



Brussels, 17.7.2014
COM(2014) 486 final

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

ANNUAL ACCOUNTS OF THE EUROPEAN COMMISSION 2013

Annual accounts of the European Commission 2013

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CERTIFICATION OF THE ACCOUNTS

The annual accounts of the European Commission for the year 2013 have been prepared in accordance with the Financial Regulation applicable to the general budget of the European Union and the accounting rules adopted by myself in my capacity as the Commission's Accounting Officer, as are to be applied by all the institutions and Union bodies.

I acknowledge my responsibility for the preparation and presentation of the annual accounts of the European Commission in accordance with Article 68 of the Financial Regulation.

I have obtained from the authorising officers, who certified its reliability, all the information necessary for the production of the accounts that show the European Commission'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, I have a reasonable assurance that the accounts present fairly, in all material aspects, the financial position, the results of the operations and the cash-flow of the European Commission.

[signed]

Manfred Kraff

Accounting Officer of the Commission

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	31.12.2013	31.12.2012
NON-CURRENT ASSETS			
<i>Intangible assets</i>	2.1	78	61
<i>Property, plant and equipment</i>	2.2	2 888	2 488
<i>Investments accounted for using the equity method</i>	2.3	349	392
<i>Financial assets</i>	2.4	58 490	60 920
<i>Receivables and recoverables</i>	2.5	529	595
<i>Pre-financing</i>	2.6	37 995	44 487
		100 329	108 943
CURRENT ASSETS			
<i>Inventories</i>	2.7	85	85
<i>Financial assets</i>	2.8	4 821	1 338
<i>Receivables and recoverables</i>	2.9	13 007	13 922
<i>Pre-financing</i>	2.10	21 189	13 148
<i>Cash and cash equivalents</i>	2.11	8 275	9 278
		47 377	37 771
TOTAL ASSETS		147 706	146 714
NON-CURRENT LIABILITIES			
<i>Pension and other employee benefits</i>	2.12	(46 103)	(41 620)
<i>Provisions</i>	2.13	(1 303)	(1 237)
<i>Financial liabilities</i>	2.14	(53 964)	(57 038)
<i>Other liabilities</i>	2.15	(1 442)	(1 502)
		(102 812)	(101 397)
CURRENT LIABILITIES			
<i>Provisions</i>	2.16	(489)	(714)
<i>Financial liabilities</i>	2.17	(3 065)	(15)
<i>Payables</i>	2.18	(91 955)	(89 484)
		(95 509)	(90 213)
TOTAL LIABILITIES		(198 321)	(191 610)
NET ASSETS		(50 615)	(44 896)
<i>Reserves</i>	2.19	2 299	2 254
<i>Amounts to be called from Member States*</i>	2.20	(52 913)	(47 150)
NET ASSETS		(50 615)	(44 896)

* The European Parliament adopted a budget on 20 November 2013 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 2014. 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	31.12.2013	31.12.2012
OPERATING REVENUE			
<i>Own resource and contributions revenue</i>	3.1	138 156	128 076
<i>Other operating revenue</i>	3.2	7 484	6 083
		145 640	134 159
OPERATING EXPENSES			
<i>Administrative expenses</i>	3.3	(5 107)	(5 221)
<i>Operating expenses</i>	3.4	(138 886)	(125 008)
		(143 993)	(130 229)
SURPLUS/(DEFICIT) FROM OPERATING ACTIVITIES		1 647	3 930
<i>Financial revenue</i>	3.5	1 972	2 084
<i>Financial expenses</i>	3.6	(1 990)	(1 897)
<i>Movement in pension and other employee benefits liability</i>		(5 706)	(8 636)
<i>Share of net deficit of joint ventures and associates</i>	3.7	(608)	(489)
ECONOMIC RESULT OF THE YEAR		(4 685)	(5 008)

CASHFLOW STATEMENT

EUR millions

	Note	2013	2012
<i>Economic result of the year</i>		(4 685)	(5 008)
Operating activities	4.2		
<i>Amortisation</i>		9	8
<i>Depreciation</i>		139	143
<i>(Reversal of) impairment losses on investments</i>		6	2
<i>(Increase)/decrease in loans</i>		30	(16 074)
<i>(Increase)/decrease in receivables and recoverables</i>		980	(4 847)
<i>(Increase)/decrease in pre-financing</i>		(1 547)	(1 939)
<i>(Increase)/decrease in inventories</i>		0	(2)
<i>Increase/(decrease) in provisions</i>		(160)	234
<i>Increase/(decrease) in financial liabilities</i>		(25)	16 059
<i>Increase/(decrease) in other non-current liabilities</i>		(60)	(48)
<i>Increase/(decrease) in payables</i>		2 473	(1 436)
<i>Prior year budgetary surplus taken as non-cash revenue</i>		(1 023)	(1 497)
<i>Other non-cash movements</i>		(17)	178
Increase in pension and employee benefits liability		4 483	7 482
Investing activities	4.3		
<i>(Increase)/decrease in intangible assets and property, plant and equipment</i>		(566)	(582)
<i>(Increase)/decrease in investments accounted for using the equity method</i>		42	(18)
<i>(Increase)/decrease in AFS investments</i>		(1 082)	(738)
NET CASHFLOW		(1 003)	(8 083)
<i>Net increase/(decrease) in cash and cash equivalents</i>		(1 003)	(8 083)
<i>Cash and cash equivalents at the beginning of the year</i>	2.11	9 278	17 361
<i>Cash and cash equivalents at year-end</i>	2.11	8 275	9 278

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 31.12.2011	(82)	1 970	(38 374)	(2 085)	(38 571)
Movement in Guarantee Fund reserve	-	168	(168)	-	-
Fair value movements	178	-	-	-	178
Other	-	20	(18)	-	2
Allocation of the 2011 economic result	-	-	(2 085)	2 085	-
2011 budget result credited to Member States	-	-	(1 497)	-	(1 497)
Economic Result for the year	-	-	-	(5 008)	(5 008)
BALANCE AS AT 31.12.2012	96	2 158	(42 142)	(5 008)	(44 896)
Movement in Guarantee Fund reserve	-	46	(46)	-	-
Fair value movements	(13)	-	-	-	(13)
Other	-	11	(9)	-	2
Allocation of the 2012 economic result	-	-	(5 008)	5 008	-
2012 budget result credited to Member States	-	-	(1 023)	-	(1 023)
Economic result of the year	-	-	-	(4 685)	(4 685)
BALANCE AS AT 31.12.2013	83	2 215	(48 228)	(4 685)	(50 615)

NOTES TO THE FINANCIAL STATEMENTS*

** For further information in addition to that included in the notes below, please also see the 2013 EU consolidated annual accounts*

1. SIGNIFICANT ACCOUNTING POLICIES

The European Commission (hereinafter referred to as the Commission) follows the accounting policies of the European Union (hereinafter referred to as the EU). A summary of the significant accounting policies is given below.

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, 26.10.2012, p. 1) hereinafter referred to as the 'Financial Regulation' and Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 (OJ L 362, 31.12.2012, 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. The accounts are kept in Euro on the basis of the calendar year.

1.2. ACCOUNTING PRINCIPLES

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

The overall considerations (or accounting principles) to be followed when preparing the financial statements are laid down in EU accounting rule 2 and are the same as those described in IPSAS 1, that is: fair presentation, accrual basis, going concern, consistency of presentation, aggregation, offsetting and comparative information. The qualitative characteristics of financial reporting according to article 144 of the Financial Regulation are relevance, reliability, understandability and comparability.

Preparation of the financial statements in accordance with the above mentioned rules and principles requires management to make estimates that affect the reported amounts of certain items in the balance sheet and statement of financial performance, as well as the disclosures of contingent assets and liabilities.

1.3. CONSOLIDATION

SCOPE OF CONSOLIDATION

The consolidated financial statements of the EU comprise all significant controlled entities (i.e. the EU institutions (including the Commission) and the EU agencies), associates and joint ventures, this being 52 controlled entities, 5 joint ventures and 4 associates. The complete list of consolidated entities can be found in note **11.1** of the EU accounts. In comparison with 2012, the scope of consolidation has been extended by 1 controlled entity (agency). The impact of the additions on the consolidated financial statements is not material.

CONTROLLED ENTITIES

The decision to include an entity in the scope of consolidation is based on the control concept. Controlled entities are all entities over which the EU has, directly or indirectly, the power to govern the financial and operating policies so as to be able to benefit from these entities' activities. This power must be presently exercisable. Controlled entities are fully consolidated. The consolidation begins at the first date on which control exists, and ends when such control no longer exists.

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

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

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

JOINT VENTURES

A joint venture is a contractual arrangement whereby the EU and one or more parties (the "venturers") undertake an economic activity which is subject to joint control. Joint control is the contractually agreed sharing of control, directly or indirectly, over an activity embodying service potential.

Participations in joint ventures are accounted for using the equity method initially recognised at cost. The EU's interest in the results of its jointly controlled entities is recognised in the statement of financial performance, and its interest in the movements in reserves is recognised in the reserves. The initial cost plus all movements (further contributions, share of economic results and reserve movements, impairments, and dividends) give the book value of the joint venture in the financial statements at the balance sheet date.

Unrealised gains and losses on transactions between the EU and its jointly controlled entities are not material and have therefore not been eliminated. The accounting policies of joint ventures may differ from those adopted by the EU for like transactions and events in similar circumstances.

ASSOCIATES

Associates are entities over which the EU has, directly or indirectly, significant influence but not control. It is presumed that significant influence is given if the EU holds directly or indirectly 20% or more of the voting rights.

Participations in associates are accounted for using the equity method, initially recognised at cost. The EU's share of its associates' results is recognised in the statement of financial performance, and its share of movements in reserves is recognised in the reserves. The initial cost plus all movements (further contributions, share of economic results and reserve movements, impairments, and dividends) give the book value of the associate in the financial statements at the balance sheet date. Distributions received from an associate reduce the carrying amount of the asset. Unrealised gains and losses on transactions between the EU and its associates are not material and have therefore not been eliminated.

The accounting policies of associates may differ from those adopted by the EU for like transactions and events in similar circumstances. 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.

NON-CONSOLIDATED ENTITIES THE FUNDS OF WHICH ARE MANAGED BY THE COMMISSION

The funds of the Sickness Insurance Scheme for staff of the EU, the European Development Fund and the Participant's Guarantee Fund are managed by the Commission on their behalf, however since these entities are not controlled by the EU they are therefore not consolidated in its financial statements – see note **11.2** of the EU accounts for further details on the amounts concerned.

1.4. BASIS OF PREPARATION**1.4.1. Currency and basis for conversion****Functional and reporting currency**

The financial statements are presented in millions of euros, the euro being the 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 translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance.

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

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

Euro exchange rates

Currency	31.12.2013	31.12.2012	Currency	31.12.2013	31.12.2012
BGN	1.9558	1.9558	LTL	3.4528	3.4528
CZK	27.4270	25.1510	PLN	4.1543	4.0740
DKK	7.4593	7.4610	RON	4.4710	4.4445
GBP	0.8337	0.8161	SEK	8.8591	8.5820
HRK	7.6265	7.5575	CHF	1.2276	1.2072
HUF	297.0400	292.3000	JPY	144.7200	113.6100
LVL	0.7028	0.6977	USD	1.3791	1.3194

Changes in the fair value of monetary financial instruments denominated in a foreign currency and classified as available for sale that relate to a translation difference are recognised in the statement of financial performance. Translation differences on non-monetary financial assets and liabilities held at fair value through profit or loss are recognised in the statement of financial performance. Translation differences on non-monetary financial instruments classified as available for sale are included in the fair value reserve.

1.4.2. Use of estimates

In accordance with IPSAS and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions by management based on the most reliable information available. Significant estimates include, but are not limited to; amounts for employee benefit liabilities, provisions, financial risk on inventories and accounts receivables, accrued income and charges, contingent assets and liabilities, and degree of impairment of intangible assets and property, plant and equipment. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

1.5. BALANCE SHEET

1.5.1. Intangible assets

Acquired computer software licences are stated at historical cost less accumulated amortisation and impairment losses. The assets are amortised on a straight-line basis over their estimated useful lives. 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. The costs capitalisable include all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Costs associated with research activities, non-capitalisable development costs and maintenance costs are recognised as expenses as incurred.

1.5.2. Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to the 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 to their residual values over their estimated useful lives, as follows:

Type of asset	Straight line depreciation rate
<i>Buildings</i>	4%
<i>Plant, machinery and equipment</i>	10% to 25%
<i>Furniture</i>	10% to 25%
<i>Fixtures and fittings</i>	10% to 33%
<i>Vehicles</i>	25%
<i>Computer hardware</i>	25%
<i>Other tangible assets</i>	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 at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The rental obligations, net of finance charges, are included in other liabilities (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 assets' useful life and the lease term.

Leases where the lessor retains a significant portion of the risks and rewards inherent to ownership are classified as operating leases. Payments made under operating leases are charged to the statement of financial performance on a straight-line basis over the period of the lease.

1.5.3. Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation/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 amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use.

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

1.5.4. Investments

Participations in associates and joint ventures

Participations in associates and joint ventures are accounted for using the equity method. The costs of equity are adjusted to reflect the share of increases or reductions in net assets of the associates and joint ventures that are attributable to the EU after initial recognition. If there are indications of impairment, a write-down to the lower recoverable amount is necessary. The recoverable amount is determined as described under **1.5.3**. If the reason for impairment ceases to apply at a later date, the impairment loss is reversed to the carrying amount that would have been determined had no impairment loss been recognised.

Investments in venture capital funds

Investments in Venture Capital Funds are classified as available for sale financial assets (see **1.5.5**) and accordingly, are carried at fair value with gains and losses arising from changes in the fair value (including translation differences) recognised in the fair value reserve.

Since they do not have a quoted market price in an active market, investments in Venture Capital Funds are valued on a line-by-line basis at the lower of cost or attributable net asset value ("NAV"). Unrealised gains resulting from the fair value measurement are recognised through reserves and unrealised losses are assessed for impairment so as to determine whether they are recognised as impairment losses in the statement of financial performance or as changes in the fair value reserve.

1.5.5. Financial assets

Classification

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

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

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by the 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. During this financial year, the EU did not hold any financial assets in this category.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the EU provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in non-current assets, except for maturities within 12 months of the balance sheet date.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the 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 time period in which the EU expects to dispose of them which is usually the remaining maturity at the balance sheet date. Investments in unconsolidated entities and other equity investments (e.g. Risk Capital Operations) that are not accounted for using the equity method are also classified as available for sale financial assets.

Initial recognition and measurement

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available for sale are recognised on trade-date – the date on which the EU commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial instruments are initially recognised at fair value. For all financial assets not carried at fair value through profit or loss transactions costs are added to the fair value at initial recognition. Financial assets carried at fair value through profit or loss 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). However, when a long-term loan that carries no interest or an interest below market conditions is granted, its fair value can be estimated as the present value of all future cash receipts discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating.

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

- The “market environment” for EU lending is very specific and different from the capital market used to issue commercial or government bonds. As lenders in these markets have the opportunity to choose alternative investments, the opportunity possibility is factored into market prices. However, this opportunity for alternative investments does not exist for the EU which is not allowed to invest money on the capital markets; it only borrows funds for the purpose of lending at the same rate. This means that there is no alternative lending or investment option available to the EU for the sums borrowed. Thus, there is no opportunity cost and therefore no basis of comparison with market rates. In fact, the EU lending operation itself represents the market. Essentially, since the opportunity cost “option” is not applicable, the market price does not fairly reflect the substance of the EU lending transactions. Therefore, it is not appropriate to determine the fair value of EU lending with reference to commercial or government bonds.
- Furthermore as there is no active market or similar transactions to compare with, the interest rate to be used by the EU for fair valuing its lending operations under the European Financial Stability Mechanism (EFSM), Balance of Payment (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 cash flows from the investments have expired or have been transferred and the EU has transferred substantially all risks and rewards of ownership.

Subsequent measurement

- (i) Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of the 'financial instruments at fair value through profit or loss' category are included in the statement of financial performance in the period in which they arise.
- (ii) Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. In the case of loans granted on borrowed funds, the same effective interest rate is applied to both the loans and borrowings since these loans have the characteristics of 'back-to-back operations' and the differences between the loan and the borrowing conditions and amounts are not material. The transaction costs incurred by the EU and then recharged to the beneficiary of the loan are directly recognised in the statement of financial performance.
- (iii) Held to maturity – the EU currently holds no held to maturity investments.
- (iv) Available for sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available for sale financial assets are recognised in the fair value reserve. When assets classified as available for sale financial assets are sold 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), 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 cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

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

Impairment of financial assets

The 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 cash flows of the financial asset that can be reliably estimated.

(a) Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the 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 cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the 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 pre-financing agreement. The float or advance is repaid or used for the purpose for which it was provided during the period defined in the agreement. If the beneficiary does not incur eligible expenditures, he has the obligation to return the pre-financing advance to the EU. The amount of the pre-financing is reduced (wholly or partially) by the acceptance of eligible costs (which are recognised as expenses) and amounts returned.

At year-end, outstanding pre-financing amounts are valued at the original amount(s) paid less: amounts returned, eligible amounts expensed, estimated eligible amounts not yet cleared at year-end, and value reductions.

Interest on pre-financing is recognised as it is earned in accordance with the provisions of the relevant agreement. An estimate of the accrued interest revenue, based on the most reliable information, is made at the year-end and included in the balance sheet.

1.5.8. Receivables

Receivables are carried at original amount less write-down for impairment. A write-down for impairment of receivables is established when there is objective evidence that the EU will not be able to collect all amounts due according to the original terms of receivables. The amount of the write-down is the difference between the asset's carrying amount and the recoverable amount. The amount of the write-down is recognised in the 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** below concerning the treatment of accrued income at year-end.

1.5.9. Cash and cash equivalents

Cash and cash equivalents are financial instruments and classified as available for sale financial assets. They include cash at hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

1.5.10. 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. 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 beneficiaries benefit from the system. The benefits granted to the "inactives" (pensioners, orphans, etc.) are classified as "Post-Employment Employee Benefits". Given the nature of these benefits, an actuarial calculation is required. The liability in the balance sheet is determined on a similar basis as that for the pension obligations (see above).

1.5.11. Provisions

Provisions are recognised when the 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 expenditures expected to be required to settle the present obligation at the reporting date. Where the provision involves a large number of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities ("expected value" method).

1.5.12. Financial liabilities

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

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

Financial liabilities categorised at fair value through profit or loss include derivatives when their fair value is negative. They follow the same accounting treatment as financial assets at fair value through profit or loss, see note **1.5.5**. During this financial year, the EU did not hold any financial liabilities in this category.

1.5.13. Payables

A significant amount of the payables of the EU are not related to the purchase of goods or services – instead they are unpaid cost claims from beneficiaries of grants or other EU funding. They are recorded as payables for the requested amount when the cost claim is received. Upon verification and acceptance of the eligible costs, the payables are valued at the accepted and eligible amount.

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

1.5.14. Accrued and deferred income and charges

According to the EU accounting rules, transactions and events are recognised in the financial statements in the period to which they relate. At the end of the accounting period, accrued expenses are recognised based on an estimated amount of the transfer obligation of the period. The calculation of accrued expenses is done in accordance with detailed operational and practical guidelines issued by the Commission which aim at ensuring that the financial statements reflect a true and fair view.

Revenue is also accounted for in the period to which it relates. At year-end, if an invoice is not yet issued but the service has been rendered, the supplies have been delivered by the EU or a contractual agreement exists (i.e. by reference to a treaty), an accrued income will be recognised in the financial statements.

In addition, at year-end, if an invoice is issued but the services have not yet been rendered or the goods supplied have not yet been delivered, the revenue will be deferred and recognised in the subsequent accounting period.

1.6. STATEMENT OF FINANCIAL PERFORMANCE

1.6.1. Revenue

NON-EXCHANGE REVENUE

This makes up the vast majority of the EU's revenue and includes mainly direct and indirect taxes and own resource amounts. In addition to taxes the EU may also receive payments from other parties, such as duties, fines and donations.

GNI based resources and VAT resources

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

Traditional own resources

Receivables and related revenues are recognised when the relevant monthly "A" statements (including duties collected and amounts due that are guaranteed and not contested) are received from the Member States. At the reporting date, revenue collected by the Member States for the period but not yet paid to the Commission is estimated and recognised as accrued revenue. The quarterly "B" statements (including duties neither collected nor guaranteed, as well as guaranteed amounts that have been contested by the debtor) received from the Member States are recognised as revenue less the collection costs to which they are entitled (25%). In addition, a value reduction is recognised for the amount of the estimated recovery gap.

Fines

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

- either to accept the decision, in which case they must pay the fine within the time limit laid down and the amount is definitively collected by the EU;
- or not to accept the decision, in which case they lodge an appeal under EU law.

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

If the undertaking appeals against the decision, and has already provisionally paid the fine, the amount is disclosed as a contingent liability. However, since an appeal against an EU decision by the addressee does not have suspensory effect, the cash received is used to clear the receivable. If a guarantee is received instead of payment, the fine remains as a receivable. If it appears probable that the General Court may not rule in favour of the EU, a provision is recognised to cover this risk. If a guarantee had been given instead, then the receivable outstanding is written-down as required. The accumulated interest received by the 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 categorised as available for sale.

EXCHANGE REVENUE

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

INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in the 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 cash flows 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 cash flows for the purpose of measuring the impairment loss.

DIVIDEND INCOME

Dividend income is recognised when the right to receive payment is established.

1.6.2. Expenses

Exchange expenses 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 cost.

Non-exchange expenses 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 a contract has been signed authorising the transfer; any eligibility criteria have been met by the beneficiary; and a reasonable estimate of the amount can be made.

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

1.7. CONTINGENT ASSETS AND LIABILITIES

1.7.1. Contingent assets

A contingent asset is a possible asset that arises from past events and of which the existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the 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.

2. NOTES TO THE BALANCE SHEET

NON-CURRENT ASSETS

2.1. INTANGIBLE ASSETS

EUR millions

<i>Gross carrying amount at previous year-end</i>	113
<i>Additions</i>	31
<i>Disposals</i>	(11)
<i>Transfer between categories</i>	0
<i>Other changes</i>	2
Gross carrying amount at year-end	135
<i>Accumulated amortisation at previous year-end</i>	(52)
<i>Amortisation charge for the year</i>	(9)
<i>Disposals</i>	6
<i>Transfer between categories</i>	0
<i>Other changes</i>	0
Accumulated amortisation at year-end	(57)
Net carrying amount 31.12.2013	78
<i>Net carrying amount 31.12.2012</i>	61

The above amounts relate primarily to computer software.

2.2. PROPERTY, PLANT AND EQUIPMENT

Included under assets under construction at 31 December 2013 are EUR 1 041 million (2012: EUR 660 million) of assets relating to the Galileo project, the EU's Global Navigation Satellite System (GNSS), being built with the assistance of the European Space Agency (ESA). An amount of EUR 13 million of non-capitalisable development costs has been recognised as expenses during the period.

PROPERTY, PLANT AND EQUIPMENT

	EUR millions							
	Land and buildings	Plant and equipment	Furniture and vehicles	Computer hardware	Other PPE	Finance leases	Assets under construction	TOTAL
Gross carrying amount at previous year-end	1 263	313	69	253	118	1 511	743	4 270
Additions	14	33	4	22	12	7	449	540
Disposals	0	(13)	(7)	(49)	(6)	0	-	(75)
Transfer between asset categories	0	11	1	2	(1)	(2)	(11)	0
Other changes	0	0	2	1	1	0	1	5
Gross carrying amount at year-end	1 277	344	69	229	124	1 515	1 182	4 739
Accumulated depreciation at previous year-end	(665)	(265)	(52)	(212)	(88)	(500)		(1 782)
Depreciation charge for the year	(33)	(19)	(4)	(21)	(9)	(54)		(139)
Disposals	0	13	7	45	6	0		71
Transfer between asset categories	-	0	(1)	(2)	1	2		0
Other changes	0	0	(1)	0	0	0		(2)
Accumulated depreciation at year-end	(697)	(271)	(51)	(189)	(91)	(552)		(1 851)
NET CARRYING AMOUNT AT 31.12.2013	579	73	18	40	33	963	1 182	2 888
NET CARRYING AMOUNT AT 31.12.2012	598	48	17	41	30	1 011	743	2 488

FINANCE LEASES

Charges still to be paid in respect of finance leases and similar entitlements are shown in non-current and current liabilities in the balance sheet (see notes 2.15 and 2.18.3).

										EUR millions
Description	Cumulative charges	Future amounts to be paid				Total value	Subsequent expenses on assets	Asset value	Depreciation	Net carrying amount (A+B+C+D)
	(A)	< 1 year	> 1 year	> 5 years	Total liability (B)	(A+B)	(C)	(A+B+C)	(D)	
Land and buildings	302	38	190	885	1 113	1 415	62	1 478	(528)	950
Other tangible assets	23	6	9	-	14	37	-	37	(24)	14
Total at 31.12.2013	325	44	199	885	1 128	1 453	62	1 515	(552)	963
Interest element		63	227	342	632					
Total future minimum lease payments at 31.12.2013		107	426	1 227	1 760					
Total future minimum lease payments at 31.12.2012		108	424	1 363	1 895					

2.3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

EUR millions

	Note	31.12.2013	31.12.2012
Participations in joint ventures	2.3.1	0	42
Participations in associates	2.3.2	349	350
Total		349	392

2.3.1. Participations in joint ventures

EUR millions

	GJU	SESAR	ITER	IMI	FCH	Total
Amount at 31.12.2012	0	0	10	32	0	42
Contributions	0	78	121	126	56	380
Share of net result	0	(78)	(130)	(158)	(56)	(422)
Amount at 31.12.2013	0	0	0	0	0	0

Participations in joint ventures are accounted for using the equity method. The following carrying amounts are attributable to the Commission based on its percentage of participation:

EUR millions

	31.12.2013	31.12.2012
Non-current assets	198	226
Current assets	63	106
Non-current liabilities	0	0
Current liabilities	(394)	(291)
Revenue	1	8
Expenses	(412)	(427)

2.3.2. Participations in associates

EUR millions

	EIF	ARTEMIS	Clean Sky	ENIAC	Total
Amount at 31.12.2012	336	0	0	14	350
Contributions	(2)	20	125	37	180
Share of net result	9	(20)	(125)	(50)	(186)
Other equity movements	6	0	0	0	6
Amount at 31.12.2013	349	0	0	0	349

Participations in associates are accounted for using the equity method. The following carrying amounts are attributable to the Commission based on its percentage of participation:

EUR millions

	31.12.2013	31.12.2012
Assets	499	505
Liabilities	(240)	(191)
Revenue	37	33
Surplus/(Deficit)	(221)	(177)

European Investment Fund

The European Investment Fund (EIF) is the EU's financial institution specialising in providing risk capital and guarantees to SMEs. The Commission has paid in 20% of its participation, the balance being uncalled corresponding to an amount of EUR 720 million.

EUR millions

	Total EIF capital	Commission subscription
<i>Total Share Capital</i>	3 000	900
<i>Paid-in</i>	(600)	(180)
Uncalled	2 400	720

2.4. NON-CURRENT FINANCIAL ASSETS

EUR millions

	Note	31.12.2013	31.12.2012
<i>Available for sale financial assets</i>	2.4.1	4 367	3 715
<i>Loans</i>	2.4.2	54 123	57 205
Total		58 490	60 920

2.4.1. Non-current available for sale financial assets

EUR millions

	31.12.2013	31.12.2012
<i>Guarantee Fund (GF)*</i>	1 412	1 327
<i>BUFI investments</i>	1 013	832
<i>Risk Sharing Finance Facility (RSFF)</i>	789	594
<i>Loan Guarantee Instrument for TEN-T projects (LGTT)</i>	90	52
<i>European Bank for Reconstruction and Development (EBRD)</i>	188	188
<i>Risk Capital Operations</i>	124	123
<i>ETF Start up</i>	339	305
<i>Other available for sale investments</i>	412	294
Total	4 367	3 715

*After elimination of the EFSM bonds

2.4.2. Non-current loans

EUR millions

	Note	31.12.2013	31.12.2012
<i>Loans granted from the EU budget</i>	2.4.2.1	138	147
<i>Loans granted from borrowed funds</i>	2.4.2.2	53 984	57 058
Total		54 123	57 205

2.4.2.1. Loans granted from the EU budget

EUR millions

	Total
<i>Total at 31.12.2012</i>	146
<i>New loans</i>	4
<i>Repayments</i>	(18)
<i>Exchange differences</i>	(6)
<i>Changes in carrying amount</i>	12
Total at 31.12.2013	138

This item covers loans with special conditions granted at preferential rates as part of co-operation with non-member countries. All amounts fall due more than 12 months after year-end. The effective interest rates on these loans vary between 7.73% and 14.507%.

2.4.2.2. Loans granted from borrowed funds

EUR millions

	MFA	Euratom	BOP	EFSM	Total
<i>Total at 31.12.2012</i>	549	425	11 623	44 476	57 073
<i>New loans</i>	100	-	-	-	100
<i>Repayments</i>	(81)	(36)	-	-	(117)
<i>Exchange differences</i>	-	(1)	-	-	(1)
<i>Changes in carrying amount</i>	1	(1)	-	(8)	(8)
Total at 31.12.2013	569	387	11 623	44 468	57 047
Amount due < 1 year	31	-	3 033	-	3 064
Amount due > 1 year	538	387	8 590	44 468	53 983

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

Loans	31.12.2013	31.12.2012
<i>Macro Financial Assistance (MFA)</i>	0.27%-4.54%	0.298%-4.54%
<i>Euratom</i>	0.34%-5.76%	0.431%-5.76%
<i>Balance of Payment (BOP)</i>	2.375%-3.625%	2.375%-3.625%
<i>European Financial Stability Mechanism (EFSM)</i>	2.375%-3.750%	2.375%-3.750%

For more information on borrowing and lending activities, see note 2.14 and note 7 of the EU consolidated annual accounts.

BALANCE OF PAYMENT (BOP) LOANS – NOMINAL VALUE

EUR millions

	Hungary	Latvia	Romania	Total
Total loans granted	6 500	3 100	8 400	18 000
<i>Disbursed at 31.12.12</i>	5 500	2 900	5 000	13 400
<i>Disbursed in 2013</i>	0	0	0	0
Loans disbursed 31.12.2013	5 500	2 900	5 000	13 400
<i>Loans repaid at 31.12.2013</i>	(2 000)	0	0	(2 000)
Outstanding amount at 31.12.2013	3 500	2 900	5 000	11 400
<i>Undrawn amounts 31.12.2013</i>	0	0	0	0

The BOP assistance programme for Hungary, Latvia and Romania has expired and there are no undrawn amounts at 31 December 2013.

EUROPEAN FINANCIAL STABILITY MECHANISM (EFSM) LOANS – NOMINAL VALUE

EUR millions

	Ireland	Portugal	Total
Total loans granted	22 500	26 000	48 500
<i>Disbursed at 31.12.12</i>	21 700	22 100	43 800
<i>Disbursed in 2013</i>	0	0	0
Loans disbursed at 31.12.13	21 700	22 100	43 800
<i>Loans repaid at 31.12.13</i>	0	0	0
Loans outstanding at 31.12.13	21 700	22 100	43 800
<i>Undrawn amounts at 31.12.13</i>	800	3 900	4 700

On 25 March 2014, EUR 2.6 billion was disbursed under EFSM (EUR 0.8 billion for Ireland and EUR 1.8 billion for Portugal).

2.5. NON-CURRENT RECEIVABLES AND RECOVERABLES

EUR millions

	31.12.2013	31.12.2012
<i>Member States</i>	478	545
<i>Due from ECSC in Liquidation</i>	48	48
<i>Other</i>	4	2
Total	529	595

Of the total non-current receivables, EUR 525 million (2012: 593 million) relates to non-exchange transactions. The amounts due from Member States relate to non-executed conformity clearance decisions for EAGF and EAFRD.

2.6. NON-CURRENT PRE-FINANCING

EUR millions

	Note	31.12.2013	31.12.2012
Pre-financing	2.6.1	34 742	40 772
Prepaid expenses	2.6.2	3 253	3 715
Total		37 995	44 487

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 2013 the "nominal" value of guarantees received in respect of pre-financing amounted to EUR 1 124 million while the "on-going" value of those guarantees was EUR 887 million (2012: EUR 1 220 million and EUR 955 million respectively).

2.6.1. Pre-financing

The breakdown of pre-financing amounts by management types is given below, noting that Article 58 of the new Financial Regulation, which partly revised the methods of implementation of the budget, shall only apply as of 1 January 2014:

EUR millions

	31.12.2013	31.12.2012
Direct centralised management	1 526	1 247
Indirect centralised management	772	1 042
Decentralised management	646	677
Shared management	31 104	37 214
Joint management	694	592
Total	34 742	40 772

The most significant non-current pre-financing amounts relate to structural actions for the 2007-2013 programming period: the regional development fund (ERDF) and the cohesion fund (CF) EUR 19.6 billion, the social fund (ESF) EUR 5.6 billion, the agricultural fund for rural development (EAFRD) EUR 5.2 billion and the fisheries fund (EFF) EUR 0.6 billion. As many of these projects are long-term in nature, it is necessary that the related advances are available for more than one year. Thus these pre-financings are shown as non-current assets.

The programming period 2007-2013 is approaching its closing phase and thus the related pre-financings gradually become due within twelve months. Therefore, the non-current pre-financing amount is decreasing while the current pre-financing amount is increasing (see also note 2.10.1).

2.6.2. Prepaid expenses

EUR millions

	31.12.2013	31.12.2012
Financial Engineering Instruments	2 118	2 717
Aid Schemes	1 135	998
Total	3 253	3 715

Under the framework of the structural funds programmes 2007-2013, payments can be made from the EU budget to Member States so as to contribute to Financial Engineering Instruments (be it in the form of loans, equity investments or guarantees) set up and managed under the responsibility of the Member States. Monies that are unused by these instruments at year-end are the property of the EU (as with standard pre-financing) and are thus treated as an asset on the Commission's balance sheet. However, the basic legal acts do not oblige the Member States to provide periodic reports to the Commission on the use made of these advances, and in some cases not even identify them in the statements of expenditure submitted to the Commission. Thus, and on the basis of information received from Member States on the utilisation of funds, an estimation is made at each year-end of the value of this asset.

Similar to the above, advances paid by the Member States that were not used at year end are recorded as assets on the Commission's balance sheet. Member States may pay such advances for various aid schemes (state aid, market measures of EAGF). 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 heading.

CURRENT ASSETS

2.7. INVENTORIES

	EUR millions	
	31.12.2013	31.12.2012
<i>Scientific materials</i>	70	71
<i>Other</i>	15	14
Total	85	85

2.8. CURRENT FINANCIAL ASSETS

		EUR millions	
	Note	31.12.2013	31.12.2012
<i>Available for sale financial assets</i>	2.8.1	1 730	1 300
<i>Loans</i>	2.8.2	3 090	38
Total		4 821	1 338

2.8.1. Current available for sale financial assets

Available for sale financial assets are purchased for their investment return or yield, or held to establish a particular asset structure or a secondary source of liquidity and may therefore be sold in response to needs for liquidity or changes in interest rates. The following table provides an overview of available for sale financial assets with a remaining maturity before end 2014:

	EUR millions	
	31.12.2013	31.12.2012
<i>Guarantee Fund</i>	361	268
<i>BUFI investments</i>	897	845
<i>Risk Sharing Finance Facility (RSFF)</i>	408	160
<i>Loan Guarantee Instrument for TEN-T projects (LGTT)</i>	31	23
<i>Other available for sale investments</i>	33	4
Total	1 730	1 300

2.8.2. Current loans

Included under this heading are mainly loans with remaining final maturities less than 12 months after the balance sheet date (see note **2.4.2.2** above for more details). The increase compared to last year is due to repayments of BOP loans scheduled for 2014 (Hungary EUR 2 billion and Latvia EUR 1 billion).

2.9. CURRENT RECEIVABLES AND RECOVERABLES

EUR millions

	Note	31.12.2013	31.12.2012
<i>Fines</i>	2.9.1	4 071	4 090
<i>Member States</i>	2.9.2	5 509	6 222
<i>Accrued income and deferred charges</i>	2.9.3	2 875	3 214
<i>Other receivables & recoverables</i>	2.9.4	551	396
Total		13 007	13 922

The total above contains an estimated EUR 12 681 million (2012: EUR 13 842 million) relating to non-exchange transactions.

2.9.1. Fines

This concerns amounts to be recovered relating to fines issued by the Commission of EUR 4 310 million (2012: EUR 4 357 million) less a write-down of EUR 239 million (2012: EUR 267 million). Guarantees totalling EUR 3 244 million had been received for the fines outstanding at year-end (2012: EUR 2 513 million). It should be noted that EUR 1 032 million of these receivables were due for payment after 31 December 2013.

2.9.2. Member States

EUR millions

	31.12.2013	31.12.2012
EAGF and Rural Development receivables		
<i>European Agricultural Guarantee Fund (EAGF)</i>	1 858	1 172
<i>European Agricultural Fund for Rural Development (EAFRD)</i>	41	14
<i>Temporary Rural Development Instrument (TRDI)</i>	45	44
<i>Special Accession Programme for Agriculture and Rural Development (SAPARD)</i>	155	136
<i>Write-down</i>	(819)	(814)
	1 279	552
VAT paid and recoverable	20	15
Own resources		
<i>Established in the A account</i>	47	45
<i>Established in the separate account</i>	1 228	1 294
<i>Own resources to be received</i>	3 054	3 617
<i>Write-down</i>	(743)	(773)
<i>Other</i>	6	16
	3 592	4 199
Other receivables from Member States		
<i>Pre-financing recovery expected</i>	542	1 220
<i>Other</i>	77	236
	618	1 456
Total	5 509	6 222

The amount of own resources to be received relates to the Amending Budget 8/2013 adopted on 20 November 2013. According to Article 10 of Council Regulation 1150/2000 of 22 May 2000 (OJ L 130, 31.5.2000, p. 1) the entries corresponding to the readjustments of GNI contributions were carried out on the first working day of January 2014. It is to be noted that certain Member States have anticipated their payments, which explains why the amount to be received is lower than the contribution requested in this amending budget.

2.9.3. Accrued income and deferred charges

	EUR millions	
	31.12.2013	31.12.2012
Accrued income	2 651	2 988
Deferred charges	216	215
Other	8	11
Total	2 875	3 214

The main amount under this heading is accrued income:

	EUR millions	
	31.12.2013	31.12.2012
Own resources	2 424	2 388
Agricultural assigned revenue November and December	0	218
Cohesion, Regional & Rural Development Funds: financial corrections	31	276
Other accrued income	195	106
Total	2 651	2 988

The accrued own resource income of EUR 2 424 million mainly represents accrued custom duties of November and December 2013.

It should be noted that agricultural assigned revenue for November and December (EUR 131 million) are now disclosed under current receivables.

2.9.4. Other receivables and recoverables

Included under this heading are mainly recovery of pre-financing amounts, recovery of expenses as well as other revenue from administrative and operational actions.

2.10. CURRENT PRE-FINANCING

		EUR millions	
	Note	31.12.2013	31.12.2012
Pre-financing	2.10.1	16 225	9 458
Prepaid expenses	2.10.2	4 963	3 690
Total		21 189	13 148

2.10.1. Pre-financing

The breakdown of pre-financing amounts by management types is given below, noting that Article 58 of the new Financial Regulation, which partly revised the methods of implementation of the budget, shall only apply as of 1 January 2014:

	EUR millions	
	31.12.2013	31.12.2012
<i>Direct centralised management</i>	3 924	3 369
<i>Indirect centralised management</i>	4 770	3 936
<i>Decentralised management</i>	250	301
<i>Shared management</i>	6 263	1 008
<i>Joint management</i>	1 018	844
Total	16 225	9 458

The increase in current pre-financing is mostly related to shared management. As explained under note 2.6 the structural funds programs are entering in the final phase of the programming period 2007-2013. As a consequence a large portion (EUR 6.1 billion) of previously non-current pre-financing became current at 31 December 2013.

There is also an increase under direct centralised management and indirect centralised management. In both cases, this increase is mostly due to the final phase of the 7th Research Framework Programme for research and technological development (FP7) which is marked by the signing of the last agreements leading to new pre-financing payments of approximately EUR 2.8 billion under direct centralised management and EUR 1.4 billion under indirect centralised management. In parallel, projects under older agreements have been completed and the related pre-financing payments have been cleared.

2.10.2. Prepaid expenses

	EUR millions	
	31.12.2013	31.12.2012
<i>Financial Engineering Instruments</i>	2 118	1 358
<i>Aid Schemes</i>	2 845	2 332
Total	4 963	3 690

The variation of the amounts disclosed under this heading is due mainly to the Member States' increased contribution to Financial Engineering Instruments in the area of regional development.

2.11. CASH AND CASH EQUIVALENTS

		EUR millions	
	Note	31.12.2013	31.12.2012
Unrestricted cash:	2.11.1		
<i>Accounts with Treasuries and Central Banks</i>		2 505	2 203
<i>Current accounts</i>		168	106
<i>Imprest accounts</i>		4	3
<i>Transfers (cash in transit)</i>		(1)	(1)
		2 676	2 311
Cash belonging to financial instruments & term deposits	2.11.2	1 434	1 845
Restricted cash and cash equivalents	2.11.3	4 165	5 122
Total		8 275	9 278

2.11.1. Unrestricted cash

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

Unrestricted cash at 31 December 2013 includes EUR 1.1 billion of own resources contributions due by Members States on 1 January 2014 which were received some days in advance. Furthermore, the year-end balance contains EUR 1.3 billion of competition fines, mostly cashed by the Commission in the last weeks of 2013 which were not yet returned to Member States via an Amending Budget.

2.11.2. Cash belonging to financial instruments & term deposits

Amounts shown under this heading are mainly current deposits and other cash equivalents managed by fiduciaries on behalf of the Commission for the purpose of implementing particular financial instruments programmes funded by the EU budget. This cash can thus only be used in the financial instruments programme concerned.

2.11.3. Restricted cash and cash equivalents

Restricted cash refers to amounts received in connection with fines issued by the Commission for which the case is still open. These are kept in specific deposit accounts that are not used for any other activities. In case an appeal has been lodged or where it is unknown if an appeal will be made by the other party, the underlying amount is shown as contingent liability in note 5.2.

The decrease in restricted cash is due to the fact that since 2010, all provisionally cashed fines are managed by the Commission in a specifically created fund (BUFI) and invested in financial instruments categorised as available for sale (see notes 2.4.1 and 2.8.1).

NON-CURRENT LIABILITIES

2.12. PENSION AND OTHER EMPLOYEE BENEFITS

EUR millions

	31.12.2013	31.12.2012
<i>Pensions – staff</i>	40 933	37 528
<i>Pensions – other</i>	301	85
<i>Joint Sickness Insurance Scheme</i>	4 869	4 007
Total	46 103	41 620

2.12.1. Pensions – staff

In accordance with Article 83 of the Staff Regulations, the payment of the benefits provided for in the staff pension scheme (PSEO: Pension Scheme of European Officials) constitutes a charge to the EU's budget. The scheme is not funded, but the Member States guarantee the payment of these benefits collectively according to the scale fixed for the financing of this expense. In addition, officials contribute one third to the long-term financing of this scheme via a compulsory contribution.

The liabilities of the pension scheme were assessed on the basis of the number of staff and retired staff at 31 December 2013 and on the rules of the Staff Regulations applicable at this date. This valuation was carried out in accordance with the methodology of IPSAS 25 (and therefore also EU accounting rule 12). The method used to calculate this liability is the projected unit credit method. The main actuarial assumptions available at the valuation date and used on the valuation were as follows:

Actuarial assumptions - staff pension liability	31.12.2013	31.12.2012
Nominal discount rate	3.7%	3.6%
Expected inflation rate	1.9%	2.0%
Real discount rate	1.8%	1.6%
Probability of marriage: man/woman	81%/49%	84%/38%
General salary growth/pension revaluation	0%	0%
International Civil Servants Life Table (ICSLT)	ICSLT 2013	ICSLT 2008

EUR millions

Movement in gross employee benefits liability	Staff pension liability	Sickness Insurance
Gross liability at previous year-end	41 961	4 278
Service/normal cost	1 928	-
Interest cost	1 603	162
Benefits paid	(1 288)	(11)
Actuarial losses	1 499	704
Change due to newcomers	244	-
Gross liability at year-end	45 947	5 133
Correction coefficients applied to pensions	959	N/A
Deduction of taxes on pensions	(5 973)	N/A
Plan assets	N/A	(264)
Net liability at year-end	40 933	4 869

2.12.2. Pensions – other

This liability refers to the pension obligations towards Members and former Members of the Commission. Additionally, the 2013 amount includes pension obligations towards MEPs as the administration and payment of these have now been transferred from the European Parliament to the Commission.

2.12.3. Joint Sickness Insurance Scheme

A valuation is also made for the estimated liability that the EU has regarding its contributions to the Joint Sickness Insurance Scheme in relation to its retired staff. The gross liability has been valued at EUR 5 133 million (2012: EUR 4 278 million) and plan assets of EUR 264 million (2012: EUR 271 million) are deducted from the gross liability to arrive at the net amount. The discount rate and the general salary growth used in the calculation are the same as those used in the staff pension valuation.

2.13. NON-CURRENT PROVISIONS

EUR millions

	Amount at 31.12.2012	Additional provisions	Unused amounts reversed	Amounts used	Transfer to current	Change in estimation	Amount at 31.12.2013
Legal cases	130	180	(51)	(3)	-	0	257
Nuclear site dismantling	997	-	-	(2)	(30)	(32)	933
Financial	108	45	-	-	(38)	(3)	111
Other	2	2	(1)	0	-	-	3
Total	1 237	227	(52)	(5)	(69)	(35)	1 303

Legal cases

This is the estimate of amounts that will probably have to be paid out more than 12 months after the year-end in relation to a number of on-going legal cases. The additional legal cases provisions concern mostly new court cases in the area of agriculture and cohesion.

Nuclear site dismantlement

In 2012 a consortium of independent experts made an update of their 2008 study on the estimated costs of the decommissioning of the Joint Research Centre (JRC) nuclear facilities and waste management programme. Their revised estimate of EUR 989 million (previously EUR 1 222 million) is taken as the basis for the provision to be included in the accounts. 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). In view of the estimated duration of this programme (around 20 years), it should be pointed out that there is some uncertainty about this estimate, and the final cost could be different from the amounts currently entered.

Financial provisions

These concern mainly provisions which represent the estimated losses that will be incurred in relation to the guarantees given under the SME Guarantee Facility 1998, the SME Guarantee Facility 2001 and the SME Guarantee Facility 2007 under the Competitiveness and Innovation framework Programme (CIP) and the European Progress Microfinance Facility (Guarantee), where the European Investment Fund (EIF) is empowered to issue guarantees in its own name but on behalf of and at the risk of the Commission. The financial risk linked to the drawn and undrawn guarantees is, however, capped. Non-current financial provisions are discounted to their net present value (using the Euro Swap annual rate).

2.14. NON-CURRENT FINANCIAL LIABILITIES

EUR millions

	31.12.2013	31.12.2012
Non-current borrowings	53 984	57 058
Elimination Guarantee Fund*	(20)	(20)
Total	53 964	57 038

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

Non-current borrowings

EUR millions

	MFA	Euratom	BOP	EFSM	Total
Total at 31.12.2012	549	425	11 623	44 476	57 073
New borrowings	100	-	-	-	100
Repayments	(81)	(36)	-	-	(117)
Exchange differences	-	(1)	-	-	(1)
Changes in carrying amount	1	(1)	-	(8)	(8)
Total at 31.12.2013	569	387	11 623	44 468	57 047
Amount due < 1 year	31	-	3 033	-	3 064
Amount due > 1 year	538	387	8 590	44 468	53 983

This heading includes borrowings of the Commission maturing in over one year. The changes in carrying amount correspond to the change in accrued interests. The effective interest rates (expressed as a range of interest rates) were as follows:

Borrowings	31.12.2013	31.12.2012
Macro Financial Assistance (MFA)	0.27%-4.54%	0.298%-4.54%
Euratom	0.291%-5.6775%	0.351%-5.6775%
Balance of Payment (BOP)	2.375%-3.625%	2.375%-3.625%
European Financial Stability Mechanism (EFSM)	2.375%-3.750%	2.375%-3.750%

For more information on borrowing and lending activities, see note 2.4 and note 7 of the EU consolidated annual accounts.

2.15. OTHER NON-CURRENT LIABILITIES

EUR millions

	31.12.2013	31.12.2012
Finance leasing debts	1 084	1 124
Buildings paid for in instalments	336	352
Other	23	26
Total	1 442	1 502

CURRENT LIABILITIES

2.16. CURRENT PROVISIONS

EUR millions

	Amount at 31.12.2012	Additional provisions	Unused amounts reversed	Amounts used	Transfers from non- current	Change in estimation	Amount at 31.12.2013
Legal cases	222	5	(2)	(1)	-	0	225
Nuclear site dismantlement	29	-	-	(29)	30	-	30
Financial	188	53	(45)	(55)	38	(8)	171
Other	275	5	(89)	(129)	-	-	63
Total	714	63	(135)	(214)	69	(9)	489

2.17. CURRENT FINANCIAL LIABILITIES

This heading relates to the portion of non-current borrowings (see note **2.14**) that mature during the 12 months following the balance sheet date. The increase compared to last year is due to repayments of BOP loans scheduled for 2014 (Hungary EUR 2 billion and Latvia EUR 1 billion).

2.18. PAYABLES

EUR millions

	Note	31.12.2013	31.12.2012
Accrued charges and deferred income	2.18.1	55 881	68 076
Payables	2.18.2	36 015	21 351
Current portion of non-current liabilities		60	57
Total		91 956	89 484

2.18.1. Accrued charges and deferred income

EUR millions

	31.12.2013	31.12.2012
Accrued charges	55 725	67 914
Deferred income	138	157
Other	18	5
Total	55 881	68 076

The split of accrued charges is as follows:

	EUR millions	
	31.12.2013	31.12.2012
European Agricultural Guarantee Fund		
<i>Direct aid and interventions in agricultural markets</i>	33 489	44 532
<i>Other</i>	2	1
Rural Development		
<i>EAFRD</i>	12 255	12 463
<i>Other</i>	203	34
	45 949	57 030
Structural Actions:		
<i>European Fisheries Fund / Financial Instruments for Fisheries Guidance</i>	48	66
<i>European Regional Development Fund and Cohesion Fund</i>	4 356	4 359
<i>Instrument for Structural Policies for pre-Accession</i>	114	382
<i>European Social Fund</i>	1 100	1 378
	5 618	6 185
Other accrued charges:		
<i>Research & Development</i>	1 172	1 077
<i>Other</i>	2 986	3 622
	4 158	4 699
Total	55 725	67 914

Details on the decrease of accrued charges are provided in note **2.18.2** below.

2.18.2. Payables

	EUR millions	
	31.12.2013	31.12.2012
<i>Member States</i>	37 477	23 020
<i>Suppliers and other</i>	1 455	1 506
<i>Estimated non-eligible amounts and pending pre-payments</i>	(2 918)	(3 175)
Total	36 015	21 351

Member States

Payables to Member States relate primarily to unpaid cost claims for structural actions (EUR 20.8 billion for ERDF and CF and EUR 4.2 billion for ESF).

Furthermore, the amount includes EUR 11.3 billion for the European Agricultural Guarantee Fund (EAGF). In order to better present the economic reality, from 2013 onwards, amounts related to EAGF for which payment was due on the first working day of January of the following year are recorded as amounts payable instead of accrued charges. Had the current approach been followed in the 2012 accounts, the amount of Member States payables would have been EUR 11.9 billion higher (i.e. EUR 34.9 billion).

The remaining EUR 1.2 billion Member State payables mainly concern fisheries and maritime policies (EUR 0.6 billion) and rural development (EUR 0.2 billion).

Suppliers and other

Included under this heading are sundry payables, amounts owed following grant and procurement activities, as well as amounts payable to public bodies and non-consolidated entities.

Estimated non-eligible amounts and pending prepayments

Payables are reduced by that part of the requests for reimbursement received, but not yet checked, that was estimated to be ineligible. The largest amounts concern the Structural Actions DGs. Payables are also

reduced by the part of requests for reimbursement received corresponding to prepaid expenditure still to pay at year end (EUR 2.2 billion).

2.18.3. Current portion of non-current liabilities

	EUR millions	
	31.12.2013	31.12.2012
<i>Finance leasing debts</i>	44	42
<i>Other</i>	16	15
Total	60	57

NET ASSETS

2.19. RESERVES

		EUR millions	
	Note	31.12.2013	31.12.2012
<i>Fair value reserve</i>	2.19.1	83	96
<i>Guarantee Fund reserve</i>	2.19.2	2 125	2 079
<i>Other reserves</i>		90	79
Total		2 299	2 254

2.19.1. Fair value reserve

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

2.19.2. Guarantee Fund reserve

This reserve reflects the 9% target of the outstanding amounts guaranteed by the Fund that is required to be kept as assets.

2.20. AMOUNTS TO BE CALLED FROM MEMBER STATES

	EUR millions
<i>Amounts to be called from Member States at 31.12.2012</i>	47 150
<i>Return of 2012 budget surplus to Member States</i>	1 023
<i>Movement in Guarantee Fund reserve</i>	46
<i>Other reserve movements</i>	9
<i>Economic result of the year</i>	4 685
Total amounts to be called from Members States at 31.12.2013	52 913
Split between:	
<i>Employee benefits</i>	46 103
<i>Other amounts</i>	6 810

The inclusion in the accounts of liabilities due for payment in future years and financed by future budgets results in total liabilities greatly exceeding total assets at the year-end.

3. NOTES TO THE STATEMENT OF FINANCIAL PERFORMANCE

3.1. OWN RESOURCE AND CONTRIBUTIONS REVENUE

EUR millions

	Note	2013	2012
<i>GNI resources</i>		110 194	98 061
<i>Traditional own resources: Customs duties</i>		15 268	16 087
<i>Sugar levies</i>		199	157
<i>VAT resources</i>		14 019	14 871
Own resource revenue	3.1.1	139 680	129 176
<i>Budgetary adjustments</i>	<i>3.1.2</i>	<i>(1 888)</i>	<i>(1 402)</i>
<i>Contributions of third countries (incl. EFTA)</i>		364	302
Total		138 156	128 076

3.1.1. Own resource revenue

Own resource revenue is the primary element of the EU's operating revenue. Thus the bulk of expenditure is financed by own resources as other revenue represents only a minor part of the total financing. There are three categories of own resources: traditional own resources ("TOR"), the VAT-based resource and the GNI-based resource. Traditional own resources comprise sugar levies and customs duties. A correction mechanism in respect of budgetary imbalances (UK Rebate) as well as a gross reduction in the annual GNI-based contribution of Netherlands and Sweden are also part of the own resources system. Member States retain, by way of collection costs, 25% of traditional own resources, and the above amounts are shown net of this deduction.

It should be noted that a refund of EUR 169 million (gross, EUR 126 million net) claimed by Belgium in 2011 under Traditional Own Resources was paid out in 2013 after the completion of audits and controls on the reliability of the Belgian clearance and accounting systems. The related provision booked in 2012 was used in 2013.

It should also be noted that following a Court ruling on the sugar levies regulation challenged by certain companies and Member States, and the subsequent adoption by the Council of a new regulation end of December 2013, an amount of EUR 214 million will have to be reimbursed to the concerned parties end of 2014. A provision booked in 2012 and covering this amount is still included in the accounts.

3.1.2. Budgetary adjustments

The budgetary adjustments include the budget surplus from 2012 (EUR 1 023 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 2013.

3.2. OTHER OPERATING REVENUE

EUR millions

	2013	2012
Fines	2 757	1 884
Agricultural levies	48	87
Recovery of expenses:		
Direct centralised management	58	62
Indirect centralised management	6	30
Decentralised management	41	27
Joint management	33	8
Shared management	1 628	1 376
Total	1 766	1 503
Revenue from administrative operations:		
Staff	878	890
Property, plant and equipment related revenue	13	18
Other administrative revenue	185	164
Total	1 075	1 072
Miscellaneous operating revenue:		
Adjustments/provisions	174	274
Exchange gains	325	328
Other	1 339	935
Total	1 838	1 537
Total	7 484	6 083

The increase in other operating revenue is mainly explained by a higher amount of revenue relating to fines in 2013. These revenues relate to fines imposed by the Commission for infringement of competition rules. Receivables and related revenues are recognised when the Commission decision imposing a fine has been taken and it is officially notified to the addressee.

The higher amount in 2013 is mainly explained by fines of EUR 1.7 billion which were imposed on a number of banks for participating in cartels in the interest rate derivatives industry. Furthermore, in 2013 there is a high value fine case concerning Microsoft (EUR 561 million) and its failure to promote a range of web browsers, rather than just Internet Explorer, to users in the EU.

3.3. ADMINISTRATIVE EXPENSES

EUR millions

	2013	2012
Staff expenses	3 080	3 197
Other administrative expenses	1 869	1 869
Depreciation and impairment	158	155
Total	5 107	5 221

Included under other administrative expenses are EUR 148 million (2012: EUR 151 million) expenses relating to operating leases. The amounts committed to be paid during the remaining term of these lease contracts are as follows:

EUR millions

Description	Future amounts to be paid			Total
	< 1 year	1- 5 years	> 5 years	
<i>Buildings</i>	130	444	439	1 013
<i>IT materials and other equipment</i>	3	5	0	8
Total	133	449	439	1 021

3.4. OPERATING EXPENSES

EUR millions

	Note	2013	2012
Primary operating expenses:	3.4.1		
<i>Direct centralised management</i>		9 635	10 728
<i>Indirect centralised management</i>		5 559	4 218
<i>Decentralised management</i>		720	1 019
<i>Shared management</i>		120 070	106 378
<i>Joint management</i>		1 745	1 819
Total		137 728	124 162
Other operating expenses:	3.4.2		
<i>Adjustments/provisions</i>		302	425
<i>Exchange losses</i>		363	265
<i>Other</i>		493	156
Total		1 158	846
Total		138 886	125 008

3.4.1. Primary operating expenses

Operating expenses cover the various headings of the financial framework and take different forms, depending on how the money is paid out and managed. Most expenses fall under the heading "Shared Management" involving the delegation of tasks to Member States, covering such areas as EAGF spending and actions financed through the different Structural Actions (the regional development fund, the social fund, the agricultural fund for rural development, the cohesion fund and the fisheries fund).

The main elements of the operating expenses above cover the following areas: agriculture and rural development EUR 59 billion (2012: EUR 57 billion), regional development and cohesion EUR 49 billion (2012: EUR 39 billion), employment and social affairs EUR 12 billion (2012: EUR 11 billion), research and communication networks, content and technology EUR 6 billion (2012: EUR 6 billion) and external relations EUR 3 billion (2012: EUR 3 billion).

The overall increase in operating expenses is driven by the advancement of the projects in the area of regional development for the programming period 2007-2013.

3.4.2. Other operating expenses

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

The 2013 heading other (under other operating expenses) mainly comprised the correction of fines issued in previous years totalling EUR 360 million.

Research and Development costs

Included under administrative and operating expenses are expenses relating to research and development as follows:

EUR millions

	2013	2012
Research and Development costs		
<i>Research costs</i>	329	322
<i>Non-capitalised development costs</i>	50	58
Total	379	380

3.5. FINANCIAL REVENUE

EUR millions

	2013	2012
Dividend income	6	12
Interest income:		
<i>On pre-financing</i>	29	28
<i>On late payments</i>	88	242
<i>On available for sale financial assets</i>	45	58
<i>On loans</i>	1 698	1 543
<i>On cash and cash equivalents</i>	18	20
Total	1 878	1 891
Other financial income:		
<i>Realised gain on sale of financial assets</i>	3	12
<i>Other</i>	84	160
Total	87	172
Exchange gains	2	9
Total	1 971	2 084

3.6. FINANCIAL EXPENSES

EUR millions

	2013	2012
Interest expenses:		
<i>Leasing</i>	64	65
<i>On borrowings</i>	1 682	1 528
<i>Other</i>	21	21
Total	1 766	1 614
Other financial expenses:		
<i>Adjustments to financial provisions</i>	98	75
<i>Expenses relating to financial instruments managed by fiduciaries</i>	68	43
<i>Impairment losses on available for sale financial assets</i>	7	7
<i>Realised loss on sale of financial assets</i>	0	4
<i>Other</i>	33	140
Total	205	269
Exchange losses	18	14
Total	1 990	1 897

3.7. SHARE OF NET DEFICIT OF JOINT VENTURES AND ASSOCIATES

In accordance with the equity method of accounting, the Commission includes in its statement of financial performance its share of the net deficit of its joint ventures and associates (see also notes **2.3.1** and **2.3.2**).

3.8. REVENUE FROM NON-EXCHANGE TRANSACTIONS

In 2013, EUR 145 370 million revenue from non-exchange transactions has been recognised in the statement of financial performance (2012: EUR 133 882 million).

3.9. SEGMENT REPORTING

EUR millions

	Activities within the EU	Activities outside the EU	Services and Other	Total
<i>Fines</i>	2 757	-	-	2 757
<i>Agricultural levies</i>	48	-	-	48
<i>Recovery of expenses</i>	1 686	79	0	1 766
<i>Revenue from administrative operations</i>	77	1	998	1 075
<i>Miscellaneous operating revenue</i>	1 252	104	482	1 838
OTHER OPERATING REVENUE	5 819	184	1 481	7 484
<i>Staff expenses</i>	(1 501)	(321)	(1 258)	(3 080)
<i>Intangible assets and PPE related expenses</i>	(44)	-	(114)	(158)
<i>Other administrative expenses</i>	(660)	(329)	(880)	(1 869)
Administrative expenses	(2 205)	(649)	(2 253)	(5 107)
<i>Direct centralised management</i>	(6 037)	(3 348)	(250)	(9 635)
<i>Indirect centralised management</i>	(4 943)	(585)	(32)	(5 559)
<i>Decentralised management</i>	(181)	(539)	-	(720)
<i>Shared management</i>	(119 995)	(74)	-	(120 070)
<i>Joint management</i>	(233)	(1 512)	0	(1 745)
<i>Other operating expenses</i>	(784)	(6)	(368)	(1 158)
Operating expenses:	(132 173)	(6 064)	(650)	(138 886)
TOTAL OPERATING EXPENSES	(134 378)	(6 713)	(2 903)	(143 993)
Net operating expenses	(128 558)	(6 529)	(1 422)	(136 509)
<i>Own resource and contributions revenue</i>				138 156
Surplus from operating activities				1 647
<i>Net financial revenue</i>				(17)
<i>Movement in pension and other employee benefits liability</i>				(5 707)
<i>Share of associates/joint ventures deficit</i>				(608)
Economic result of the year				(4 685)

4. NOTES TO THE CASHFLOW STATEMENT

4.1. PURPOSE AND PREPARATION OF THE 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 net surplus or deficit for the financial year is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and items of revenue or expense associated with investing 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 presented reports cashflows during the period classified by operating and investing activities (the EU does not have financing activities).

4.2. OPERATING ACTIVITIES

Operating activities are the activities of the EU that are not investing activities. These are the majority of the activities performed. Loans granted to beneficiaries (and the related borrowings, when applicable) are not considered as investing (or financing) activities as they are part of the general objectives and thus daily operations of the EU. Operating activities also include investments such as EIF, EBRD and venture capital funds. Indeed, the objective of these activities is to participate in the achievement of policy targeted outcomes.

4.3. INVESTING ACTIVITIES

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

5. CONTINGENT ASSETS & LIABILITIES AND OTHER SIGNIFICANT DISCLOSURES

5.1. CONTINGENT ASSETS

EUR millions

	31.12.2013	31.12.2012
<i>Guarantees received:</i>		
Performance guarantees	226	232
Other guarantees	3	2
<i>Other contingent assets</i>	13	12
Total	243	246

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

5.2. CONTINGENT LIABILITIES

EUR millions

	Note	31.12.2013	31.12.2012
<i>Guarantees given</i>	5.2.1	22 162	22 317
<i>Fines</i>	5.2.2	5 227	6 378
<i>EAGF, rural development and pre-accession</i>	5.2.3	1 537	1 188
<i>Cohesion policy</i>	5.2.4	137	546
<i>Legal cases and other disputes</i>	5.2.5	685	78
Total		29 749	30 508

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

5.2.1. Guarantees given

EUR millions

	31.12.2013	31.12.2012
On loans granted by the EIB from its own resources:		
65% guarantee	19 077	18 683
70% guarantee	1 361	1 654
75% guarantee	257	383
100% guarantee	461	594
Total	21 156	21 314
Other guarantees given	1 006	1 003
Total	22 162	22 317

The EU budget guarantees loans signed and granted by the EIB from its own resources to third countries at 31 December 2013 (including loans granted to Member States before accession). However, the EU's guarantee is limited to a percentage of the ceiling of the credit lines authorised: 65% (for the mandate 2000-2007), 70%, 75% or 100%. For the mandate 2007-2013, the EU's guarantee is limited to 65% of the outstanding balances and not on the credit lines authorised. Where the ceiling is not reached, the EU guarantee covers the full amount. At 31 December 2013 the amount outstanding totalled EUR 21 156 million and this, therefore, is the maximum exposure faced by the EU.

Other guarantees given relate mainly to the Risk-Sharing Finance Facility (EUR 958 million).

5.2.2. Fines

These amounts concern fines imposed by the Commission for infringement of competition rules that have been provisionally paid and where either an appeal has been lodged or where it is unknown if an appeal will be made. The contingent liability will be maintained until a decision by the Court of Justice on the case is final. Interest earned on provisional payments is included in the economic result of the year and also as a contingent liability to reflect the uncertainty of the Commission's title to these amounts.

5.2.3. EAGF, rural development and pre-accession

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

5.2.4. Cohesion policy

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

5.2.5. Legal cases and other disputes

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

5.3. OTHER SIGNIFICANT DISCLOSURES

5.3.1. Outstanding commitments not yet expensed

	EUR millions	
	31.12.2013	31.12.2012
<i>Outstanding commitments not yet expensed</i>	175 828	174 070

The amount disclosed above is the budgetary RAL ("Reste à Liquider") less related amounts that have been included as expenses in the 2013 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. This is the normal consequence of the existence of multi-annual programmes.

At 31 December 2013 the budgetary RAL totalled EUR 221 853 million (2012: EUR 217 222 million).

5.3.2. Significant legal commitments

EUR millions

	31.12.2013	31.12.2012
<i>Structural Actions</i>	150	71 775
<i>Protocol with Mediterranean countries</i>	264	264
<i>Fisheries agreements</i>	79	173
<i>Galileo</i>	0	143
<i>Global Monitoring for Environment and Security (GMES)</i>	0	233
<i>Trans-European Transport Networks (TEN-T)</i>	850	1 331
<i>Other contractual commitments</i>	522	538
Total	1 864	74 457

These commitments originated because the Commission entered into long-term legal commitments in respect of amounts that were not yet covered by commitment appropriations in the budget. This can relate to multi-annual programmes such as Structural Actions or amounts that the Commission is committed to pay in the future under administrative contracts existing at the balance sheet date (e.g. relating to the provision of services such as security, cleaning, etc, but also contractual commitments concerning specific projects such as building works).

Structural Actions

The table below shows a comparison between the legal commitments for which budget commitments have not yet been made and the maximum commitments in relation to the amounts foreseen in the financial framework 2007-2013.

The future obligations represent the outstanding amounts for which the Commission is still committed to make payments after 31 December 2013. The EUR 150 million remaining outstanding amount corresponds to the Amending Budget 7/2013 for structural funds.

EUR millions

	Financial framework 2007-2013 (A)	Legal commitments concluded (B)	Budget commitments (C)	Decommit- ments (D)	Legal commitments less budget commitments (=B-C+D)	Maximum commitment (=A-C+D)	Future obligations (=A-C)
<i>Structural funds</i>	348 151	347 767	348 001	264	30	414	150
<i>Natural Resources</i>	100 558	100 353	100 558	205	0	205	0
<i>Instrument for Pre- Accession Assistance</i>	11 110	10 856	11 110	259	6	259	0
Total	459 818	458 976	459 668	728	36	878	150

Protocols with Mediterranean countries

These commitments relate to financial protocols with Mediterranean non-member countries. The amount included here is the difference between the total amount of the protocols signed and the amount of the budget commitments entered in the accounts. These protocols are international treaties that cannot be wound up without the agreement of both parties, although the winding-up process is on-going.

Fisheries agreements

These are commitments entered into with third countries for operations under international fisheries agreements.

Galileo

These are amounts committed to the Galileo programme developing a European Global Navigation Satellite System – see also note 2.2.

GMES

The Commission has entered into a contract with the ESA for the period from 2008 to 2013 for the implementation of the space component of Global Monitoring for Environment and Security (GMES). The total indicative amount for that period is EUR 728 million.

TEN-T

This amount relates to grants in the field of the Trans-European Transport Networks (TEN-T) for the period 2007-2013. The programme applies to projects identified to support both infrastructure projects and research and innovation projects to foster the integration of new technologies and innovative processes on the deployment of new transport infrastructure. The total indicative amount for this programme is EUR 7.9 billion.

The decrease in legal commitments relating to TEN-T is the combined effect of reduced legal commitments following amendment decisions and increased budget commitments.

6. RELATED PARTIES

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

Details on key management entitlements are provided in note **9** of the EU consolidated annual accounts.

7. EVENTS AFTER THE BALANCE SHEET DATE

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

REPORTS ON THE IMPLEMENTATION OF THE BUDGET 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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BUDGETARY STRUCTURE AND PRINCIPLES

The budgetary accounts are kept in accordance with Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 (OJ L 298 of 26 October 2012), on the financial rules applicable to the general budget of the Union (hereinafter referred to as the 'Financial Regulation') and Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 laying down detailed rules of application of this Financial Regulation. The general budget, the main instrument of the Union's financial policy, is the instrument which provides for and authorises the Union's revenue and expenditure every year.

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 draws its position which is then the subject of negotiations between the two arms of the budgetary authority. The President of Parliament declares that the joint draft has been finally adopted, thus making the budget enforceable. 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 were introduced in order to reconcile the principle of annuality with the need to manage multi-annual operations. They are intended to cover mainly 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.

Origin of Appropriations

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

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

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

Composition of Appropriations Available

- Initial budget = appropriations voted in year N-1;
- Final budget appropriations = initial budget appropriations adopted + amending budget appropriations + transfers + additional appropriations;
- Additional appropriations = assigned revenue (see above) + appropriations carried over from the previous financial year or made available again following decommitments.

Calculation of the Budget Result

The amounts of own resources entered in the accounts are those credited in the course of the year to the accounts opened in the Commission's name by the governments of the Member States. Revenue comprises also, in the case of a surplus, the budget 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 EEA. In accordance with Article 15 of Regulation No 1150/2000 on own resources, this result represents the difference between:

- total revenue received for that year; and
- total payments made against that year's appropriations plus the total amount of that year's appropriations carried over to the following year.
- The following are added to or deducted from the resulting figure:
 - the net balance of cancellations of payment appropriations carried over from previous years and any payments which, because of fluctuations in the euro rate, exceed non-differentiated appropriations carried over from the previous year; and
 - the balance of exchange-rate gains and 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 with the additional appropriations for the financial year. This explains the difference between carryovers from the previous year in the 2013 budget implementation statements and those carried over to the following year in the 2012 budget

implementation statements. Payment appropriations for re-use and 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 on appropriations carried over automatically and by decision. It also includes the decrease in assigned revenue appropriations carried over to the next year in comparison with 2012.

1. RESULT OF IMPLEMENTATION OF THE EU BUDGET

1.1 EU BUDGET RESULT

EUR millions

	2013	2012
Revenue for the financial year	149 504	139 541
Payments against current year appropriations	(147 567)	(137 738)
Payment appropriations carried over to year N+1	(1 329)	(936)
Cancellation of unused payment appropriations carried over from year N-1	437	92
Exchange differences for the year	(42)	60
Budget result*	1 002	1 019

* Of which EFTA result is EUR (4) million in 2013 and EUR (4) million in 2012.

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

1.2 RECONCILIATION OF ECONOMIC RESULT WITH BUDGET RESULT

EUR millions

	2013	2012
ECONOMIC RESULT OF THE YEAR	(4 685)	(5 008)
Revenue		
Entitlements established in current year but not yet collected	(2 062)	(1 986)
Entitlements established in previous years and collected in current year	3 343	4 567
Accrued revenue (net)	(134)	(38)
Expenses		
Accrued expenses (net)	3 217	(1 590)
Amount from liaison account	3 075	2 842
Expenses prior year paid in current year	(1 123)	(2 695)
Net-effect pre-financing	(823)	844
Payment appropriations carried over to next year	(908)	(4 028)
Payments made from carry-overs & cancellation of unused payment appropriations	899	4 203
Movement in provisions	4 323	7 591
Other	(1 069)	(701)
BUDGET RESULT OF THE YEAR (COMMISSION)	4 053	4 001
BUDGET RESULT OTHER INSTITUTIONS	(3 051)	(2 981)
BUDGET RESULT OF THE YEAR (EU)	1 002	1 019

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

In 2013, prepaid expenses relating to financial engineering instruments and aid schemes (see **2.6.2** and **2.10.2**) have been included in the 'net-effect pre-financing' category for the first time. The same reclassification has been made to the comparative figures above.

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

Reconciling items - Expenditure

The **net accrued expenses** mainly consist of accruals made for year-end cut-off purposes, i.e. eligible expenses incurred by beneficiaries of EU funds but not yet reported to the Commission. While accrued expenses are not considered as budgetary expenditure, payments made in the **current year relating to invoices registered in prior years** are part of current year's budgetary expenditure.

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

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

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

1.3 STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

1.3.1. REVENUE

	EUR millions		
	Initial Budget	Final Budget	Actual Revenue
1. Own resources	131 288	140 326	140 100
Of which Customs duties	18 632	14 857	15 164
Of which VAT	15 030	14 680	14 542
Of which GNI	97 503	110 823	110 032
3. Surpluses, balances and adjustments	0	1 057	698
4. Revenue accruing from persons working with the institutions and with other Union bodies	957	957	905
5. Revenue accruing from the administrative operation of the institutions	52	52	279
6. Contributions and refunds in connection with Union agreements and programmes	60	60	3 888
7. Interests on late payments and fines	123	1 642	2 973
8. Borrowing and lending operations	4	4	2
9. Miscellaneous revenue	30	30	22
Total	132 514	144 128	148 866

1.3.2. EXPENDITURE BY FINANCIAL FRAMEWORK HEADING

	EUR millions		
	Initial Budget	Final Budget*	Payments made
1. Sustainable growth	59 085	73 528	71 238
1.1 Competitiveness for Growth & Employment	11 886	16 290	14 307
1.2 Cohesion for Growth & Employment	47 199	57 238	56 931
2. Preservation & management of natural resources	57 484	60 404	59 524
3. Citizenship, freedom, security and justice	1 515	2 197	1 883
4. The EU as a global player	6 323	7 200	7 055
5. Administration	4 903	5 559	4 990
6. Compensations	0	75	75
Total	129 310	148 964	144 766

* Including amending budgets, appropriations carried over and assigned revenue.

1.3.3. EXPENDITURE BY POLICY AREA

	EUR millions		
	Initial Budget	Final Budget*	Payments made
01 Economic and financial affairs	428	411	397
02 Enterprise	1 162	1 587	1 456
03 Competition	92	107	93
04 Employment and social affairs	10 429	14 286	14 107
05 Agriculture and rural development	56 344	59 234	58 339
06 Mobility and transport	984	1 120	1 059
07 Environment and Climate action	391	438	406
08 Research	4 808	6 556	5 771
09 Communications networks, content and technology	1 389	2 024	1 826
10 Direct research	411	959	496
11 Maritime affairs and Fisheries	794	831	820
12 Internal market	103	127	116
13 Regional policy	37 434	43 960	43 494
14 Taxation and customs union	112	140	129
15 Education and culture	2 373	3 301	3 052
16 Communication	253	273	252
17 Health and consumer protection	593	622	599
18 Home affairs	799	1 053	1 035
19 External relations	3 089	3 354	3 295
20 Trade	102	112	104
21 Development and relations with ACP States	1 207	1 377	1 345
22 Enlargement	832	933	920
23 Humanitarian aid	829	1 278	1 249
24 Fight against fraud	73	83	73
25 Commission's policy coordination & legal advice	194	221	193
26 Commission's administration	1 013	1 318	1 082
27 Budget	67	146	135
28 Audit	12	13	12
29 Statistics	115	147	126
30 Pensions and related expenditure	1 399	1 401	1 397
31 Language Services	397	506	436
32 Energy	814	838	758
33 Justice	184	208	195
40 Reserves	80	0	0
Total	129 310	148 964	144 766

* Including amending budgets, appropriations carried over and assigned revenue.

1.3.4. COMMITMENTS BY FINANCIAL FRAMEWORK HEADING

	EUR millions		
	Initial Budget	Final Budget*	Commitments
1. Sustainable growth	70 630	75 054	72 682
1.1 Competitiveness for Growth & Employment	16 121	19 191	17 723
1.2 Cohesion for Growth & Employment	54 509	55 863	54 959
2. Preservation & management of natural resources	60 149	62 540	61 463
3. Citizenship, freedom, security and justice	2 106	2 846	2 777
4. The EU as a global player	9 583	10 015	9 793
5. Administration	4 903	5 258	5 040
6. Compensations	0	75	75
Total	147 371	155 788	151 829

* Including amending budgets, appropriations carried over and assigned revenue.

1.3.5. COMMITMENTS BY POLICY AREA

EUR millions

	Initial Budget	Final Budget*	Commitments
01 Economic and financial affairs	556	527	517
02 Enterprise	1 154	1 269	1 241
03 Competition	92	99	94
04 Employment and social affairs	12 004	12 823	12 131
05 Agriculture and rural development	58 852	61 226	60 167
06 Mobility and transport	1 741	1 843	1 807
07 Environment and Climate action	498	518	506
08 Research	6 878	8 130	7 915
09 Communications networks, content and technology	1 805	2 131	2 085
10 Direct research	424	1 000	518
11 Maritime affairs and Fisheries	1 024	1 043	997
12 Internal market	106	123	117
13 Regional policy	43 389	44 464	44 170
14 Taxation and customs union	145	151	147
15 Education and culture	2 813	3 433	3 303
16 Communication	266	275	269
17 Health and consumer protection	634	648	635
18 Home affairs	1 296	1 444	1 420
19 External relations	5 001	5 088	5 023
20 Trade	107	111	108
21 Development and relations with ACP States	1 572	1 701	1 664
22 Enlargement	1 062	1 152	1 147
23 Humanitarian aid	917	1 360	1 339
24 Fight against fraud	79	79	79
25 Commission's policy coordination & legal advice	193	205	194
26 Commission's administration	1 030	1 184	1 119
27 Budget	67	138	134
28 Audit	12	13	12
29 Statistics	134	144	134
30 Pensions and related expenditure	1 399	1 401	1 397
31 Language Services	397	482	435
32 Energy	738	818	782
33 Justice	218	235	225
40 Reserves	764	528	0
Total	147 371	155 788	151 829

* Including amending budgets, appropriations carried over and assigned revenue.

In the initial adopted EU budget, signed by the President of the European Parliament on 12 December 2012, the amount of payment appropriations was EUR 132 837 million (of which EUR 129 310 million was for the Commission) and the amount to be financed by own resources totalled EUR 131 288 million. The revenue and expenditure estimates in the initial budget are typically adjusted during the budgetary year, such modifications being presented in amending budgets. Adjustments in the GNI-based own resources ensure that budgeted revenue matches exactly budgeted expenditure. In accordance with the principle of equilibrium, budget revenue and expenditure (payment appropriations) must be in balance.

Revenue:

During 2013 nine amending budgets were adopted. Taking them into account, the total final budgeted revenue for 2013 amounted to EUR 144 451 million (of which EUR 144 128 was for the Commission). This was financed by own resources totalling EUR 140 326 million (thus EUR 9 038 million more than initially forecasted) and the remainder by other revenue. The increased need for financing payment appropriations was covered mainly from the call of the GNI-based resource entered in Amending Budgets No. 2 and 8/2013.

The amending letter to the Amending Budget No. 6/2013 included fines on undertakings totalling EUR 1 614 million that were known at the time the Draft Amending Budget No. 6/2013 was established. By 31 December 2013, other fines became definitive, either after a definitive judgement or because companies did not appeal new fine decisions.

Revenue, contributions and refunds in connection with Union agreements and programmes total an amount of EUR 3 888 million. The principal amounts concern 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 Union programs/activities. A substantial part of this total is made of earmarked revenue, which typically gives rise to the entering of additional appropriations in the expenditure side.

As far as the own resources result is concerned, the collection of traditional own resources was close to the forecasted amounts. This is primarily because the budget estimates that were modified at the time the Amending Budget No. 6/2013 was established (they were decreased by EUR 1 871 million according to the new macroeconomic forecasts of spring 2013) were once again amended in the Amending Letter to that Amending Budget to take into account the actual rhythm of collection. Thus, they were once again decreased by EUR 2 062 million.

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

Expenditure:

The year 2013 was the last year of the programming period 2007-2013. The initial budget for all institutions set commitment appropriations at EUR 150 898 million, representing an increase of 1.7 % compared to the final 2012 budget. This was a reduction of EUR 160 million compared to the Commission's Draft Budget, and left a margin of EUR 2.45 billion below the ceiling of the multi-annual financial framework.

Payment appropriations were finally set at EUR 132 837 million, after a cut of EUR 4.96 billion to the Draft Budget 2013. This meant a decrease of 2.2 % compared to the final budget for 2012. The initial level of payment appropriations in 2013 corresponded to 0.99 % of the Union's GNI and left a margin of EUR 11.24 billion below the financial framework ceiling.

Looking in particular at the Commission's budget (Section III) for commitments (initial amount EUR 147 371 million), the final budget appropriations (EUR 148 564 million), and hence the political targets set, were fully implemented (99.8% excluding the un-mobilised reserves). The most notable adjustments by means of amending budgets during the year concerned the amounts necessary to accommodate the accession of Croatia (EUR 655 million), the mobilisation of the European Union Solidarity Fund (EUR 415 million), unforeseeable expenditure by its very nature, and additional commitments under heading 1b for France, Italy and Spain (EUR 150 million) arising from an agreement by the European Council to increase their allocation under the structural funds. The total implementation of EUR 147 684 million left EUR 880 million unused. After the carryover to 2014, an amount of EUR 702 million lapses. However, most of this concerns un-mobilised reserves: EUR 464 million for the European Globalisation Adjustment Fund, EUR 64 million for the Emergency Aid Reserve and EUR 43 million from the reserve for international fisheries agreements.

The total increases to the initial budgeted payment appropriations, introduced via amending budgets, amounted to EUR 11.6 billion. Confronted with the heavy pressure of payment claims and the backlog of outstanding claims from 2012, the Budget Authority adopted increases of EUR 11.2 billion in payment appropriations in two steps (Amending Budgets 2/2013 and 8/2013). This brought the level of payment appropriations up to that of the ceiling of the financial framework, helping to reduce the growth of outstanding commitments (RAL).

The payment needs of the European Union Solidarity Fund were covered by EUR 15 million of fresh appropriations via Amending Budget 5/2013 and with a reallocation of EUR 250 million via Amending Budget 9/2013 from some budget lines which the Commission had proposed in the context of the Global Transfer. The remaining EUR 150 million in payments were entered in the 2014 budget.

The total implementation of final budget payment appropriations was EUR 139 908 million, being 99.3%. This is EUR 8 billion more than in 2012 but also EUR 7 billion more than the financial framework ceiling for 2014. Nevertheless, the backlog of unpaid payment claims at year-end in Cohesion increased further to EUR 26.2 billion. Once account is taken of the carryover of payment appropriations to 2014, a total of EUR 107 million lapses.

More than half of lapsing Commission's appropriations arises from the rejection by the Council's refusal to transfer appropriations related to the salary adjustment. From payment appropriations carried forward from 2012, an amount of EUR 54 million was cancelled.

A more detailed analysis of budgetary adjustments, their relevant context, their justification and their impact is presented in Commission's Report on Budgetary and Financial Management 2013, Part A "Overview at budget level" and Part B dealing with each heading of the multi-annual financial framework.

2. IMPLEMENTATION OF EU BUDGET REVENUE

2.1 SUMMARY OF THE IMPLEMENTATION OF BUDGET REVENUE

												EUR millions	
Title		Income appropriations		Entitlements established				Revenue			Receipts as % of budget	Outstanding	
		Initial	Final	Current year	Carried over	Total	On entitlements current year	On entitlements carried over	Total				
1.	Own resources	131 288	140 326	140 102	45	140 147	140 097	3	140 100	99.84%	47		
3.	Surpluses, balances and adjustments	0	1 057	698	0	698	698	0	698	65.99%	0		
4.	Revenue accruing from persons working with the institutions & with other EU bodies	957	957	911	4	916	901	4	905	94.56%	11		
5.	Revenue from administrative operation of institutions	52	52	275	17	292	265	14	279	533.09%	13		
6.	Contributions and refunds in connection with community agreements & programmes	60	60	3 593	503	4 096	3 493	396	3 888	6480.30%	208		
7.	Interest on late payments and fines	123	1 642	2 631	10 774	13 406	634	2 338	2 973	181.05%	10 433		
8.	Borrowing and lending operations	4	4	35	222	257	2	0	2	49.77%	255		
9.	Miscellaneous revenue	30	30	23	8	31	20	2	22	73.39%	9		
Total		132 514	144 128	148 268	11 573	159 841	146 110	2 756	148 866	103.29%	10 975		

Detail Title 1: Own resources											
Chapter		Income appropriations		Entitlements established			Revenue			Receipts as % of budget	Outstanding
		Initial	Final	Current year	Carried over	Total	On entitlements current year	On entitlements carried over	Total		
11.	Sugar levies	123	(35)	202	0	202	202	0	202	(582.66)%	0
12.	Customs duties	18 632	14 857	15 166	45	15 211	15 161	3	15 164	102.06%	47
13.	VAT	15 030	14 680	14 542	0	14 542	14 542	0	14 542	99.06%	0
14.	GNI	97 503	110 823	110 032	0	110 032	110 032	0	110 032	99.29%	0
15.	Correction of budgetary imbalances	0	0	166	0	166	166	0	166	0.00%	0
16.	Reduction GNI-based contributions NL, S	0	0	(6)	0	(6)	(6)	0	(6)	0.00%	0
Total		131 288	140 326	140 102	45	140 147	140 097	3	140 100	99.84%	47

Detail Title 3: Surpluses, balances and adjustments

Chapter	Income appropriations		Entitlements established				Revenue			Receipts as % of budget	Outstanding
	Initial	Final	Current	year	Carried over	Total	On entitlements current year	On entitlements carried over	Total		
30. Surplus from previous year	0	1 057	1 054		0	1 054	1 054	0	1 054	99.65%	0
31. VAT balances	0	0	(522)		0	(522)	(522)	0	(522)	0.00%	0
32. GNI balances	0	0	162		0	162	162	0	162	0.00%	0
34. Adjustment for non-participation in JHAP	0	0	0		0	0	0	0	0	0.00%	0
35. UK correction-adjustments	0	0	0		0	0	0	0	0	0.00%	0
36. UK correction - intermediate calculation	0	0	4		0	4	4	0	4	0.00%	0
Total	0	1 057	698		0	698	698	0	698	65.99%	0

2.1.1. Own resources revenue

The vast majority of revenue comes from own resources. This is laid down in Article 311 of the Treaty on the Functioning of the EU, which states that: "Without prejudice to other revenue, the budget shall be financed wholly from own resources." The main bulk of budgetary expenditure is financed by own resources. Other revenue represents only a minor part of total financing.

Own resources can be divided into the following categories:

- (1) Traditional own resources (TOR) consist of customs duties and sugar levies. These own resources are levied on economic operators and collected by Member States on behalf of the EU. However, Member States keep 25% as a compensation for their collection costs. Customs duties are levied on imports of products coming from third countries, at rates based on the Common Customs Tariff. Sugar levies are paid by sugar producers to finance the export refunds for sugar. TOR usually account for +/- 13% of own resource revenue.
- (2) The own resource based on value added tax (VAT) is levied on Member States' VAT bases, which are harmonised for this purpose in accordance with EU rules. The same percentage is levied on the harmonised base of each Member State. However, the VAT base to take into account is capped at 50% of each Member State's GNI. The VAT-based resource usually accounts for around 12% of own resource revenue.
- (3) The resource based on gross national income (GNI) is used to balance budget revenue and expenditure, i.e. to finance the part of the budget not covered by any other sources of revenue. The same percentage rate is levied on each Member States' GNI, which is established in accordance with EU rules. The GNI-based resource usually accounts for +/- 75% of own resource revenue.

The allocation of own resources is made in accordance with the rules laid down in the Council Decision No. 2007/436/EC, Euratom of 7 June 2007 on the system of the EU's own resources (ORD 2007).

2.1.2. Traditional own resources

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

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

For the separate account, the Member States quarterly statement to the Commission includes:

- the balance to be recovered during the previous quarter,
- the established entitlements during the quarter in question,
- rectifications of the base (corrections/cancellations) during the quarter in question,
- amounts written off (which cannot be made available according to Article 17(2) of Regulation 1150/2000),
- the amounts recovered during the quarter in question,
- the balance to be recovered at the end of the quarter in question.

Traditional own resources must be entered in the Commission's account with the Treasury or the body appointed by the Member State at the latest on the first working day following the 19th day of the second

month following the month during which the entitlement was established (or recovered in the case of the separate account). Member States retain, by way of collection costs, 25% of traditional own resources. The contingent own resources entitlements are adjusted on the basis of the likelihood of their recovery.

2.1.3. VAT-based resources and GNI-based resources

VAT-based own resources derive from the application of a uniform rate, for all Member States, to the harmonised VAT base determined in accordance with the rules of Article 2(1)(b) of the ORD 2007. The uniform rate is fixed at 0.30% except for the period 2007-2013 in which the rate of call for Austria is fixed at 0.225%, for Germany at 0.15% and for Netherlands and Sweden at 0.10%. The VAT base is capped at 50% of GNI for all Member States.

The GNI-based resource is a variable resource intended to supply the revenue required, in any given year, to cover expenditure exceeding the amount collected from traditional own resources, VAT resources and miscellaneous revenue. The revenue derives from the application of a uniform rate to the aggregate GNI of all the Member States. VAT and GNI-based resources are determined on the basis of forecasts of VAT and GNI bases made when the draft budget is being prepared. These forecasts are subsequently revised; the figures are updated during the budget year in question by means of an amending budget.

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

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

2.1.4. UK correction

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

2.1.5. Gross reduction

The European Council of 15 and 16 December 2005 concluded that the Netherlands and Sweden shall benefit from gross reductions in their annual GNI-based contributions during the period 2007-2013. Thus this mechanism of compensation stipulates that the Netherlands shall benefit from a gross reduction in its annual GNI contribution of EUR 605 million and Sweden from a gross reduction in its annual GNI contribution of EUR 150 million, measured in 2004 prices.

3. IMPLEMENTATION OF EU BUDGET EXPENDITURE

3.1 BREAKDOWN & CHANGES IN COMMITMENT & PAYMENT APPROPRIATIONS BY FINANCIAL FRAMEWORK HEADING

EUR millions

Financial Framework Heading	Commitment appropriations						Payment appropriations					
	Approps. adopted	Modifications (Transfers & AB)	Carried over	Assigned revenue	Total additional	Total authorised	Approps. adopted	Modifications (Transfers & AB)	Carried over	Assigned revenue	Total additional	Total authorised
	1	2	3	4	5=3+4	6=1+2+5	7	8	9	10	11=9+10	12=7+8+11
1 Sustainable growth	70 630	620	28	3 777	3 805	75 054	59 085	10 037	157	4 250	4 407	73 528
2 Preservation and management of natural resources	60 149	(4)	2	2 393	2 395	62 540	57 484	552	36	2 332	2 368	60 404
3 Citizenship, freedom, security and justice	2 106	507	0	233	233	2 846	1 515	450	9	224	232	2 197
4 The EU as a global player	9 583	(4)	2	433	435	10 015	6 323	500	30	346	377	7 200
5 Administration	4 903	0	0	355	355	5 258	4 903	(1)	299	358	657	5 559
6 Compensations	0	75	0	0	0	75	0	75	0	0	0	75
Total	147 371	1 193	31	7 192	7 223	155 788	129 310	11 614	530	7 510	8 040	148 964

3.2 IMPLEMENTATION OF COMMITMENT APPROPRIATIONS BY FINANCIAL FRAMEWORK HEADING

EUR millions

Financial Framework Heading	Commitment approps. authorised	Commitments made					Appropriations carried over				Appropriations lapsing				
		From the year's approps.	From carry-overs	From assigned revenue	Total	%	Assigned revenue	Carry-overs by decision	Total	%	From the year's budget approps.	From carry-overs	Assigned revenue	Total	%
	1	2	3	4	5=2+3+4	6=5/1	7	8	9=7+8	10=9/1	11	12	13	14=11+12+13	15=14/1
1 Sustainable growth	75 054	70 585	28	2 069	72 682	96.84%	1 708	169	1 877	2.50%	495	0	0	495	0.66%
2 Preservation and management of natural resources	62 540	60 080	2	1 381	61 463	98.28%	1 012	1	1 013	1.62%	64	0	0	64	0.10%
3 Citizenship, freedom, security and justice	2 846	2 606	0	171	2 777	97.59%	62	2	64	2.26%	4	0	0	4	0.15%
4 The EU as a global player	10 015	9 500	2	291	9 793	97.78%	142	6	149	1.48%	74	0	0	74	0.73%
5 Administration	5 258	4 838	0	202	5 040	95.85%	153	0	153	2.92%	65	0	0	65	1.24%
6 Compensations	75	75	0	0	75	100.00%	0	0	0	0.00%	0	0	0	0	0.00%
Total	155 788	147 684	31	4 114	151 829	97.46%	3 078	178	3 256	2.09%	702	0	0	702	0.45%

3.3 IMPLEMENTATION OF PAYMENT APPROPRIATIONS BY FINANCIAL FRAMEWORK HEADING

EUR millions

Financial Framework Heading	Payment approps. authorised	Payments made					Appropriations carried over				Appropriations lapsing				
		From the year's approps.	From carry-overs	From assigned revenue	Total	%	Automatic carry-overs	Carry-overs by decision	Assigned revenue	Total	%	From the year's approps.	From carry-overs	Assigned revenue	Total
	1	2	3	4	5=2+3+4	6=5/1	7	8	9	10=7+8+9	11=10/1	12	13	14	15=12+13+14
															15-Jan
1 Sustainable growth	73 528	68 804	138	2 296	71 238	96.89%	135	165	1 954	2 254	3.06%	18	18	0	37
2 Preservation & management of natural resources	60 404	57 980	32	1 512	59 524	98.54%	34	2	820	856	1.42%	20	4	0	24
3 Citizenship, freedom, security & justice	2 197	1 703	8	173	1 883	85.71%	9	251	51	311	14.15%	2	1	0	3
4 The EU as a global player	7 200	6 786	26	243	7 055	97.99%	34	1	103	138	1.92%	2	5	0	7
5 Administration	5 559	4 559	274	157	4 990	89.76%	278	0	200	478	8.61%	65	26	0	91
6 Compensations	75	75	0	0	75	100.00%	0	0	0	0	0.00%	0	0	0	0
Total	148 964	139 908	477	4 381	144 766	97.18%	490	418	3 128	4 037	2.71%	107	54	0	161

3.4 MOVEMENTS IN COMMITMENTS OUTSTANDING - BY FINANCIAL FRAMEWORK HEADING

EUR millions

Financial Framework Heading	Commitments outstanding at the end of the previous year				Commitments of the year				
	Commitments carried forward from previous year	Decommitments /Revaluations/ Cancellations	Payments	Commitments outstanding at year-end	Commitments made during the year	Payments	Cancellation of commitments which cannot be carried over	Commitments outstanding at year-end	Total Commitments outstanding at year-end
1 Sustainable growth	166 271	(1 019)	(63 822)	101 430	72 682	(7 416)	(3)	65 263	166 693
2 Preservation and management of natural resources	26 886	(396)	(13 444)	13 045	61 463	(46 080)	0	15 383	28 428
3 Citizenship, freedom, security and justice	2 316	(133)	(628)	1 555	2 777	(1 255)	0	1 522	3 077
4 The EU as a global player	21 429	(852)	(5 002)	15 575	9 793	(2 053)	(2)	7 738	23 313
5 Administration	320	(28)	(289)	3	5 040	(4 701)	(1)	339	342
6 Compensations	0	0	0	0	75	(75)	0	0	0
Total	217 222	(2 427)	(83 186)	131 609	151 829	(61 580)	(5)	90 244	221 853

3.5 BREAKDOWN OF COMMITMENTS OUTSTANDING BY YEAR OF ORIGIN - BY FINANCIAL FRAMEWORK HEADING

EUR millions

Financial Framework Heading	<2007	2007	2008	2009	2010	2011	2012	2013	Total
1 Sustainable growth	4 097	337	859	3 760	12 112	28 399	51 867	65 263	166 693
2 Preservation & management of natural resources	479	46	95	139	219	2 571	9 496	15 383	28 428
3 Citizenship, freedom, security and justice	6	16	50	144	214	398	728	1 522	3 077
4 The EU as a global player	956	415	823	1 237	2 375	3 845	5 923	7 738	23 313
5 Administration	0	0	0	0	0	1	3	339	342
Total	5 537	815	1 827	5 280	14 920	35 214	68 016	90 244	221 853

3.6 BREAKDOWN AND CHANGES IN COMMITMENT AND PAYMENT APPROPRIATIONS BY POLICY AREA

EUR millions

	Commitment appropriations						Payment appropriations					
	Approps adopted	Modifications (Transfer /AB)	Carried over	Assigned revenue	Total additional	Total authorised	Approps adopted	Modifications (Transfer/ AB)	Carried over	Assigned revenue	Total additional	Total authorised
	1	2	3	4	5=3+4	6=1+2+5	7	8	9	10	11=9+10	12=7+8+11
01 Economic & financial affairs	556	(60)	0	31	31	527	428	(52)	6	29	35	411
02 Enterprise	1 154	(16)	0	131	131	1 269	1 162	214	19	192	211	1 587
03 Competition	92	1	0	6	6	99	92	1	8	6	13	107
04 Employment & social affairs	12 004	276	24	518	542	12 823	10 429	3 303	38	517	555	14 286
05 Agriculture & rural develop.	58 852	(33)	2	2 406	2 407	61 226	56 344	512	27	2 351	2 378	59 234
06 Mobility & transport	1 741	0	0	102	102	1 843	984	18	6	112	118	1 120
07 Environment & Climate	498	(1)	0	21	21	518	391	9	18	19	37	438
08 Research	6 878	(4)	0	1 256	1 256	8 130	4 808	174	26	1 548	1 573	6 556
09 Communications networks, content and technology	1 805	6	0	320	321	2 131	1 389	167	14	454	468	2 024
10 Direct research	424	0	0	576	576	1 000	411	8	48	491	539	959
11 Maritime affairs & Fisheries	1 024	15	0	4	4	1 043	794	30	3	4	7	831
12 Internal market	106	0	0	16	16	123	103	2	6	17	22	127
13 Regional policy	43 389	780	3	292	295	44 464	37 434	6 222	12	292	304	43 960
14 Taxation & customs union	145	1	0	6	6	151	112	16	7	5	12	140
15 Education & culture	2 813	15	0	604	604	3 433	2 373	254	13	661	674	3 301
16 Communication	266	1	0	8	8	275	253	(2)	14	8	23	273
17 Health & consumer protection	634	(14)	0	28	28	648	593	(5)	11	23	34	622
18 Home affairs	1 296	60	0	88	88	1 444	799	174	5	75	80	1 053
19 External relations	5 001	(125)	0	212	212	5 088	3 089	118	13	134	147	3 354
20 Trade	107	0	0	3	4	111	102	2	4	3	7	112
21 Development & relations ACP	1 572	1	2	127	129	1 701	1 207	23	11	136	147	1 377
22 Enlargement	1 062	54	0	35	35	1 152	832	76	8	17	25	933
23 Humanitarian aid	917	411	0	32	32	1 360	829	410	7	32	39	1 278
24 Fight against fraud	79	0	0	0	0	79	73	0	10	0	10	83
25 Policy coordination & legal advice	193	0	0	11	11	205	194	0	16	11	27	221
26 Commission administration	1 030	(2)	0	156	156	1 184	1 013	14	133	158	290	1 318
27 Budget	67	63	0	7	7	138	67	63	8	7	16	146
28 Audit	12	0	0	1	1	13	12	0	1	1	1	13
29 Statistics	134	(1)	0	11	11	144	115	7	6	19	24	147
30 Pensions & related	1 399	0	0	1	1	1 401	1 399	0	0	1	1	1 401
31 Language Services	397	0	0	86	86	482	397	0	24	86	109	506
32 Energy	738	1	0	80	80	818	814	(70)	6	88	93	838
33 Justice	218	1	0	16	16	235	184	4	4	15	19	208
40 Reserves	764	(236)	0	0	0	528	80	(80)	0	0	0	0
Total	147 371	1 193	31	7 192	7 223	155 788	129 310	11 614	530	7 510	8 040	148 964

3.7 IMPLEMENTATION OF COMMITMENT APPROPRIATIONS BY POLICY AREA

EUR millions

Policy Area	Commitment approps. authorised	Commitments made					Appropriations carried over				Appropriations lapsing				
		From the year's approps.	From carry-overs	Assigned revenue	Total	%	Assigned revenue	Carry-overs: decision	Total	%	From year's budget approps.	From carry-overs	Assigned revenue	Total	%
1	2	3	4	5=2+3+4	6=5/1	7	8	9=7+8	10=9/1	11	12	13	14=11+12+13	15=14/1	
01 Economic & financial affairs	527	488	0	29	517	98.09%	2	0	2	0.44%	8	0	0	8	1.47%
02 Enterprise	1 269	1 135	0	105	1 241	97.77%	26	0	26	2.03%	2	0	0	2	0.19%
03 Competition	99	91	0	3	94	94.88%	3	0	3	2.62%	2	0	0	2	2.50%
04 Employment & social affairs	12 823	12 097	24	10	12 131	94.61%	509	168	677	5.28%	14	0	0	14	0.11%
05 Agriculture & rural development	61 226	58 797	2	1 368	60 167	98.27%	1 038	0	1 038	1.69%	21	0	0	21	0.03%
06 Mobility & transport	1 843	1 734	0	73	1 807	98.03%	30	0	30	1.61%	7	0	0	7	0.36%
07 Environment & Climate	518	495	0	11	506	97.67%	10	0	10	1.88%	2	0	0	2	0.45%
08 Research	8 130	6 874	0	1 041	7 915	97.35%	215	0	215	2.64%	0	0	0	0	0.01%
09 Communications networks, content and technology	2 131	1 810	0	276	2 085	97.84%	45	0	45	2.10%	1	0	0	1	0.06%
10 Direct research	1 000	424	0	94	518	51.79%	482	0	482	48.21%	0	0	0	0	0.00%
11 Maritime affairs & Fisheries	1 043	995	0	1	997	95.55%	2	0	2	0.20%	44	0	0	44	4.25%
12 Internal market	123	104	0	13	117	95.22%	4	0	4	3.10%	2	0	0	2	1.69%
13 Regional policy	44 464	44 162	3	5	44 170	99.34%	287	0	287	0.65%	7	0	0	7	0.02%
14 Taxation & customs union	151	144	0	3	147	97.21%	3	0	3	1.81%	1	0	0	1	0.97%
15 Education & culture	3 433	2 826	0	477	3 303	96.20%	127	0	127	3.71%	3	0	0	3	0.09%
16 Communication	275	264	0	5	269	98.10%	3	0	3	1.08%	2	0	0	2	0.82%
17 Health & consumer protection	648	614	0	20	635	97.88%	8	1	9	1.35%	5	0	0	5	0.77%
18 Home affairs	1 444	1 352	0	68	1 420	98.31%	20	2	22	1.50%	3	0	0	3	0.19%
19 External relations	5 088	4 869	0	153	5 023	98.71%	58	5	64	1.25%	2	0	0	2	0.04%
20 Trade	111	105	0	2	108	96.66%	2	0	2	1.40%	2	0	0	2	1.94%
21 Development & relations ACP	1 701	1 564	2	99	1 664	97.82%	28	1	29	1.71%	8	0	0	8	0.46%
22 Enlargement	1 152	1 115	0	31	1 147	99.53%	4	0	4	0.35%	1	0	0	1	0.13%
23 Humanitarian aid	1 360	1 326	0	12	1 339	98.42%	20	0	20	1.46%	2	0	0	2	0.11%
24 Fight against fraud	79	79	0	0	79	99.81%	0	0	0	0.04%	0	0	0	0	0.15%
25 Policy coord & legal advice	205	188	0	6	194	94.96%	5	0	5	2.45%	5	0	0	5	2.59%
26 Commission administration	1 184	1 028	0	91	1 119	94.50%	64	0	65	5.46%	0	0	0	0	0.03%
27 Budget	138	129	0	4	134	96.82%	3	0	3	2.23%	1	0	0	1	0.95%
28 Audit	13	11	0	0	12	93.31%	0	0	1	4.03%	0	0	0	0	2.66%
29 Statistics	144	126	0	8	134	93.14%	3	0	3	2.37%	6	0	0	6	4.49%
30 Pensions & related expenditure	1 401	1 397	0	0	1 397	99.74%	1	0	1	0.10%	2	0	0	2	0.16%
31 Language Services	482	387	0	48	435	90.08%	38	0	38	7.84%	10	0	0	10	2.08%
32 Energy	818	734	0	48	782	95.66%	31	0	31	3.82%	4	0	0	4	0.52%
33 Justice	235	216	0	8	225	95.71%	8	0	8	3.23%	2	0	0	2	1.06%
40 Reserves	528	0	0	0	0	0.00%	0	0	0	0.00%	528	0	0	528	100.00%
Total	155 788	147 684	31	4 113	151 829	97.46%	3 078	178	3 256	2.09%	702	0	0	702	0.45%

3.8 IMPLEMENTATION OF PAYMENT APPROPRIATIONS BY POLICY AREA

EUR millions

Policy Area	Payment approps. authorised	Payments made					Appropriations carried over					Appropriations lapsing				
		From the year's approps.	From carry-overs	Assigned revenue	Total	%	Automatic carry-overs by decision	Carry-overs	Assigned revenue	Total	%	From the year's approps.	From carry-overs	Assigned revenue	Total	%
	1	2	3	4	5=2+3+4	6=5/1	7	8	9	10=7+8+9	11=10/1	12	13	14	15=12+13+14	16=15/1
01 Economic & financial affairs	411	366	6	26	397	96.68%	8	0	3	11	2.60%	2	1	0	3	0.72%
02 Enterprise	1 587	1 359	17	80	1 456	91.76%	14	0	111	126	7.91%	3	2	0	5	0.33%
03 Competition	107	84	7	2	93	87.19%	7	0	3	10	9.61%	2	1	0	3	3.20%
04 Employment & social affairs	14 286	13 672	36	399	14 107	98.74%	14	36	117	168	1.18%	9	2	0	11	0.08%
05 Agriculture & rural development	59 234	56 815	23	1 501	58 339	98.49%	21	0	850	871	1.47%	20	4	0	24	0.04%
06 Mobility & transport	1 120	990	5	64	1 059	94.58%	6	0	48	54	4.86%	5	1	0	6	0.56%
07 Environment & Climate	438	377	17	12	406	92.71%	21	0	7	28	6.41%	3	1	0	4	0.89%
08 Research	6 556	4 958	23	790	5 771	88.02%	24	0	758	782	11.92%	0	3	0	3	0.05%
09 Communications networks, content and technology	2 024	1 539	13	273	1 826	90.21%	15	0	181	196	9.69%	1	1	0	2	0.10%
10 Direct research	959	366	41	89	496	51.68%	54	0	402	456	47.57%	0	7	0	7	0.75%
11 Maritime affairs & Fisheries	831	816	3	1	820	98.71%	3	1	2	7	0.87%	3	1	0	4	0.42%
12 Internal market	127	97	5	13	116	90.79%	6	0	3	9	7.08%	2	1	0	3	2.13%
13 Regional policy	43 960	43 262	10	222	43 494	98.94%	12	380	70	461	1.05%	2	2	0	4	0.01%
14 Taxation & customs union	140	120	7	3	129	92.07%	7	0	3	9	6.71%	1	0	0	2	1.22%
15 Education & culture	3 301	2 614	12	426	3 052	92.45%	11	0	235	247	7.47%	2	1	0	3	0.08%
16 Communication	273	234	14	5	252	92.32%	14	0	4	17	6.34%	3	1	0	4	1.34%
17 Health & consumer protection	622	574	10	15	599	96.32%	12	0	8	19	3.09%	3	1	0	4	0.59%
18 Home affairs	1 053	966	5	64	1 035	98.33%	4	0	11	15	1.41%	2	1	0	3	0.26%
19 External relations	3 354	3 189	11	94	3 295	98.23%	17	0	39	56	1.68%	1	2	0	3	0.09%
20 Trade	112	99	4	2	104	93.10%	3	0	2	5	4.67%	2	0	0	2	2.23%
21 Development & relations ACP	1 377	1 212	9	124	1 345	97.67%	11	0	12	24	1.71%	7	2	0	8	0.61%
22 Enlargement	933	901	6	12	920	98.56%	5	0	5	10	1.07%	2	2	0	3	0.37%
23 Humanitarian aid	1 278	1 230	7	12	1 249	97.74%	8	0	20	28	2.17%	1	0	0	1	0.09%
24 Fight against fraud	83	65	8	0	73	87.45%	9	0	0	9	10.39%	0	2	0	2	2.16%
25 Policy coordination & legal advice	221	175	13	5	193	87.38%	14	0	6	20	9.04%	5	3	0	8	3.57%
26 Commission administration	1 318	894	125	64	1 082	82.08%	134	0	94	227	17.26%	1	8	0	9	0.67%
27 Budget	146	124	8	3	135	91.97%	6	0	4	10	6.75%	1	1	0	2	1.29%
28 Audit	13	11	0	0	12	89.13%	0	0	0	1	8.05%	0	0	0	0	2.82%
29 Statistics	147	115	5	7	126	85.55%	6	0	12	18	12.02%	2	1	0	4	2.43%
30 Pensions & related expenditure	1 401	1 397	0	0	1 397	99.74%	0	0	1	1	0.10%	2	0	0	2	0.16%
31 Language Services	506	371	22	44	436	86.22%	16	0	42	58	11.42%	10	2	0	12	2.36%
32 Energy	838	734	5	20	758	90.53%	5	0	68	73	8.76%	5	1	0	6	0.71%
33 Justice	208	183	3	9	195	93.62%	4	0	6	10	4.62%	2	1	0	4	1.75%
40 Reserves	0	0	0	0	0	0.00%	0	0	0	0	0.00%	0	0	0	0	0.00%
Total	148 964	139 908	476	4 381	144 766	97.18%	489	419	3 128	4 037	2.71%	107	54	0	161	0.11%

3.9 MOVEMENTS IN COMMITMENTS OUTSTANDING BY POLICY AREA

EUR millions

Policy Area	Commitments outstanding at end of the previous year				Commitments of the year				
	Commitments carried forward from previous year	Decommitments /Revaluations/Cancellations	Payments	Commitments outstanding at year-end	Commitments made during the year	Payments	Cancellation commitments which cannot be carried over	Commitments outstanding at year-end	Total commitments outstanding at year-end
01 Economic & financial affairs	623	(3)	(142)	478	517	(256)	0	261	739
02 Enterprise	2 090	(20)	(963)	1 107	1 241	(493)	0	748	1 855
03 Competition	8	(1)	(7)	0	94	(86)	0	8	8
04 Employment & social affairs	29 668	(133)	(13 541)	15 994	12 131	(566)	0	11 565	27 559
05 Agriculture & rural development	23 847	(320)	(12 377)	11 150	60 167	(45 962)	0	14 205	25 354
06 Mobility and transport	3 317	(64)	(885)	2 368	1 807	(174)	0	1 633	4 001
07 Environment & Climate	1 002	(12)	(268)	723	506	(138)	0	368	1 090
08 Research	10 781	(92)	(3 109)	7 579	7 915	(2 661)	(2)	5 252	12 831
09 Communications networks, content and technology	2 594	(31)	(952)	1 611	2 085	(874)	0	1 211	2 822
10 Direct research	199	(20)	(121)	59	518	(375)	0	143	202
11 Maritime affairs & Fisheries	2 290	(107)	(633)	1 551	997	(188)	0	809	2 360
12 Internal market	21	(2)	(16)	4	117	(100)	0	17	21
13 Regional policy	112 307	(811)	(42 832)	68 664	44 170	(662)	0	43 508	112 172
14 Taxation & customs union	93	(5)	(59)	29	147	(70)	0	77	106
15 Education & culture	2 194	(57)	(938)	1 199	3 303	(2 114)	0	1 188	2 387
16 Communication	119	(10)	(84)	25	269	(168)	0	101	126
17 Health & consumer protection	642	(62)	(293)	288	635	(306)	0	328	616
18 Home affairs	1 677	(69)	(331)	1 277	1 420	(704)	0	715	1 992
19 External relations	11 342	(352)	(2 421)	8 569	5 023	(874)	0	4 149	12 718
20 Trade	18	(1)	(11)	6	108	(93)	0	15	21
21 Development & relations ACP	3 453	(103)	(905)	2 444	1 664	(439)	0	1 225	3 669
22 Enlargement	3 039	(58)	(763)	2 218	1 147	(157)	(1)	988	3 206
23 Humanitarian aid	831	(3)	(555)	273	1 339	(694)	0	645	918
24 Fight against fraud	35	(3)	(18)	14	79	(55)	0	25	38
25 Policy coordination & legal advice	17	(3)	(14)	0	194	(179)	0	15	15
26 Commission administration	174	(10)	(153)	11	1 119	(929)	0	190	201
27 Budget	8	(1)	(8)	0	134	(127)	0	7	7
28 Audit	1	0	0	0	12	(11)	0	1	1
29 Statistics	114	(9)	(48)	57	134	(78)	0	55	113
30 Pensions & related expenditure	0	0	0	0	1 397	(1 397)	0	0	0
31 Language Services	24	(2)	(22)	0	435	(415)	0	20	20
32 Energy	4 517	(40)	(639)	3 838	782	(119)	0	664	4 502
33 Justice	179	(25)	(79)	75	225	(116)	0	109	184
Total	217 222	(2 427)	(83 186)	131 609	151 829	(61 580)	(5)	90 244	221 853

3.10 BREAKDOWN OF COMMITMENTS OUTSTANDING BY YEAR OF ORIGIN BY POLICY AREA

		EUR millions							
Policy Area	<2007	2007	2008	2009	2010	2011	2012	2013	Total
01 Economic & financial affairs	32	10	0	0	73	184	180	261	739
02 Enterprise	4	14	23	55	135	364	513	748	1 855
03 Competition	0	0	0	0	0	0	0	8	8
04 Employment & social affairs	673	57	7	246	924	4 862	9 225	11 565	27 559
05 Agriculture & rural development	196	0	0	2	144	2 079	8 729	14 205	25 354
06 Mobility & transport	21	103	48	211	375	707	903	1 633	4 001
07 Environment & Climate	8	45	65	105	133	170	197	368	1 090
08 Research	102	85	209	397	1 003	2 069	3 714	5 252	12 831
09 Communications networks, content and technology	7	15	30	115	188	394	863	1 211	2 822
10 Direct research	3	1	9	5	5	8	27	143	202
11 Maritime affairs & Fisheries	275	1	3	10	44	490	728	809	2 360
12 Internal market	0	0	0	0	1	0	3	17	21
13 Regional policy	3 583	9	421	1 560	7 925	19 331	35 836	43 508	112 172
14 Taxation & customs union	0	0	0	0	0	7	22	77	106
15 Education & culture	1	33	54	81	138	332	560	1 188	2 387
16 Communication	0	0	0	0	1	3	19	101	126
17 Health & consumer protection	4	1	30	29	52	65	108	328	616
18 Home affairs	0	14	41	128	183	340	570	715	1 992
19 External relations	335	318	573	822	1 257	1 971	3 293	4 149	12 718
20 Trade	0	0	0	0	0	2	4	15	21
21 Development & relations ACP	92	41	118	227	352	609	1 005	1 225	3 669
22 Enlargement	137	45	125	172	369	600	770	988	3 206
23 Humanitarian aid	1	1	9	14	28	37	182	645	918
24 Fight against fraud	0	1	1	1	2	3	6	25	38
25 Policy coordination & legal advice	0	0	0	0	0	0	0	15	15
26 Commission administration	0	0	0	0	0	0	11	190	201
27 Budget	0	0	0	0	0	0	0	7	7
28 Audit	0	0	0	0	0	0	0	1	1
29 Statistics	2	0	0	1	6	18	31	55	113
30 Pensions & related expenditure	0	0	0	0	0	0	0	0	0
31 Language Services	0	0	0	0	0	0	0	20	20
32 Energy	61	21	62	1 095	1 576	549	475	664	4 502
33 Justice	0	0	2	5	7	18	43	109	184
Total	5 537	815	1 827	5 280	14 920	35 214	68 016	90 244	221 853

FINANCIAL FRAMEWORK 2007-2013

EUR millions

	2007	2008	2009	2010	2011	2012	2013	Total
1. Sustainable Growth	53 979	57 653	61 696	63 555	63 974	67 614	70 644	439 115
2. Preservation & management of natural resources	55 143	59 193	56 333	59 955	59 888	60 810	61 289	412 611
3. Citizenship, freedom, security & justice	1 273	1 362	1 518	1 693	1 889	2 105	2 407	12 247
4. EU as a global player	6 578	7 002	7 440	7 893	8 430	8 997	9 595	55 935
5. Administration	7 039	7 380	7 525	7 882	8 091	8 523	8 492	54 932
6. Compensations	445	207	210	0	0	0	75	937
Commitment appropriations:	124 457	132 797	134 722	140 978	142 272	148 049	152 502	975 777
Total payment appropriations:	122 190	129 681	120 445	134 289	133 700	141 360	144 285	925 950

This section describes the main categories of EU expenditure, classified by heading of the financial framework 2007-2013. The 2013 financial year was the seventh and last covered by the financial framework 2007-2013. The overall ceiling on commitments appropriations for 2013 comes to EUR 152 502 million, equivalent to 1.15% of GNI. The corresponding ceiling on the appropriations for payments comes to EUR 144 285 million, i.e. 1.08 % of GNI. The above table shows the financial framework at current prices.

Heading 1 – Sustainable growth

This heading is divided into two separate, but interlinked components:

- 1a. Competitiveness for growth and employment, encompassing expenditure on research and innovation, education and training, trans-European networks, social policy, the internal market and accompanying policies.
- 1b. Cohesion for growth and employment, designed to enhance convergence of the least developed Member States and regions, to complement the EU strategy for sustainable development outside the less prosperous regions and to support inter regional cooperation..

Heading 2 – Preservation and management of natural resources

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

Heading 3 – Citizenship, freedom, security and justice

Heading 3 (Citizenship, freedom, security and justice) 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. It is split in two components:

- 3a. Freedom, Security and Justice
- 3b. Citizenship

Heading 4 – The EU as a global player

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

Heading 5 – Administration

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

Heading 6 - Compensations

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

POLICY AREAS

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

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