)*
	189	**721**
Total	**2 222**	**2 842**

Finance lease liabilities

EUR millions

Description	Future amounts to be paid			
	< 1 year	1-5 years	> 5 years	Total Liability
Land and buildings	*80*	*403*	*1 136*	*1 619*
Other tangible assets	*4*	*6*	*–*	*10*
Total at 31.12.2016	**84**	**409**	**1 136**	**1 629**
Interest element	*72*	*269*	*304*	*645*
Total future minimum lease payments at 31.12.2016	**156**	**678**	**1 439**	**2 274**
Total future minimum lease payments at 31.12.2015	*132*	*658*	*1 608*	*2 396*

The lease and building related amounts above will have to be funded by future budgets.

2.11.2. Financial liabilities at fair value through surplus or deficit

EUR millions

	31.12.2016			31.12.2015		
	Notional amount receive leg	Notional amount pay leg	Fair value	Notional amount receive leg	Notional amount pay leg	Fair value
Foreign currency forward contract	*99*	*(101)*	*1*	*–*	*–*	*–*

Financial liabilities at fair value through surplus or deficit at 31 December 2016 relate to a foreign currency forward contract in which the EU entered into in 2016 in order to hedge foreign currency risk related to USD denominated debt securities held in the EFSI Guarantee Fund – see note **2.4.2.**

At 31 December 2016 all financial liabilities at fair value through surplus or deficit are categorised into level 2 of the fair value hierarchy (valuation based on observable inputs other than quoted prices).

2.11.3. Financial guarantee liabilities

The financial guarantee liability relates to the guarantee given under EFSI. At 31 December 2016 the EFSI financial guarantee liability total EUR zero, as the revenues to be received under the guarantee exceed expected losses (see note **4.1.1**).

2.12. PAYABLES

EUR millions

	Gross Amount	Adjust-ments*	Net Amount at 31.12.2016	Gross Amount	Adjust-ments*	Net Amount at 31.12.2015
Cost claims and invoices received from:						
Member States:						
EAFRD & other rural develop-ment instruments	*500*	*(34)*	*467*	*2 621*	*(230)*	*2 391*
ERDF & CF	*10 663*	*(793)*	*9 871*	*8 361*	*(950)*	*7 411*
ESF	*4 145*	*(95)*	*4 050*	*3 355*	*(2)*	*3 353*
Other	*793*	*(47)*	*747*	*434*	*(102)*	*332*
Private and public entities	*1 677*	*(169)*	*1 507*	*1 928*	*(223)*	*1 705*
Total costs claims & invoices received	**17 779**	**(1 138)**	**16 641**	**16 699**	**(1 507)**	**15 192**
EAGF	**12 193**	**N/A**	**12 193**	**6 851**	**N/A**	**6 851**
Own Resources Payables	**10 441**	**N/A**	**10 441**	**9 506**	**N/A**	**9 506**
Sundry Payables	**364**	**N/A**	**364**	**356**	**N/A**	**356**
Other	**364**	**N/A**	**364**	**286**	**N/A**	**286**
Total	**41 142**	**(1 138)**	**40 005**	**33 698**	**(1 507)**	**32 191**

** Estimated non-eligible amounts and pending other advances to Member States.*

Payables include cost statements received by the Commission under the framework of 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 through the year-end cut-off procedures. Following these cut-off entries, estimated eligible amounts have therefore been recorded in the accounts as expenses, while the remaining part is disclosed as “Estimated non-eligible amounts and pending other advances to Member States” (see below).

Almost all of the cost claims are included in the budgetary RAL figure at year-end: all Member States amounts and a large portion of other entity invoices.

The biggest movement concerns the European Agricultural Guarantee Fund and is due to a better implementation of the payments at the Member States level in 2016 compared to 2015 – this meant that actual claims were submitted and did not need to be estimated at year-end. The increase of EUR 5.3 billion is, therefore, counter-balanced by a similar decrease in accruals - see note **2.13**.

The significant decrease in payables under EAFRD is due primarily to a reduction in the claims received for the period 2007-2013 which is in the advanced stages of closure.

The other major increase in payables concerns cohesion policy (EUR 13.9 billion in 2016 compared to EUR 10.8 billion in 2015) and mostly relates to the previous programming period, 2007-2013. The cost statements submitted in relation to the programming period 2014-2020 remain limited, for several reasons e.g. the non-designation of several managing authorities.

In the 2014-2020 programming period, the Common Provisions Regulation applicable to the Structural Funds (ERDF and ESF), Cohesion Fund and to the European Maritime and Fisheries Fund (EMFF) foresees that the EU budget is protected by means of a systematic retention of 10 % of the interim payments made. By February following the end of the accounting year (1 July - 30 June), the control cycle is complete both through management verifications by the managing authorities and audits by the audit authorities. The Commission examines the assurance documents and the accounts provided by the relevant authorities in the Member States. The payment / recovery of the final balance is made only after this assessment is finalised and the accounts are accepted. The amount retained according to this disposition at end 2016 totalled EUR 1 billion.

Own resources payables refer to the contribution of Member States to the EU budget to be reimbursed at year-end following the 4th and 5th amending budget of 2016. The significant amount is due to the late adoption of amending budget 4 and 5/2016 which were based on the own resource regulation and the adjustments related to the new provisions introduced by the new own resources decision 2014 only paid to Member States in January 2017.

Estimated non-eligible amounts and pending other advances to Member States

Payables are reduced by that part of the requests for reimbursement received, but not yet checked, that was estimated to be non-eligible. The largest amounts concern the Structural Actions DGs. Payables are also reduced by the part of requests for reimbursement received concerning other advances to Member States (see note **2.5.2**) still to pay at year end (EUR 395 million).

Requests for pre-financing

In addition to the above amounts, EUR 594 million of requests for pre-financing have been received and were not yet paid at year-end. According to the EU accounting rules, these amounts are not booked as payables.

2.13. ACCRUED CHARGES AND DEFERRED INCOME

EUR millions

	31.12.2016	31.12.2015
Accrued charges	*66 800*	*67 358*
Deferred income	*638*	*869*
Other	*143*	*175*
Total	**67 580**	**68 402**

The split of accrued charges is as follows:

EUR millions

	31.12.2016	31.12.2015
EAGF	*33 033*	*38 263*
EAFRD and other rural development instruments	*17 024*	*14 806*
ERDF and CF	*7 157*	*5 026*
ESF	*3 473*	*2 636*
Other	*6 112*	*6 627*
Total	**66 800**	**67 358**

The biggest movement concerns the European Agricultural Guarantee Fund (EAGF) and is due to a better implementation in 2016 of the payments at the Member States level compared to 2015 – this meant that actual claims were submitted and did not need to be estimated at year-end. The decrease of EUR 5.2 billion is, therefore, counter-balanced by a similar increase in payables - see note **2.12**.

The increase of EUR 3 billion in cohesion is due to increasing implementation at final beneficiaries level.

The increase in accruals concerning EAFRD (EUR 2.2 billion) is linked to a lower level of claims received for the 2014-2020 period meaning that more amounts had to be accrued at year-end.

Aside from EAGF, all other Member State accruals are included in the budgetary RAL, as are most of the 'other' accruals – see note **5.1**.

NET ASSETS

2.14. RESERVES

EUR millions

	Note	31.12.2016	31.12.2015
Fair value reserve	*2.14.1*	*325*	*292*
Guarantee Fund reserve	*2.14.2*	*2 643*	*2 561*
Other reserves	*2.14.3*	*1 873*	*1 829*
Total		**4 841**	**4 682**

2.14.1. Fair value reserve

In accordance with the EU accounting rules, the adjustment to fair value of available for sale financial assets is accounted for through the fair value reserve.

Movements of the fair value reserve during the period

EUR millions

	2016	2015
Available for sale financial assets:		
Included in fair value reserve	*34*	*79*
Included in the statement of financial performance	*0*	*(33)*
	34	**46**
Relating to participations accounted for using the equity method	*(0)*	*7*
Total	**33**	**53**

2.14.2. Guarantee Fund reserve

This reserve reflects the 9 % target amount of the outstanding amounts guaranteed by the EU budget under the EIB external lending mandate, that is required to be kept as assets in the Guarantee Fund for external actions (see note **2.4.1**).

2.14.3. Other reserves

The amount relates primarily to the ECSC in liquidation reserve (EUR 1 524 million) for the assets of the Research Fund for Coal and Steel, which was created in the context of the winding-up of the ECSC.

2.15. AMOUNTS TO BE CALLED FROM MEMBER STATES

	EUR millions
Amounts to be called from Member States at 31.12.2015	**77 124**
Return of 2015 budget surplus to Member States	*1 349*
Movement in Guarantee Fund reserve	*82*
Other reserve movements	*58*
Economic result of the year	*(1 733)*
Total amounts to be called from Member States at 31.12.2016	**76 881**

This amount represents that part of the expenses incurred by the EU up to 31 December 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 (or later) and therefore funded using the budget of year N+1 (or later). 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 concern the European Agricultural Guarantee Fund activities and employee benefit liabilities.

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

3. NOTES TO THE STATEMENT OF FINANCIAL PERFORMANCE

REVENUE

REVENUE FROM NON-EXCHANGE TRANSACTIONS: OWN RESOURCES

3.1. GNI RESOURCES

Own resources revenue is the primary element of the EU's operating revenue. Of the three categories of own resources, traditional own resources ("TOR"), the VAT-based resources and the GNI-based resources, the GNI revenue of EUR 95 578 million (2015: EUR 95 355 million) is the most significant.

3.2. TRADITIONAL OWN RESOURCES

EUR millions

	2016	2015
Customs duties	*20 301*	*18 524*
Sugar levies	*138*	*125*
Total	**20 439**	**18 649**

Traditional own resources comprise custom duties and sugar levies. Member States retain, by way of collection costs, 20 % of traditional own resources, and the above amounts are shown net of this deduction.

3.3. VAT RESOURCES

The VAT resource is levied on Member States' VAT bases, which are notionally harmonised in accordance with EU rules for this purpose. The VAT contribution is calculated applying a uniform rate of call of 0.3 % to the base of each Member State. For the period 2014-2020, the Council Decision 2014/335/EU, Euratom, foresees a reduced rate of call of 0.15 % for Germany, the Netherlands and Sweden. The decrease of VAT revenue in 2016 is primarily explained by the fact that the reduced call rate was for the first time applicable in 2016, following the entry into force of the own resource decision (ORD) 2014.

REVENUE FROM NON-EXCHANGE TRANSACTIONS: TRANSFERS

3.4. FINES

These revenues of EUR 3 858 million (2015: EUR 531 million) relate to fines imposed by the Commission for breach of infringement rules, mainly related to competition cases. Receivables and related revenues are recognised when the Commission decision imposing a fine has been taken and it is officially notified to the addressee. The main amounts in 2016 and thus the significant increase as compared to the fines revenue of 2015 concern fines in the markets for trucks (EUR 2 927 million) and the banking sector (EUR 485 million).

3.5. RECOVERY OF EXPENSES

EUR millions

	2016	2015
Shared management	*1 876*	*1 465*
Direct management	*56*	*76*
Indirect management	*15*	*6*
Total	**1 947**	**1 547**

This heading mainly represents the recovery orders issued by the Commission that are cashed or offset against (i.e. deducted from) subsequent payments recorded in the Commission's accounting system, made so as to recover expenditure previously paid out from the general budget. Recoveries are based on controls, audits or eligibility analysis and therefore, these actions are an important consideration in implementing the EU budget. These operations protect the EU budget from expenditure incurred in breach of law and are particularly important since the audit results of the European Court of Auditors have found a material level of error in payments made from the EU budget – see the Court's annual report including the statement of assurance on the legality and regularity of the underlying transactions.

Recovery orders issued by Member States to beneficiaries of EAGF expenditure, as well as the variation of accrued income estimations from the previous year-end to the current, are also included.

The amounts included in the above table represent revenue incurred through the issuance of recovery orders. For this reason, these figures cannot and do not show the full extent of the measures taken to protect the EU budget, particularly for cohesion policy where specific mechanisms are in place to ensure the correction of ineligible expenditure, most of which do not involve the issuance of a recovery order. Not included are amounts recovered through offsetting with expenses, amounts recovered by way of withdrawals and recoveries of pre-financing amounts.

Shared management recoveries make up the bulk of the total:

Agriculture: EAGF and rural development

In the framework of the EAGF and the EAFRD, amounts accounted for as revenue of the year under this heading are financial corrections of the year and reimbursements declared by Member States and recovered during the year, as well as the net increase in the outstanding amounts declared by Member States to be recovered at year-end concerning fraud and irregularities.

Cohesion policy

The main amounts related to cohesion policy include recovery orders issued by the Commission to recover undue expenditure made in previous years and deductions from expenditure less the decrease in accrued income at year-end.

3.6. OTHER REVENUE FROM NON-EXCHANGE TRANSACTIONS

EUR millions

	2016	2015
Budgetary adjustments	*1 956*	*984*
Staff taxes and contributions	*1 189*	*1 115*
Contributions from third countries	*953*	*946*
Contributions from Member States for external aid	*732*	*0*
Transfer of assets	*147*	*197*
Adjustment of provisions	*14*	*71*
Agricultural levies	*5*	*814*
Other	*744*	*939*
Total	**5 740**	**5 067**

The budgetary adjustments include the budget surplus from 2015 (EUR 1 349 million) which is indirectly refunded to Member States by deduction of the amounts of own resources they have to transfer to the EU in the following year – thus it is a revenue for 2016.

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

Contributions from third countries are contributions from EFTA countries and accession countries.

Contributions from Member States for external aid are mainly the amounts received to set up the Facility for Refugees in Turkey.

Transfer of assets revenue relates mainly to the transfer of satellites under the Copernicus programme (former GMES programme) from the European Space Agency (ESA) to the Commission (see note **2.2**). This transfer is a non-exchange transaction according to the EU accounting rules and will occur in future periods for the remaining Copernicus satellites currently under construction.

Agricultural levies concern milk levies which are a market management tool aimed at penalising milk producers who exceed their reference quantities. As it is not linked to prior payments by the Commission, it is in practice considered as revenue for a specific purpose. The large amount for milk levies last year was due primarily to the superlevy of EUR 811 million.

REVENUE FROM EXCHANGE TRANSACTIONS

3.7. FINANCIAL INCOME

EUR millions

	2016	2015
Interest income on:		
Pre-financing	*(0)*	*9*
Late payments	*108*	*20*
Available for sale financial assets	*24*	*56*
Loans	*1 446*	*1 616*
Cash and cash equivalents	*6*	*14*
Impaired financial assets	*9*	*7*
Other	*0*	*0*
Interest income	**1 592**	**1 721**
Dividend income	**13**	**8**
Realised gains on sale of financial assets	**35**	**50**
Financial income from financial assets or liabilities at fair value through surplus or deficit	**0**	**–**
Other financial income	**128**	**66**
Total	**1 769**	**1 846**

Interest income on loans relates mainly to loans granted for financial assistance (see note **2.4.3**).

3.8. OTHER REVENUE FROM EXCHANGE TRANSACTIONS

EUR millions

	2016	2015
Foreign exchange gains	*331*	*970*
Fee revenue for rendering of services	*267*	*358*
Fee and premium revenue related to financial instruments	*48*	*43*
Sales of goods	*46*	*43*
Property, plant and equipment related revenue	*17*	*4*
Other	*288*	*145*
Total	**996**	**1 562**

EXPENSES

3.9. SHARED MANAGEMENT

EUR millions

Implemented by Member States	2016	2015
European Agricultural Guarantee Fund	*44 152*	*45 032*
European Agricultural Fund for Rural Development and other rural development instruments	*12 604*	*16 376*
European Regional Development Fund and Cohesion Fund	*35 045*	*38 745*
European Social Fund	*9 366*	*9 849*
Other	*1 606*	*2 380*
Total	**102 772**	**112 382**

The transition from the former programming period 2007-2013 to the period 2014-2020 explains the reduction of expenses of EUR 4.2 billion for the cohesion area: as would be expected, the costs declared for the previous period are decreasing, while the costs related to the current period are increasing but remain lower. The same reason explains the decrease of expenses incurred under European Agricultural Fund for Rural Development (EAFRD) and other rural development instruments by EUR 3.8 billion – see also note **2.13**.

The sub-heading 'Other' mainly includes: Fisheries and Maritime Affairs (EUR 756 million), Asylum and Migration (EUR 310 million) and Fund for European Aid to the Most Deprived (EUR 178 million).

3.10. DIRECT MANAGEMENT

EUR millions

	2016	2015
Implemented by the Commission	*9 254*	*10 089*
Implemented by EU Executive Agencies	*6 259*	*5 532*
Implemented by Trust funds	*97*	*6*
Total	**15 610**	**15 626**

These amounts mainly concern the implementation of Research Policy (EUR 7.1 billion) and Networks Programmes (EUR 2.0 billion), as well as European Neighbourhood Policy (EUR 1.0 billion), Development Co-operation Instruments (EUR 1.2 billion) and Humanitarian Aid (EUR 0.7 billion).

3.11. INDIRECT MANAGEMENT

EUR millions

	2016	2015
Implemented by other EU agencies and bodies	*2 547*	*1 209*
Implemented by third countries	*876*	*905*
Implemented by international organisations	*2 382*	*2 127*
Implemented by other entities	*2 035*	*2 107*
Total	**7 840**	**6 348**

3.12. STAFF AND PENSION COSTS

EUR millions

	2016	2015
Staff costs	*6 074*	*5 838*
Pension costs	*3 702*	*4 435*
Total	**9 776**	**10 273**

Pension costs represent elements of the movements that have arisen following the actuarial valuation of the employee benefits liabilities other than actuarial assumptions.

3.13. CHANGES IN EMPLOYEE BENEFITS ACTUARIAL ASSUMPTIONS

The actuarial loss of net EUR 1 billion shown under this heading relates to the employee benefits liabilities recognised on the balance sheet (see note **2.9**).

3.14. FINANCE COSTS

EUR millions

	2016	2015
Interest expenses:		
Borrowings	*1 440*	*1 607*
Other	*57*	*21*
Finance leases	*67*	*91*
Impairment losses on available for sale financial assets	*40*	*27*
Impairment losses on loans and receivables	*184*	*174*
Realised loss on sale of financial assets	*0*	*3*
Loss on financial assets or liabilities at fair value through surplus or deficit	*1*	*–*
Other finance costs	*116*	*63*
Total	**1 904**	**1 986**

The amount of interest expense on borrowings corresponds to interest income on loans for financial assistance (back-to-back transactions).

3.15. SHARE OF RESULT OF JOINT VENTURES AND ASSOCIATES

In accordance with the equity method of accounting, the EU includes in its statement of financial performance its share of the result of its joint ventures and associates - see note **2.3**.

3.16. OTHER EXPENSES

EUR millions

	2016	2015
Administrative and IT expenses	*2 455*	*2 419*
Property, plant and equipment related expenses	*1 404*	*1 304*
Adjustment of provisions	*685*	*520*
Foreign exchange losses	*505*	*785*
Reduction of fines by the Court of Justice	*18*	*1 137*
Other	*419*	*458*
Total	**5 486**	**6 623**

The decrease in other expenses is mainly due to write-off of fines imposed in 2015, where the Court of Justice had decided in favour of the fined undertaking.

Included under Property, plant and equipment related expenses are EUR 383 million (2015: EUR 373 million) relating to operating leases.

Expenses relating to research and development are included in administrative and IT expenses and are as follows:

EUR millions

	2016	2015
Research costs	*344*	*384*
Non-capitalised development costs	*88*	*60*
Total	**431**	**443**

3.17. SEGMENT REPORTING BY MULTIANNUAL FINANCIAL FRAMEWORK HEADING (MFF)

EUR millions

	Smart and inclusive growth	Sustainable growth	Security and citizenship	Global Europe	Administration	Not assigned to MFF heading*	Total
GNI resources	–	–	–	–	–	*95 578*	*95 578*
Traditional own resources	–	–	–	–	–	*20 439*	*20 439*
VAT	–	–	–	–	–	*15 859*	*15 859*
Fines	–	–	–	–	–	*3 858*	*3 858*
Recovery of expenses	*48*	*1 871*	*4*	*23*	–	*1*	*1 947*
Other	*785*	*171*	*28*	*105*	*4 750*	*(97)*	*5 740*
Revenue from non-exchange transactions	**834**	**2 041**	**32**	**128**	**4 750**	**135 638**	**143 422**
Financial income	*87*	*0*	*0*	*21*	*0*	*1 661*	*1 769*
Other	*121*	*(11)*	*(7)*	*(5)*	*307*	*592*	*996*
Revenue from exchange transactions	**208**	**(11)**	**(7)**	**16**	**307**	**2 253**	**2 765**
Total revenue	**1 041**	**2 030**	**25**	**144**	**5 057**	**137 891**	**146 187**
Expenses implemented by Member States:							
EAGF	–	*(44 152)*	–	–	–	–	*(44 152)*
EAFRD & other rural development instruments	–	*(12 604)*	–	–	–	–	*(12 604)*
ERDF & CF	*(35 045)*	–	–	–	–	–	*(35 045)*
ESF	*(9 366)*	–	–	–	–	–	*(9 366)*
Other	*(466)*	*(754)*	*(470)*	*84*	–	–	*(1 606)*
Implemented by the EC, executive agencies and trust funds	*(10 143)*	*(544)*	*(957)*	*(3 951)*	*(50)*	*34*	*(15 610)*
Implemented by other EU agencies and bodies	*(2 028)*	*(110)*	*(662)*	*(265)*	–	*518*	*(2 547)*
Implemented by third countries and int. org.	*(274)*	*(5)*	*(188)*	*(2 792)*	–	–	*(3 258)*
Implemented by other entities	*(1 411)*	*(16)*	*(2)*	*(606)*	*(0)*	–	*(2 035)*
Staff and Pension costs	*(1 593)*	*(345)*	*(390)*	*(575)*	*(5 968)*	*(904)*	*(9 776)*
Changes in employee benefits actuarial assumptions	–	–	–	–	*(1 068)*	–	*(1 068)*
Finance costs	*(173)*	*(47)*	*(1)*	*(20)*	*(127)*	*(1 536)*	*(1 904)*
Share of result of joint ventures & associates	*2*	–	–	–	–	–	*2*
Other expenses	*(1 468)*	*(83)*	*(102)*	*(70)*	*(3 196)*	*(566)*	*(5 486)*
Total expenses	**(61 964)**	**(58 659)**	**(2 772)**	**(8 195)**	**(10 409)**	**(2 455)**	**(144 454)**
Economic result of the year	**(60 923)**	**(56 629)**	**(2 747)**	**(8 051)**	**(5 352)**	**135 436**	**1 733**

** "Not-assigned to MFF heading" includes consolidated entities' budget execution and consolidation eliminations, off-budget operations and unallocated programmes with immaterial amounts.*

The display of revenue and expenses by MFF heading is based on estimation as not all commitments are linked to an MFF heading.

4. CONTINGENT LIABILITIES AND ASSETS

4.1. CONTINGENT LIABILITIES

Contingent liabilities are possible future payment obligations for the EU that may arise due to past events or legally binding commitments taken but which will depend on future events not wholly under the control of the EU. They relate mainly to financial guarantees given (on loans and financial assistance programmes) and to legal risks. All contingent liabilities, except those relating to fines and guarantees covered by funds (see note **2.4.1**), would be financed, should they fall due, by the EU budget (and thus the EU Member States) in the years to come.

4.1.1. Budgetary guarantees

EUR millions

	31.12.2016			31.12.2015		
	Ceiling	Signed	Disbursed	Ceiling	Signed	Disbursed
EIB external lending mandate guarantees	*40 645*	*30 161*	*21 145*	*41 764*	*28 741*	*19 450*
EFSI guarantee	*16 000*	*11 245*	*4 392*	*16 000*	*1 252*	*202*
Total	**56 645**	**41 406**	**25 537**	**57 764**	**29 993**	**19 652**

The above table shows the extent of the exposure of the EU budget to possible future payments linked to guarantees given to the EIB group. Disbursed amounts represent the amounts already given to final beneficiaries, while signed amounts include these disbursed monies plus agreements already signed with beneficiaries but not yet disbursed. The ceiling represents the total guarantee that the EU budget, and thus its Member States, have committed to cover.

EIB external lending mandate guarantees

The EU budget guarantees loans signed and granted by the EIB from the EIB's own resources to third countries. At 31 December 2016 the amount of loans outstanding and covered by the EU guarantee totalled EUR 21.1 billion. The EU budget guarantees:

- EUR 19 481 million (2015: EUR 19 450 million) via the Guarantee Fund for external actions (see note **2.4.1**), and

- EUR 1 664 million (2015: EUR 1 987 million) directly for loans granted to Member States before accession.

In addition to the EUR 21.1 billion disclosed above as a contingent liability, the EU guarantees EUR 309 million of outstanding loans to Syria for which provisions have been made – see note **2.10**.

The EU external lending mandate guarantee relating to loans granted by the EIB is limited to 65 % of the outstanding balances for agreements signed after 2007 (mandates 2007-2013 and 2014-2020). For agreements before 2007 the EU guarantee is limited to a percentage of the ceiling of the credit lines authorised, in most cases 65 % but also 70 %, 75 % or 100 %. Where the ceiling is not reached, the EU guarantee covers the full amount.

To disclose the maximum exposure faced by the EU at 31 December 2016, however, one must also include loans authorised to be signed but not yet signed (EUR 10.5 billion) and loans signed but not disbursed (EUR 9 billion).

European Fund for Strategic Investments (EFSI) guarantee

EFSI is an initiative that aims to increase the risk bearing capacity of the EIB Group by enabling the EIB to invest up to EUR 61 billion in the EU. EFSI is not a separate legal entity or an investment fund in the strict sense. The EFSI risk reserve offers protection to the EIB against potential losses for underlying operations. It is composed of an allocation of EUR 5 billion of EIB's own capital and an EU budget guarantee of up to EUR 16 billion (cap amount). It is the objective that additional funding of Member States, national promotional banks and private investors would bring the investments in the EU to a total of EUR 315 billion.

The EFSI operations are conducted within two windows: the Infrastructure and Innovation Window (IIW) implemented by the EIB (EU guarantee of EUR 13 billion) and the SME Window (SMEW) implemented by the EIF (EU guarantee of EUR 3 billion), both of which will have a debt portfolio and an equity portfolio. The EIF acts under an agreement with the EIB on the basis of an EIB guarantee which itself is counter-guaranteed by the EU.

For the purpose of the use of the EU guarantee the implementation of EFSI is supervised by a steering board acting by consensus and composed of four members of which three are appointed by the Commission and one by the EIB. The steering board does not take investment decisions.

The EU and the EIB have distinct roles within EFSI. EFSI is established within the EIB who finance the operations (debt and equity investments) and, to do this, borrow the necessary funds on the capital markets. Regarding the IIW, the EIB takes the investment decisions independently and manages the operations in accordance with its rules and procedures, the same as applied to its own (risk) operations. In order to ensure that investments made under EFSI remain focused on the specific objective of addressing the market failures which hinders investment in the EU and that they are eligible for the protection of the EU guarantee, a dedicated governance structure has been put in place. The investment committee of independent experts examines each project proposed by the EIB regarding its eligibility for the EU guarantee coverage. Once an operation is confirmed to be eligible, as EFSI guaranteed operation, the decision to continue with the project and its management is then subject to the normal EIB project cycle and governance process.

The role of the EU relates to the provision of the EU budget guarantee for part of the potential losses that the EIB may suffer from its investments in debt and equity instruments. Consequently, the EU does not intervene in the selection and management of EFSI operations, does not invest money in the EFSI operations and it is not a direct contractual party to the underlying instruments. As the control criteria and accounting requirements for consolidation of the EU accounting rules (and IPSAS) are not met, the related assets are not accounted for in the consolidated annual accounts of the EU.

At all times, the EU guarantee is capped at EUR 16 billion and the aggregate net payments from the EU budget shall not exceed this amount. EU guarantee payments would be made by the EFSI Guarantee Fund – see note **2.4.1**. At the end of 2016 the assets of the guarantee fund total EUR 1 billion, while another EUR 2.4 billion have been committed but not yet paid and is included in the amount disclosed as RAL in note **5.1**.

The EU guarantee granted to the EIB group under EFSI is accounted for as a financial guarantee liability in respect of the debt portfolio and as a contingent liability for both debt and equity portfolios. As the guaranteed investments are financed and controlled by the EIB, the related financial assets are not accounted for in the consolidated annual accounts of the EU.

Under the EFSI IIW debt portfolio, the EU guarantee covers the first loss piece of a portfolio of financing operations entered into by the EIB, which are mainly standard loans and guarantees. The EU guarantee is called when the debtor fails to make a payment when due or in the case of a debt restructuring. The EU guarantee is remunerated in proportion to the risk taken by the EU and this happens in the form of a distribution, between the EIB and the EU, of the risk-related revenues received by EIB from the guaranteed operations. The EU revenues should first cover the losses incurred on the guaranteed operations. The EU guarantee is therefore accounted for as financial guarantee liability and measured, at initial recognition, at fair value, being the net present value of the premiums receivable (the EU revenues). At subsequent balance sheet dates, the financial guarantee liability is measured at the higher of the expected losses and the amount initially recognised less, when appropriate, the accumulated amortisation of the revenue. The financial guarantee liability is presented net of the EU revenues still to be received – zero at 31 December 2016 – see note **2.11.3**.

Under the EFSI IIW equity portfolio, which consists of direct equity or quasi equity participations or subordinated loans, the EIB invests pari-passu at its own risk and also at the risk of the EU. Consequently, the EU guarantee covers for the part of the equity investments guaranteed by the EU, the negative value adjustments (unrealised losses) at each balance sheet date, the realised losses at dis-investment and the EIB funding costs. In cases where the value of an investment, which was previously subject to a negative value adjustment, increases at subsequent reporting dates, the amount up to the original cost of the investment is reimbursed by the EIB to the EU. At the time of the dis-investment, the EU is also entitled to gains on the investment exceeding the original cost. The EU guarantee is remunerated by revenues received by the EIB from the guaranteed operations, including interests, dividends and realised gains. The settlement between the EU and the EIB happens annually net of losses and revenues. At 31 December 2016, EUR 35.7 million of EU guaranteed operations under the IIW equity portfolio have been invested, which were recorded as a contingent liability.

The SMEW equity portfolio, only began in 2016 and amounts have been immaterial. The accounting treatment of the equity operations will be established by the Accounting Officer after consulting the EU Advisory Group of Experts on Accounting Standards. EUR 5 million have been invested by the EIF and are shown as contingent liability at 31 December 2016.

The contingent liability above includes operations of the COSME and H2020 programmes which are covered by the EFSI EU guarantee under SMEW debt portfolio.

4.1.2. Guarantees relating to financial assistance (borrowing and lending activities)

EUR millions

	31.12.2016			31.12.2015		
	Drawn	Undrawn	Total	Drawn	Undrawn	Total
EFSM	*47 456*	*–*	*47 456*	*47 509*	*–*	*47 509*
BOP	*4 272*	*–*	*4 272*	*5 811*	*–*	*5 811*
MFA	*2 964*	*1 313*	*4 277*	*3 024*	*1 323*	*4 347*
Euratom	*252*	*300*	*552*	*301*	*300*	*601*
Total	**54 944**	**1 613**	**56 557**	**56 645**	**1 623**	**58 268**

The EU budget guarantees the borrowings in the back-to-back transactions of the Commission taken to finance lending to Member and non-Member States – see also note **6**. These borrowings are already recognised as liabilities on the EU balance sheet - see note **2.11.1** for further details. However, should there be a default on the back-to-back-loans given out with these borrowings, the EU budget based on Article 14 of Council Regulation 609/2014 would have to bear the full cost of the amount defaulted:

- Borrowings related to loans disbursed under the EFSM are guaranteed solely by the EU budget;
- Borrowings related to BOP loans are guaranteed solely by the EU budget;
- MFA loans are firstly guaranteed by the Guarantee Fund for external actions (see note **2.4.1**) and then by the EU budget; and
- Guarantees from third-parties are the first cover for the entire amounts of the outstanding Euratom loans. The Guarantee Fund would cover the external lending amounts should the third party guarantees not provide for them.

ECSC in Liquidation loans granted on borrowed funds are not covered by an EU budgetary guarantee. Instead, they are covered by financial assets of the ECSC in Liquidation – see note **2.4.1**.

4.1.3. Guarantees given for EU financial instruments

EUR millions

	31.12.2016	31.12.2015
Horizon 2020	*921*	*459*
Risk Sharing Finance Facility	*711*	*845*
*Connecting Europe Facility**	*465*	*429*
Other	*3*	*16*
Total	**2 101**	**1 749**

* *Previous year amounts relate to Project Bond Initiative and Loan Guarantee Instrument for TEN-T projects. These two instruments were merged in 2016 into the Connecting Europe Facility.*

As mentioned in Article 140(3) FR, the budgetary expenditure linked to a financial instrument and the financial liability of the EU shall in no case exceed the amount of the relevant budgetary commitment made for it, thus excluding contingent liabilities for the budget. In practise it means that these liabilities have a counter-part on the asset side of the balance sheet or are covered by the outstanding budgetary commitments not yet expensed. The contingent liabilities above are shown net of financial provisions made for these instruments – see note **2.10**.

4.1.4. Legal cases

EUR millions

	31.12.2016	31.12.2015
Fines	*1 834*	*3 951*
Agriculture	*1 711*	*1 377*
Cohesion	*3*	*3*
Other	*600*	*795*
Total	**4 148**	**6 125**

Fines

These amounts concern fines imposed by the Commission for infringement of competition rules that have been provisionally paid by fined companies as foreseen in Article 90(1) rules of application of the FR 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 or until the expiry of the period for appeal. Interest earned on provisional payments is included in the economic result of the year and also as a contingent liability to reflect the uncertainty of the Commission's title to these amounts.

Should the EU lose any of these cases relating to fines imposed, there would be no charge to the EU budget since the fines have been provisionally paid and this cash is held either in specific bank accounts (see note **2.8**) or in the BUFI fund set up for this purpose (see note **2.4.1**). The amount of fines are only recognised as budgetary revenue when they are definitive (Article 83 FR).

Agriculture

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

Cohesion

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

Other legal cases

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

4.2. CONTINGENT ASSETS

EUR millions

	31.12.2016	31.12.2015
Guarantees received:		
Performance guarantees	*369*	*398*
Other guarantees	*28*	*27*
Other contingent assets	*34*	*48*
Total	**431**	**474**

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

5. BUDGETARY AND LEGAL COMMITMENTS

This note provides information on the budgetary process and future funding needs and not on liabilities existing as at 31 December 2016.

The multiannual financial framework (MFF) agreed by the Member States, defines the programmes and sets out the heading ceilings for commitment appropriations and the total for payment appropriations within which the EU may enter into budgetary and legal commitments, and ultimately make payments for a period of 7 years – see table **1.1** in the notes to the budgetary implementation reports.

The MFF ceilings were adopted by the Council (Member States), with the consent of the European Parliament and Article 16 of Regulation 1306/2013 on the financing of the CAP makes a direct link between the annual ceiling of EAGF expenditure and the MFF Regulation. The European Parliament and the Council also adopted the respective basic acts for the EAGF expenditure that set out the expenditure per Member State for the entire period 2014-2020.

Legal commitments correspond to programmes, projects, agreements or contracts signed, thus legally binding the EU. A legal commitment is the act whereby the authorising officer enters or establishes an obligation (for the EU) which results in a charge (Article 85 FR).

A budgetary commitment is in principle made before the legal commitment, but for some multiannual programmes/projects it is the reverse, the relevant budgetary commitments being made in annual instalments, over several years, when the basic act so provides for. For example, for cohesion, Article 76 of the Common Provisions Regulation (CPR) (Regulation (EU) No 1303/2013) provides that the decision of the Commission adopting a programme shall constitute a legal commitment within the meaning of the Financial Regulation but that the budget commitments of the Union in respect of each programme shall be made in annual instalments for each Fund during the period between 1 January 2014 and 31 December 2020. Other legal bases may contain similar provisions. For this reason, there may be amounts that the EU has legally committed to pay, but where the budgetary commitment has not yet been made – see notes **5.2** and **5.3** below.

If the budgetary commitment has been made but the subsequent payments are not yet done, the amount of outstanding commitment is called "Reste à Liquider" (RAL). This can represent programmes or projects, often multiannual, signed but which are not yet (fully) implemented. They represent payment obligations for future years. Part of the overall amounts unpaid (RAL) has already been expensed and is recognised as a liability on the balance sheet (see notes **2.12** and **2.13**). The calculation of these expenses is made based on cost claims/invoices received and on the estimated implementation of a programme or project where no claims have been notified yet to the EU – see note **5.1** below. Once the payments relating to the RAL are made after 31 December 2016, the liability on the balance sheet is derecognised. The part of the RAL not expensed yet is not included under liabilities but is instead disclosed below.

The disclosures below thus represent amounts at 31 December 2016 that the EU has committed to pay based on the fulfilment of the contractual agreements and which are therefore intended to be funded by future EU budgets.

EUR millions

	Note	31.12.2016	31.12.2015
Outstanding budgetary commitments not yet expensed	*5.1*	*189 881*	*177 477*
Shared management legal commitments under the current MFF pending implementation	*5.2*	*276 351*	*338 755*
Significant legal commitments in other areas	*5.3*	*22 275*	*19 098*
Total		**488 507**	**535 329**

5.1. OUTSTANDING BUDGETARY COMMITMENTS NOT YET EXPENSED

EUR millions

	31.12.2016	31.12.2015
Outstanding budgetary commitments not yet expensed	*189 881*	*177 477*

The amount disclosed above is the budgetary RAL ("Reste à Liquider") of EUR 238 759 million, less related amounts that have been included as liabilities on the balance sheet and as expenses in the statement of financial performance. The budgetary RAL is an amount representing the open commitments for which payments and/or de-commitments have not yet been made. As explained above, this is the normal consequence of the existence of multiannual programmes.

It should be noted that outstanding pre-financing advances at 31 December 2016 totalled EUR 45.5 billion (see note **2.5**). This represents budgetary commitments that have been paid, decreasing the RAL, but where the amounts paid are still considered as belonging to the EU and not to the beneficiary until the contractual commitments are fulfilled. They are thus like the RAL disclosed above, not yet expensed.

5.2. SHARED MANAGEMENT LEGAL COMMITMENTS UNDER THE CURRENT MFF PENDING IMPLEMENTATION

EUR millions

Funds	Financial framework 2014-2020 (A)	Legal commitments concluded (B)	Budget commitments (C)	Decommit-ments (D)	Budget available under MFF (=A-C)	Legal commitments less budget commitments (=B-C+D)
European Regional Development Fund and Cohesion Fund	262 058	262 058	102 172	–	159 886	159 886
European Social Fund	91 991	91 991	38 418	–	53 573	53 573
Fund for European Aid to the most Deprived	3 814	3 814	1 570	–	2 244	2 244
HEADING 1B: COHESION POLICY FUNDS	**357 862**	**357 862**	**142 160**	**–**	**215 702**	**215 702**
European Agricultural Fund for Rural Development	99 348	99 348	42 064	–	57 284	57 284
European Maritime and Fisheries Fund	5 749	5 749	2 392	–	3 358	3 358
HEADING 2: NATURAL RESOURCES	**105 097**	**105 097**	**44 455**	**–**	**60 641**	**60 641**
Asylum and Migration Fund	3 607	1 977	1 970	–	1 637	7
Internal Security Fund	2 195	981	981	–	1 214	0
HEADING 3: SECURITY & CITIZENSHIP	**5 802**	**2 958**	**2 951**	**–**	**2 851**	**7**
Total	**468 761**	**465 917**	**189 566**	**–**	**279 195**	**276 351**

These are legal obligations that the EU has committed to paying when adopting the operational programmes related to shared management. The decision of the Commission adopting an operational programme shall constitute a financing decision within the meaning of Article 84 FR and once notified to the Member State concerned, a legal commitment within the meaning of that Regulation.

Article 76 of the CPR for European Structural and Investment Funds (ESIF) states:

"The budget commitments of the Union in respect of each programme shall be made in annual instalments for each Fund during the period between 1 January 2014 and 31 December 2020. The budget commitments relating to the performance reserve in each programme shall be made separately from the remaining allocation to the programme."

The table above starts with the total MFF (column A) and shows the legal commitments for which budget commitments have not yet been made and, for information, the maximum commitments in relation to the ceilings foreseen in the MFF 2014-2020, headings 1B, 2 and 3. These legal commitments thus represent the outstanding amounts for which the EU is committed to pay after 31 December 2016.

Column B shows the legal commitments concluded by the Commission at year-end and column C shows the budget commitments made available relating to these legal commitments at year-end. At 31 December 2016 no decommitments (column D) have been made.

5.3. SIGNIFICANT LEGAL COMMITMENTS IN OTHER AREAS

EUR millions

	31.12.2016	31.12.2015
Connecting Europe Facility	*13 799*	*10 051*
Copernicus	*2 393*	*2 939*
ITER	*1 891*	*2 022*
Galileo	*523*	*124*
Fisheries agreements	*247*	*373*
Operating lease commitments	*2 419*	*2 511*
Other contractual commitments	*1 003*	*1 079*
Total	**22 275**	**19 098**

These amounts reflect the long-term legal commitments that were not yet covered by commitment appropriations in the budget at year-end. These binding obligations will be budgeted in annual instalments in future years and paid.

Certain important programmes (see below) may be implemented by annual instalments according to Article 85(4) FR. This allows the EU to make legal commitments (sign grant agreements, delegation agreements and procurement contracts) in excess of the available commitment appropriations of a given year. Therefore a substantial amount of the overall allocation for the current MFF may be already committed. This applies in particular for the following programmes:

- Connecting Europe Facility;
- Copernicus;
- ITER; and
- Galileo.

Connecting Europe Facility (CEF)

The CEF provides financial assistance to trans-European networks in order to support projects of common interest in the sectors of transport, telecommunications and energy infrastructures. The legal commitments for the CEF programme cover a period running from 2014 until 2020 for the CEF Transport and up to 2021 for CEF Energy. The legal basis of these commitments is Regulation (EU) No 1316/2013 of the EP and of the Council of 11 December 2013 establishing the Connecting Europe Facility, amending Regulation (EU) No 913/2010 and repealing Regulations (EC) No 680/2007 and (EC) No 67/2010 Text with EEA relevance (OJ L 348, 20 December 2013) which foresees the use of the annual instalment in its article 19.

Copernicus

Copernicus is the European Earth observation programme – see also note **2.2**. These commitments are made for the period until 2020. Based on Regulation (EU) 377/2014 of the EP and Council of 3 April 2014 (OJ L 122/44 of 24 April 2014) the Commission signed delegation agreements with the European Space Agency (ESA), EUMETSAT and the European Centre for Medium Range weather forecasts. Article 8 of Regulation 377/2014 authorises the use of annual instalments.

ITER – International Thermonuclear Experimental Reactor

These commitments are intended to cover future funding needs of the ITER facilities up to 2021. The EU (Euratom) contribution to ITER International is given through the Fusion for Energy Agency, including also the contributions from Member States and from Switzerland. These commitments are made on the basis of Council decision (Euratom) 791/2013 of 13 December 2013 amending decision (Euratom) 198/2007 establishing the European Joint Undertaking for ITER and the Development of Fusion Energy which authorises the use of annual instalments. ITER was created to manage and to encourage the exploitation of the ITER facilities, to promote public understanding and acceptance of fusion energy, and to undertake any other activities that are necessary to achieve its purpose. ITER involves the EU, China, India, Russia, South Korea, Japan and the USA.

Galileo

These are amounts committed to the Galileo programme developing a European Global Navigation Satellite System – see also note **2.2**. These commitments are made for the period until 2020. Based on Regulation (EU) 1285/2013 of the EP and Council of 11 December 2013 (OJ L 347/1 of 20 December 2013) the Commission signed a delegation agreement with ESA. Article 9 of Regulation (EU) 1285/2013 authorises the use of annual instalments.

Fisheries agreements

These are commitments entered into up to 2020 with third countries for operations under international fisheries agreements. These commitments are made based on Council decisions for each third country (e.g. Council decision (EU) 1894/2015 of 5 October 2015 on the conclusion of the Protocol between the European Union and the Republic of Cape Verde setting out the fishing opportunities and the financial contribution provided for in the Fisheries Partnership Agreement between the European Community and the Republic of Cape Verde; OJ L 277, 22 October 2015). These are specific international treaties which imply multiannual rights and obligations.

Operating lease commitments

Minimum amounts committed to be paid according to the underlying contracts during the remaining term of these lease contracts are as follows:

EUR millions

	Future amounts to be paid			
	< 1 year	1- 5 years	> 5 years	Total
Buildings	*373*	*1 085*	*944*	*2 402*
IT materials and other equipment	*7*	*10*	*0*	*17*
Total	**380**	**1 095**	**944**	**2 419**

Other contractual commitments

The amounts included under this disclosure correspond to amounts committed to be paid during the term of the contracts. The most significant amount included here relates to building contracts of the European Parliament (EUR 276 million).

6. FINANCIAL RISK MANAGEMENT

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

- Borrowing and lending activities for financial assistance carried out by the Commission through: EFSM, BOP, MFA, and Euratom actions and the ECSC in Liquidation;

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

- Assets held in funds for budgetary guarantees: The Guarantee Fund for external actions and the EFSI Guarantee Fund; and

- Financial instruments financed by the EU budget.

6.1. TYPES OF RISK

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

(1) *Currency risk* is the risk that the EU's operations or its investments' value will be affected by changes in exchange rates. This risk arises from the change in price of one currency against another.

(2) *Interest rate risk* is the possibility of a reduction in the value of a security, especially a bond, resulting from an increase in interest rates. In general, higher interest rates will lead to lower prices of fixed rate bonds, and vice versa.

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

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

6.2. RISK MANAGEMENT POLICIES

The implementation of the EU budget relies increasingly on the use of operational programme financial instruments. The basic concept behind this new approach, in contrast to the traditional method of budget implementation by giving grants and subsidies, is that for each euro spent from the budget via financial instruments, the final beneficiary receives more than EUR 1 as financial support due to the leverage effect. This use of the EU budget maximises the impact of the funds available. For more information on the amounts concerned, see note **2.4.1**.

Common to most financial instruments is the fact that the implementation is delegated to either the EIB group (including EIF) or to other financial institutions based on an agreement between the Commission and the financial institution. Agreements signed with these financial institutions include strict conditions and obligations on the intermediaries so as to ensure that EU monies are properly managed and properly reported on. Once a financial contribution to one of the instruments has been committed, the funds are transferred to a specifically created bank account of the financial institution (i.e. a fiduciary account). The financial institution may, depending on the instrument in question, use the funds on this fiduciary account to provide loans, issue debt instruments, invest in equity instruments or cover the guarantee calls. Proceeds from financial instruments have, as a general rule, to be reimbursed to the EU budget.

The risk as regards these financial instruments is limited to a ceiling as indicated in the underlying agreements, which is the budgeted amount foreseen for the instrument. As the Commission often bears the "first loss piece" and since instruments are intended to finance riskier beneficiaries (who have difficulties in obtaining funding from commercial lenders), it is therefore likely that some losses to the EU budget will occur.

Measurement of financial instruments

The following classes of financial assets and liabilities are not measured at fair value: cash and cash equivalents, loans, exchange receivables and non-exchange recoverables, borrowings and other financial liabilities measured at amortised cost. The carrying amount of those financial assets and liabilities is considered as a reasonable approximation of their fair value.

Borrowing and lending activities for financial assistance

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

Treasury

The rules and principles for the management of the Commission's treasury operations are laid down in the Council Regulation 609/2014 (amended by Council Regulation 804/2016) and in the Financial Regulation and its rules of application.

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

- Own resources are paid by the Member States into accounts opened for this purpose in the name of the Commission with the Treasury or national central bank. The Commission may draw on the above accounts solely to cover its cash requirements.

- Own Resources are paid by Member States in their own national currencies, while the Commission's payments are mostly denominated in EUR.

- Bank accounts opened in the name of the Commission may not be overdrawn. This restriction does not apply to the Commission's own resource accounts in case of a default on loans contracted or guaranteed pursuant to EU Council regulations and decisions and under certain conditions in case the cash resource requirements are in excess of the assets of the accounts.

- Funds held in bank accounts denominated in currencies other than EUR are either used for payments in the same currencies or periodically converted in EUR.

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

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

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

Fines

Provisionally cashed fines: deposits

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

Provisionally cashed fines: BUFI portfolio

Fines imposed and provisionally cashed from 2010 onwards are invested in a specifically created fund, BUFI. The main objectives of the Fund are the reduction of risks associated with financial markets and the equal treatment of all fined entities by offering a guaranteed return calculated on the same basis. The asset management for provisionally cashed fines is carried out by the Commission in accordance with internal asset management guidelines. Procedural manuals covering specific areas such as treasury management have been developed and are used by the relevant operational units. Financial and operational risks are identified and evaluated and compliance with internal guidelines and procedures is checked regularly.

The objectives of the asset management activities are to invest the fines provisionally paid to the Commission in such a way as to:

a) ensure that the funds are easily available when needed, while

b) aiming at delivering, under normal circumstances, a return which on average is in line with the return of the BUFI Benchmark minus costs incurred, while preserving the nominal amount of the fines.

Investments are restricted essentially to the following categories: term deposits with Euro-area Central Banks, Euro-area sovereign debt agencies, fully state-owned or state-guaranteed banks or supranational institutions, and bonds, bills and Certificates of Deposit issued by either sovereign or supranational institutions.

Bank guarantees

Significant amounts of guarantees issued by financial institutions are held by the Commission in relation to the fines it imposes on companies breaching EU competition rules (see note **2.6.1.2**). These guarantees are provided by fined companies as an alternative to making provisional payments. The guarantees are managed in compliance with the internal risk management policy. Financial and operational risks are identified and evaluated and compliance with internal policies and procedures is checked regularly.

Guarantee Fund for external actions

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

EFSI Guarantee Fund

The EFSI Guarantee Fund was established by Regulation (EU) 2015/1017 of the European Parliament and of the Council of 25 June 2015. The rules and principles for the asset management of the Fund are laid out in the Commission Decision C(2016)165 of 21 January 2016. The managed assets shall provide sufficient liquidity in relation to the potential guarantee calls, while still aiming at optimising the return and risk level that is compatible with maintaining a high degree of security and stability.

6.3. CURRENCY RISK

Financial instruments exposure of the EU to currency risk at year end – net position

EUR millions

	31.12.2016						
	USD	GBP	DKK	SEK	EUR	Other	Total
Financial assets							
Available for sale financial assets	*228*	58	*14*	*42*	*10 080*	*21*	*10 442*
Financial assets at fair value through surplus or deficit	*(49)*	–	–	–	*50*	–	*0*
*Loans**	*4*	0	–	–	*329*	*10*	*343*
Receivables and recoverables	*1*	593	*51*	*81*	*10 888*	*8*	*11 622*
Cash and cash equivalents	*39*	*2 394*	*428*	*1 220*	*22 387*	*2 117*	*28 585*
	222	**3 045**	**493**	**1 342**	**43 734**	**2 156**	**50 993**
Financial liabilities							
Financial liabilities at fair value through surplus or deficit	*(100)*	–	–	–	*100*	–	*(1)*
Payables	*(1)*	*(5)*	*(0)*	*(0)*	*(39 983)*	*(16)*	*(40 005)*
	(101)	**(5)**	**(0)**	**(0)**	**(39 883)**	**(16)**	**(40 005)**
Total	**121**	**3 040**	**493**	**1 342**	**3 851**	**2 140**	**10 987**

EUR millions

	31.12.2015						
	USD	GBP	DKK	SEK	EUR	Other	Total
Financial assets							
Available for sale financial assets	*81*	76	*11*	*8*	*9 416*	*28*	*9 620*
Financial assets at fair value through surplus or deficit	–	–	–	–	–	–	–
*Loans**	*5*	0	–	–	*354*	*18*	*377*
Receivables and recoverables	*10*	542	*53*	*85*	*9 555*	*78*	*10 324*
Cash and cash equivalents	*36*	*1 785*	*368*	*1 287*	*17 342*	*853*	*21 671*
	132	**2 403**	**433**	**1 380**	**36 667**	**977**	**41 992**
Financial liabilities							
Financial liabilities at fair value through surplus or deficit	–	–	–	–	–	–	–
Payables	*(1)*	*(2)*	*0*	*(0)*	*(32 187)*	*(1)*	*(32 191)*
	(1)	**(2)**	**0**	**(0)**	**(32 187)**	**(1)**	**(32 191)**
Total	**131**	**2 401**	**433**	**1 380**	**4 480**	**976**	**9 801**

** Excluding back-to-back loans for financial assistance.*

If the EUR had strengthened against other currencies by 10 %, then it would have had the following impact:

EUR millions

	Economic result			
	USD	GBP	DKK	SEK
2016	*(4)*	*(272)*	*(43)*	*(118)*
2015	*(5)*	*(212)*	*(38)*	*(125)*

EUR millions

	Net assets			
	USD	GBP	DKK	SEK
31.12.2016	*(7)*	*(5)*	*(1)*	*(4)*
31.12.2015	*(7)*	*(7)*	*(1)*	*(1)*

If the EUR had weakened against these currencies by 10 %, then it would have had the following impact:

EUR millions

	Economic result			
	USD	GBP	DKK	SEK
2016	*5*	*332*	*53*	*145*
2015	*6*	*259*	*47*	*152*

EUR millions

	Net assets			
	USD	GBP	DKK	SEK
31.12.2016	*9*	*6*	*2*	*5*
31.12.2015	*9*	*8*	*1*	*1*

Borrowing and lending activities for financial assistance

Most financial assets and liabilities are in EUR, so in these cases the EU has no foreign currency risk. However, the EU does give loans in USD through the financial instrument Euratom, which are financed by borrowings with an equivalent amount in USD (back-to-back operation). At the balance sheet date the EU has no foreign currency risk with regard to Euratom.

Treasury

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

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

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

Fines

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

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

Guarantee Fund for external actions

The financial assets of this fund are in EUR so there is no currency risk. The loans subrogated to the EU as result of calls on the Fund following payment defaults by a loan beneficiary are carried out in their original currency and therefore expose the EU to currency risk. There are no activities to compensate foreign currency variations ("hedging" activities) due to uncertainty relating to the loans repayment timing.

EFSI Guarantee Fund

The EFSI Guarantee Fund currently operates in both EUR and USD. In December 2016 the first investments in USD denominated fixed-rate debt securities (US Treasuries) were undertaken with a view to improve returns and diversify market risk through exposure to the US market. Currency risk is managed through entering into derivative contracts (foreign exchange forward contracts) hedging the market value of the USD investments portfolio. The limit for maximum unhedged foreign exchange exposure is set at 1 % of the total portfolio value within the benchmark and annual strategy allocations. Thus, upward or downward movements in the USD investments' market value above or below the 1 % limit would trigger a rebalancing trade (a new forward contract with the same or opposite direction), adjusting or reversing the hedged position accordingly. Readjustment of the hedge may also be prompted by movements of the EUR/USD exchange rate.

6.4. INTEREST RATE RISK

The following table illustrates the interest rate sensitivity of available for sale financial assets assuming a possible change in interest rates of +/- 100 basis points (1 %).

EUR millions

	Increase (+) / decrease (-) in basis points	Effect on economic result and net assets
2016: Available for sale financial assets	*+100*	*(291)*
	-100	*313*
2015: Available for sale financial assets	*+100*	*(206)*
	-100	*223*

Borrowing and lending activities for financial assistance

Due to the nature of its borrowing and lending activities, the EU has significant interest-bearing assets and liabilities. However, the interest rate risks that arise from borrowings are offset by equivalent loans in terms and conditions (back-to-back).

Treasury

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

Accounts opened with Member States Treasuries for own resources receipts are non-interest bearing and free of charges. Accounts held with National Central Banks may be remunerated at the official rates applied by each institution. As some of the remunerations applied to these accounts may currently be negative, cash management procedures are in place to minimise balances kept on these accounts.

In addition, own resources accounts are protected from any impact of negative interest in accordance with Council Regulation 804/2016.

Overnight balances held on commercial bank accounts earn interest on a daily basis. This is based on variable market rates to which a contractual margin (positive or negative) is applied. The rates applied by commercial banks are in general contractually floored at zero. As a result no risk exists that the Commission earns interest at rates lower than market rates.

Fines

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

Interest earned on deposits have a limited exposure to interest rate risk due to a duration of less than one year. The rest of the portfolio is invested in securities with an average duration of 2.6 years.

Guarantee Fund for external actions

The budget provisioned in the Guarantee Fund is invested in a portfolio of money market instruments and long term bonds with a total average portfolio duration of 3.59 years.

EFSI Guarantee Fund

The budget provisioned in the EFSI Guarantee Fund is invested in a portfolio of money market instruments and long term bonds with a total average portfolio duration of 3.5 years.

6.5. CREDIT RISK

The amounts that represent the EU's exposure to credit risk at the end of the reporting period are the carrying amounts of the financial instruments as disclosed in note **2**.

Analysis of the age of financial assets that are not impaired

EUR millions

	Total	Neither past due nor impaired	Past due but not impaired		
			< 1 year	1-5 years	> 5 years
Loans	*55 477*	*55 476*	*1*	*–*	*–*
Receivables and recoverables	*11 622*	*10 310*	*130*	*909*	*273*
Financial assets at fair value through surplus or deficit	*0*	*0*	*–*	*–*	*–*
Total at 31.12.2016	**67 099**	**65 786**	**131**	**909**	**273**
Loans	*57 251*	*57 251*	*0*	*–*	*–*
Receivables and recoverables	*10 324*	*8 672*	*120*	*1 384*	*148*
Total at 31.12.2015	**67 575**	**65 922**	**120**	**1 384**	**148**

Receivables and recoverables between 1 and 5 years include recoverables related to competition fines of EUR 870 million that are to a large extent covered by bank guarantees and the Commission has thus low exposure to a credit risk. These guarantees are provided by fined companies as an alternative to making provisional payments.

Credit quality of financial assets that are neither past due nor impaired

EUR millions

	31.12.2016				
	AFS*	Financial assets at FVSD**	Loans & Receivables	Cash	Total
Counterparties with external credit rating					
Prime and high grade	*6 451*	*–*	*3 386*	*21 990*	*31 828*
Upper medium grade	*1 412*	*–*	*23 826*	*5 325*	*30 563*
Lower medium grade	*1 056*	*–*	*4 532*	*492*	*6 081*
Non-investment grade	*–*	*–*	*27 724*	*744*	*28 468*
	8 920	**–**	**59 469**	**28 552**	**96 941**
Counterparties without external credit rating					
Group 1	*–*	*0*	*6 238*	*33*	*6 272*
Group 2	*–*	*–*	*79*	*–*	*79*
	–	**0**	**6 317**	**33**	**6 351**
Total	**8 920**	**0**	**65 786**	**28 585**	**103 292**

EUR millions

	31.12.2015			
	AFS*	Loans & Receivables	Cash	Total
Counterparties with external credit rating				
Prime and high grade	*5 945*	*3 256*	*16 147*	*25 349*
Upper medium grade	*1 087*	*23 818*	*4 503*	*29 409*
Lower medium grade	*1 247*	*4 527*	*263*	*6 037*
Non-investment grade	*32*	*29 371*	*732*	*30 136*
	8 310	**60 973**	**21 646**	**90 930**
Counterparties without external credit rating				
Group 1	–	*4 855*	*25*	*4 880*
Group 2	–	*95*	–	*95*
	–	**4 950**	**25**	**4 975**
Total	**8 310**	**65 922**	**21 671**	**95 905**

* *Available for sale financial assets (excluding equity instruments and Unitary Fund).*
** *Financial assets at fair value through surplus or deficit.*

Not included in the above table are available for sale financial assets in the form of equity instruments without external credit rating. The four risk categories mentioned above are in principle based on the rating categories of external rating agencies and correspond to:

- Prime and high grade: Moody P-1, Aaa – Aa3; S&P A-1+, A-1, AAA – AA -; Fitch F1+, F1, AAA – AA- and equivalent
- Upper medium grade: Moody P-2, A1 – A3; S&P A-2, A+ - A-; Fitch F2, A+ - A- and equivalent
- Lower medium grade: Moody P-3, Baa1 – Baa3, S&P A-3, BBB+ - BBB-; Fitch F-3, BBBB+ - BBB- and equivalent
- Non-investment grade: Moody not prime, Ba1 – C; S&P B, C, BB+ - D; Fitch B, C, BB+ - D and equivalent

The EU uses these external agencies rating categories as a reference point notably for financial instruments and commercial banks, but may, after making its own analysis of individual cases, keep amounts in one of the above risk categories even though one or more of the above mentioned rating agencies may have downgraded the corresponding counterparty. As regards non-rated counterparties, group 1 relates to debtors without defaults in the past and group 2 relates to debtors with defaults in the past.

The amounts displayed above under loans and receivables categorised in non-investment grade relate primarily to financial support loans disbursed by the Commission to Member States in financial difficulties and recoverables against certain Members States based on own resources regulations or other legal basis. The amount under cash relates to own resources bank accounts opened in the Treasury or in the central banks of Member States to hold the own resources contributions as foreseen in the regulation. The Commission may draw on these accounts solely to cover cash requirements arising from execution of the budget.

Borrowing and lending activities for financial assistance

Exposure to credit risk is managed firstly by obtaining country guarantees in the case of Euratom, then through the Guarantee Fund for external actions (MFA & Euratom), then by the possibility of drawing the necessary funds from the Commission's own resources accounts with the Member States and ultimately through the Budget of the EU.

The Own Resources legislation fixes the ceiling for own resources payments at 1.20 % of Member States' GNI and during 2016 0.89 % was actually used to cover payment appropriations. This means that at 31 December 2016 there existed an available margin of 0.31 % to cover these guarantees. To this end, the EU is entitled to call upon all the Member States to ensure compliance with the EU's legal obligation towards its lenders.

Treasury

Most of the Commission's treasury resources are kept, in accordance with Council Regulation No 609/2014 on own resources, in the accounts opened by Member States for the payment of their contributions (own resources). All such accounts are held with Member States' treasuries or national central banks. These institutions carry the lowest credit (or counterparty) risk for the Commission as the exposure is with its Member States. For the part of the Commission's treasury resources kept with commercial banks, in order to cover the execution of payments, replenishment of these accounts is made on a just-in-time basis and is automatically managed by the treasury cash management system. Minimum cash levels, which take into account the average amount of daily payments executed from it, are kept on each account. As a consequence the total amount kept overnight on these accounts remains constantly at low levels (overall less than EUR 100 million on average, spread over 20 accounts) and so ensure the Commission's risk exposure is limited. These amounts should be viewed with regard to the daily overall treasury balances which fluctuated in 2016 between EUR 1 billion and EUR 30 billion, and with an overall amount of payments made from Commission accounts in 2016 that exceeds EUR 145 billion.

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

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

- The credit ratings of the commercial banks where the Commission has accounts are monitored on a daily basis.

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

Fines

Provisionally cashed fines: deposits

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

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

Provisionally cashed fines: BUFI portfolio

For sovereign debt investments from provisionally cashed fines imposed as from 2010, the Commission takes on the exposure to credit risk. The highest concentration of exposure is towards France, which represents 31 % of the total nominal volume of the portfolio. The five countries with the highest exposure (France, Italy, Belgium, Germany and Luxembourg) represent altogether 77 % of the investment portfolio. The weighted average credit rating of the portfolio is A (S&P or equivalent).

Bank guarantees

The risk management policy applied for the acceptance of such guarantees ensures a high credit quality for the Commission. The compliance of the outstanding guarantees with the applicable policy requirements is reviewed regularly.

Guarantee Fund for external actions

The treasury portfolio's agreed asset management guidelines and/or investment strategy define certain limits and restrictions in order to limit the exposure to credit risk of the portfolio. Such limits and restrictions include eligibility criteria, absolute credit limits in nominal terms depending on issuer category, relative concentration limits depending on issuer category and concentration limits per issue. All investments are rated at least investment grade.

EFSI Guarantee Fund

The asset management guidelines, risk and investment strategies define certain limits and restrictions in order to limit the exposure to credit risk of the portfolio which is generally limited to investment grade. The weighted average credit rating of the portfolio is A (S&P or equivalent).

As the sole counterparty for all outstanding currency forwards as of 31 December 2016 is the Bank for International Settlements (BIS), no credit enhancements, such as collateral, netting agreements, or guarantees are put in place as of this date. The maximum exposure to credit risk for foreign exchange derivatives having a positive fair value at the end of the reporting period is equal to the carrying amount on the balance sheet.

6.6. LIQUIDITY RISK

Maturity analysis of financial liabilities by remaining contractual maturity

EUR millions

	< 1 year	1-5 years	> 5 years	Total
Borrowings	*2 094*	*18 084*	*34 950*	*55 128*
Payables	*40 005*	–	–	*40 005*
Other	*189*	*637*	*1 397*	*2 222*
Total at 31.12.2016	**42 288**	**18 721**	**36 346**	**97 355**
Borrowings	*7 218*	*9 660*	*39 982*	*56 860*
Payables	*32 191*	–	–	*32 191*
Other	*721*	*513*	*1 609*	*2 843*
Total at 31.12.2015	**40 130**	**10 173**	**41 591**	**91 894**

Financial liabilities at fair value through surplus or deficit

EUR millions

	< 1 year	1-5 years	> 5 years	Total
Derivative receivable	*149*	–	–	*149*
Derivative payable	*(150)*	–	–	*(150)*
Total at 31.12.2016	**(1)**	**–**	**–**	**(1)**

Borrowing and lending activities for financial assistance

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

Treasury

EU budget principles ensure that overall cash resources for a given year are always sufficient for the execution of all payments. In fact, the total Member States contributions equal the amount of payment appropriations for the budgetary year. Member States' contributions, however, are received in twelve monthly instalments throughout the year, while payments are subject to certain seasonality. Moreover, in accordance with the Council Regulation 609/2014 (on the methods and procedure for making available own resources), Member States contributions relating to (amending) budgets approved after the 16th of a given month (N) only become available in month N+2, while the related payment appropriations are immediately available. In order to ensure that available treasury resources are always sufficient to cover the payments to be executed in any given month, procedures regarding regular cash forecasting are in place, and own resources or additional funding can be called up in advance from Member States if needed, up to certain limits and under certain conditions. Seasonality of expenditure and overall budgetary restrictions in recent years have resulted in the need for increased monitoring of the rhythm of payments over the year. In addition to the above, in the context of the Commission's daily treasury operations, automated cash management tools ensure that sufficient liquidity is available on each of the Commission's bank accounts, on a daily basis.

Fines

Provisionally cashed fines: BUFI portfolio

The fund is managed according to the principle that the assets shall have a sufficient degree of liquidity and mobilisation in relation to the relevant commitments. The portfolio is composed of mostly highly liquid securities that can be sold to meet unexpected cash outflows. In addition the share of securities maturing within 1 year and floating rate notes is 33 %.

Guarantee Fund for external actions

The fund is managed according to the principle that the assets shall have a sufficient degree of liquidity and mobilisation in relation to the relevant commitments. The fund must maintain a minimum of EUR 100 million in a portfolio with a maturity of less than twelve months which is to be invested in monetary instruments. As at 31 December 2016 these investments, including cash, amounted to EUR 197 million. Furthermore, a minimum of 20 % of the fund's nominal value shall comprise monetary instruments, fixed-rate bonds with a remaining maturity of no more than one year, and floating-rate bonds. As at 31 December 2016 this ratio stood at 20 %.

EFSI Guarantee Fund

The Guarantee Fund is managed according to the principle that the assets shall have a sufficient degree of liquidity and mobilisation in relation to the relevant commitments. The portfolio is composed of highly liquid assets that can be sold to meet unexpected cash outflows, including the most liquid USD-denominated assets – US Treasuries, standing at 15 % of the total investment portfolio as of the reporting date. In addition, the share of securities maturing within 1 year and floating rate notes is 23 %.

The settlement of derivative contracts is gross and is based on their contractual maturity. Obligations are honoured via sales of USD-denominated assets and/or a swap transaction, whereby it is possible that a cash outflow arises due to foreign exchange differences.

No liquidity management is necessary with regard to collateral/margin requirements as the current hedging counterparty accepts to operate with the Commission without any requirements for collateral/margin calls.

7. RELATED PARTY DISCLOSURES

7.1. RELATED PARTIES

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

7.2. KEY MANAGEMENT ENTITLEMENTS

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

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

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

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

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

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

A summary of their entitlements is given below – further information can be found in the Staff Regulations published on the Europa website which is the official document describing the rights and obligations of all officials of the EU. Key management personnel have not received any preferential loans from the EU.

KEY MANAGEMENT FINANCIAL ENTITLEMENTS

EUR

Entitlement (per employee)	Category 1	Category 2	Category 3	Category 4	Category 5
Basic salary (per month)	*27 031.43*	*24 484.99 - 25 464.39*	*19 587.99 - 22 036.49*	*21 155.03 - 22 526.20*	*12 455.10 - 19 587.99*
Residential/Expatriation allowance	*15%*	*15%*	*15%*	*15%*	*0-4%-16%*
Family allowances:					
Household (% salary)	2% + 181.82	2% + 181.82	2% + 181.82	2% + 181.82	2% + 181.82
Dependent child	397.29	397.29	397.29	397.29	397.29
Pre-school	97.05	97.05	97.05	97.05	97.05
Education, or	269.56	269.56	269.56	269.56	269.56
Education outside place of work	539.12	539.12	539.12	539.12	539.12
Presiding judges allowance	*N/A*	*N/A*	*627.76*	*N/A*	*N/A*
Representation allowance	*1 464.87*	*941.46*	*627.76*	*N/A*	*N/A*
Annual travel costs	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
Transfers to Member State:					
Education allowance*	Yes	Yes	Yes	Yes	Yes
% of salary*	5%	5%	5%	5%	5%
% of salary with no cc	max 25%	max 25%	max 25%	max 25%	max 25%
Representation expenses	*Reimbursed*	*Reimbursed*	*Reimbursed*	*N/A*	*N/A*
Taking up duty:					
Installation expenses	54 062.86	48 969.98 - 50 928.78	39 175.99 - 44 072.99	42 310.07 - 45 052.39	Reimbursed
Family travel expenses	Reimbursed	Reimbursed	Reimbursed	Reimbursed	Reimbursed
Moving expenses	Reimbursed	Reimbursed	Reimbursed	Reimbursed	Reimbursed
Leaving office:					
Resettlement expenses	27 031.43	24 484.99 - 25 464.39	19 587.99 - 22 036.49	21 155.03 - 22 526.20	Reimbursed
Family travel expenses	Reimbursed	Reimbursed	Reimbursed	Reimbursed	Reimbursed
Moving expenses	Reimbursed	Reimbursed	Reimbursed	Reimbursed	Reimbursed
Transition (% salary)**	40% - 65%	40% - 65%	40% - 65%	40% - 65%	N/A
Sickness insurance	Covered	Covered	Covered	Covered	Covered
Pension (% salary, before tax)	*Max 70%*	*Max 70%*	*Max 70%*	*Max 70%*	*Max 70%*
Deductions:					
Tax on salary	8% - 45%	8% - 45%	8% - 45%	8% - 45%	8% - 45%
Sickness insurance (% salary)	*1.7%*	*1.7%*	*1.7%*	*1.7%*	*1.7%*
Special levy on salary	7%	7%	7%	7%	6-7%
Pension deduction	N/A	N/A	N/A	N/A	9.8%
Number of persons at year-end	**3**	**6**	**93**	**28**	**112**

** With correction coefficient ("CC") applied.*

*** Paid for the first 3 years following departure.*

8. EVENTS AFTER THE BALANCE SHEET DATE

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

On 29 March 2017 the United Kingdom formally announced its intention to leave the European Union, thus activating Article 50 of the Treaty on European Union. In accordance with this article as well as the European Council guidelines on the financial agreement and negotiating directives provided by the Council, the EU shall conclude an agreement with the United Kingdom, setting out the arrangements for its withdrawal. At the time of the signing of these accounts, the negotiation process has just begun and there is no impact on the financial position of the EU at 31 December 2016.

9. SCOPE OF CONSOLIDATION

A. CONTROLLED ENTITIES (52)

1. Institutions and consultative bodies (11)

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

2. EU Agencies (39)

2.1. Executive Agencies (6)

Education, Audiovisual & Culture Executive Agency
Executive Agency for Small and Medium-sized Enterprises
Consumers, Health, Agriculture and Food Executive Agency
Innovation & Networks Executive Agency
Research Executive Agency
European Research Council Executive Agency

2.2. Decentralised Agencies (33)

European Maritime Safety Agency
European Food Safety Authority
European Medicines Agency
European Railway Agency
European GNSS Supervisory Authority
Community Plant Variety Office
European Chemicals Agency
European Fisheries Control Agency
Fusion for Energy (European Joint Undertaking for ITER and the Development of Fusion Energy)
European Monitoring Centre for Drugs and Drug Addiction
Eurojust
European Union Intellectual Property Office
European Institute for Gender Equality
European Police Office (EUROPOL)
European Agency for Safety and Health at Work
European Aviation Safety Agency
European Centre for Disease Prevention and Control
European Network and Information Security Agency
European Environment Agency
European Union Agency for Fundamental Rights
European Centre for the Development of Vocational training
European Insurance and Occupational Pensions Authority
European Agency for Cooperation of Energy Regulators
Translation Centre for the Bodies of the European Union
European Banking Authority
European Securities and Markets Authority
European Asylum Support Office
European Training Foundation
Office for the Body of European Regulators for Electronic Communication
European Foundation for the Improvement of Living and Working Conditions
European Agency Border and Coast Guard Agency (Frontex)
European Union Agency for Law Enforcement Training (CEPOL)
EU-LISA (European Agency for the operational management of large-scale IT systems in the area of freedom, security and justice)

3. Other controlled entities (2)

European Coal and Steel Community (in liquidation)
European Institute of Innovation and Technology

B. ASSOCIATES (1)

European Investment Fund

MINOR ENTITIES

The entities listed below have not been consolidated using the equity method into the 2016 EU consolidated financial statements on the basis of immateriality:

Bio Based Industries Joint Undertaking

Bio Based Industries is a Public-Private Partnership (PPP) between the EU and the Bio-based Industries Consortium (BIC). The BBI is dedicated to realising the European bioeconomy potential, turning biological residues and wastes into greener everyday products through innovative technologies and biorefineries, which are at the heart of the bioeconomy.

Clean Sky Joint Undertaking

Clean Sky is the largest European research programme developing innovative, cutting-edge technology aimed at reducing CO2, gas emissions and noise levels produced by aircraft. Funded by the EU's Horizon 2020 programme, Clean Sky contributes to strengthening European aero-industry collaboration, global leadership and competitiveness.

Innovative Medicines Initiative Joint Undertaking (IMI)

IMI is Europe's largest public-private initiative aiming to speed up the development of better and safer medicines for patients. IMI is a joint undertaking between the European Union and a pharmaceutical industry association.

Electronic Components and Systems for European Leadership (ECSEL) Joint Undertaking (amalgamation of the former ARTEMIS & ENIAC JUs)

ECSEL is a PPP in electronic components and systems, bridging the gap between research and exploitation, aligning strategies to increase European and national investments, and building an advanced ecosystem.

Fuel Cells Hydrogen Joint Undertaking (FCH)

FCH is a PPP supporting research, technological development and demonstration (RTD) activities in fuel cell and hydrogen energy technologies in Europe. Its aim is to accelerate the market introduction of these technologies, realising their potential as an instrument in achieving a carbon-lean energy system.

Single European Sky ATM Research Joint Undertaking (SESAR)

SESAR is a PPP responsible for the modernisation of the European air traffic management (ATM) system by coordinating and concentrating all ATM relevant research and innovation efforts in the EU.

Shift2Rail Joint Undertaking

Shift2Rail is the first European rail joint technology initiative to seek focused research and innovation (R&I) and market-driven solutions by accelerating the integration of new and advanced technologies into innovative rail product solutions.

The annual accounts of the above entities are publicly available on their respective websites.

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

FINANCIAL YEAR 2016

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

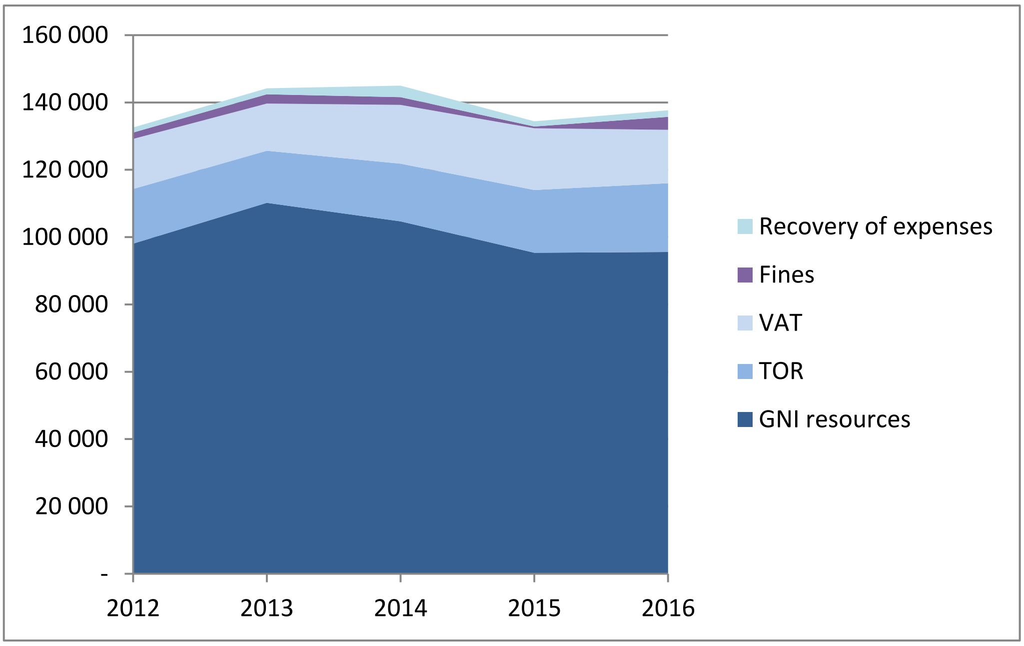
The objective of this Financial Statement Discussion and Analysis (FSDA) is to assist readers to understand the financial position, financial performance and cash flows presented in the consolidated financial statements of the EU. The information presented in this FSDA have not been audited.

1. CONSOLIDATED FINANCIAL STATEMENTS OF THE EU: FINANCIAL SITUATION 2016

1.1. REVENUE

The majority of revenue of the EU institutions and bodies are revenues from non-exchange transactions. The table below provides an overview of the main categories of these revenues.

Five year trend of revenue from non-exchange transactions in EUR millions



The main points to note regarding the movement in revenue from non-exchange transactions as compared to 2015 are:

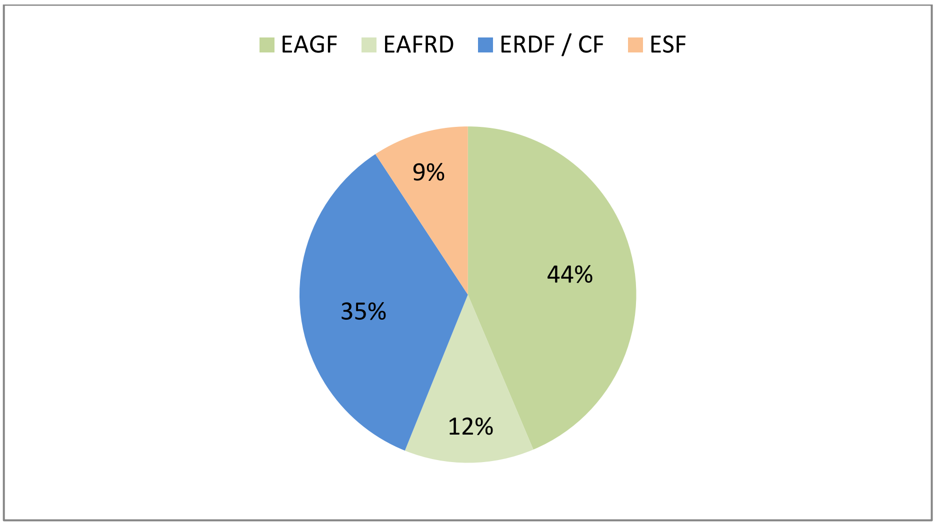
- a decrease of VAT revenue of EUR 2.5 billion mainly due to the reduced call rate of 0.15 % for Germany, the Netherlands and Sweden, which was applicable following the entry into force of the own resource decision (ORD) 2014 in 2016; and
- a significant increase in revenues from competition fines of EUR 3.3 billion mainly due to fines imposed in 2016 in the truck and banking sectors.

Recovery of expenses represent recovery orders issued by the Commission that are cashed or offset against subsequent payments recorded in the Commissions accounting system made so as to recover expenditure previously paid out from the EU budget.

1.2. EXPENSES

Expenses were, being EUR 144.5 billion, at a much lower level than last year (2015: EUR 155.9 billion). A decrease of EUR 3.7 billion was noted for the European Regional Development Fund (ERDF) and Cohesion Fund (CF), which was due to less expenses incurred relating to the previous programming period (2007-2013) combined with the slow start of the implementation of the programming period 2014-2020. For the same reason expenses under European Agricultural Fund for Rural Development (EAFRD) and other rural development instruments also decreased by EUR 3.7 billion.

The main expense items (EUR 102.8 billion) are transfer payments under the shared management mode. The main funds are: the European Agricultural Guarantee Fund (EAGF), the EAFRD and other rural development instruments, ERDF and CF and the European Social Fund (ESF). In the financial year 2016 these made up almost 71.1 % of total expenses.

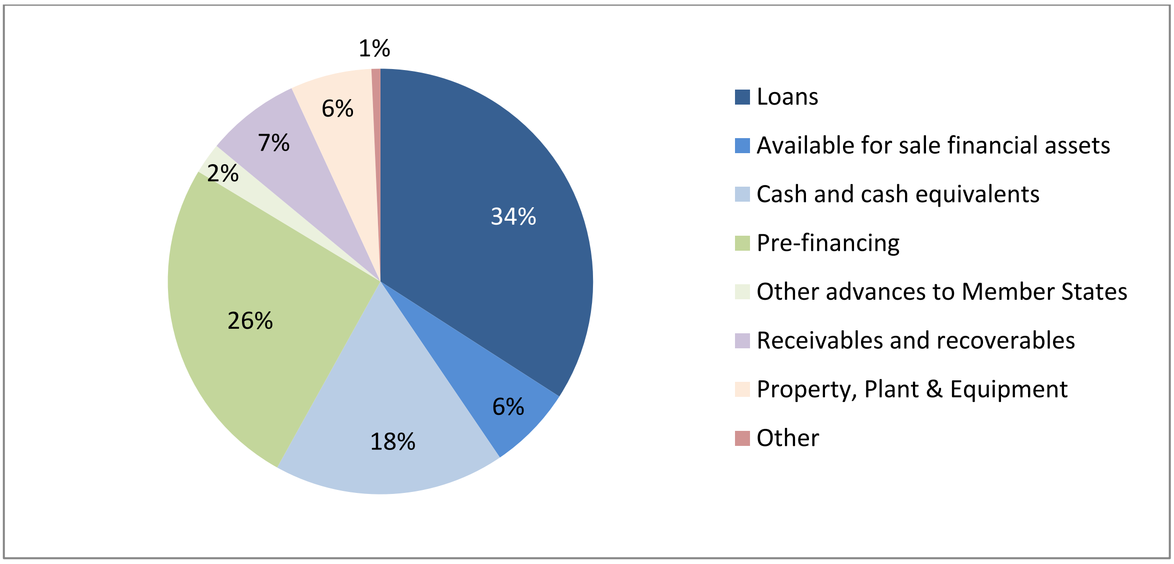


Expenses incurred under direct management represent the budget implementation by the Commission, executive agencies and by trust funds. Also included under direct management are administrative expenses of all EU institutions and agencies. Under indirect management the budget is implemented by EU agencies, EU bodies, third countries, international organisations and other entities. Overall, the expenses incurred under direct and indirect management made up about 16.2 % of total expenses (EUR 23.4 billion) and remained stable as compared to the previous financial year.

The EU also recognises future payment obligations as expenses that are not yet shown in the cash-based budgetary accounts. They are in particular shown under payables and accrued charges for agriculture and rural development and under pension and employee benefits liabilities relating to pension rights acquired by Commissioners, MEPs and staff and lead to negative net assets (these payments will be financed by future budgets).

1.3. ASSETS

EUR 163 billion assets on the consolidated balance sheet of the EU



The most significant items on the asset side of the balance sheet are financial assets (loans, available for sale financial assets, cash) and pre-financing amounts, which make up almost 84 % of the assets of the EU. The amount of loans fell by EUR 1.8 billion to EUR 55.5 billion whereas the amount of available for sale financial instruments financed from the EU budget (budgetary instruments) increased again by about EUR 455 million (2015: EUR 460 million). Included on the asset side under 'Space assets' are assets concerning the Copernicus and Galileo programme (EUR 3.3 billion). Assets relating to Galileo have been moved from assets under construction to fixed assets following the declaration of the Galileo initial services on 15 December 2016.

In general, the EU institutions and bodies strive to keep the amounts held as cash and cash equivalents at a low level. The high cash balance of EUR 28.6 billion at year-end is due to the following main elements:

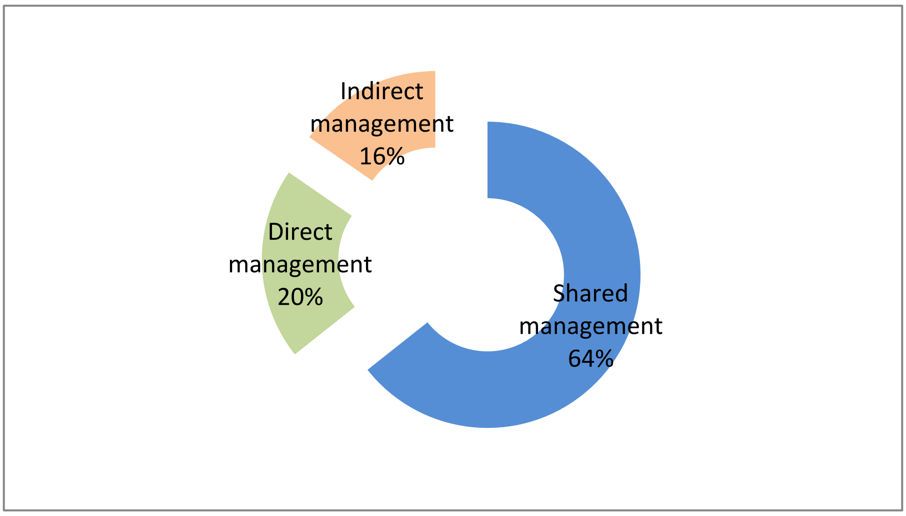
- As regards own resources, the end of year balance includes a total net amount of EUR 7.7 billion to be returned to Member States in early 2017 as result of amending budgets adopted late in 2016. In addition, advances on own resources amounting to EUR 1.5 billion were received in the final days of 2016.
- A significant amount of fines imposed by the Commission for breach of competition rules of EUR 4.3 billion were definitively cashed in 2016 and are part of the year-end treasury balance.
- The treasury balance also includes the assigned revenue and payment appropriations not spent by the end of 2016 of EUR 11 billion.

Pre-financing

It should be noted that the level of pre-financing is significantly influenced by the MFF cycle – for example at the beginning of an MFF period one can expect large advances to be paid to Member States under cohesion policy. The Commission makes every effort to ensure that the levels of pre-financing are maintained at an appropriate level. A balance has to be struck between ensuring sufficient funding for the projects and the timely recognition of expenditure.

The total pre-financing (excluding other advances to Member States and contributions to the trust funds Bekou and Africa) on the EU balance sheet amounts to EUR 41.6 billion (2015: EUR 40 billion), almost all of which relates to Commission activities. Some 64 % of the Commission's pre-financing concerns shared management, which means that the implementation of the budget is delegated to Member States (the Commission retains a supervisory role).

Commission pre-financing by management mode



The most significant pre-financing amount under shared management mode relates to ERDF & CF (EUR 15.1 billion).

Long-term pre-financing has decreased by EUR 8.3 billion while short-term pre-financing increased by EUR 9.9 billion. This movement of pre-financing amounts is due to the fact that the programming period 2007-2013 is in its closing phase and thus more amounts become due within twelve months. Concerning the programming period 2014-2020, the initial pre-financing paid is booked as non-current, while the annual pre-financing is booked as current.

FINANCIAL INSTRUMENTS

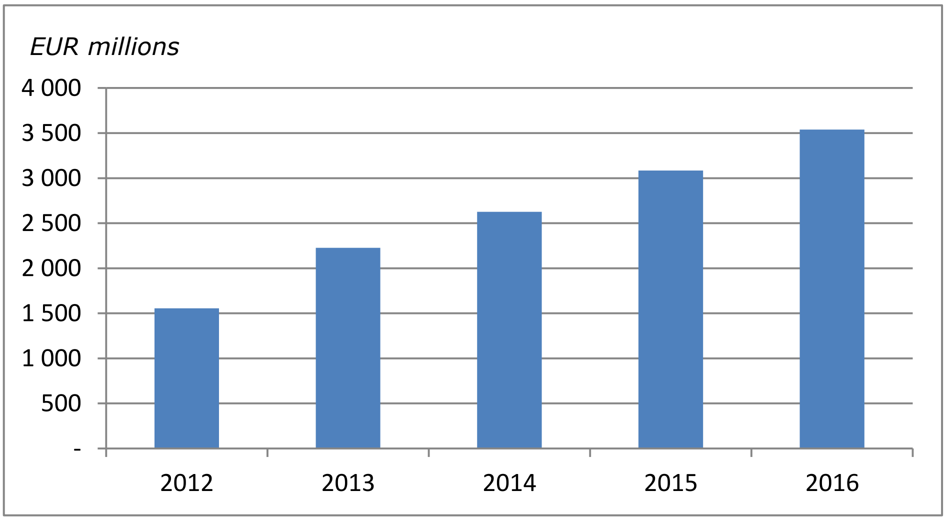
The following items are shown in accounting terms as financial instruments in the consolidated financial statements of the EU:

- Financial Instruments financed by the EU budget;
- Financial assets held in guarantee funds for budgetary guarantees; and
- Loans and related borrowings for financial assistance programmes.

Financial instruments financed by the EU budget

The significance and volume of financial instruments financed by the EU budget under direct and indirect management increases from year to year. The basic concept behind this approach, in contrast to the traditional method of budget implementation by giving grants and subsidies, is that for each euro spent from the budget via financial instruments, the final beneficiary receives more than EUR 1 as financial support due to the leverage effect. This use of the EU budget aims at maximising the impact of the funds available. Financial instruments financed by the EU budget exist in the form of guarantee instruments, equity instruments and loan instruments - see the overview by MFF below. Assets held in these instruments are either kept in cash and cash equivalents or invested in equity instruments and debt securities shown as available for sale financial assets in the consolidated financial statements of the EU.

Available for sale financial assets of financial instruments financed by the EU budget (year-end value)



The following tables provide an overview of financial instruments financed by the EU budget per MFF and their values at 31 December 2016:

EUR millions

Related to more than one MFF	Assets	Liabilities	Guarantees
Guarantee and risk-sharing instruments:			
Guarantee Facility under the Western Balkan (EDIF)	29	(17)	-*
	29	**(17)**	**-**
Equity instruments:			
European Fund for Southeast Europe (EFSE)	119	-	-
Enterprise Expansion Fund (ENEF)	10	-	-
Enterprise Innovation Fund (ENIF)	20	-	-
Green for Growth Fund to the Eastern Neighbourhood Region	51	-	-
Microfinance Initiative for Asia Debt Fund	9	-	-
MENA Fund for Micro-, Small and Medium Enterprises (SANAD)	9	-	-
	218	**-**	**-**
Total	**247**	**(17)**	**-**

EUR millions

MFF 2014-2020	Assets	Liabilities	Guarantees
Guarantee and risk-sharing instruments:			
Horizon 2020 – InnovFin Loan & Guarantee Service for R&I	698	(8)	(550)
Horizon 2020 – InnovFin SME Guarantee	467	(99)	(371)
Connecting Europe Facility Debt Instrument (CEF DI)**	493	(1)	(465)
COSME Loan Guarantee Facility	160	(156)	-*
Employment and Social Innovation	50	(16)	-*
ElectriFI	30	-	-
Cultural and Creative Sector Guarantee Facility (CCS LGF)	6	(1)	-*
EU Deep and Comprehensive Free Trade Area Facility	9	0	-
Student Loan Guarantee Facility	16	(2)	*
Natural Capital Financing Facility	11	-	-
SEMED MSME Financial Inclusion Programme	15	(1)	0
Risk Capital Facility for the Southern Neighbourhood Countries	20	-	-
Women in Business Programme in the Eastern Partnership	5	-	-
Private Finance for Energy Efficiency Instrument (PF4EE)	18	0	(3)
Support for Mongolian Economic Diversification	2	-	-
	1 999	**(285)**	**(1 389)**
Equity instruments:			
Horizon 2020 InnovFin Equity Facility for R&I	229	(4)	-
COSME – Equity Facility for Growth	51	(3)	-
	280	**(7)**	**-**
Total	**2 279**	**(292)**	**(1 389)**

MFF Prior to 2014	Assets	Liabilities	Guarantees
Guarantee and risk-sharing instruments:			
Risk Sharing Finance Facility (RSFF)	839	(88)	(711)
SME Guarantee Facility under CIP	100	(190)	*
Multi Annual Program (MAP) for Enterprises	25	(34)	*
European Progress Microfinance Mandate	10	(7)	*
SME Guarantee Facility	17	(14)	*
	991	**(333)**	**(711)**
Equity instruments:			
High Growth and Innovative SME Facility under CIP	423	(3)	-
Multi Annual Framework Programme Equity Facility	196	(0)	-
European Energy Efficiency Fund	100	-	-
European Progress Microfinance Facility (PMF) for EaSI	75	-	-
Global Energy Efficiency and Renewable Energy Fund	74	-	-
Marguerite Fund	54	-	-
European Technology Start up Facility 1998 (ETF)	11	(0)	-
Technology Transfer Pilot projects	1	(0)	-
	933	**(3)**	**-**
Loan / Equity / Technical assistance instruments:			
Instrument of economic and financial cooperation MEDA	202	2	-
European Neighbourhood and Partnership Instrument (ENPI)	142	6	-
SME Support Loan	18	-	-
	363	**(8)**	**-**
Total	**2 286**	**(344)**	**(711)**
Overall Total	**4 812**	**(652)**	**(2 101)**

**   The risk taken by the EU is fully covered by the provisions made.*
*** Includes the merger of Loan Guarantee Instrument for TEN-T Projects and Project Bond Initiative.*

Financial assets held in guarantee funds for budgetary guarantees

The Commission has set-up guarantee funds to cover budgetary guarantees (see note **4.1.1** of the consolidated financial statements) given to the EIB group. These guarantee funds are provisioned by payments from the EU budget so as to provide a liquidity cushion against potential losses from guaranteed operations. Payments to the guarantee funds are invested in financial instruments including debt securities, cash and term deposits. At 31 December 2016, the Commission holds financial assets in the:

- Guarantee Fund for external actions of EUR 2.3 billion; and
- EFSI Guarantee Fund of EUR 1 billion.

The EFSI Guarantee Fund started its operations in 2016.

Loans and related borrowings for financial assistance programmes

The EU is empowered by the EU Treaty to undertake borrowing operations to mobilise the financial resources necessary to fulfil specific mandates. The Commission, acting on behalf of the EU, currently operates three main programmes: European Financial Stabilisation Mechanism (EFSM), the Balance of Payments (BOP) assistance and the Macro-financial assistance (MFA), under which it may grant loans. The capital required to fund the EU lending is raised on the capital markets or with financial institutions.

The MFA loans are granted to partner countries outside the EU, outstanding loans at 31 December 2016 total EUR 2 947 million at nominal amounts.

EFSM

In 2014 the Irish and the Portuguese financial assistance programmes under EFSM expired and thus no additional loans can be drawn. In January 2016, Portugal officially requested for the extension of its first EFSM loan repayment maturity due on 3 June 2016. The EUR 4.75 billion instalment was refinanced by three new tranches of EUR 1.5 billion, EUR 2.25 billion and EUR 1 billion, with maturities falling in 2023, 2031 and 2036, respectively. This is the main reason for the decrease of short-term loans/borrowings and an increase of long-term loans/borrowings on the 2016 balance sheet.

BOP

The BOP assistance programme for Hungary expired in 2010 and both assistance programmes for Latvia and Romania expired in 2012. Additionally, the two precautionary assistance programmes for Romania expired in 2013 and 2015 respectively without being drawn down. In April 2016, Hungary reimbursed its last outstanding instalment of EUR 1.5 billion.

Overview of loans granted for financial assistance at nominal amounts:

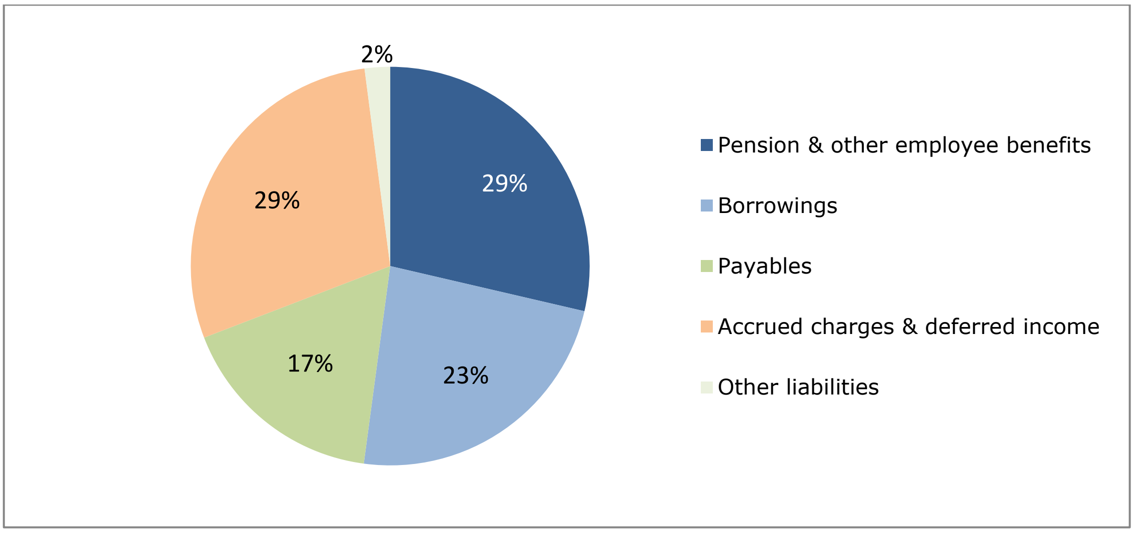
EUR billions

	BOP				EFSM*			TOTAL
	Hungary	Latvia	Romania	Total	Ireland	Portugal	Total	
Total granted	6.5	3.1	5.0**	14.6	22.5	26.0	48.5	63.1
Total disbursed at 31.12.2016	5.5	2.9	5.0	13.4	22.5	24.3	46.8	60.2
Total repaid at 31.12.2016	(5.5)	(2.2)	(1.5)	(9.2)	-	-	-	(9.2)
Outstanding amount at 31.12.2016	-	0.7	3.5	4.2	22.5	24.3	46.8	51.0

* *Without re-financing transactions.*
** *Excluding precautionary assistance.*

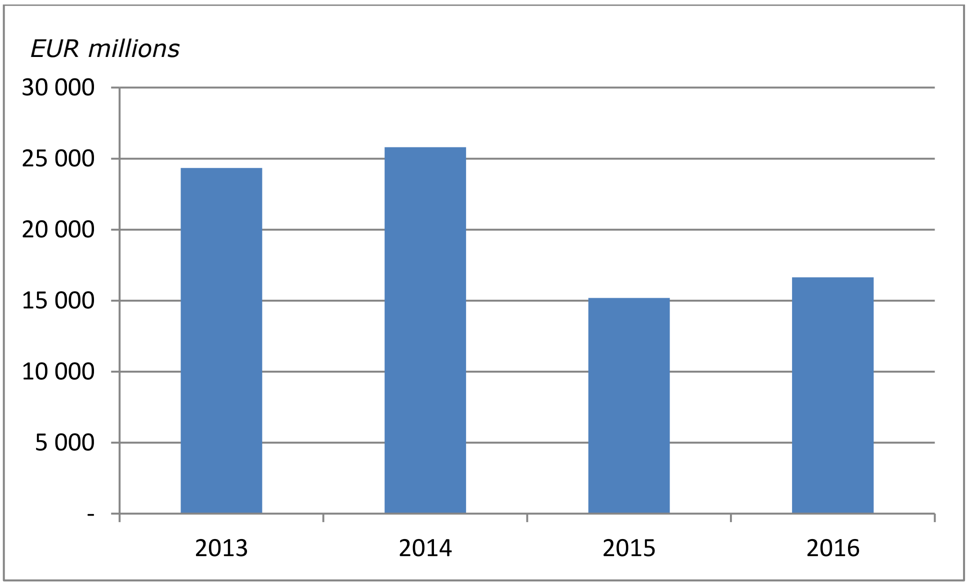
1.4. LIABILITIES

EUR 235 billion liabilities on the consolidated balance sheet of the EU



The liability side consists primarily of four key items: The pension and other employee benefits liabilities, borrowings, payables and accrued charges. The biggest change as compared to 2015 is the increase of payables by almost EUR 8 billion mainly due to a better implementation of EAGF (i.e. the payments at the level member states) in 2016 compared to 2015 – see note **2.12** of the consolidated financial statements.

Total cost claims and invoices received and recognised under the payables heading of the balance sheet



Net assets

The excess of liabilities over assets does not mean that the EU institutions and bodies are in financial difficulties, rather it means that certain liabilities will be funded by future annual budgets. Many expenses are recognised under accrual accounting rules in 2016 although they may be actually paid in 2017 or later and funded using future budgets and the related revenues will only be accounted for in future periods. The most significant amounts to be highlighted are the EAGF activities (paid in 2017) and the employee benefits liability (to be paid over the next 30 plus years).

2. PROTECTION OF THE EU BUDGET

Financial corrections and recoveries overview for 2016

An important consideration in implementing the EU budget is the need to ensure the proper prevention or detection and subsequent correction of system weaknesses leading to errors, irregularities and fraud. The Court provides in its annual report a statement of assurance on the legality and regularity of transactions underlying the annual accounts, as well as the material level of error in payments. The statement of assurance accompanies the EU annual accounts in its publication in the Official Journal.

The Commission's protective actions mitigate the impact of these errors through two main mechanisms:
(1) preventive mechanisms (e.g. ex-ante controls, interruptions and suspensions of payments); and
(2) corrective mechanisms (primarily financial corrections imposed on or agreed with Member States and, to a lesser extent, recoveries from recipients of EU payments).

Under the shared management mode (agricultural spending and structural actions), Member States are primarily responsible throughout the expenditure life cycle for ensuring that expenditure paid out from the EU budget is legal and regular.

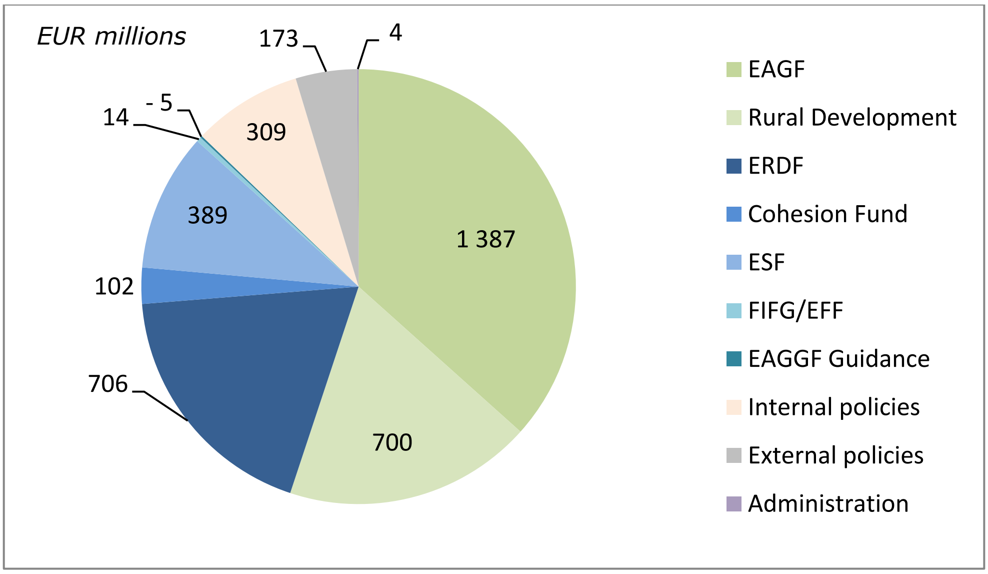
The corrective actions, i.e. financial corrections and recoveries, arise following the supervision and checks made by both the Commission and also, in the case of shared management expenditure, Member States on the eligibility of expenditure funded by the EU budget. When deciding on the amount of a financial correction or recovery, the Commission takes into account the nature and seriousness of the breach of applicable law and the financial implications for the EU budget, including cases of deficiencies in management and control systems. Most corrections are done after payment.

Financial corrections and recoveries process:

Financial corrections and recoveries are presented at two main stages of the process. Both stages may take place in the same year or in different years:

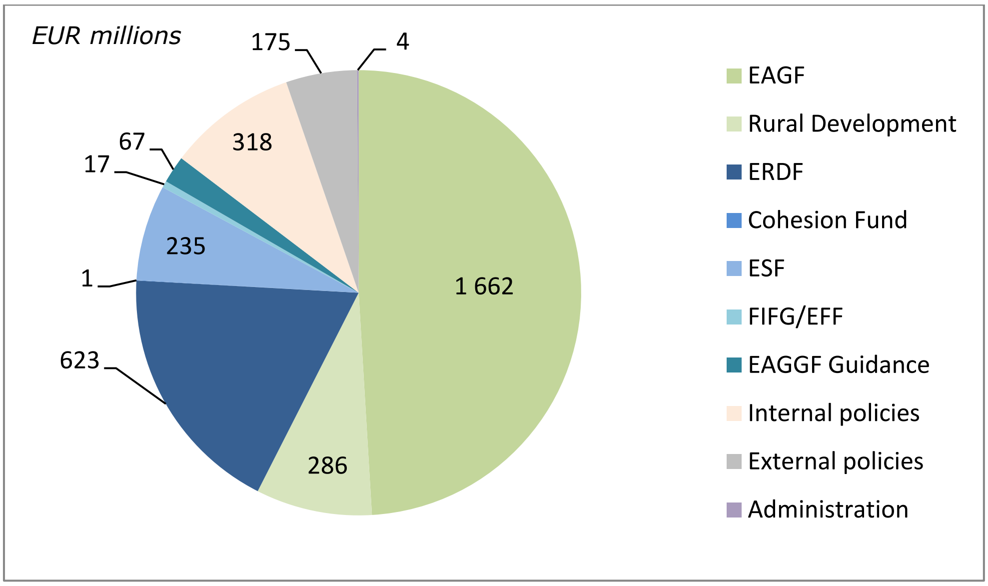
(1) Financial corrections and recoveries at confirmation stage: These amounts have been either agreed by the Member State concerned or adopted by a Commission decision. In 2016, the total financial corrections and recoveries confirmed amounted to EUR 3 777 million (2015: EUR 3 499 million).

Financial corrections and recoveries confirmed in 2016 - breakdown per policy areas



(2) Financial corrections and recoveries at implementation stage: These amounts represent the final step of the process whereby the observed situation of undue expenditure is definitively corrected. Several implementation mechanisms are foreseen in the sector-based regulatory frameworks. In 2016, the total financial corrections and recoveries implemented amounted to EUR 3 389 million (2015: EUR 3 853 million). The implementation of financial corrections and recoveries may take a number of years mainly due to instalment or deferral decisions granted to Member States under the agricultural policy. Under the Cohesion policy the legal framework foresees the implementation at or after the closure of the programming period.

Financial corrections and recoveries implemented in 2016 - breakdown per policy areas



3. MANAGEMENT OF RISKS AND UNCERTAINTIES IN EU BUDGET IMPLEMENTATION

3.1. MACRO-ECONOMIC ENVIRONMENT

The macro-economic environment of the EU[7] has an impact on the ability of EU Member states to meet their funding obligations towards the EU institutions and bodies and thus on the ability of the EU to continue implementing EU policies.

There is a high degree of uncertainty surrounding the global economic outlook at present. This comes after an already difficult 2016, in which the European economy had to cope with numerous international and domestic challenges including the lowest pace of global and trade growth since 2009, geopolitical tensions, terrorist attacks in several Member States, stressed banking sectors, UK's vote to leave the EU, and a mounting backlash against globalisation. So far though, the European economy has proved to be resilient and has stayed the course of economic growth and job creation. EU GDP growth rose towards the end of 2016 and looks to have maintained its momentum into 2017. This resilience has been supported by a number of well-known favourable factors, including the relatively low oil price, the past depreciation of the euro, accommodative monetary policies and a broadly neutral fiscal policy stance. The implementation of structural reforms in some Member States has also helped to underpin the recovery, particularly in the labour market. Private consumption has remained the main growth driver while investment has continued to disappoint. This persistent weakness in investment casts a shadow of doubt over the sustainability of the recovery and the economy's potential growth. Uncertainty is rising to an extraordinarily high level, driven by the uncertain outcome of the UK's decision to withdraw from the EU.

Overall, after 1.7 % in 2016, euro area GDP growth is set to ease somewhat this year to 1.6 % and then pick up slightly to 1.8 % in 2018. This steady but moderate expansion should remain driven by domestic

[7] See for more information: European Commission "European Economic Forecast Winter 2017".

demand. Global GDP growth is expected to have reached a low point in 2016 and is projected to strengthen this year and next. Growth outside the EU is projected to pick up gradually from 3.2 % in 2016 to 3.7 % in 2017 and 3.9 % in 2018.

3.2. BUDGETARY CONTINGENT LIABILITIES FOR FINANCIAL ASSISTANCE

The EU borrowing and lending activities for financial assistance programmes are non-budget operations. In general, funds raised are on-lent back-to-back to the beneficiary country, i.e. with the same coupon, maturity and amount. Notwithstanding the back-to-back methodology, the debt service of the funding instruments is a legal obligation of the EU, which will ensure that all payments are made fully and in a timely manner. The Commission has put procedures in place to ensure the repayment of borrowings even in case of a loan default.

Borrowings of the EU constitute direct and unconditional obligations of the EU and are guaranteed by the EU Member States (budgetary contingent liabilities). Borrowings undertaken to fund loans to countries outside the EU are covered by the Guarantee Fund for external actions. Should a beneficiary Member State default, the debt service will be drawn from the available treasury balance of the Commission, if possible. If that would not be possible, the Commission would draw the necessary funds from the Member States. EU Member States are legally obliged, according to the EU own resources legislation (Article 14 of Council Regulation 609/2014), to make available sufficient funds to meet the EU's obligations. Thus investors are only exposed to the credit risk of the EU, not to that of the beneficiary of loans funded. "Back-to-back" lending ensures that the EU budget does not assume any interest rate or foreign exchange risk.

For each country programme, the EP, the Council and the Commission decisions determine the overall granted amount, the number of instalments to be disbursed, and the maximum (average) maturity of the loan package. Subsequently, the Commission and the beneficiary country agree the loan/funding parameters, in particular the maturity of instalments. In addition, except for the first one, all instalments of the loan depend on compliance with policy conditions, in the context of a joint EU / International Monetary Fund (IMF) financial assistance, which is another factor influencing the timing of funding operations. This implies that the timing and maturities of issuances are dependent on the related EU lending activity. Funding is exclusively denominated in euro and the maturity spectrum is from 3 to 30 years.

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

EUR billions

	BOP				EFSM			TOTAL
	Hungary	Latvia	Romania	Total	Ireland	Portugal	Total	
2017			1.15	1.15				1.15
2018			1.35	1.35	3.9	0.6	4.5	5.85
2019		0.5	1.0	1.5				1.5
2021					3.0	6.75	9.75	9.75
2022						2.7	2.7	2.7
2023					2.0	1.5	3.5	3.5
2024					0.8	1.8	2.6	2.6
2025		0.2		0.2				0.2
2026					2.0	2.0	4.0	4.0
2027					1.0	2.0	3.0	3.0
2028					2.3		2.3	2.3
2029					1.0	0.4	1.4	1.4
2031						2.25	2.25	2.25
2032					3.0		3.0	3.0
2035					2.0		2.0	2.0
2036						1.0	1.0	1.0
2038						1.8	1.8	1.8
2042					1.5	1.5	3.0	3.0
Total	**0**	**0.7**	**3.5**	**4.2**	**22.5**	**24.3**	**46.8**	**51.0**

The Inter-governmental financial stability mechanisms European Financial Stability Facility (EFSF) and European Stability Mechanism (ESM) are outside the EU Treaty framework and thus not included in the consolidated annual accounts of the EU.

3.3. CONTINGENT LIABILITIES RELATING TO BUDGETARY GUARANTEES

The EU has given guarantees to the EIB Group on loans granted outside of the EU and on debt and equity operations covered by the EFSI guarantee. At 31 December 2016, the EU shows in the notes to its consolidated financial statements (see note **4.1.1**) contingent liabilities for both guarantees. In order to mitigate the risk guarantee calls by the EIB Group could have on the EU budget, the EU has created dedicated guarantee funds, i.e. the Guarantee Fund for external actions and the EFSI Guarantee Fund.

The Guarantee Fund for external actions is provisioned by the EU budget so as to cover 9 % of the guaranteed loans for EIB external lending mandate activities to third countries outstanding at year-end. At 31 December 2016 the total asset value of EUR 2.3 billion covers an exposure of amounts disbursed of EUR 19.8 billion, of amounts signed of EUR 28.8 billion for a ceiling of EUR 39.3 billion.

The EFSI Guarantee Fund started its activities in 2016 and will gradually reach EUR 8 billion by 2022, thus provisioning 50 % of the maximum exposure of the EU guarantee of EUR 16 billion. An amount of EUR 1 billion was provisioned to the EFSI Guarantee Fund in 2016 and EUR 4.4 billion of guaranteed amounts have been disbursed and EUR 11.2 billion have in total been signed (thus including amounts disbursed).

3.4. MANAGING THE REFUGEE CRISIS – FACILITY FOR REFUGEES IN TURKEY

The EU faces an unprecedented crisis which requires solidarity, togetherness and efficiency. Challenges are common and responses need to be coordinated. Turkey's geographical position makes it a prominent reception and transit country for many refugees and migrants. As a result of an unprecedented influx mainly due to the Syria conflict, the country has been hosting the highest number of refugees and migrants in the world.

In 2015, the EU and its Member States decided to step up their political and financial engagement to support Turkey in its efforts in hosting refugees. Comprehensive cooperation based on shared responsibility, mutual commitments and delivery between the EU and Turkey was agreed upon within the framework of the 29 November 2015 EU-Turkey Statement. The summit of 29 November 2015 activated the EU-Turkey Joint Action Plan (JAP) to help Turkey address the consequences of the Syria conflict.

In answer to the call from EU Member States for significant additional funding to support refugees in Turkey, the Commission established the Facility for Refugees in Turkey by means of the Commission Decision of 24 November 2015, amended on 10 February 2016[8]. The Facility is a mechanism to coordinate the mobilisation of resources made available under both the EU budget and additional contributions from Member States integrated into the EU budget as external assigned revenue amounting to a total of EUR 3 billion for the period 2016-2017. Member States committed politically to providing national contributions in the framework of the Common Understanding between EU Member States and the European Commission which was adopted by the representatives of the governments of the Member States on 3 February 2016. The Common Understanding also establishes a conditionality framework. The EUR 3 billion is made available in addition to EUR 345 million already allocated by the Commission to Turkey in response to the Syrian refugee crisis before the start of the Facility and is additional to Member States' bilateral aid.

The Facility became operational on 17 February 2016 with the first meeting of the Facility Steering Committee. The Facility for Refugees in Turkey is a coordinating mechanism that allows for the swift, effective and efficient mobilisation of EU assistance to refugees in Turkey. The Facility ensures the optimal mobilisation of relevant existing EU financing instruments, either as humanitarian assistance or non-humanitarian assistance, to ensure that the needs of refugees and host communities are addressed in a comprehensive and coordinated manner.

The Steering Committee of the Facility provides strategic guidance on the overall priorities, the type of actions to be supported, the amounts to be allocated and the financing instruments to be mobilised, as well as, when appropriate, on the conditions relating to the implementation by Turkey of its commitments under the EU-Turkey Joint Action Plan. The Steering Committee is chaired by the Commission and composed of two representatives of the Commission and one representative of each Member State with Turkey sitting in an advisory capacity.

In line with Article 3(2) of the Commission Decision establishing the Facility, the second Steering Committee of 12 May 2016 agreed that the Facility should focus on six priority areas: (1) humanitarian assistance, (2) migration management, (3) education, (4) health, (5) municipal infrastructure and (6) socio-economic support.

The total budget coordinated by the Facility is EUR 3 billion to be contracted in the period 2016-2017. This is made up of EUR 1 billion from the EU budget, and EUR 2 billion in additional funding from the Member States. Member States' contributions are made directly to the EU budget in the form of external assigned revenue pursuant to Article 21(2)(b) FR and assigned to the IPA II and HUMA budget lines respectively. Of the EUR 1 billion from the EU budget, EUR 250 million was mobilised in 2016 and EUR 750 million is set aside for the Facility in the 2017 budget.

[8] Commission Decision C(2016) 60/03 of 10.02.2016 on the Facility for Refugees in Turkey amending Commission Decision C(2015) 9500 of 24 November 2015.

The Facility is financed from the following sources:

EUR millions	2016	2017	Total
EU budget			
Humanitarian aid	165	145	310
Non-humanitarian aid			
Instrument for Pre-Accession Assistance	55	595	650
Development Cooperation Instrument	10	10	20
Instrument contributing to Stability and Peace	20	0	20
Sub-total non-humanitarian aid	85	605	690
Total	**250**	**750**	**1 000**
Contributions from Member States			**2 000**

The Commission concluded individual contribution agreements with all Member States concerning their national contributions for the combined total of EUR 2 billion pursuant to Article 7 (2) of the Rules of Application of the FR.

The Facility is implemented as humanitarian and non-humanitarian assistance, with EUR 1.4 billion and EUR 1.6 billion indicatively allocated to the respective strands. Humanitarian assistance supports the most vulnerable refugees (and other persons of concern) through predictable and dignified support addressing basic needs and protection. Non-humanitarian assistance supports the longer-term livelihoods, socio-economic and educational perspectives of refugees. It aims to help children with access to primary and secondary education and improvements to educational infrastructure, including school buildings and learning materials. It also focuses on exposed groups, e.g. by protecting women against sexual and gender based violence and improving access to sexual and reproductive health care.

The Commission is to keep the EP and the Council regularly informed about the implementation of the Facility for Refugees in Turkey and has issued the first annual report of the Facility on 2 March 2017[9].

3.5. YOUTH EMPLOYMENT

Almost 4.2 million people under the age of 25 in the EU were unemployed as of August 2016, which represents an unemployment rate of 18.6 %. While this is an improvement over the peak of 23.7 % in 2013, it still means that almost 1 in every 5 young people is out of work. This number is even higher in some Member States, for instance Greece (42.7 %), Spain (43.2 %) and Italy (38.8 %) which are particularly affected.

To combat youth unemployment the EU continued in 2016 to support the roll out of the Youth Guarantee in the context of the Youth Employment Initiative (YEI) in Member States. The YEI aims to reduce the levels of youth unemployment in the worst affected regions of the EU. Launched in 2013, the YEI is providing EUR 6.4 billion of targeted funding for the period 2014-2020 to support actions that help young people access the labour market in these regions. Of the total EUR 6.4 billion budget of the YEI, half is provided by a specific EU budget line and the other half comes from the ESF.

The YEI supports young people aged 15-24 (or 15-29 in some EU Member States) who are not in education, employment or training (NEETs). This can include long-term unemployed young people and those not registered as job-seekers. In order to be eligible to receive YEI support, these young people must be living in regions where youth unemployment was higher than 25 % in 2012. Currently there are regions in 20 Member States benefiting from YEI support.

[9] See the Communication from the Commission to the EP and the Council, First Annual Report on the Facility for Refugess in Turkey, COM(2017) 130 final, 2.3.2017.

The funding provided by the YEI is used in the implementation of the Youth Employment Package, and in particular national Youth Guarantee schemes in the EU Member States that benefit from the YEI. The YEI is able to reach out directly to young people not in education, employment or training and support them on a personal level. The "offers" that are funded by the YEI and provided to young people through Youth Guarantee schemes range from apprenticeships and training courses to subsidies for employers and start-up support, depending on the specific needs of each young person. In this way the YEI complements the support from other EU financial resources such as the ESF, which reaches beyond individuals and helps to bring about educational and employment reforms.

Youth Guarantee schemes are tailored national programmes that aim to ensure all young people under the age of 25 (or 29 in some Member States) receive a good quality, concrete offer of support within four months of leaving education or becoming unemployed. To achieve this, the Youth Guarantee schemes include direct measures targeting young people, as well as comprehensive, longer-term reforms of employment and education systems, based on wide-ranging partnerships between all relevant stakeholders.

In October 2016 a progress report showed how the 2013 Youth Guarantee, backed by the YEI, the ESF and national funding, has made a difference on the ground. Three years on from its launch in 2013 there are 1.4 million fewer young people unemployed in the EU. Around 9 million young people have taken up an offer of a job, a traineeship or an apprenticeship. It has led to bold structural reforms in many Member States and helped build business–education partnerships. To ensure the full and sustainable implementation of the Youth Guarantee the Commission proposed the continuation of the YEI until 2020 and the extension of its resources. Furthermore, the Commission announced a new dedicated long-duration (between 6 and 12 months) mobility scheme for apprentices, Erasmus Pro, within the existing Erasmus+ programme, to support work-based learning abroad.

The Commission launched a New Skills Agenda for Europe in June 2016 with 10 actions to improve the quality of skills and their relevance for the labour market. These include an initiative to help low-skilled adults improve their literacy, numeracy and digital skills and/or to help them progress towards an upper secondary education qualification or equivalent.

During the first three years of the 2014-20 programming period the YEI faced implementation delays similar to the ones observed for the other ESI Funds under MFF heading 1b. Several reasons led to slower level of payments than initially foreseen, such as the late adoption of the related ESF operational programmes and the lengthy preparation for their implementation, including the setting-up of structures and procedures required under the relevant ESF regulatory framework. To a certain extent, delays observed in the initial stages of YEI implementation can partly be attributed also to the administrative capacity constraints of the different responsible structures, especially given the overlap between the two programming periods. Despite these delays YEI implementation both on the ground and in terms of payments made by the Commission has so far been faster than the one observed for the ESF, ERDF and CF.

EUROPEAN UNION
FINANCIAL YEAR 2016

BUDGETARY IMPLEMENTATION REPORTS AND EXPLANATORY NOTES

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

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EU BUDGET RESULT

EUR millions

	2016	2015
Revenue for the financial year	144 717	146 624
Payments against current year appropriations	(135 180)	(143 485)
Payment appropriations carried over to year N+1	(1 655)	(1 299)
Cancellation of unused appropriations carried over from year N-1	63	29
Evolution of assigned revenue	(1 367)	(704)
Exchange differences for the year	(173)	182
Budget result*	**6 405**	**1 347**

** Of which EFTA result is EUR 0 million in 2016 and EUR (2) million in 2015.*

STATEMENTS OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

BUDGET REVENUE

EUR millions

		Initial adopted budget	Final adopted budget	Entitlements established	Revenue
1	Own resources	142 269	133 677	132 192	132 166
	11-Sugar levies	*125*	*133*	*133*	*133*
	12-Customs duties	*18 465*	*20 115*	*19 987*	*19 961*
	13-VAT	*18 813*	*16 279*	*15 935*	*15 935*
	14-GNI	*104 866*	*97 149*	*95 578*	*95 578*
	15-Correction of budgetary imbalances	–	–	*580*	*580*
	16-Reduction of GNI based contribution of the Netherlands and Sweden	–	–	*(22)*	*(22)*
3	Surpluses, balances and adjustments	–	1 349	1 358	1 358
4	Revenue accruing from persons working with the institutions and other union bodies	1 348	1 348	1 459	1 452
5	Revenue accruing from the administrative operation of the institutions	55	55	600	579
6	Contributions and refunds in connection with Union agreements and programmes	60	60	6 204	5 928
7	Interests on late payments and fines	123	123	9 739	3 175
8	Borrowing and lending operations	5	5	46	41
9	Miscellaneous revenue	25	25	27	17
	Total	**143 885**	**136 642**	**151 624**	**144 717**

For details of the 2016 revenue implementation see note **3 and for explanations note **2.1**.*

BUDGET EXPENDITURE: COMMITMENTS BY MULTIANNUAL FINANCIAL FRAMEWORK (MFF) HEADING

EUR millions

	MFF Heading	Initial adopted budget	Final adopted budget	Total appropriations available	Commitments made
1.	Smart and inclusive growth	69 841	69 841	73 039	71 731
	1a: Competitiveness for growth and jobs	*19 010*	*19 010*	*21 569*	*20 332*
	1b: Economic, social and territorial cohesion	*50 831*	*50 831*	*51 471*	*51 400*
2.	Sustainable growth: natural resources	62 484	62 470	66 952	64 547
	of which: Market related expenditure and direct payments	*42 220*	*42 218*	*46 051*	*44 285*
3.	Security and citizenship	4 052	4 292	4 423	4 336
4.	Global Europe	9 167	9 377	12 240	11 278
5.	Administration	8 935	8 951	9 642	9 358
	of which: Administrative expenditure of the institutions	*3 771*	*3 778*	*4 121*	*3 979*
6.	Compensations	–	–	–	–
8.	Negative reserve and deficit carried over from the previous financial year	–	–	–	–
9.	Special Instruments	525	346	395	61
	Total	**155 004**	**155 277**	**166 690**	**161 310**

BUDGET EXPENDITURE: PAYMENTS BY MULTIANNUAL FINANCIAL FRAMEWORK (MFF) HEADING

EUR millions

	MFF Heading	Initial adopted budget	Final adopted budget	Total appropriations available	Payments made
1.	Smart and inclusive growth	66 263	59 459	63 618	56 265
	1a: Competitiveness for growth and jobs	*17 418*	*17 406*	*20 976*	*18 461*
	1b: Economic, social and territorial cohesion	*48 844*	*42 053*	*42 642*	*37 804*
2.	Sustainable growth: natural resources	55 121	55 214	59 464	57 412
	of which: Market related expenditure and direct payments	*42 212*	*42 210*	*46 057*	*44 084*
3.	Security and citizenship	3 022	3 069	3 195	3 077
4.	Global Europe	10 156	9 860	11 163	10 277
5.	Administration	8 935	8 951	10 490	9 324
	of which: Administrative expenditure of the institutions	*3 771*	*3 778*	*4 683*	*3 975*
6.	Compensations	–	–	–	–
8.	Negative reserve and deficit carried over from the previous financial year	–	–	–	–
9.	Special Instruments	389	90	140	61
	Total	**143 885**	**136 642**	**148 069**	**136 416**

*For details of the 2016 expenditure implementation see note **4** and for explanations note **2.2**.*

NOTES TO THE BUDGETARY IMPLEMENTATION REPORTS

1. THE EU BUDGET FRAMEWORK

The budgetary accounts are kept in accordance with the Financial Regulation (FR) and its rules of application. The general budget is the instrument which provides for and authorises the Union's revenue and expenditure every year, within the ceilings and other provisions laid down in the multiannual financial framework in line with the legislative acts concerning multiannual programmes adopted under that framework.

1.1. MULTIANNUAL FINANCIAL FRAMEWORK 2014-2020

EUR millions

	2014	2015	2016	2017	2018	2019	2020	Total
1. Smart and inclusive growth	52 756	77 986	69 304	73 512	76 420	79 924	83 661	513 563
1.a Competitiveness for growth and jobs	*16 560*	*17 666*	*18 467*	*19 925*	*21 239*	*23 082*	*25 191*	*142 130*
1.b Economic, social and territorial cohesion	*36 196*	*60 320*	*50 837*	*53 587*	*55 181*	*56 842*	*58 470*	*371 433*
2. Sustainable growth: natural resources	49 857	64 692	64 262	60 191	60 267	60 344	60 421	420 034
of which: market related expenditure and direct payments	43 779	44 190	43 951	44 146	44 163	44 241	44 264	308 734
3. Security and citizenship	1 737	2 456	2 546	2 578	2 656	2 801	2 951	17 725
4. Global Europe	8 335	8 749	9 143	9 432	9 825	10 268	10 510	66 262
5. Administration	8 721	9 076	9 483	9 918	10 346	10 786	11 254	69 584
of which: Administrative expenditure of the institutions	7 056	7 351	7 679	8 007	8 360	8 700	9 071	56 224
6. Compensations	29	–	–	–	–	–	–	29
8. Negative reserve	–	–	–	–	–	–	–	–
9. Special Instruments	–	–	–	–	–	–	–	–
Commitment appropriations	**121 435**	**162 959**	**154 738**	**155 631**	**159 514**	**164 123**	**168 797**	**1 087 197**
Total payment appropriations	**135 762**	**140 719**	**144 685**	**142 906**	**149 713**	**154 286**	**157 358**	**1 025 429**

The above table shows the MFF ceilings at current prices. 2016 was the third financial year covered by the MFF 2014-2020. The overall ceiling for commitment appropriations for 2016 was EUR 154 738 million, equivalent to 1.05 % of the EU GNI, whilst the corresponding ceiling for payment appropriations was EUR 144 685 million, or 0.98 % of the EU GNI valid throughout the budgetary year 2016.

The adjustment of cohesion policy envelopes according to Art. 7 of the MFF Regulation was implemented by the Technical Adjustment of the MFF for 2017 made by the Commission (COM(2016) 311 of 30 June 2016), resulting in an upwards adjustment of the MFF ceilings for 2017-2020 for a total amount of EUR 4 642 million in commitment appropriations under Heading 1(b) and of EUR 1 367 million in payment appropriations (current prices).

New flexibility provisions have been agreed for the 2014-2020 MFF. One of the new provisions is a possibility to transfer unspent margins under the payment ceilings to the following years – via the Global Margin for Payments in the framework of the technical adjustment of the MFF for the following year. Therefore, the unspent amount from 2015 (EUR 1 288 million in current prices) and 2016 (EUR 13 991 million in current prices) was transferred to the years 2018-2020 and the ceilings of 2015, 2016 and 2018-2020 were adjusted accordingly – see the above mentioned technical adjustment of the MFF for 2017 and the technical adjustment for 2018 (COM(2017) 220 of 24 May 2017).

On 14 September 2016 the Commission presented its Communication on the mid-term review/revision of the MFF 2014-2020 (COM(2016) 603), which was accompanied by a number of legislative proposals, including a proposal to amend the MFF Regulation (COM(2016) 604) and a proposal to simplify financial rules under the FR and relevant basic acts (COM(2016) 605). In budgetary terms, the proposals aim at increasing the flexibility of the MFF by a number of amendments to the MFF Regulation and by "topping up" funding for priority spending on jobs and growth and migration and security by using available margins and flexibilities. An agreement on these proposals is expected in summer of 2017.

Finally, following the entry into force of Council Decision 2014/335 on the system of own resources of the European Union (OJ L 168, 7.6.2014) and in accordance with its Article 3(3), the ceilings set out in that Decision were recalculated on the basis of ESA 2010 data which generally increased compared to the GNI based on ESA 95. Accordingly, the ceiling for own resources was adjusted from 1.23 % to 1.20 % of the EU GNI; the ceiling for commitment appropriations was adjusted from 1.29 % to 1.26 % of EU GNI (COM(2016) 829 of 21 December 2016).

An explanation of the various headings of the MFF is given below:

Heading 1 – Smart and inclusive growth

This heading is divided into two separate, but interlinked components

- 1a Competitiveness for growth and jobs, encompassing expenditure on research and innovation, education and training, Connecting Europe Facility, social policy, the internal market and accompanying policies.

- 1b Economic, social and territorial cohesion, 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 – Sustainable growth: natural resources

Heading 2 includes the common agricultural and fisheries policies, and the environmental measures, in particular the Life + program.

Heading 3 – Security and citizenship

Heading 3 (Security and citizenship) reflects the growing importance attached to certain fields where the EU has been assigned particular tasks – justice and home affairs, border protection, immigration and asylum policy, public health and consumer protection, culture, youth, information and dialogue with citizens.

Heading 4 – Global Europe

Heading 4 covers all external action, including development cooperation, humanitarian aid, pre-accession and neighbourhood instruments. The EDF remains outside of the EU budget and is not part of the MFF.

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.

Heading 6 - Compensations

In accordance with the political agreement that 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.

Heading 9 – Special instruments

Flexibility mechanisms enable the EU to mobilise the necessary funds to react to unforeseen events such as crisis and emergency situations. Their scope, financial allocation and operating modalities are provided for in the MFF regulation and the Interinstitutional Agreement. In the current context of reduced expenditure, they also ensure that budgetary resources can respond to evolving priorities, so that every euro is used where it is most needed. Most of the flexibility mechanisms are therefore kept outside the MFF and the funding can be mobilised above the expenditure ceilings.

1.2. ANNUAL BUDGET

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

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

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

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

In the accounts, the types of funding are grouped into two main items:

- Final adopted budget appropriations
- Additional appropriations containing

  - Carryovers from previous year (the financial regulation allows for a limited number of cases to carry unspent amounts from the previous year into the current year); and

  - Assigned revenue arising from reimbursements, contributions from third parties/countries to EU programs and work performed for third parties are assigned directly to the corresponding expenditure budget lines and constitute the third pillar of funding

All funding types together form the available appropriations.

1.3. POLICY AREAS

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

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

1.4. REVENUE

1.4.1. Own resources revenue

The vast majority of revenue comes from own resources, which consist of the following categories:

(1) Traditional own resources (TOR): usually account for +/- 14 % of own resource revenue.

(2) Value added tax (VAT) based resource: usually accounts for around 12 % of own resource revenue.

(3) Gross national income (GNI) based resource: usually accounts for +/- 74 % of own resource revenue.

The allocation of own resources is made in accordance with the rules laid down in the Council Decision No. 2014/335/EU, Euratom of 26 May 2014 on the system of the EU's own resources (ORD 2014). This decision has entered into force on 1 October 2016 and applies retroactively from 1 January 2014. The effects for 2014 and 2015 have been taken into account in the 2016 budgetary year.

The total amount of own resources allocated to the Union to cover annual appropriations for payments shall not exceed 1.20 % of the sum of all the Member States' GNIs.

1.4.2. Traditional own resources (TOR)

Traditional own resources (TOR) consist of customs duties (levied on imports from third countries) and sugar levies (paid by sugar producers to finance expenditure on the sugar common organisation of the market) levied on economic operators and collected by Member States on behalf of the EU. However, Member States keep 20 % as a compensation for their collection costs. All established traditional own resource amounts must be entered in one or other of the accounts kept by the competent authorities:

- In the ordinary accounts provided for in Article 6(3) of Regulation No 609/2014: all amounts recovered or guaranteed.
- In the separate accounts provided for also in the above Article: all amounts not yet recovered and/or not guaranteed; amounts guaranteed but challenged may also be entered in this account.

Traditional own resources must be entered in the Commission's account with the Treasury or National Central Bank by the Member State at the latest on the first working day following the 19th day of the second month following the month during which the entitlement was established (or recovered in the case of the separate account).

1.4.3. Value added tax (VAT)

Value added tax (VAT) is levied on Member States' VAT bases, which are harmonised for this purpose in accordance with EU rules. However, the VAT base is capped at 50 % of each Member State's GNI. The uniform VAT rate applied is fixed at 0.30 % except for the period 2014-2020 in which the rate of call for Germany, the Netherlands and Sweden was fixed at 0.15 %.

1.4.4. Gross national income (GNI)

The resource based on gross national income (GNI) is used to finance the part of the budget not covered by any other sources of revenue. The same percentage rate is levied on each Member States' GNI, which is established in accordance with EU rules.

VAT and GNI-based resources are determined on the basis of forecasts of relevant bases made when the draft budget is being prepared. These forecasts are subsequently revised and updated during the budget year in question by means of an amending budget. Differences between the amounts due by the Member States by reference to the actual bases and the sums actually paid on the basis of the (revised) forecasts, either positive or negative, are called by the Commission from the Member States for the first working day of June of the second year following the budget year in question. Corrections may still be made to the actual VAT and GNI bases during the subsequent four years, unless a reservation is issued. These reservations have to be seen as potential claims on the Member States for uncertain amounts as their financial impact cannot be estimated with accuracy. When the exact amount can be determined, the corresponding VAT and GNI-based resources are called either in connection with VAT and GNI balances or by individual calls for funds.

1.4.5. UK correction

A budgetary imbalance correction mechanism in favour of the United Kingdom (reducing their own resource payments while increasing the payments of other Member States) was instituted by the European Council in Fontainebleau (June 1984). Germany, Austria, Sweden and Netherlands benefit from a reduced financing of the UK correction (restricted to one fourth of their normal share).

1.4.6. Gross reduction

The European Council of 7-8 February 2013 concluded that Denmark, the Netherlands and Sweden should benefit from gross reductions in their annual contributions based on GNI for the period 2014-2020 and that Austria is to benefit from gross reductions for the period 2014-2016 only. The annual reductions are as follows: Denmark EUR 130 million, the Netherlands EUR 695 million and Sweden EUR 185 million. Austria’s gross reduction were set at EUR 30 million in 2014, EUR 20 million in 2015 and EUR 10 million in 2016 (all amounts in 2011 prices).

1.4.7. Adjustment relating to the implementation of the ORD 2014 for years 2014 and 2015

Article 11 of the ORD 2014 stipulates that once the Decision enters into force, it shall take effect on 1 January 2014. This means that the financing for the years 2014 and 2015 had to be recalculated according to the new rules. The adjustment (the difference between the old and the new ORD for years 2014 and 2015) was entered in Amending Budget no 5/2016 and was implemented in a single payment on the first working day of January 2017.

1.5. CALCULATION OF THE BUDGET RESULT

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

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

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

The budget result comprises two elements: the result of the EU and the result of the participation of the EFTA countries belonging to the European Economic Area (EEA). In accordance with Article 1(1) of Regulation No 608/2014 laying down implementing measures for the system of own resources, this result represents the difference between:

- total revenue received for the financial year; and
- total payments made against current year's appropriations plus the total amount of that year's appropriations carried over to the following year.

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

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

- the evolution of assigned revenue; and

- the net exchange-rate gains or losses recorded during the year.

Appropriations carried over from the previous financial year in respect of contributions by and work for third parties, which by definition never lapse, are included as additional appropriations for the financial year. This explains the difference between carryovers from the previous year in the year N budget implementation reports and those carried over to the following year in the year N-1 budget implementation reports. Appropriations made available again following the repayment of payments on account are disregarded when calculating the budget result.

Payment appropriations carried over include: automatic carryovers and carryovers by decision. The cancellation of unused payment appropriations carried over from the previous year shows the cancellations of appropriations carried over automatically and by decision.

1.6. RECONCILIATION OF ECONOMIC RESULT WITH BUDGET RESULT

EUR millions

	2016	2015
ECONOMIC RESULT OF THE YEAR	**1 733**	**(13 033)**
Revenue		
Entitlements established in current year but not yet collected	*(1 969)*	*(318)*
Entitlements established in previous years and collected in current year	*3 363*	*7 943*
Accrued revenue (net)	*611*	*(359)*
Expenses		
Accrued expenses (net)	*10 678*	*9 920*
Expenses prior year paid in current year	*(7 656)*	*(1 208)*
Net-effect pre-financing	*(468)*	*(4 831)*
Payment appropriations carried over to next year	*(3 102)*	*(2 195)*
Payments made from carry-overs & cancellation of unused payment appropriations	*1 379*	*1 979*
Movement in provisions	*3 962*	*4 950*
Other	*(2 142)*	*(1 671)*
Economic result Agencies and ECSC	**16**	**169**
BUDGET RESULT OF THE YEAR	**6 405**	**1 347**

In accordance with the Financial Regulation, the economic result of the year is calculated on the basis of accrual accounting principles, while the budget result is based on modified cash accounting rules. As the economic result and the budget result both cover the same underlying transactions, it is a useful control to ensure that they are reconcilable.

Reconciling items - Revenue

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

The net accrued revenue mainly consists of accrued revenue for agriculture, 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

Net accrued expenses mainly consists of accruals made for year-end cut-off purposes, i.e. eligible expenses incurred by beneficiaries of EU funds but not yet reported to the Commission. While accrued expenses are not considered as budgetary expenditure, 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 forward to the next year also need to be taken into account in calculating the budget result for the year (in accordance with Article 1(1) of Regulation No 608/2014). The same applies for the budgetary payments made in the current year from carry-overs from previous years, and the cancellation of unused payment appropriations.

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

2. IMPLEMENTATION OF THE 2016 EU BUDGET – COMMENTARY

2.1. REVENUE

In the initial adopted EU budget, signed by the President of the European Parliament on 25 November 2015, the amount of payment appropriations was EUR 143 885 million and the amount to be financed by own resources totalled EUR 142 269 million. The revenue and expenditure estimates in the initial budget are typically adjusted during the budgetary year, such modifications being presented in Amending Budgets. Adjustments in the GNI-based own resources ensure that budgeted revenue matches exactly budgeted expenditure. In accordance with the principle of equilibrium, budget revenue and expenditure (payment appropriations) must be in balance.

During 2016, six amending budgets were adopted. Taking them into account, the final adopted revenue for 2016 amounted to EUR 136 642 million. This was financed by own resources totalling EUR 133 677 million (thus EUR 8 592 million less than initially forecasted) and the remainder by other revenue. This is explained mainly by the surplus from the previous financial year and the substantial reduction of payment appropriations that reduced Member States' GNI balancing contribution in 2016.

As far as the own resources result is concerned, the collection of traditional own resources was very close to the forecasted amounts. This is primarily because the budget estimates were modified at the time the Amending Budget No. 4/2016 was established (according to the new forecasts of spring 2016).

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

As far as the VAT and GNI balances are concerned there is a new procedure in place. The rules are set out in Article 10 b of the Making available regulation (Regulation 609/2014). The new procedure does not entail an Amending Budget and therefore the Commission will directly request the Member States to pay the net amounts. The impact for the EU budget will be close to zero. Commission will communicate the annual adjustments to Member States and the amounts will be made available in June 2017. Also due to the change for 2016 there have been no balances.

The heading "Contributions and refunds in connection with EU agreements and programmes" concerns mainly revenue from the EAGF and EAFRD (and in particular the clearance of accounts and irregularities), the participation of third countries in research programs and other contributions and refunds to EU programs/activities. A substantial part of this total is made up of earmarked revenue, which typically gives rise to the entering of additional appropriations on the expenditure side.

The revenue from fines relates mainly to fines in the field of competition.

2.2. EXPENDITURE

2016 was the third year of the current programming period 2014-2020. The 2016 budget set the priorities of delivering on growth and jobs like its predecessor. However, it also stressed the importance of the new migration challenges regarding the crisis in Syria and North Africa.

As regards commitments, the 2016 budget totalling EUR 155.3 billion was 4.3 % lower than the 2015 budget with a significant decrease in Heading 1b (down by 15.8 % mainly due to the one-off effect of the re-programming from 2014 to 2015), partially counterbalanced by a big increase in Heading 3 (up by 70.2 %).

In 2016, amending budget 4 further increased commitment appropriations for programmes tackling migration and security issues under Heading 3 - Security and Citizenship for the amount of EUR 250 million in commitment appropriations. From this increase, EUR 130 million were allocated to the AMIF and EUR 70 million to the ISF. Under Heading 1a, additional commitment appropriations of EUR 74 million was allocated to EFSI, to cover its extension until 2020.

Heading 4 Global Europe was reinforced in commitments through amending budgets by EUR 210 million mainly for the European Neighbourhood Instrument and Humanitarian Aid programmes. Funding was partly granted through the reduction of the Common Foreign and Security Policy and Macro-financial Assistance programmes.

Payment appropriations of the final adopted budget amounted to EUR 136.6 billion, 3.3 % below the 2015 level. This has been mainly the result of a decrease by EUR 7.3 billion through amending budget 4, mostly related to Heading 1b - Economic, social and territorial cohesion and to a lesser extent to Heading 2 - Sustainable Growth. Further details on the underlying reasons for this decrease are provided in the section below.

2016 Implementation of available appropriations

The year 2016 was closed with a 97 % implementation of commitments and a leftover in payment appropriations of EUR 4.8 billion. Implementation of commitments amounted to EUR 157.3 billion. For payments, the implementation reached EUR 132.4 billion or 92 % of available appropriations.

Following several years of constrained payment appropriations and accumulation of unpaid claims (mostly in cohesion), the abnormal backlog was fully phased out in 2016, in line with the 'payment plan' agreed with the EP and the Council in 2015. The Commission identified the risk of under-implementation of payment appropriations for cohesion already in March 2016 and increased its surplus estimates considerably in September, following Member States' updated forecasts from July. In addition, the Commission took into account the delays in designating national authorities, the implementation pace on the ground and the average forecast implementation rate for previous programming periods. It then proposed amending budget 4/2016 to decrease the level of payment appropriations by EUR 7.3 billion, mostly in budget lines under sub-heading 1b Economic, social and territorial cohesion. The level of payable claims actually submitted by the end of the year by Member States for 2014-2020 programmes proved to be an unprecedented EUR 8 billion lower than the forecast, with 26 Member States submitting claims below their forecast.

Outstanding Commitments

The outstanding commitments (RAL) by the end of the year increased significantly to reach EUR 238.8 billion. The increase of over EUR 21 billion compared to 2015 was twice as high from what was initially expected due to the widened gap between implemented commitments and payments (stemming from amending budget 4/2016 as well as the end-of-year under-implementation). In 2017 a further increase of RAL is expected given the difference between budgeted commitment and payment appropriations (ratio 85 %).

The outstanding legal commitments of the previous programming periods, i.e. before 2014, decreased in 2016 from EUR 75 billion to EUR 40 billion (-47 %). Consequently, a bigger share of payment appropriations will be available for the current programmes starting from 2017.

A more detailed analysis of budgetary adjustments, their relevant context, justification and impact is presented in the Commission's report on Budgetary and Financial Management 2016, Part A "Overview at budget level" and Part B dealing with each heading of the multiannual financial framework (MFF).

Budget surplus

The budget surplus amounts to EUR 6.4 billion and arises primarily from the expenditure side, due to the under-implementation mainly in heading 1b (EUR 4.9 billion). The origin of surplus on the revenue side is mainly due to important revenues on fines and slightly lower own resources (+EUR 1.7 billion). An exchange rate loss of EUR 173 million lowers the final result.

3. IMPLEMENTATION OF EU BUDGET REVENUE

3.1. SUMMARY OF THE IMPLEMENTATION OF EU BUDGET REVENUE

EUR millions

Title		Income appropriations		Entitlements established			Revenue			Receipts as % of budget	Outstanding
		Initial adopted budget	Final adopted budget	Current year	Carried over	Total	On entitlements of current year	On entitlements carried over	Total		
1	Own resources	142 269	133 677	132 164	28	132 192	132 163	3	132 166	99%	26
3	Surpluses, balances and adjustments	–	1 349	1 358	–	1 358	1 358	–	1 358	101%	–
4	Revenue accruing from persons working with the institutions and other Union bodies	1 348	1 348	1 445	14	1 459	1 438	14	1 452	108%	7
5	Revenue accruing from the administrative operation of the institutions	55	55	584	17	600	568	11	579	1044%	21
6	Contributions and refunds in connection with Union agreements and programmes	60	60	5 929	274	6 204	5 804	125	5 928	9880%	275
7	Interests on late payments and fines	123	123	2 946	6 793	9 739	1 045	2 131	3 175	2582%	6 564
8	Borrowing and lending operations	5	5	40	6	46	36	6	41	792%	5
9	Miscellaneous revenue	25	25	17	10	27	16	2	17	69%	10
Total		**143 885**	**136 642**	**144 483**	**7 141**	**151 624**	**142 427**	**2 290**	**144 717**	**106%**	**6 907**

4. IMPLEMENTATION OF EU BUDGET EXPENDITURE

4.1. MFF: BREAKDOWN & CHANGES IN COMMITMENT & PAYMENT APPROPRIATIONS

EUR millions

	MFF Heading	Commitment appropriations						Payment appropriations					
		Budget appropriations			Additional appropriations		Total	Budget appropriations			Additional appropriations		Total
		Initial adopted budget	Amending budgets & transfers	Final adopted budget	Carry-overs	Assigned revenue	Appropriations available	Initial adopted budget	Amending budgets & transfers	Final adopted budget	Carry-overs	Assigned revenue	appropriations available
		1	2	3=1+2	4	5	6=3+4+5	7	8	9=7+8	10	11	12=9+10+11
1	Smart and inclusive growth	69 841	–	69 841	153	3 045	73 039	66 263	(6 804)	59 459	117	4 042	63 618
	1a: Competitiveness for growth and jobs	*19 010*	*(0)*	*19 010*	*0*	*2 558*	*21 569*	*17 418*	*(13)*	*17 406*	*103*	*3 467*	*20 976*
	1b: Economic, social and territorial cohesion	*50 831*	*–*	*50 831*	*153*	*487*	*51 471*	*48 844*	*(6 791)*	*42 053*	*15*	*575*	*42 642*
2	Sustainable growth: natural resources	62 484	(15)	62 470	410	4 072	66 952	55 121	93	55 214	430	3 821	59 464
	of which: Market related expenditure and direct payments	*42 220*	*(2)*	*42 218*	*410*	*3 424*	*46 051*	*42 212*	*(3)*	*42 210*	*424*	*3 424*	*46 057*
3	Security and citizenship	4 052	240	4 292	–	131	4 423	3 022	46	3 069	9	117	3 195
4	Global Europe	9 167	210	9 377	237	2 626	12 240	10 156	(295)	9 860	33	1 270	11 163
5	Administration	8 935	16	8 951	4	687	9 642	8 935	16	8 951	756	783	10 490
	of which: Administrative expenditure of the institutions	*3 771*	*7*	*3 778*	*3*	*340*	*4 121*	*3 771*	*7*	*3 778*	*472*	*433*	*4 683*
6	Compensations	–	–	–	–	–	–	–	–	–	–	–	–
8	Negative reserve and deficit carried over from the previous financial year	–	–	–	–	–	–	–	–	–	–	–	–
9	Special Instruments	525	(179)	346	–	50	395	389	(299)	90	1	50	140
Total		**155 004**	**273**	**155 277**	**804**	**10 610**	**166 690**	**143 885**	**(7 243)**	**136 642**	**1 345**	**10 081**	**148 069**

4.2. MFF: IMPLEMENTATION OF COMMITMENT APPROPRIATIONS

EUR millions

	MFF Heading	Total approp. available	Commitments made					Appropriations carried over to 2017			Appropriations lapsing			
			from final adopted budget	from carry-overs	from assigned revenue	Total	%	assigned revenue	carry-overs by decision	Total	from final adopted budget	from carry-overs	from assigned revenue	Total
		1	2	3	4	5=2+3+4	6=5/1	7	8	9=7+8	10	11	12	13=10+11+12
1	Smart and inclusive growth	73 039	69 808	145	1 778	71 731	98%	1 267	0	1 267	33	8	–	41
	1a: Competitiveness for growth and jobs	*21 569*	*18 997*	*0*	*1 335*	*20 332*	*94%*	*1 224*	*0*	*1 224*	*13*	*–*	*–*	*13*
	1b: Economic, social and territorial cohesion	*51 471*	*50 811*	*145*	*443*	*51 400*	*100%*	*43*	*–*	*43*	*20*	*8*	*–*	*28*
2	Sustainable growth: natural resources	66 952	62 013	396	2 138	64 547	96%	1 934	433	2 368	23	14	–	38
	of which: Market related expenditure and direct payments	*46 051*	*41 770*	*395*	*2 120*	*44 285*	*96%*	*1 304*	*433*	*1 737*	*15*	*14*	*–*	*29*
3	Security and citizenship	4 423	4 287	–	49	4 336	98%	82	–	82	5	–	–	5
4	Global Europe	12 240	9 364	237	1 677	11 278	92%	948	10	959	3	–	–	3
5	Administration	9 642	8 887	4	467	9 358	97%	221	1	222	62	0	–	62
	of which: Administrative expenditure of the institutions	*4 121*	*3 721*	*3*	*254*	*3 979*	*97%*	*86*	*–*	*86*	*57*	*0*	*0*	*57*
6	Compensations	–	–	–	–	–	0%	–	–	–	–	–	–	–
8	Negative reserve and deficit carried over from the previous financial year	–	–	–	–	–	0%	–	–	–	–	–	–	–
9	Special Instruments	395	61	–	–	61	15%	50	130	180	155	–	–	155
Total		**166 690**	**154 421**	**781**	**6 108**	**161 310**	**97%**	**4 502**	**575**	**5 077**	**281**	**22**	**–**	**303**

4.3. MFF: IMPLEMENTATION OF PAYMENT APPROPRIATIONS

EUR millions

	MFF Heading	Total approp. available	Payments made					Appropriations carried over to 2017				Appropriations lapsing			
			from final adopted budget	from carry-overs	from assigned revenue	Total	%	automatic carry-overs	carry-overs by decision	assigned revenue	Total	from final adopted budget	from carry-overs	from assigned revenue	Total
		1	2	3	4	5=2+3+4	6=5/1	7	8	9	10=7+8+9	11	12	13	14=11+12+13
1	Smart and inclusive growth	63 618	55 005	102	1 158	56 265	88 %	126	5	2 881	3 012	4 323	15	3	4 341
	1a: Competitiveness for growth and jobs	*20 976*	*17 257*	*90*	*1 114*	*18 461*	*88 %*	*113*	*5*	*2 350*	*2 468*	*31*	*12*	*3*	*46*
	1b: Economic, social and territorial cohesion	*42 642*	*37 748*	*12*	*44*	*37 804*	*89 %*	*13*	–	*531*	*544*	*4 292*	*3*	–	*4 295*
2	Sustainable growth: natural resources	59 464	54 508	414	2 490	57 412	97 %	202	433	1 330	1 965	71	16	–	87
	of which: Market related expenditure and direct payments	*46 057*	*41 558*	*408*	*2 118*	*44 084*	*96 %*	*197*	*433*	*1 305*	*1 935*	*22*	*16*	–	*37*
3	Security and citizenship	3 195	3 035	7	35	3 077	96 %	11	–	82	93	23	2	–	25
4	Global Europe	11 163	9 421	28	828	10 277	92 %	35	86	441	562	319	5	–	324
5	Administration	10 490	8 163	684	477	9 324	89 %	725	1	306	1 032	62	72	–	133
	of which: Administrative expenditure of the institutions	*4 683*	*3 247*	*423*	*305*	*3 975*	*85 %*	*474*	–	*128*	*602*	*57*	*49*	–	*106*
6	Compensations	–	–	–	–	–	0 %	–	–	–	–	–	–	–	–
8	Negative reserve and deficit carried over from the previous financial year	–	–	–	–	–	0 %	0	–	–	–	–	–	–	–
9	Special Instruments	140	33	0	28	61	44 %	0	31	22	54	25	0	–	25
Total		**148 069**	**130 164**	**1 236**	**5 016**	**136 416**	**92 %**	**1 099**	**557**	**5 062**	**6 717**	**4 823**	**109**	**3**	**4 936**

4.4. MFF: MOVEMENTS IN COMMITMENTS OUTSTANDING (RAL)

EUR millions

	MFF Heading	Commitments outstanding at the end of previous year				Commitments of the year				Total
		Commitments carried forward from previous year	Decommitments/Revaluations/Cancellations	Payments	Commitments outstanding at year-end	Commitments made during the year	Payments	Cancellation of commitments which cannot be carried over	Commitments outstanding at year-end	Commitments outstanding at the end of the year
1	Smart and inclusive growth	160 827	(1 353)	(48 608)	110 866	71 731	(7 657)	(2)	64 072	174 938
	1a: Competitiveness for growth and jobs	*34 455*	*(701)*	*(11 730)*	*22 024*	*20 332*	*(6 731)*	*(2)*	*13 599*	*35 622*
	1b: Economic, social and territorial cohesion	*126 372*	*(652)*	*(36 877)*	*88 843*	*51 400*	*(927)*	*(0)*	*50 473*	*139 316*
2	Sustainable growth: natural resources	28 191	(1 378)	(12 605)	14 207	64 547	(44 806)	(0)	19 740	33 947
	of which: Market related expenditure and direct payments	*49*	*(3)*	*(24)*	*22*	*44 285*	*(44 060)*	–	*225*	*247*
3	Security and citizenship	3 137	(228)	(1 396)	1 512	4 336	(1 681)	–	2 655	4 167
4	Global Europe	24 673	(699)	(7 182)	16 792	11 278	(3 095)	(1)	8 182	24 974
5	Administration	865	(166)	(690)	8	9 358	(8 634)	(0)	724	732
	of which: Administrative expenditure of the institutions	*570*	*(143)*	*(420)*	*7*	*3 979*	*(3 555)*	*0*	*424*	*431*
6	Compensations	–	–	–	–	–	–	–	–	–
8	Negative reserve and deficit carried over from the previous financial year	–	–	–	–	–	–	–	–	–
9	Special Instruments	1	(0)	(0)	–	61	(61)	–	0	0
Total		**217 693**	**(3 825)**	**(70 482)**	**143 386**	**161 310**	**(65 935)**	**(3)**	**95 373**	**238 759**

4.5. MFF: COMMITMENTS OUTSTANDING BY YEAR OF ORIGIN

EUR millions

	MFF Heading	< 2010	2010	2011	2012	2013	2014	2015	2016	Total
1	Smart and inclusive growth	1 741	738	1 120	3 461	23 109	16 371	64 326	64 072	174 938
	1a: Competitiveness for growth and jobs	*563*	*733*	*856*	*2 223*	*4 481*	*5 972*	*7 194*	*13 599*	*35 622*
	1b: Economic, social and territorial cohesion	*1 178*	*5*	*264*	*1 237*	*18 627*	*10 399*	*57 132*	*50 473*	*139 316*
2	Sustainable growth: natural resources	200	58	81	128	1 234	1 220	11 285	19 740	33 947
	of which: Market related expenditure and direct payments	–	–	–	*0*	–	*2*	*19*	*225*	*247*
3	Security and citizenship	45	40	67	149	287	154	772	2 655	4 167
4	Global Europe	899	539	843	1 750	3 291	3 784	5 686	8 182	24 974
5	Administration	–	–	–	–	0	0	1	731	732
	of which: Administrative expenditure of the institutions	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*431*	*431*
9	Special Instruments	–	–	–	–	–	–	0	0	0
Total		**2 884**	**1 376**	**2 111**	**5 488**	**27 920**	**21 530**	**82 069**	**95 380**	**238 759**

4.6. POLICY AREA: BREAKDOWN AND CHANGES IN COMMITMENT AND PAYMENT APPROPRIATIONS

EUR millions

		Commitment appropriations						Payment appropriations					
		Budget appropriations			Additional appropriations		Total approp.	Budget appropriations			Additional appropriations		Total approp.
Policy area		Initial adopted budget	Amending budgets & transfers	Final adopted budget	Carried over	Assigned revenue	available	Initial adopted budget	Amending budgets & transfers	Final adopted budget	Carried over	Assigned revenue	available
		1	2	3=1+2	4	5	6=3+4+5	7	8	9=7+8	10	11	12=9+10+11
01	Economic and financial affairs	2 533	(7)	2 525	–	122	2 648	1 097	432	1 529	6	125	1 660
02	Internal market, industry, entrepreneurship and SMEs	2 286	3	2 289	–	229	2 518	1 894	(36)	1 859	13	372	2 243
03	Competition	103	(1)	102	–	5	107	103	(1)	102	9	5	116
04	Employment, social affairs and inclusion	12 924	27	12 952	–	504	13 456	13 031	(1 818)	11 213	14	576	11 802
05	Agriculture and rural development	61 382	(4)	61 379	410	4 070	65 858	54 625	166	54 791	431	3 818	59 039
06	Mobility and transport	4 219	2	4 221	–	125	4 346	2 296	(103)	2 193	5	123	2 321
07	Environment	448	0	448	–	18	467	397	(5)	392	4	16	412
08	Research and innovation	5 855	(7)	5 848	–	897	6 745	5 403	(10)	5 393	28	1 391	6 811
09	Communications networks, content and technology	1 803	53	1 856	–	173	2 029	2 373	(32)	2 341	11	274	2 627
10	Direct research	397	–	397	–	538	935	403	(17)	385	40	479	905
11	Maritime affairs and fisheries	1 083	(9)	1 074	0	6	1 081	758	(145)	613	3	6	622
12	Financial stability, financial services and capital markets union	85	0	85	–	4	89	86	(3)	83	4	4	91
13	Regional and urban policy	35 989	40	36 029	146	60	36 235	36 386	(5 365)	31 021	11	76	31 108
14	Taxation and customs union	166	0	167	0	9	176	159	0	159	5	7	171
15	Education and culture	2 889	0	2 890	–	466	3 356	3 031	25	3 055	13	631	3 699
16	Communication	204	0	204	–	12	216	197	(2)	195	12	12	219
17	Health and food safety	571	(14)	557	–	42	598	571	(37)	535	9	42	586
18	Migration and home affairs	3 225	250	3 475	–	88	3 563	2 323	61	2 384	6	96	2 487
19	Foreign policy instruments	783	(119)	663	17	53	733	677	(50)	628	3	52	683
20	Trade	107	1	108	–	3	111	106	1	106	2	3	112
21	International cooperation and development	3 162	1	3 163	–	220	3 383	3 346	21	3 367	18	203	3 587
22	Neighbourhood and enlargement negotiations	3 835	146	3 981	7	990	4 978	3 566	(264)	3 301	12	369	3 683
23	Humanitarian aid and civil protection	1 202	258	1 460	219	1 253	2 933	1 560	178	1 739	6	532	2 277
24	Fight against fraud	80	(1)	79	–	0	79	86	(1)	85	7	0	92
25	Commission's policy coordination and legal advice	206	4	210	0	12	222	206	4	210	15	12	237
26	Commission's administration	1 017	(21)	996	–	178	1 174	1 016	(15)	1 001	142	180	1 323
27	Budget	72	(13)	59	–	8	67	72	(13)	59	7	8	75
28	Audit	19	(0)	19	–	1	20	19	(0)	19	1	1	20
29	Statistics	139	0	140	–	16	155	128	0	128	5	21	154
30	Pensions and related expenditure	1 647	37	1 684	–	0	1 685	1 647	37	1 684	–	0	1 685
31	Language services	399	(3)	396	–	62	458	399	(3)	396	17	62	475
32	Energy	1 532	(122)	1 410	–	96	1 506	1 524	46	1 570	5	141	1 716
33	Justice and consumers	259	(0)	259	–	10	268	239	(8)	232	4	9	245
34	Climate action	138	0	138	–	1	139	82	(5)	77	4	1	82
40	Reserves	475	(238)	236	–	–	236	309	(288)	21	–	–	21
90	Other Institutions	3 771	7	3 778	3	340	4 121	3 771	7	3 778	472	433	4 683
Total		**155 004**	**273**	**155 277**	**804**	**10 610**	**166 690**	**143 885**	**(7 243)**	**136 642**	**1 345**	**10 081**	**148 069**

4.7. POLICY AREA: IMPLEMENTATION OF COMMITMENT APPROPRIATIONS

EUR millions

	Policy area	Total approp. available	Commitments made					Appropriations carried over to 2017			Appropriations lapsing			
			from final adopted budget	from carry-overs	from assigned revenue	Total	%	assigned revenue	carry-overs by decision	Total	from final adopted budget	from carry-overs	from assigned revenue	Total
		1	2	3	4	5=2+3+4	6=5/1	7	8	9=7+8	10	11	12	13=10+11+12
01	Economic and financial affairs	2 648	2 525	–	9	2 534	96%	113	–	113	1	–	–	1
02	Internal market, industry, entrepreneurship and SMEs	2 518	2 288	–	121	2 409	96%	109	0	109	0	–	–	0
03	Competition	107	102	–	3	105	98%	2	–	2	0	–	–	0
04	Employment, social affairs and inclusion	13 456	12 938	–	428	13 367	99%	76	0	76	13	–	–	13
05	Agriculture and rural development	65 858	60 927	395	2 143	63 466	96%	1 927	433	2 360	18	14	–	32
06	Mobility and transport	4 346	4 218	–	62	4 281	99%	63	0	63	2	–	–	2
07	Environment	467	448	–	10	458	98%	8	0	8	0	–	–	0
08	Research and innovation	6 745	5 848	–	538	6 386	95%	359	–	359	0	–	–	0
09	Communications networks, content and technology	2 029	1 856	–	81	1 936	95%	92	0	92	0	–	–	0
10	Direct research	935	397	–	114	510	55%	424	–	424	0	–	–	0
11	Maritime affairs and fisheries	1 081	1 069	0	2	1 071	99%	5	0	5	5	–	–	5
12	Financial stability, financial services and capital markets union	89	85	–	2	87	97%	2	0	2	0	–	–	0
13	Regional and urban policy	36 235	35 968	145	26	36 139	100%	34	31	65	29	1	–	30
14	Taxation and customs union	176	166	0	4	171	97%	4	–	4	0	–	–	0
15	Education and culture	3 356	2 890	–	359	3 249	97%	107	0	107	0	–	–	0
16	Communication	216	204	–	7	211	97%	5	–	5	0	–	–	0
17	Health and food safety	598	557	–	17	573	96%	25	–	25	0	–	–	0
18	Migration and home affairs	3 563	3 473	–	32	3 505	98%	56	0	57	1	–	–	1
19	Foreign policy instruments	733	654	17	18	689	94%	35	9	44	0	–	–	0
20	Trade	111	108	–	2	109	99%	1	0	1	0	–	–	0
21	International cooperation and development	3 383	3 161	–	187	3 349	99%	32	1	33	1	–	–	1
22	Neighbourhood and enlargement negotiations	4 978	3 979	–	925	4 904	99%	65	–	65	2	7	–	9
23	Humanitarian aid and civil protection	2 933	1 459	219	552	2 231	76%	701	–	701	1	–	–	1
24	Fight against fraud	79	79	–	–	79	100%	0	–	0	0	–	–	0
25	Commission's policy coordination and legal advice	222	209	0	7	216	97%	5	0	5	1	–	–	1
26	Commission's administration	1 174	995	–	108	1 104	94%	69	–	69	0	–	–	0
27	Budget	67	59	–	5	64	95%	3	–	3	0	–	–	0
28	Audit	20	18	–	1	19	97%	1	–	1	0	–	–	0
29	Statistics	155	139	–	6	145	94%	10	–	10	0	–	–	0
30	Pensions and related expenditure	1 685	1 684	–	0	1 684	100%	0	–	0	0	–	–	0
31	Language services	458	396	–	42	437	95%	20	–	20	0	–	–	0
32	Energy	1 506	1 405	–	41	1 446	96%	55	0	55	5	–	–	5
33	Justice and consumers	268	256	–	3	259	97%	7	–	7	2	–	–	2
34	Climate action	139	137	–	1	138	100%	0	0	0	0	–	–	0
40	Reserves	236	–	–	–	–	0%	–	99	99	138	–	–	138
90	Other Institutions	4 121	3 721	3	254	3 979	97%	86	–	86	57	0	0	57
Total		**166 690**	**154 421**	**781**	**6 108**	**161 310**	**97%**	**4 502**	**575**	**5 077**	**281**	**22**	**–**	**303**

4.8. POLICY AREA: IMPLEMENTATION OF PAYMENT APPROPRIATIONS

EUR millions

	Policy area	Total approp. available	Payments made					Appropriations carried over to 2017				Appropriations lapsing			
			from final adopted budget	from carry-overs	from assigned revenue	Total	%	automatic carry-overs	carry-overs by deci- sion	assigned revenue	Total	from final adopted budget	from carry-overs	from assigned revenue	Total
		1	2	3	4	5=2+3+4	6=5/1	7	8	9	10=7+8+9	11	12	13	14=11+12+13
01	Economic and financial affairs	1 660	1 512	5	11	1 529	92%	5	–	114	119	12	1	–	13
02	Internal market, industry, entrepreneurship and SMEs	2 243	1 843	11	59	1 913	85%	15	0	313	328	1	1	–	2
03	Competition	116	94	8	3	105	90%	8	–	3	10	0	1	–	1
04	Employment, social affairs and inclusion	11 802	8 819	10	44	8 873	75%	12	–	532	544	2 381	4	0	2 385
05	Agriculture and rural development	59 039	54 127	414	2 488	57 029	97%	203	433	1 330	1 965	28	16	–	44
06	Mobility and transport	2 321	2 183	4	64	2 251	97%	4	0	59	63	6	0	1	7
07	Environment	412	379	3	9	392	95%	3	0	7	11	9	0	–	9
08	Research and innovation	6 811	5 359	25	396	5 780	85%	29	–	994	1 023	6	2	–	8
09	Communications networks, content and technology	2 627	2 326	10	113	2 449	93%	15	0	162	177	1	1	0	2
10	Direct research	905	339	36	95	469	52%	46	–	385	431	0	5	–	5
11	Maritime affairs and fisheries	622	585	2	2	589	95%	2	0	5	6	26	0	–	27
12	Financial stability, financial services and capital markets union	91	80	3	2	85	93%	3	0	2	5	0	0	–	1
13	Regional and urban policy	31 108	29 072	10	40	29 123	94%	10	31	36	78	1 906	1	–	1 908
14	Taxation and customs union	171	155	5	2	161	94%	5	–	5	9	0	0	–	0
15	Education and culture	3 699	3 043	12	299	3 354	91%	12	0	332	344	0	1	–	1
16	Communication	219	185	11	6	202	92%	10	–	6	16	0	1	–	1
17	Health and food safety	586	526	8	16	550	94%	8	–	25	34	0	1	–	2
18	Migration and home affairs	2 487	2 364	5	24	2 393	96%	7	0	73	80	12	1	–	13
19	Foreign policy instruments	683	595	3	19	617	90%	3	–	33	36	29	1	–	29
20	Trade	112	103	2	2	107	96%	3	0	2	5	0	0	–	0
21	International cooperation and development	3 587	3 344	16	133	3 493	97%	21	0	70	91	1	2	–	3
22	Neighbourhood and enlargement negotiations	3 683	3 007	10	317	3 334	91%	11	–	52	62	284	2	–	286
23	Humanitarian aid and civil protection	2 277	1 637	6	360	2 002	88%	7	86	173	265	9	1	–	10
24	Fight against fraud	92	72	6	–	78	84%	7	5	0	12	1	2	–	2
25	Commission's policy coordination and legal advice	237	194	13	6	213	90%	15	0	6	21	0	2	–	3
26	Commission's administration	1 323	879	135	83	1 097	83%	121	–	97	218	1	8	–	8
27	Budget	75	53	7	4	63	85%	6	–	5	11	0	0	–	0
28	Audit	20	18	1	1	19	94%	1	–	1	1	0	0	–	0
29	Statistics	154	123	4	6	134	87%	5	–	15	20	0	1	–	1
30	Pensions and related expenditure	1 685	1 684	–	0	1 684	100%	–	–	0	0	0	–	–	0
31	Language services	475	381	16	37	435	92%	15	–	25	39	0	1	–	1
32	Energy	1 716	1 549	5	67	1 621	94%	5	0	71	76	15	1	3	19
33	Justice and consumers	245	222	3	4	229	94%	4	–	5	9	6	1	–	7
34	Climate action	82	64	3	1	68	83%	4	0	1	4	9	1	–	9
40	Reserves	21	–	–	–	–	0%	–	–	–	–	21	–	–	21
90	Other Institutions	4 683	3 247	423	305	3 975	85%	474	–	128	602	57	49	–	106
Total		**148 069**	**130 164**	**1 236**	**5 016**	**136 416**	**92%**	**1 098**	**557**	**5 062**	**6 717**	**4 823**	**109**	**3**	**4 936**

4.9. POLICY AREA: MOVEMENTS IN COMMITMENTS OUTSTANDING (RAL)

EUR millions

	Policy area	Commitments outstanding at the end of previous year				Commitments of the year				Total commitments outstanding at the end of the year
		Commitments carried forward from previous year	Decommitments/Revaluations/Cancellations	Payments	Commitments outstanding at year-end	Commitments made during the year	Payments	Cancellation of commitments which cannot be carried over	Commitments outstanding at year-end	
01	Economic and financial affairs	1 884	(28)	(1 127)	728	2 534	(401)	–	2 133	2 861
02	Internal market, industry, entrepreneurship and SMEs	2 179	(26)	(1 145)	1 008	2 409	(768)	(1)	1 640	2 648
03	Competition	9	(1)	(8)	–	105	(97)	–	8	8
04	Employment, social affairs and inclusion	33 275	(438)	(8 516)	24 321	13 367	(357)	(0)	13 010	37 331
05	Agriculture and rural development	25 424	(1 340)	(12 274)	11 810	63 466	(44 756)	(0)	18 710	30 520
06	Mobility and transport	5 883	(114)	(1 528)	4 241	4 281	(723)	–	3 558	7 799
07	Environment	1 118	(2)	(275)	841	458	(117)	–	341	1 182
08	Research and innovation	12 813	(107)	(3 844)	8 863	6 386	(1 937)	(0)	4 449	13 312
09	Communications networks, content and technology	3 365	(20)	(1 488)	1 856	1 936	(961)	(0)	975	2 832
10	Direct research	174	(19)	(100)	55	510	(369)	(0)	141	196
11	Maritime affairs and fisheries	2 201	(53)	(409)	1 740	1 071	(180)	(0)	891	2 630
12	Financial stability, financial services and capital markets union	12	(2)	(7)	3	87	(78)	(0)	9	13
13	Regional and urban policy	92 788	(286)	(28 491)	64 010	36 139	(631)	(0)	35 508	99 518
14	Taxation and customs union	125	(6)	(73)	45	171	(88)	–	83	128
15	Education and culture	2 801	(52)	(1 256)	1 494	3 249	(2 099)	(0)	1 150	2 644
16	Communication	56	(3)	(49)	4	211	(153)	(0)	58	62
17	Health and food safety	503	(46)	(264)	193	573	(286)	–	287	480
18	Migration and home affairs	2 596	(168)	(1 096)	1 332	3 505	(1 297)	–	2 207	3 539
19	Foreign policy instruments	905	(46)	(339)	520	689	(278)	(0)	410	930
20	Trade	20	(1)	(13)	6	109	(94)	–	16	22
21	International cooperation and development	9 572	(278)	(2 937)	6 358	3 349	(557)	(0)	2 792	9 150
22	Neighbourhood and enlargement negotiations	11 606	(306)	(2 547)	8 753	4 904	(787)	(0)	4 117	12 870
23	Humanitarian aid and civil protection	827	(5)	(542)	279	2 231	(1 460)	–	770	1 050
24	Fight against fraud	30	(2)	(19)	9	79	(59)	–	20	29
25	Commission's policy coordination and legal advice	15	(2)	(13)	–	216	(200)	–	16	16
26	Commission's administration	185	(9)	(169)	8	1 104	(928)	–	176	184
27	Budget	7	(0)	(7)	–	64	(56)	–	8	8
28	Audit	1	(0)	(1)	–	19	(18)	–	1	1
29	Statistics	115	(7)	(50)	57	145	(83)	(0)	62	119
30	Pensions and related expenditure	–	–	–	–	1 684	(1 684)	–	–	–
31	Language services	17	(1)	(16)	–	437	(418)	–	19	19
32	Energy	6 225	(309)	(1 325)	4 590	1 446	(296)	–	1 150	5 740
33	Justice and consumers	224	(4)	(91)	129	259	(138)	–	121	250
34	Climate action	168	(1)	(43)	124	138	(25)	–	113	237
90	Other Institutions	570	(143)	(420)	7	3 979	(3 555)	0	424	431
Total		**217 693**	**(3 825)**	**(70 482)**	**143 386**	**161 310**	**(65 935)**	**(3)**	**95 373**	**238 759**

4.10. POLICY AREA: COMMITMENTS OUTSTANDING BY YEAR OF ORIGIN

EUR millions

	Policy area	< 2010	2010	2011	2012	2013	2014	2015	2016	Total
01	Economic and financial affairs	11	0	–	117	244	10	346	2 133	2 861
02	Internal market, industry, entrepreneurship and SMEs	13	11	29	93	86	144	633	1 640	2 648
03	Competition	–	–	–	–	–	–	0	8	8
04	Employment, social affairs and inclusion	382	6	265	420	4 112	4 118	15 018	13 010	37 331
05	Agriculture and rural development	34	–	–	2	868	985	9 921	18 710	30 520
06	Mobility and transport	100	64	249	508	571	1 321	1 430	3 558	7 799
07	Environment	80	58	68	98	137	181	217	341	1 182
08	Research and innovation	77	112	318	705	1 686	2 835	3 129	4 449	13 312
09	Communications networks, content and technology	29	16	37	141	298	615	721	975	2 832
10	Direct research	9	2	1	1	11	11	19	141	196
11	Maritime affairs and fisheries	85	0	13	27	286	26	1 302	891	2 630
12	Financial stability, financial services and capital markets union	–	–	–	–	0	1	3	9	13
13	Regional and urban policy	1 022	1	8	825	14 947	5 750	41 459	35 508	99 518
14	Taxation and customs union	–	–	0	0	1	11	32	83	128
15	Education and culture	83	26	66	128	220	436	535	1 150	2 644
16	Communication	–	–	0	0	0	0	4	58	62
17	Health and food safety	14	3	5	10	15	52	93	287	480
18	Migration and home affairs	45	46	67	158	322	111	583	2 207	3 539
19	Foreign policy instruments	12	5	11	38	55	168	231	410	930
20	Trade	–	–	0	0	1	1	4	16	22
21	International cooperation and development	227	219	331	699	1 237	1 525	2 120	2 792	9 150
22	Neighbourhood and enlargement negotiations	414	290	473	993	1 507	2 037	3 039	4 117	12 870
23	Humanitarian aid and civil protection	22	25	24	23	22	28	135	770	1 050
24	Fight against fraud	–	–	–	0	1	3	6	20	29
25	Commission's policy coordination and legal advice	–	–	–	–	–	–	0	16	16
26	Commission's administration	–	–	–	–	2	1	4	176	184
27	Budget	–	–	–	–	–	–	(0)	8	8
28	Audit	–	–	–	–	–	–	–	1	1
29	Statistics	–	–	0	0	3	17	37	62	119
30	Pensions and related expenditure	–	–	–	–	–	–	–	–	–
31	Language services	–	–	–	–	–	–	(0)	19	19
32	Energy	225	491	142	496	1 273	1 053	910	1 150	5 740
33	Justice and consumers	0	0	4	6	13	36	70	121	250
34	Climate action	–	–	–	–	1	54	69	113	237
90	Other Institutions	0	0	0	0	0	0	0	431	431
		2 884	**1 376**	**2 111**	**5 488**	**27 920**	**21 530**	**82 069**	**95 380**	**238 759**

5. IMPLEMENTATION OF THE BUDGET BY INSTITUTION

5.1. IMPLEMENTATION OF BUDGET REVENUE

EUR millions

Institution	Income appropriations		Entitlements established			Revenue			Receipts as % of budget	Outstanding
	Initial adopted budget	Final adopted budget	Current year	Carried over	Total	On entitlem. of current year	On entitlem. carried over	Total		
Commission	143 548	136 305	143 854	7 119	150 972	141 804	2 285	144 089	106%	6 883
Committee of the Regions	8	8	11	–	11	11	–	11	133%	0
Court of Auditors	20	20	20	0	20	20	0	20	99%	0
Court of Justice	52	52	50	0	50	50	0	50	97%	0
Economic and Social Committee	11	11	15	–	15	15	–	15	142%	–
European Council and Council	50	50	76	3	79	75	2	78	154%	2
European Data Protection Supervisor	1	1	1	–	1	1	–	1	95%	–
European External Action Service	41	41	269	1	269	268	1	268	659%	1
European Parliament	153	153	186	19	205	181	2	183	119%	22
Ombudsman	1	1	1	–	1	1	–	1	91%	–
Total	**143 885**	**136 642**	**144 483**	**7 141**	**151 624**	**142 427**	**2 290**	**144 717**	**106%**	**6 907**

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

Concerning the EEAS, it should be noted that, in addition to its own budget, it also receives contributions from the Commission of EUR 140 million (2015: EUR 138 million) and the EDF of EUR 44 million (2015: EUR 61 million). These budget credits are put at the disposal of the EEAS (as assigned revenue) so as to cover primarily the costs of Commission staff working in the EU delegations, these delegations being administratively managed by the EEAS.

5.2. IMPLEMENTATION OF COMMITMENT APPROPRIATIONS

EUR millions

		Commitments made					Appropriations carried over to 2017			Appropriations lapsing			
Institution	Total appropria-tions available 1	from final adopted budget 2	from carry-overs 3	from assigned revenue 4	Total 5=2+3+4	% 6=5/1	from assigned revenue 7	carry-overs by decision 8	Total 9=7+8	from final adopted budget 10	from carry-overs 11	from assigned revenue 12	Total 13=10+11+12
Commission	162 569	150 699	778	5 854	157 332	97%	4 416	575	4 991	224	22	–	246
Committee of Regions	93	89	–	2	91	98%	0	–	0	1	–	0	1
Court of Auditors	138	136	–	0	136	99%	0	–	0	1	–	0	1
Court of Justice	382	373	–	1	374	98%	1	–	1	7	–	0	7
Economic and Social Committee	135	127	–	4	131	97%	0	–	0	4	–	0	4
European Council and Council	591	519	2	21	541	92%	23	–	23	26	0	0	26
European Data-protection Supervisor	9	9	–	–	9	95%	–	–	–	1	–	0	1
European External Action Service	877	634	1	200	835	95%	40	–	40	2	0	0	2
European Parliament	1 886	1 824	–	26	1 850	98%	21	–	21	15	–	0	15
Ombudsman	11	10	–	–	10	95%	–	–	–	0	–	0	0
Total	**166 690**	**154 421**	**781**	**6 108**	**161 310**	**97%**	**4 502**	**575**	**5 077**	**281**	**22**	**–**	**303**

5.3. IMPLEMENTATION OF PAYMENT APPROPRIATIONS

Institution	Total appropriat. available	Payments made					Appropriations carried over to 2017				Appropriations lapsing			
		from final adopted budget	from carry-overs	from assigned revenue	Total	%	automatic carry-overs	carry-overs by decision	from assigned revenue	Total	from final adopted budget	from carry-overs	from assigned revenue	Total
	1	2	3	4	5=2+3+4	6=5/1	7	8	9	10=7+8+9	11	12	13	14=11+12+13
Commission	143 386	126 917	813	4 711	132 442	92%	624	557	4 934	6 115	4 766	60	3	4 830
Committee of Regions	102	81	7	2	90	89%	8	–	0	9	1	1	0	3
Court of Auditors	147	127	9	0	136	92%	9	–	0	9	1	1	0	2
Court of Justice	401	351	18	1	370	92%	22	–	1	23	7	2	0	9
Economic and Social Committee	145	119	7	3	129	89%	8	–	1	9	4	4	0	7
European Council and Council	636	457	38	20	515	81%	62	–	23	86	26	9	0	35
European Data-protection Supervisor	10	8	1	–	9	84%	1	–	–	1	1	0	0	1
European External Action Service	968	557	75	185	816	84%	77	–	62	139	2	11	–	13
European Parliament	2 262	1 539	268	94	1 900	84%	285	–	40	325	15	21	0	36
Ombudsman	11	9	1	–	10	86%	1	–	–	1	0	0	0	1
Total	**148 069**	**130 164**	**1 236**	**5 016**	**136 416**	**92%**	**1 098**	**557**	**5 062**	**6 717**	**4 823**	**109**	**3**	**4 936**

6. IMPLEMENTATION OF THE AGENCIES' BUDGET

6.1. BUDGET REVENUE

EUR millions

Agency	Funding Commission Policy Area	Final adopted budget	Amounts received
Agency for the Cooperation of Energy Regulators - ACER	6	16	16
Body of European Regulators for Electronic Communications - BEREC	9	4	4
Community Plant Variety Office - CPVO	17	16	13
Consumers, Health, Agriculture and Food Executive Agency - CHAFEA	17	9	9
Education, Audiovisual and Culture Executive Agency - EACEA	15	49	49
European Agency for Safety and Health at Work - EU-OSHA	4	15	15
European Agency for the Operational Management of Large-Scale IT Systems in the Area of Freedom, Security and Justice - eu-LISA	18	80	97
European Asylum Support Office - EASO	18	53	53
European Aviation Safety Agency - EASA	6	193	140
European Banking Authority - EBA	12	36	37
European Border and Coast Guard Agency - Frontex	18	233	252
European Centre for Disease Prevention and Control - ECDC	17	58	58
European Centre for the Development of Vocational Training - CEDEFOP	15	18	18
European Chemicals Agency - ECHA	2	103	105
European Environment Agency - EEA	7	42	57
European Fisheries Control Agency - EFCA	11	10	10
European Food Safety Authority - EFSA	17	79	79
European Foundation for the Improvement of Living and Working Conditions - Eurofound	4	21	21
European Global Navigation Satellite Systems (GNSS) Agency	6	29	223
European Institute for Gender Equality - EIGE	4	8	8
European Institute of Innovation and Technology - EIT	15	264	264
European Insurance and Occupational Pensions Authority - EIOPA	12	22	22
European Maritime Safety Agency - EMSA	6	71	71
European Medicines Agency - EMA	2	308	305
European Monitoring Centre for Drugs and Drug Addiction - EMCDDA	18	15	15
European Police Office	18	104	117
European Research Council Executive Agency - ERCEA	8	43	43
European Securities and Markets Authority - ESMA	12	39	39
European Training Foundation - ETF	15	20	20
European Union Agency for Fundamental Rights - FRA	18	22	22

EUR millions

Agency	Funding Commission Policy Area	Final adopted budget	Amounts received
European Union Agency for Law Enforcement Training - CEPOL	18	9	10
European Union Agency for Network and Information Security - ENISA	9	11	11
European Union Agency for Railways	6	28	28
European Union Intellectual Property Office - EUIPO	12	418	231
European Union's Judicial Cooperation Unit - EUROJUST	33	44	44
Executive Agency for Small and Medium-sized Enterprises - EASME	6	36	36
Fusion for Energy - F4E	8	720	724
Innovation and Networks Executive Agency - INEA	6	22	22
Research Executive Agency - REA	8	60	60
Translation Centre for the Bodies of the European Union	15	51	42
Total		**3 377**	**3 389**

EUR millions

Type of revenue	Final adopted budget	Amounts received
Commission subsidy	1 524	1 540
Fee income	642	638
Other income	1 211	1 211
Total	**3 377**	**3 389**

6.2. COMMITMENT AND PAYMENT APPROPRIATIONS BY AGENCY

EUR millions

Agency	Commitment appropriations		Payment appropriations	
	Total appropriat. available	Commit-ments made	Total appropriat. available	Payments made
Agency for the Cooperation of Energy Regulators - ACER	16	16	18	12
Body of European Regulators for Electronic Communications - BEREC	4	4	5	4
Community Plant Variety Office - CPVO	18	17	17	15
Consumers, Health, Agriculture and Food Executive Agency - CHAFEA	9	9	10	8
Education, Audiovisual and Culture Executive Agency - EACEA	49	48	54	47
European Agency for Safety and Health at Work - EU-OSHA	17	16	21	15
European Agency for the Operational Management of Large-Scale IT Systems in the Area of Freedom, Security and Justice - eu-LISA	85	80	104	94
European Asylum Support Office - EASO	66	53	55	35
European Aviation Safety Agency - EASA	220	160	226	144
European Banking Authority - EBA	36	35	40	35
European Border and Coast Guard Agency - Frontex	256	244	300	199
European Centre for Disease Prevention and Control - ECDC	59	58	69	56
European Centre for the Development of Vocational Training - CEDEFOP	19	19	20	18
European Chemicals Agency - ECHA	113	110	124	106
European Environment Agency - EEA	69	64	74	50
European Fisheries Control Agency - EFCA	10	10	11	9
European Food Safety Authority - EFSA	80	80	88	79
European Foundation for the Improvement of Living and Working Conditions - Eurofound	21	21	24	20
European Global Navigation Satellite Systems (GNSS) Agency	3 331	1 104	626	139
European Institute for Gender Equality - EIGE	8	8	10	8
European Institute of Innovation and Technology - EIT	285	271	267	265
European Insurance and Occupational Pensions Authority - EIOPA	22	22	25	22
European Maritime Safety Agency - EMSA	80	72	82	66
European Medicines Agency - EMA	314	301	347	294
European Monitoring Centre for Drugs and Drug Addiction - EMCDDA	16	16	17	16
European Police Office	122	115	133	112
European Research Council Executive Agency - ERCEA	43	43	45	43
European Securities and Markets Authority - ESMA	42	40	47	38
European Training Foundation - ETF	21	21	21	21

EUR millions

Agency	Commitment appropriations Total appropriat. available	Commitment appropriations Commit-ments made	Payment appropriations Total appropriat. available	Payment appropriations Payments made
European Union Agency for Fundamental Rights - FRA	22	22	28	22
European Union Agency for Law Enforcement Training - CEPOL	10	9	11	9
European Union Agency for Network and Information Security - ENISA	11	11	12	10
European Union Agency for Railways	28	28	30	28
European Union Intellectual Property Office - EUIPO	450	238	453	214
European Union's Judicial Cooperation Unit - EUROJUST	44	44	47	39
Executive Agency for Small and Medium-sized Enterprises - EASME	36	36	41	36
Fusion for Energy - F4E	764	763	730	716
Innovation and Networks Executive Agency - INEA	22	22	23	22
Research Executive Agency - REA	60	60	63	59
Translation Centre for the Bodies of the European Union	51	45	55	46
Total	**6 926**	**4 330**	**4 376**	**3 169**

EUR millions

Type of expenses	Commitment appropriations Total appropriat. available	Commitment appropriations Commit-ments made	Payment appropriations Total appropriat. available	Payment appropriations Payments made
Staff	1,054	1,033	1,069	1,029
Administrative expenses	367	341	431	330
Operational expenses	5,505	2,956	2,875	1,811
Total	**6 926**	**4 330**	**4 376**	**3 169**

GLOSSARY

Actuarial assumptions

Assumptions used to calculate the costs of future events that affect the pension liability.

Actuarial gains and losses

For a defined benefit scheme, the changes in actuarial deficits or surpluses. They arise as a result of differences between the previous actuarial assumptions and what has actually occurred and due to effects of changes in actuarial assumptions.

Administrative appropriations

Administrative appropriations cover the running costs of the Institutions and entities (staff, buildings, office equipment).

Adopted budget

Draft budget becomes the adopted budget as soon as it is approved by the Budgetary Authority.

Amending budget

Decision adopted during the budget year to amend (increase, decrease, transfer) aspects of the adopted budget of that year.

Amounts to be called from Member States

These represent expenses incurred during the reporting period that will need to be funded by future budgets, i.e. by the EU Member States. This is a consequence of the co-existence of accruals based financial statements and a cash based budget.

Annual Activity Report (AAR)

Annual Activity Reports indicate the results of operations by reference to objectives set, associated risks and the form of internal control, inter alia. Since the 2001 budget exercise for the Commission and since 2003 for all European Union (EU) institutions, the 'authorising officer by delegation' must submit an AAR to his/her institution on the performance of his/her duties, together with financial and management information.

Appropriations

Budget funding. The budget forecasts both commitments and payments (cash or bank transfers to the beneficiaries). Appropriations for commitments and payments often differ (differentiated appropriations) because multi annual programmes and projects are usually fully committed in the year they are decided and are paid over the years as the implementation of the programme and project progresses. Non-differentiated appropriations apply to administrative expenditure, for agricultural market support and direct payments and commitment appropriations equal payment appropriations.

Assigned revenue

Dedicated revenue received to finance specific items of expenditure. The main source of external assigned revenue is financial contributions from third countries to programmes financed by the Union. The main source of internal assigned revenue is revenue from third parties in respect of goods, services or work supplied at their request; revenue arising from the repayment of amounts wrongly paid and revenue from the sale of publications and films, including those on an electronic medium.

Available for sale financial assets

All financial assets (except derivatives) that are according to International Public Sector Accounting Standards measured at fair value and for which the changes in fair value are to be recognised in a reserve in net assets until derecognition (or impairment).

Budget line

As far as the budget structure is concerned, revenue and expenditure are shown in the budget in accordance with a binding nomenclature which reflects the nature and purpose of each item, as imposed by the budgetary authority. The individual headings (title, chapter, article or line) provide a formal description of the nomenclature.

Cancellation of appropriations

Unused appropriations that may no longer be used.

Carryover of appropriations

Exception to the principle of annuality in so far as appropriations that could not be used in a given budget year may, under strict conditions, be exceptionally carried over for use during the following year.

Commitment

Legal pledge to provide finance subject to certain conditions. The EU commits itself to reimbursing its share of the costs of an EU-funded project. Today's commitments are tomorrow's payments. Today's payments are yesterday's commitments.

Commitment appropriation

Commitment appropriations cover the total cost of legal obligations (contracts, grant agreements/decisions) that could be signed in the current financial year.

Current service cost

The increase in scheme liabilities arising from service in the current financial year.

Decommitment

An act whereby a previous commitment (or part of it) is cancelled.

Defined benefit scheme

A pension or other retirement benefit scheme where the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Derivatives

Financial instruments whose value is linked to changes in the value of another financial instrument, an indicator or a commodity. In contrast to the holder of a primary financial instrument (e.g. a government bond), who has an unqualified right to receive cash (or some other economic benefit) in the future, the holder of a derivative has only a qualified right to receive such a benefit. An example of a derivative is currency forward contract.

Direct management

Mode of budget implementation. Under direct management the budget is implemented directly by Commission services, Executive Agencies or Trust Funds.

Discount rate

The rate used to adjust for the time value of money. Discounting is a technique used to compare costs and benefits that occur in different time periods.

Effective interest rate

The rate that discounts estimated future cash receipts or payments over the expected life of the financial asset or financial liability to the net carrying amount of the asset or liability.

Financial assets or liabilities at fair value through surplus or deficit

All financial assets or liabilities that are according to International Public Sector Accounting Standards measured at fair value and for which the changes in fair value are to be recognised in surplus or deficit of the period (i.e. derivatives).

Financial correction

The purpose of financial corrections is to protect the EU budget from the burden of erroneous or irregular expenditure. For expenditure under shared management, the task of recovering incorrectly made payments is primarily the responsibility of the Member State.

A 'confirmed' financial correction has been accepted by the Member State concerned. A 'decided' financial correction has been adopted by a Commission decision and is always a net correction, where the Member State is required to reimburse irregular funds to the EU budget, thus leading to a definitive reduction of the allocated envelope to the Member State concerned. Confirmed and decided financial corrections are reported in this publication as one category.

An 'implemented' financial correction has corrected the observed irregularity.

Indirect management

Mode of budget implementation. Under indirect management the Commission confers tasks of budget implementation to bodies of EU law or national law.

Interruptions and suspensions

If the Commission finds, based on its own work or the information reported by audit authorities, that a Member State has failed to remedy serious shortcomings in the management and control systems and/or to correct irregular expenditure which had been declared and certified, it may interrupt or suspend payments.

Irregularity

An irregularity is an act which does not comply with EU rules and which has a potentially negative impact on EU financial interests, but which may be the result of genuine errors committed either by beneficiaries claiming funds or by the authorities responsible for making payments. If an irregularity is committed deliberately, it constitutes fraud.

Lapsing appropriations

Unused appropriations to be cancelled at the end of the financial year. Lapsing means the cancellation of all or part of the authorisation to make expenditures and/or incur liabilities which is represented by an appropriation.

Own resources

Represent the main funding for the EU institutions and bodies and are defined in the own resources regulation 609/2014. Own resources comprise GNI-based resources, VAT-based resources and traditional own resources.

Payment appropriations

Payment appropriations cover expenditure due in the current year, arising from legal commitments entered in the current year and/or earlier years.

Pre-financing

A payment intended to provide the beneficiary with a float. It may be split into a number of payments in accordance with the provisions of the underlying contract, decision, agreement or the basic legal act. 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.

Preventive measure

Preventive measures, which are at the Commission's disposal to protect the EU budget when it is aware of potential deficiencies, include suspensions and interruptions of payments from the EU budget to the operational programme.

Reste à Liquider (RAL)

Represents the amount where a budgetary commitment has been made but the subsequent payment is not yet done. They represent payment obligations for the EU for future years and stem directly from the existence of multi annual programmes and the dissociation between commitment and payment appropriations.

Shared management

Mode of budget implementation. Under shared management budget implementation tasks are delegated to Member States. About 80 % of the EU expenditure falls under this implementation mode.

Traditional own resources

These represent revenue for the EU and are part of the 'own resources' which fund the activities of the EU. Traditional own resources are defined in the own resource regulation 609/2014 and comprise customs duties and sugar levies.

Transfers (between budget lines)

Transfers between budget lines imply the relocation of appropriations from one budget line to another, in the course of the financial year, and thereby they constitute an exception to the budgetary principle of specification. They are, however, expressly authorised by the Treaty on the Functioning of the European Union under the conditions laid down in the Financial Regulation (FR). The FR identifies different types of transfers depending on whether they are between or within budget titles, chapters, articles or headings and require different levels of authorisation.