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

CONSOLIDATED ANNUAL ACCOUNTS OF THE EUROPEAN UNION 2015

CONTENTS PART I

FINANCIAL STATEMENT DISCUSSION AND ANALYSIS

FINANCIAL YEAR 2015

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.

1. EU: Institutional governance and operations

The EU is based on the rule of law. This means that every action taken by the EU is founded on treaties that have been approved voluntarily and democratically by all EU Member States. It has a unique institutional set-up:

- European citizens elect directly the Members of the European Parliament (EP);
- The EU's broad priorities are set by the European Council, which brings together national and EU-level leaders;
- Member States governments are represented in the Council of the European Union (the 'Council');
- The interests of the EU as a whole are promoted by the European Commission (the 'Commission'), whose President is elected by the EP and whose members are suggested for appointment by national governments by common accord with the President-elect and are subject, as a body, to a vote of consent by the EP.

The EU has its own legal order which is separate from international law and forms an integral part of the legal systems of the Member States. The legal order of the EU is based on its own sources of law. Given the varied nature of these sources, a hierarchy had to be established among them. Primary legislation is at the top of the hierarchy and is represented by the Treaty on European Union (TEU); Treaty on the Functioning of the European Union (TFEU); Charter of Fundamental Rights of the European Union; other Treaties and Protocols. This is followed by international agreements concluded by the EU, general legal principles and secondary legislation, which is based on the Treaties.

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

2. Main political objectives of the EU

The Commission proposed on 3 March 2010 the Europe 2020 strategy which is a 10-year strategy for reviving the economy of the EU. It aims at "smart, sustainable, inclusive growth" with greater coordination of national and European policy. A number of headline targets have been agreed for the EU to achieve by the end of 2020. These cover employment, research and development, climate/energy, education, social inclusion and poverty reduction. This limited set of EU-level targets is translated into national targets in each EU country, reflecting different situations and circumstances.

Europe has identified new engines to boost growth and jobs. These areas are addressed by 7 flagship initiatives:

- Digital agenda for Europe;
- Innovation Union;
- Youth on the move;
- Resource efficient Europe;
- An industrial policy for the globalisation era;
- An agenda for new skills and jobs; and
- European platform against poverty.

Within each initiative, both the EU and national authorities have to coordinate their efforts so that they are mutually reinforcing.

The Commission that came into office in November 2014 has defined the following 10 initiatives (up to 2019) which represent a continuation of the Europe 2020 strategy:

- **A new boost for jobs, growth and investment:**

The main initiative of the EU under this heading is the European Fund for Strategic Investments (EFSI), which was launched together with the EIB Group. It is intended to help overcome the current investment gap in the EU by mobilising private financing for strategic investments in key areas such as infrastructure, education, research and innovation, renewable energy as well as risk finance for small businesses. It is expected that additional funding of Member States, national promotional banks and private investors would bring the investments in the EU to a total of EUR 315 billion.

- **A resilient energy union with a forward looking climate change policy:**

The EU has long been committed to international efforts to tackle climate change and felt the duty to set an example through robust policy-making at home. At European level a comprehensive package of policy measures to reduce greenhouse gas emissions has been initiated through the European Climate Change Programme (ECCP). The EU has set itself targets for reducing its greenhouse gas emissions progressively up to 2050. Key climate and energy targets are set in the 2020 climate and energy package and in the 2030 climate and energy framework. These targets are defined so as to put the EU on the way to achieve the transformation towards a low-carbon economy as detailed in the 2050 low-carbon roadmap. The EU tracks its progress on cutting emissions through regular monitoring and reporting. The EU has been at the forefront of international efforts towards a global climate deal. Following limited participation in the Kyoto Protocol and the lack of agreement in Copenhagen in 2009, the EU has been building a broad coalition of developed and developing countries in favour of high ambition that shaped the successful outcome of the Paris climate conference (COP21) in December 2015. At this conference 195 countries adopted the first-ever universal, legally binding global climate deal. The EU was the first major economy to submit its intended contribution to the new agreement in March 2015. It is already taking steps to implement its target to reduce emissions by at least 40 % by 2030.

- **A new policy on migration:**

Migration has been one of the political priorities of the current Commission. The main objective of this European Agenda on Migration is to approach the issue of migration in a comprehensive way. The first part of this Agenda defines immediate measures to prevent human tragedies and to reinforce mechanisms to deal with emergencies. This will be done by strengthening the presence at sea to save lives, targeting criminal smuggling networks, responding to high volumes of arrivals within the EU and using the EU's operational and financial tools to help frontline Member States. As a first step in 2015, through amending budgets, the Commission made available additional funding – see section **6** below. Furthermore, the long-term policy on migration needs to be redefined based on four pillars: 1) reducing the incentives for irregular migration; 2) saving lives and securing the external borders; 3) a strong common asylum policy; and 4) a new policy on legal migration.

- **A deeper and fairer internal market:**

The Single Market is one of Europe’s major achievements and its best asset in times of increasing globalisation. It is an engine for building a stronger and fairer EU economy. By allowing people, goods, services and capital to move more freely it opens up new opportunities for citizens, workers, businesses and consumers, creating the jobs and growth Europe so urgently needs. More integrated and deeper capital markets will channel more funding to companies, especially SMEs, and infrastructure projects. Better worker mobility will let people move more freely where their skills are needed. And combatting tax evasion and tax fraud will ensure that all contribute their fair share.

- **Digital Single Market package:**

The internet and digital technologies are transforming our world. But existing barriers online mean citizens miss out on goods and services, internet companies and start-ups have their horizons limited, and businesses and governments cannot fully benefit from digital tools. It is thus necessary to make the EU's single market fit for the digital age – tearing down regulatory walls and moving from 28 national markets to a single one. This could contribute EUR 415 billion per year to the EU economy and create hundreds of thousands of new jobs.

- **An area of justice and fundamental rights:**

The EU is not simply a common market for goods and services. Europeans share values that are spelled out in the EU Treaties and the Charter of Fundamental Rights. The EU must never lose sight of those values in its efforts to fight terrorism, human trafficking, smuggling and cybercrime. It is intended to make life easier for Europeans who study, work or get married in other EU countries. One of the main goals is therefore to build bridges between the different national legal systems across the EU. A borderless and seamless European justice area will ensure that citizens can rely on a set of rights all across the continent.

- **A stronger global actor:**

The EU needs a strong common foreign policy to respond efficiently to global challenges, including the crises in its neighbourhood, project its values, and contribute to peace and prosperity in the world.

- **A balanced EU-US free trade agreement:**

The EU is negotiating an ambitious and balanced trade and investment deal with the US. The Transatlantic Trade and Investment Partnership (TTIP) will create new trade and investment opportunities for companies, big and small, and new jobs. For consumers, it will cut prices and widen choice, while keeping the EU's high standards for consumer protection, social rights and environmental rules. It will also boost Europe's influence in the world – by shaping global trade, projecting its values and attracting more investment.

- **A Union of democratic change:**

For the first time, in 2014, EU countries had to take the results of the elections into account when proposing a candidate for President of the Commission. Albeit an important step, this is only the first of many in making the EU more democratic and bringing it closer to its citizens. Europeans have the right to know who Commissioners and Commission staff, Members of the European Parliament and representatives of the Council meet in the context of the legislative process. The Commission is committed to bringing a new lease of life to the relationship with the European Parliament, as well as to working more closely with national parliaments.

- **Deeper Economic and Monetary Union: Continued efforts to promote economic stability and attract investors to Europe:**

The Commission's work on completing the Economic and Monetary Union builds on the Five Presidents' Report, which set out four areas where work is needed. The Five Presidents' Report is the result of numerous consultations between the Member States, the EU institutions involved and the 5 Presidents.

3. EU Budget: From preparation to discharge

3.1. Budget and Funding

The multiannual financial framework (MFF) forms the EU's political objectives and sets annual maximum amounts (ceilings) for EU expenditure as a whole and for the main categories of expenditure (headings). The sum of the ceilings of all headings gives the total ceiling of commitment appropriations. The EU Budget finances a wide range of policies and programmes throughout the EU. In accordance with the priorities set by the EP and the Council in the MFF, the Commission carries out specific programmes, activities and projects in the field. The budget is prepared by the Commission and usually agreed in mid-December by the EP and the Council, based on the procedure of Art. 314 TFEU. According to the principle of budget equilibrium, the total revenue must equal total expenditure (payment appropriations) for a given financial year.

The EU has two main categories of funding: Own resources revenues and sundry revenues. Own resources can be divided into traditional own resources (such as custom levies), the own resource based on value added tax (VAT) and the resource based on gross national income (GNI). Sundry revenues arising from the activities of the EU (e.g. competition fines) normally represent less than 10 % of total revenue. Own resources revenue make up the vast majority of EU funding and accrue automatically to the EU to enable it to finance its budget without the need for a subsequent decision by national authorities. The overall amount of own resources needed to finance the budget is determined by total expenditure less sundry revenue. The total amount of own resources cannot exceed 1.23 % of the gross national income (GNI) of the EU.

As a general principle the EU is not allowed to borrow money on capital markets or from financial institutions to finance its budget.

3.2. How the EU budget is managed and spent

Primary operational expenditure

The EU's operational expenditure covers the various headings of the MFF and takes different forms, depending on how the money is paid out and managed. From 2014 onwards, the Commission classifies its expenditure as follows:

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

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

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

The different financial actors within the Commission

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

The responsibility of the **Authorising Officers** covers the entire management process, from determining what needs to be done to achieve the policy objectives set by the institution to managing the activities launched from both an operational and budgetary standpoint. Each Authorising Officer is required to prepare an Annual Activity Report (AAR) on the activities under their responsibility where they report on policy results and on the reasonable assurance they may have that the resources assigned to the activities described in their report have been used for their intended purpose and in accordance with the principles of sound financial management, and that the control procedures put in place give the necessary guarantees concerning the legality and regularity of the underlying transactions. On the basis of Art. 66 FR, the Commission transmits a summary report (synthesis report) on the individual AARs to the EP and the Council, by which the Commission takes overall political responsibility for the management of the EU budget in line with Art. 317 TFEU. This report and the AAR are available at: http://ec.europa.eu/atwork/planning-and-preparing/synthesis-report/index_en.htm.

According to Art. 318 TFEU, the Commission issues an evaluation report on the progress and performance of Commission programmes based on the AARs of the Authorising Officers. As from the financial year 2015, the synthesis report and the evaluation report are merged with the information presented in a new report called "Annual Management and Performance Report for the budget."

The **Accounting Officer** executes payment and recovery orders drawn up by Authorising Officers and is responsible for managing the treasury, laying down accounting rules and methods, validating accounting systems, keeping the accounts and drawing up the institution's annual accounts. Furthermore, the Accounting Officer is required to sign the annual accounts declaring that they present fairly, in all material aspects, the financial position, the results of the operations and the cashflows.

3.3. Financial reporting and accountability

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

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

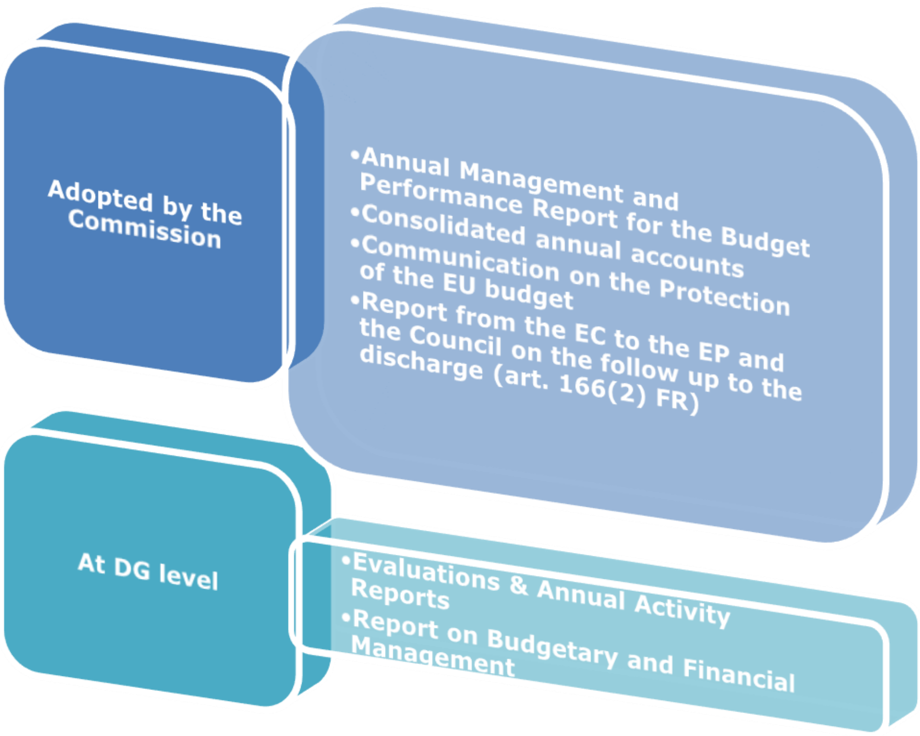
a) the financial statements; and

b) the reports on implementation of the budget, which provide a detailed record of budget implementation.

It is the responsibility of the Commission's Accounting Officer to prepare the EU's consolidated annual accounts and ensure that they present fairly, in all material aspects, the financial position, the result of the operations and the cashflows of the EU.

In addition to the above annual accounts, ad-hoc reports on specific areas such as the report on budgetary and financial management, on financial instruments, on guarantees given and on financial corrections are also prepared.

Reporting and Accountability in the Commission:



3.4. Audit and discharge

Audit

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

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

(2) an opinion, based on its audits and given in the annual report in the form of a statement of assurance, on (i) the reliability of the accounts and (ii) the legality and regularity of the

underlying transactions involving both revenue collected from taxable persons and payments to final beneficiaries; and

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

Discharge

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

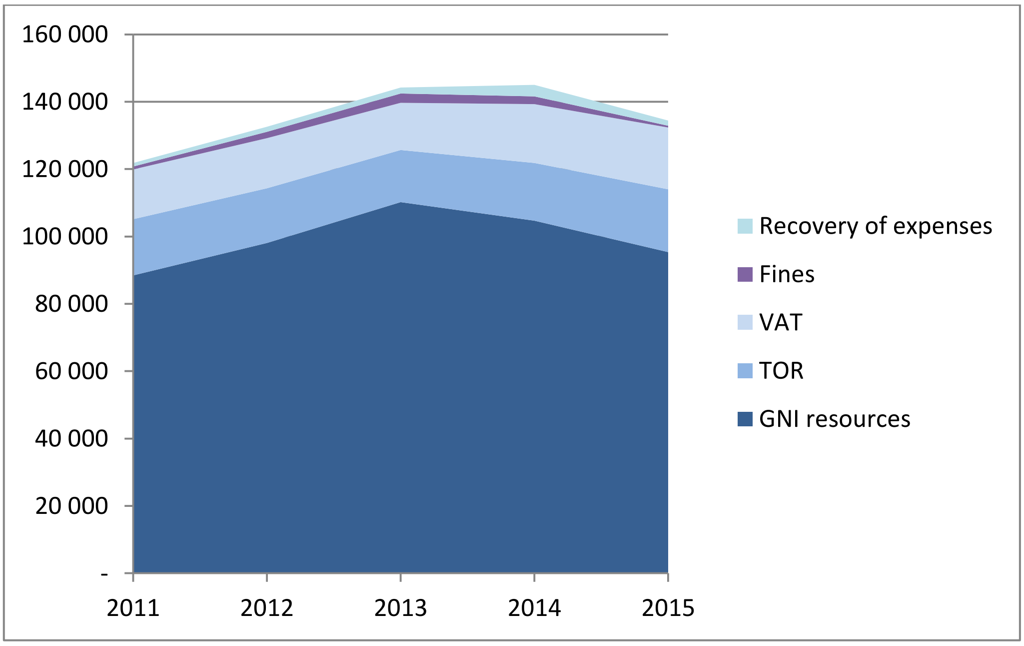
This discharge procedure may produce three outcomes: the granting, postponement or the refusal of the discharge. Integral to the annual budgetary discharge procedure in the EP are the hearings with Commissioners who are questioned by the Members of the EP's Budgetary Control Committee regarding the policy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

4. Consolidated financial statements of the EU: Financial situation 2015

4.1. Revenue

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

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



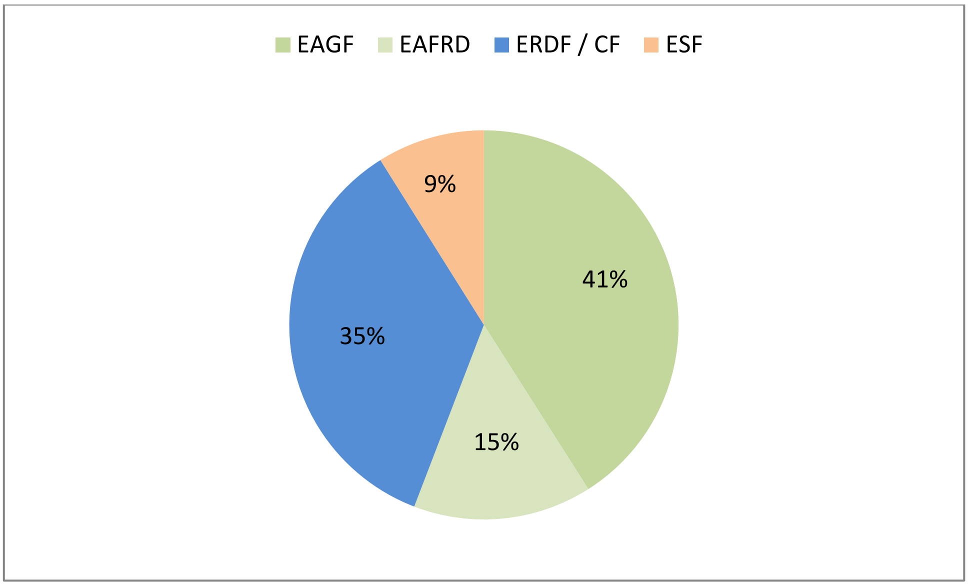
The GNI resource in 2014 included major revisions for the GNI dating back to 2002. The adjustment of contributions was thus unprecedented in size totalling almost EUR 10 billion across all EU Member States. This explains most of the decrease in 2015 compared to the previous year.

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

4.2. Expenses

Expenses were, of EUR 155.9 billion, at a lower level than last year (2014: EUR 165.3 billion). A decrease of EUR 4.6 billion was noted for the European Regional Development Fund (ERDF) and Cohesion Fund (CF), which was due to the slow start of the implementation of the programming period 2014-2020. Expenses under the European Social Fund (ESF) fell by EUR 2.8 billion due to fewer cost claims submitted for the 2007-2013 multiannual financial framework period.

The main expense items (EUR 112.4 billion) are transfer payments under the shared management mode. The main funds are: the European Agricultural Guarantee Fund (EAGF), the European Agricultural Fund for Rural Development (EAFRD) and other rural development instruments, ERDF and CF and the ESF. In the financial year 2015 these made up almost 71 % of total expenses.



Expenses incurred under direct management mainly represent the budget implementation by the Commission, executive agencies and, new from 2015 onwards, by trust funds. Also included under direct management are administrative expenses of all EU institutions and agencies. Under indirect management the budget is implemented by EU agencies, EU bodies, third countries, international organisations and other entities. Overall, the expenses incurred under direct and indirect management made up about 14 % of total expenses (EUR 22 billion).

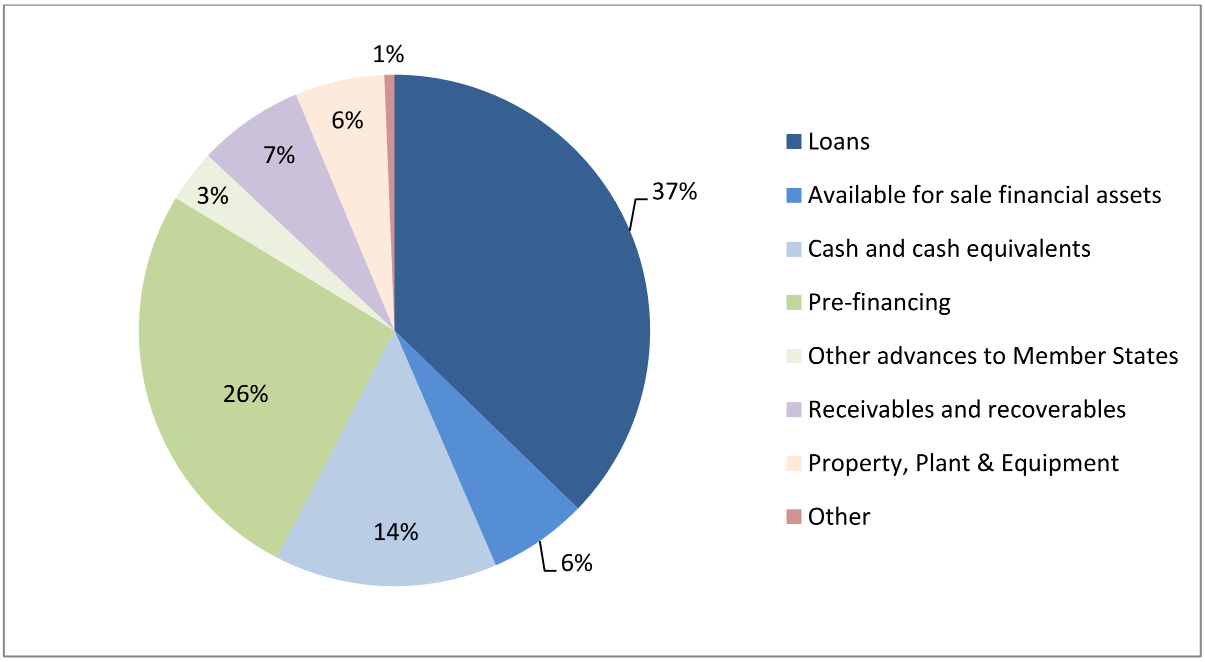
The EU also recognises future payment obligations as expenses that are not yet shown in the cash-based budgetary accounts. They are in particular shown under payables and accrued charges for agriculture and rural development and under pension and employee benefits liabilities relating to pension rights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

4.3. Economic result

The economic result of the period (i.e. the deficit) of EUR (13 033) million remained at a similar level as last year.

4.4. Assets

EUR 154 billion assets on the consolidated balance sheet of the EU



The most significant items on the asset side of the balance sheet are financial assets (loans, available for sale financial assets, cash) and pre-financing amounts, which make up almost 83 % of the assets of the EU. The amount of loans fell by EUR 1.6 billion to EUR 57 billion whereas the amount of available for sale financial instruments financed from the EU budget (budgetary instruments) increased by about EUR 460 million. Included on the asset side under Property, Plant and Equipment are assets concerning the Copernicus programme (EUR 1.7 billion) and Galileo assets under construction (EUR 2.1 billion).

In previous years, the EU institutions & bodies managed to keep the amounts held as cash and cash equivalents at year end at a low level. The high cash balance of EUR 21.7 billion at 31 December 2015 is mainly due to:

- the delayed payment of GNI and VAT balances of 2014 (EUR 5.4 billion) which were spread throughout 2015, with a very large part paid in September 2015. The Member States' contribution to the EU budget based on VAT and GNI is subject to an annual adjustment, which is performed every year on the first working day of December. The adjustment in 2014 included major revisions for GNI dating back to 2002, thus resulting in an unprecedented EUR 9.5 billion across all EU Member States.
- the GNI and VAT balance of 2015 (EUR 1.4 billion).
- the 2016 GNI paid in advance (EUR 0.7 billion) by two Member States.
- fines and other revenue (EUR 1.5 billion).

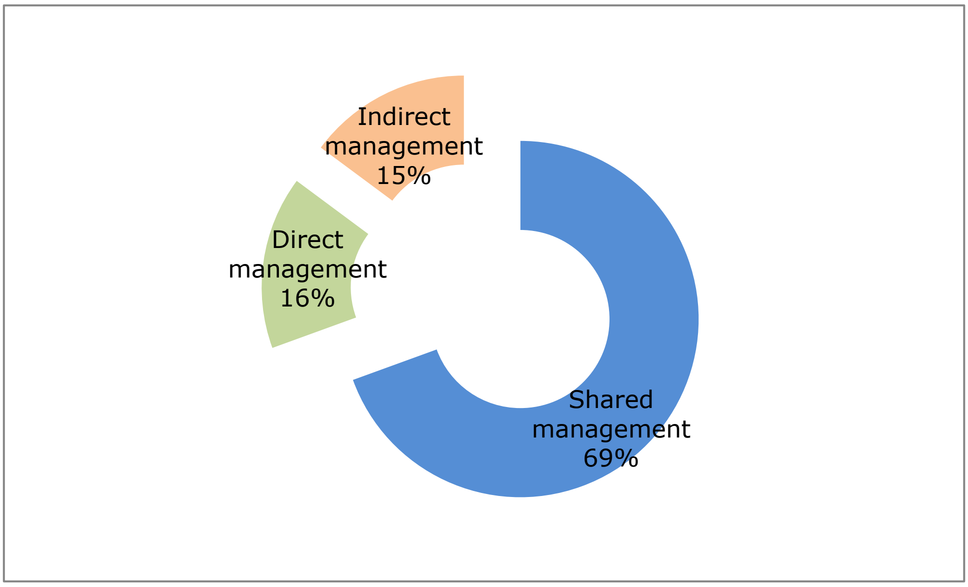
Based on the own resources regulation, these balances could only be returned to the Member States in 2016 via an amending budget.

Pre-financing

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

The total pre-financing (excluding other advances to Member States and contributions to trust funds) on the EU balance sheet amounts to EUR 40 billion (2014: EUR 45 billion), almost all of which relates to Commission activities. Some 70 % of the Commission's pre-financing concerns shared management, which means that the implementation of the budget is delegated to Member States (the Commission retains a supervisory role).

Commission pre-financing by management mode



The most significant pre-financing amount under shared management mode relates to ERDF & CF.

Long-term pre-financing has increased by EUR 12.6 billion related to the new MFF while short-term pre-financing fell by EUR 17.7 billion. The increase in long-term pre-financing is mainly due to the new pre-financing payments made under shared management for the 2014-2020 MFF (EUR 10 billion in total of which EUR 7 billion is for the cohesion policy). The decrease in the short term amounts is also mainly due to shared management – as the 2007-2013 MFF is at the closure stage, the related pre-financing is gradually being cleared.

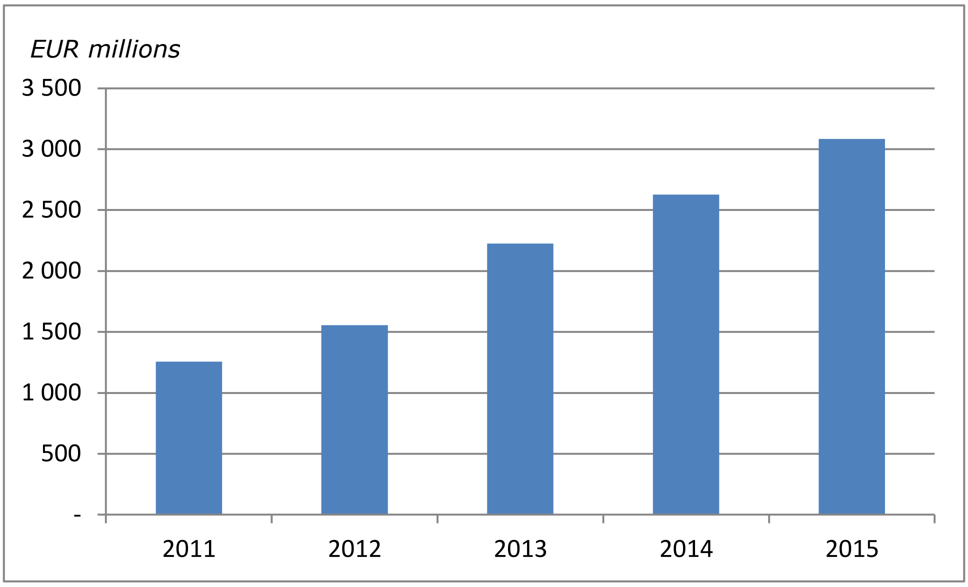
Financial instruments under direct and indirect management

The following items are shown as financial instruments in the EU annual accounts:

- Loans granted from the budget;
- Loans granted from borrowed funds;
- Equity instruments;
- Guarantee instruments; and
- Guarantee funds: guarantees given to external entities (mainly the EIB Group) for instruments not created by the EU budget.

The significance and volume of financial instruments financed by the EU budget under direct and indirect management increases from year to year. The basic concept behind this approach, in contrast to the traditional method of budget implementation by giving grants and subsidies, is that for each euro spent from the budget via financial instruments, the final beneficiary receives more than EUR 1 as financial support due to the leverage effect. This intelligent use of the EU budget aims at maximising the impact of the funds available. Equity instruments and investments (i.e. equity instruments and debt securities) held in guarantee instruments and the guarantee funds are shown as available for sale financial assets in the annual accounts of the EU.

Available for sale financial assets of budgetary financial instruments



Guarantee Funds

Guarantee funds created by the EU have been set-up for specific purposes and are provisioned by payments from the EU budget so as to provide a liquidity cushion against potential losses from guaranteed operations on guarantees given by the EU budget to the EIB Group. The main new guarantee fund created in 2015 is the EFSI Guarantee Fund.

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

The EFSI operations are conducted within two windows: the Infrastructure and Innovation Window (IIW) implemented by the EIB and the SME Window (SMEW) implemented by the EIF, both of which will have a debt portfolio (EU guarantee of EUR 12.25 billion) and an equity portfolio (EU guarantee of EUR 3.75 billion). The EIF acts under an agreement with the EIB on the basis of an EIB guarantee which itself is counter-guaranteed by the EU.

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

The role of the EU relates to the provision of the EU guarantee for part of the potential losses that the EIB may suffer from its investments in debt and equity instruments. Consequently, the EU does not intervene in the final selection and management of EFSI operations, does not invest money in the EFSI operations and it is not a direct contractual party to the underlying instruments. As the control criteria and accounting requirements for consolidation of the EU accounting rules (and IPSAS) are not met, the related assets are not accounted for in the consolidated annual accounts of the EU – see also note **5.2** of the consolidated financial statements.

At all times, the EU guarantee is capped at EUR 16 billion and the aggregate net payments from the EU budget shall not exceed this amount. EU guarantee payments would be made by a newly created guarantee fund which provides a liquidity cushion against potential net losses (expected losses not covered by expected revenues) on the EFSI guaranteed operations. The EFSI Guarantee Fund will be financed from the EU Budget as from 2016 onwards and will gradually reach EUR 8 billion by 2022, thus provisioning 50 % of the maximum EU guarantee. At 31 December 2015 EUR 1 350 million has been committed to and will be paid into the guarantee fund in 2016 (EUR 500 million) and 2017 (EUR 850 million) and is included in the amount disclosed as RAL in note **5.3.1** of the consolidated financial statements.

The following tables provide an overview of financial instruments used by the EU per MFF

EUR millions

MFF 2014-2020	Assets	Liabilities	Guarantees
Equity instruments:			
COSME – Equity Facility for Growth	39	(2)	
Horizon 2020 InnovFin Equity Facility for R&I	108	(2)	
	146	**(4)**	
Guarantee instruments:			
COSME Loan Guarantee Facility	125	(43)	*
Employment and Social Innovation	10	(3)	*
Student Loan Guarantee Facility	16	(1)	*
Horizon 2020 – InnovFin Loan & Guarantee Service for R&I	638	(97)	(442)
Horizon 2020 – InnovFin SME Guarantee	294	(22)	(17)
Natural Capital Financing Facility	12	-	
Private Finance for Energy Efficiency Instrument (PF4EE)	12	-	
	1 107	**(166)**	**(459)**
Total	**1 253**	**(170)**	**(459)**

MFF Prior to 2014	Assets	Liabilities	Guarantees
Loan / Equity / Technical assistance instruments:			
Instrument of economic and financial cooperation under the Euro-Mediterranean partnership (MEDA)	251	(2)	
European Neighbourhood and Partnership Instrument (ENPI)	153	(4)	
	404	**(6)**	
Loan instruments: SME Support Loan	**19**		
Equity instruments:			
High Growth and Innovative SME Facility under Competitiveness & Innovation Framework Programme	413	-	
European Technology Start up Facility 1998 (ETF)	11	-	
Global Energy Efficiency and Renewable Energy Fund (GEEREF)	76	-	
Multi Annual Framework Programme Equity Facility	192	-	
Marguerite Fund	50	-	
European Progress Microfinance Facility (PMF) for employment and social inclusion	71	-	
European Energy Efficiency Fund	128	(22)	
Technology Transfer Pilot projects	1		
	943	**(22)**	
Guarantee instruments:			
SME Guarantee Facility under Competitiveness and Innovation Framework Programme (CIP SMEG)	108	(215)	*
Loan Guarantee instrument for Ten-T Projects (LGTT)	238	(3)	(209)
Multi Annual Program (MAP) for Enterprises	23	(35)	*
Project Bond Initiative (PBI)	236	(1)	(220)
European Progress Microfinance Mandate	13	(11)	*
Risk Sharing Finance Facility (RSFF)	927	(94)	(845)
SME Guarantee Facility	16	(16)	*
	1 561	**(375)**	**(1 274)**
Total	**2 927**	**(403)**	**(1 274)**

** The risk taken by the EU is fully provisioned (i.e. included in liabilities).*

EUR millions

Related to more than one MFF	Assets	Liabilities	Guarantees
Equity instruments:			
European Fund for Southeast Europe (EFSE)	118	-	
Enterprise Expansion Fund under the Western Balkan Enterprise Development and Innovation Facility	10	-	
Enterprise Innovation Fund (EIF) under the Western Balkan Enterprise Development and Innovation Facility	21	-	
Green for Growth Fund to the Eastern Neighbourhood Region (SE4F)	52	-	
Microfinance Initiative for Asia Debt Fund	9	-	
MENA Fund for Micro-, Small and Medium Enterprises (SANAD)	10	-	
	220	**-**	
Guarantee Instruments:			
Guarantee Facility under the Western Balkan Enterprise Development and Innovation Facility	20	(14)	*
	20	**(14)**	
Guarantee Funds:			
Guarantee fund for external actions	2 108	(25)	(19 450)
European Fund for Strategic Investment (EFSI)	1	-	(202)
	2 109	**(25)**	**(19 652)**
Total	**2 349**	**(39)**	**(19 652)**

Overall Total	**6 529**	**(612)**	**(21 385)**

** The risk taken by the EU is fully provisioned (i.e. included in liabilities).*

Loans granted from borrowed funds

The EU is empowered by the EU Treaty to undertake borrowing operations to mobilise the financial resources necessary to fulfil specific mandates. The Commission, acting on behalf of the EU, currently operates three main programmes, Macro-financial assistance (MFA), Balance of Payments (BOP) assistance and the European Financial Stabilisation Mechanism (EFSM), under which it may grant loans and the capital required to fund the EU lending is raised on the capital markets or with financial institutions. During 2015, Ireland officially requested an extension of its first EFSM loan repayment deadline. The EUR 5 billion instalment was divided into three new ones of EUR 2 billion, EUR 1 billion and EUR 2 billion, with maturities falling in 2023, 2029 and 2035, respectively. In January 2016, Portugal officially requested for the extension of its first EFSM loan repayment maturity due on 3 June 2016. The EUR 4.75 billion instalment was refinanced by three new tranches of EUR 1.5 billion, EUR 2.25 billion and EUR 1 billion, with maturities falling in 2023, 2031 and 2036, respectively. On 17 July 2015, a bridge loan was granted to Greece under the EFSM as a temporary loan prior to the loan agreement signed between Greece and the European Stability Mechanism (ESM). The first and sole disbursement occurred on 20 July 2015 and was fully repaid when the ESM agreement was ratified by national parliaments of the Euro area Member States. This reimbursement took place on 20 August 2015.

Overview of loans granted from borrowed funds at nominal amounts

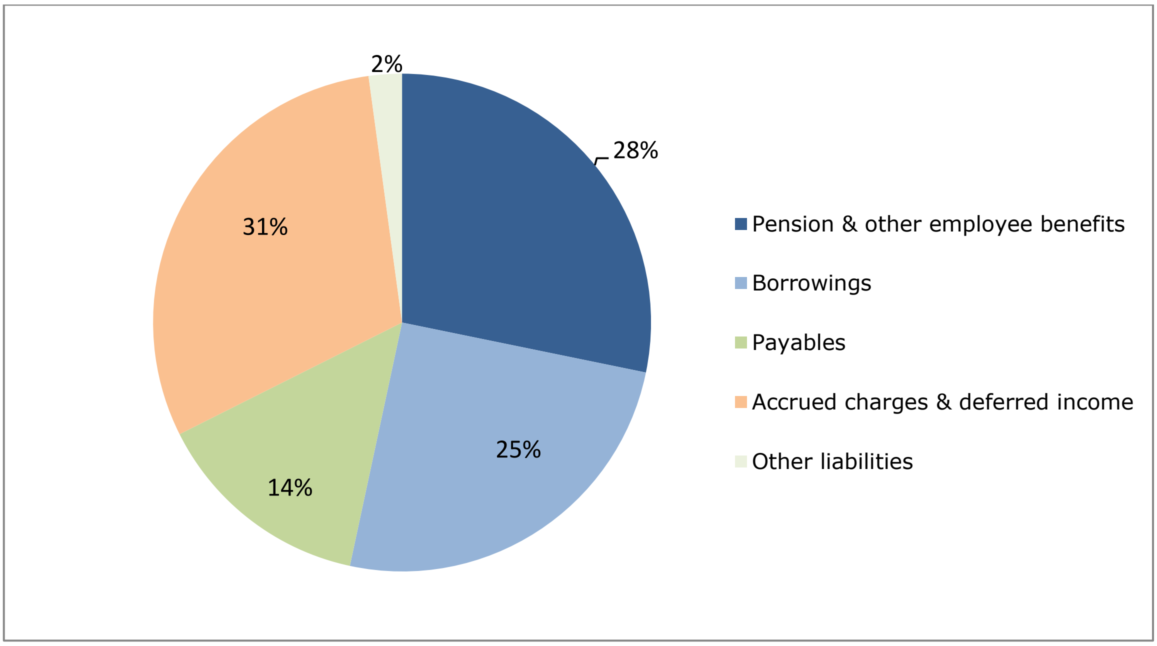
EUR billions

	BOP				EFSM				Others*	TOTAL
	Hungary	Latvia	Romania	Total	Ireland	Portugal	Greece	Total	Total	
Total granted	**6.5**	**3.1**	**8.4****	**18.0**	**22.5**	**26.0**	**7.2**	**55.7**	**5.1**	**78.8**
Disbursed at 31.12.2014	5.5	2.9	5.0	13.4	22.5	24.3	-	46.8	2.4	62.6
Disbursed in 2015	-	-	-	-	5.0	-	7.2	12.2	1.3	13.5
Total disbursed 31.12.2015	**5.5**	**2.9**	**5.0**	**13.4**	**27.5**	**24.3**	**7.2**	**59.0**	**3.6**	**76.0**
Loans repaid at 31.12.2015	(4.0)	(2.2)	(1.5)	(7.7)	(5.0)	-	(7.2)	(12.2)	(0.1)	(20.0)
Outstanding amount at 31.12.2015	**1.5**	**0.7**	**3.5**	**5.7**	**22.5**	**24.3**	**0**	**46.8**	**3.5**	**56.0**

* *MFA, Euratom and ECSC in liquidation.*
** *Including precautionary assistance.*

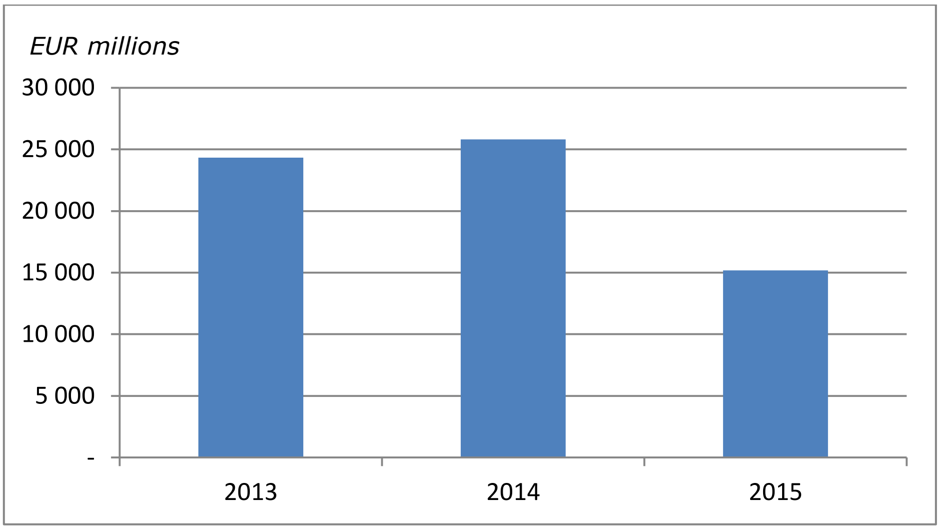
4.5. Liabilities

EUR 226 billion liabilities on the 2015 consolidated balance sheet of the EU



The liability side consists primarily of four key items: The pension and other employee benefits liabilities, borrowings, payables and accrued charges. The biggest change as compared to 2014 is the increase of accrued charges by almost EUR 12.4 billion due to the start of the implementation of the 2014-2020 MFF, where costs incurred are estimated since they have not yet been declared by the Member States. Another important change is the decrease in payables by about EUR 12.5 billion in cohesion due to a lower submission of cost statements by Member States for the programming period 2007-2013. Another reason is a lower level of submission of cost claims due to the slow start of the 2014-2020 MFF caused by delays in Member States designation of management and control authorities.

Total cost claims and invoices received and recognised as payables



The excess of liabilities over assets does not mean that the EU institutions and bodies are in financial difficulties, rather it means that certain liabilities will be funded by future annual budgets. Many expenses are recognised under accrual accounting rules in 2015 although they may be actually paid in 2016 or later and funded using future budgets and the related revenues will only be accounted for in future periods. The most significant amounts to be highlighted are the EAGF activities (paid in 2016) and the employee benefits (to be paid over the next 30 plus years).

5. PROTECTION OF THE EU BUDGET

Financial corrections and recoveries overview for 2015

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

The Commission's protective actions mitigate the impact of these errors through two main mechanisms:

(1) preventive mechanisms (e.g. ex-ante controls, interruptions and suspensions of payments); and

(2) corrective mechanisms (primarily financial corrections imposed on or agreed with Member States and, to a lesser extent, recoveries from recipients of EU payments).

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

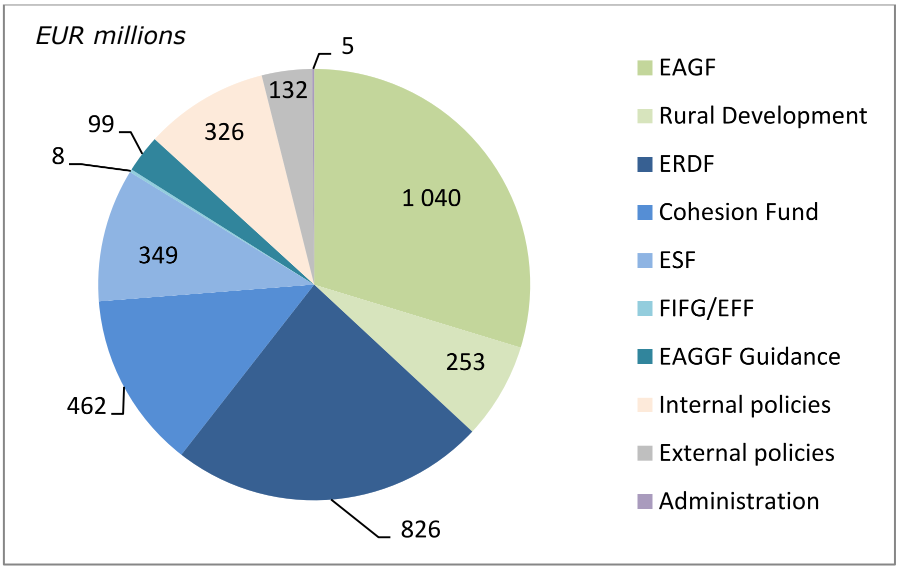
The corrective actions, i.e. financial corrections and recoveries, arise following the supervision and checks made by both the Commission and also, in the case of shared management expenditure, Member States on the eligibility of expenditure funded by the EU budget. When deciding on the amount of a financial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

Financial corrections and recoveries process:

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

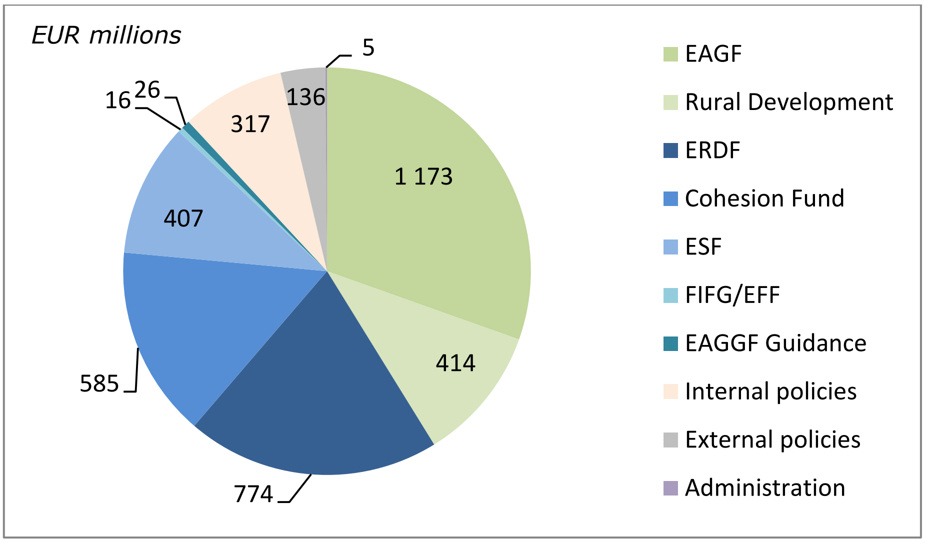
(1) Financial corrections and recoveries at **confirmation stage**: These amounts have been either agreed by the Member State concerned or adopted by a Commission decision. **In 2015**, the **total financial corrections and recoveries confirmed** amounted to **EUR 3 499 million** (2014: EUR 4 728 million).

Financial corrections and recoveries confirmed in 2015 - breakdown per policy areas



(2) Financial corrections and recoveries at **implementation stage**: These amounts represent the final step of the process whereby the observed situation of undue expenditure is definitively corrected. Several implementation mechanisms are foreseen in the sector-based regulatory frameworks. **In 2015**, the **total financial corrections and recoveries implemented** amounted to **EUR 3 853 million** (2014: EUR 3 285 million). The implementation of financial corrections and recoveries may take a number of years mainly due to instalment or deferral decisions granted to Member States under the agricultural policy. Under the Cohesion policy the legal framework foresees the implementation at or after the closure of the programming period.

Financial corrections and recoveries implemented in 2015 - breakdown per policy areas



The above information is a supplementary disclosure that is not required by the accounting standards and includes data which is not always drawn directly from the accounting system. More details on these figures and on the preventive and corrective mechanisms can be found in the annual Communication on the protection of the EU budget prepared by the Commission and sent to the Discharge Authority and the Court – this is available on the Europa website of the Directorate-General for Budget.

6. Management of risks and uncertainties in EU budget implementation

Risks and uncertainties of EU budget implementation can be divided into two main categories:

- General and expected risks and uncertainties; and
- Exceptional risks and uncertainties.

6.1. General and expected risks and uncertainties

Issues encountered during the financial year

Macro-economic environment

The macro-economic environment of the EU has an impact on the ability of EU Member states to meet their funding obligations towards the EU institutions and bodies and thus on the ability of the EU to continue implementing EU policies as highlighted in section **2** above. The European economy remains supported by a number of positive factors such as oil prices, the euro's exchange rate and financing costs which have stimulated exports and private consumption. Investment, however, remains hampered by economic and policy uncertainty and in some countries, excessive debt. Now, as it enters its fourth year of recovery, the European economy is facing headwinds and substantial risks from the slowdown in emerging economies. Economic growth strong enough to reduce unemployment substantially has so far failed to materialise and evidence of a reinvigoration of investment, which is crucial for the sustainability of the recovery, remains limited. In addition, the pace of implementation of the EU budget under the

2014-2020 MFF is rather slow and the continued issues with Greece and the refugee crisis complements this overall picture.

The euro area's economic recovery remains moderate despite the substantial support from the positive factors described above that are now likely to be somewhat stronger and longer lasting than previously expected. In particular, driven mainly by abundant supply, the oil price has slipped again and is now assumed to remain markedly lower and to rebound later. Fiscal policy in the euro area is becoming slightly more supportive to growth, largely due to government expenditures associated with the inflow of asylum seekers in some Member States. Additionally, the combination of quantitative easing and credit easing by the European Central Bank (ECB) mean that financing costs in the euro area should remain low for a longer period of time than earlier expected and will further help to reduce financial fragmentation and differences among Member States. Meanwhile, the boost from these factors is increasingly being offset by a worsening global environment, and some legacy issues from the crisis (mainly high levels of policy uncertainty, debt and unemployment) continue to weigh on growth.

Real GDP (forecast), inflation rate and unemployment rate in %, per EU average[1]

	Real GDP			Inflation			Unemployment rate		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Belgium	1.3	1.3	1.7	0.6	1.4	1.7	8.3	8.0	7.4
Germany	1.7	1.8	1.8	0.1	0.5	1.5	4.8	4.9	5.2
Estonia	0.9	2.1	2.3	0.1	1.0	2.5	6.3	6.3	7.5
Ireland	6.9	4.5	3.5	0.0	0.6	1.4	9.4	8.5	7.8
Greece	0.0	(0.7)	2.7	(1.1)	0.5	0.8	25.1	24.0	22.8
Spain	3.2	2.8	2.5	(0.6)	0.1	1.5	22.3	20.4	18.9
France	1.1	1.3	1.7	0.1	0.6	1.3	10.5	10.5	10.3
Italy	0.8	1.4	1.3	0.1	0.3	1.8	11.9	11.4	11.3
Cyprus	1.4	1.5	2.0	(1.6)	0.2	1.3	15.5	14.5	13.2
Latvia	2.7	3.1	3.2	0.2	0.4	2.0	9.9	9.2	8.6
Lithuania	1.6	2.9	3.4	(0.7)	(0.1)	2.1	9.0	8.0	7.2
Luxembourg	4.7	3.8	4.4	0.1	0.4	2.4	6.1	6.0	6.0
Malta	4.9	3.9	3.4	1.2	1.7	2.1	5.4	5.4	5.4
Netherlands	2.0	2.1	2.3	0.2	0.9	1.5	6.9	6.6	6.4
Austria	0.7	1.7	1.6	0.8	0.9	1.8	6.0	6.2	6.4
Portugal	1.5	1.6	1.8	0.5	0.7	1.1	12.6	11.7	10.8
Slovenia	2.5	1.8	2.3	(0.8)	(0.3)	1.1	9.1	8.8	8.4
Slovakia	3.5	3.2	3.4	(0.3)	0.3	1.7	11.5	10.3	9.3
Finland	0.0	0.5	0.9	(0.2)	0.1	1.5	9.5	9.4	9.3
Euro area	**1.6**	**1.7**	**1.9**	**0.0**	**0.5**	**1.5**	**11.0**	**10.5**	**10.2**
Bulgaria	2.2	1.5	2.0	(1.1)	(0.1)	0.9	10.1	9.4	8.8
Czech Republic	4.5	2.3	2.7	0.3	0.4	1.4	5.1	4.8	4.7
Denmark	1.2	1.7	1.9	0.2	0.9	1.7	6.0	5.8	5.6
Croatia	1.8	2.1	2.1	(0.3)	0.3	1.6	16.2	15.1	13.8
Hungary	2.7	2.1	2.5	0.1	1.7	2.5	6.7	6.0	5.2
Poland	3.5	3.5	3.5	(0.7)	0.6	1.7	7.5	7.0	6.5
Romania	3.6	4.2	3.7	(0.4)	(0.2)	2.5	6.7	6.6	6.5
Sweden	3.6	3.2	2.9	0.7	1.1	1.4	7.4	6.9	6.7
United Kingdom	2.3	2.1	2.1	0.0	0.8	1.6	5.2	5.0	4.9
EU	**1.9**	**1.9**	**2.0**	**0.0**	**0.5**	**1.6**	**9.5**	**9.0**	**8.7**

GDP in the euro area is forecast to accelerate slightly from 1.6 % in 2015 to 1.7 % in 2016. Once global economic activity starts to rebound, positive effects should be felt later in 2016 and 2017. Also, some of

[1] Source: European Commission "European Economic Forecast Winter 2016."

the structural reforms implemented in Member States should continue to have a positive impact on growth. As legacies of the crisis recede, consumption and investment should benefit. Although debt levels remain high in some parts of the economy, easy financing conditions should limit acute deleveraging pressures. Overall, euro area GDP growth should pick up further to 1.9 % in 2017. In 2016, Member States should continue moving along a recovery path, including Greece, where growth is set to pick up again in the course of the year. The Investment Plan for Europe has been established to help overcome the current investment gap in the EU by mobilising private financing for strategic investments in key areas and should also start to have a positive impact on public and private investment. In 2017 economic activity should be on the rise in all Member States.

In 2015, the general government deficit in the euro area is expected to have declined to 2.2 % of GDP and is set to decrease further to 1.9 % and 1.6 % in 2016 and 2017 respectively. Next year, under a no policy-change assumption, the structural balance is projected to remain broadly stable in both the euro area and the EU. The debt-to-GDP ratio of the euro area is forecast to decline from its peak of 94.5 % in 2014 to 91.3 % in 2017.

The improvement in labour market conditions continues with the moderate economic recovery underpinning a modest rise in employment growth. Overall, employment is expected to have risen by 1.1 % in the euro area in 2015 and is projected to continue at about the same speed this year and next on the back of strengthening economic activity, improved business confidence and higher capital accumulation.

The economic outlook for the euro area remains highly uncertain and overall risks are clearly tilted to the downside. Risks to the growth outlook from the global economy and global financial markets have clearly increased, in particular due to the slowing growth in China and other emerging markets, which could trigger stronger spillovers than envisaged or which could become worse than forecast. Combined with the uncertainty regarding the adjustment in China, the continuation of monetary policy normalisation in the US could have a more negative impact on vulnerable emerging market economies, especially those with high levels of foreign currency denominated debt, and could also affect the stability of financial markets. The materialisation of any of these downside risks would result in negative spillovers to the Member States via various transmission channels. In Europe, domestic risks have also increased lately. Any unexpected relapse into crisis in Greece could weigh more heavily on investment decisions and thus on economic growth. Moreover, if major political challenges were not successfully addressed at the EU level (e.g. handling of migration flows), that could trigger developments that become impediments to growth.

Guarantee Funds for guarantees given

The EU has given guarantees to the EIB Group on loans granted outside of the EU and on EFSI debt and equity operations. At 31 December 2015, the EU shows in the notes to the financial statements (see note **5.2.1**) contingent liabilities for both guarantees of EUR 19.7 billion. In order to mitigate the risk guarantee calls by the EIB could have on the EU budget, the Commission has created separate guarantee funds, i.e. the Guarantee Fund for External Actions and the EFSI Guarantee Fund.

The Guarantee Fund for external actions is provisioned by the EU budget so as to cover 9 % of the guaranteed loans outstanding at year-end. At 31 December 2015 the total asset value of EUR 2.1 billion covers a maximum exposure of the EU of EUR 19.45 billion. The EFSI Guarantee Fund will as from 2016 onwards gradually reach EUR 8 billion by 2022, thus provisioning 50 % of the maximum exposure of the EU guarantee of EUR 16 billion.

Borrowing and lending operations

The EU is empowered by the EU Treaty to undertake borrowing operations to mobilise the financial resources necessary to fulfil specific mandates. The Commission, acting on behalf of the EU, currently operates three main programmes, Macro-financial assistance (MFA), Balance of Payments (BOP) assistance and the European Financial Stabilisation Mechanism (EFSM), under which it may grant loans and the capital required to fund the EU lending is raised on the capital markets or with financial institutions. EU borrowing and lending activities are non-budget operations. In general, funds raised are on-lent back-to-back to the beneficiary country, i.e. with the same coupon, maturity and amount. Notwithstanding the back-to-back methodology, the debt service of the funding instruments is a legal obligation of the EU, which will ensure that all payments are made fully and in a timely manner.

The Commission has, so as to mitigate the risk of not being able to repay the borrowings, put procedures in place to ensure the repayment of borrowings even in case of a loan default. For each country programme, the EP, the Council and the Commission decisions determine the overall granted amount, the (maximum) number of instalments to be disbursed, and the maximum (average) maturity of the loan package. Subsequently, the Commission and the beneficiary country agree loan/funding parameters, including instalments and the payment of tranches. In addition, except for the first one, all instalments of the loan depend on compliance with strict conditions, with agreed terms and conditions similar to International Monetary Fund (IMF) support, in the context of a joint EU/IMF financial assistance, which is another factor influencing the timing of funding. This implies that the timing and maturities of issuances are dependent on the related EU lending activity. Funding is exclusively denominated in euro and the maturity spectrum is from 3 to 30 years.

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

EUR billions

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

Borrowings of the EU constitute direct and unconditional obligations of the EU and are guaranteed by the 28 Member States. Borrowings undertaken to fund loans to countries outside the EU are covered by the Guarantee Fund for external actions. Should a beneficiary Member State default, the debt service will be drawn from the available treasury balance of the Commission, if possible. If that would not be possible, the Commission would draw the necessary funds from the Member States. EU Member States are legally obliged, according to the EU own resources legislation (Article 12 of Council Regulation 1150/2000), to make available sufficient funds to meet the EU's obligations. Thus investors are only exposed to the credit risk of the EU, not to that of the beneficiary of loans funded. "Back-to-back" lending ensures that the EU budget does not assume any interest rate or foreign exchange risk.

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

6.2. Exceptional risks and uncertainties

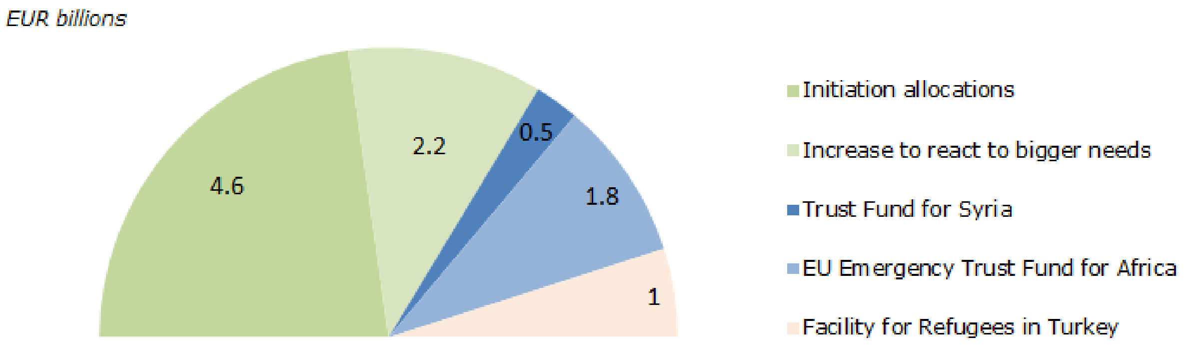
Every year the EU is exposed to unexpected risks and uncertainties and it is the objective of the EU institutions and bodies to find rapid solutions to issues encountered during the year. In the financial year 2015, the refugee crisis, the difficulties of European farmers and the situation as regards unpaid cost claims and invoices received at year-end were the most significant risks and uncertainties to be dealt with.

Managing the refugee crisis

Over the last six months, the European Commission has worked for a swift, coordinated European response to the risks and uncertainties related to the refugee crisis, tabling a series of proposals designed to equip Member States with the tools necessary to better manage the large number of arrivals. From tripling the presence at sea; through a new system of emergency solidarity to relocate asylum seekers from the most affected countries; via an unprecedented mobilisation of the EU budget of over EUR 10 billion to address the refugee crisis and assist the countries most affected; providing a new coordination and cooperation framework for the Western Balkan countries; starting a new partnership with Turkey; all the way to an ambitious proposal for a new European Border and Coast Guard, the European Union is bolstering Europe's asylum and migration policy to deal with the new challenges it is facing. Despite these measures taken, uncertainty surrounding the strong inflow of asylum seekers and its economic impact remains high.

As a first and immediate step, the Commission reinforced funding for the years 2015 and 2016 of Frontex, Europol and EASO (EUR 170 million) and has increased financial contributions to the Asylum, Migration and Integration Fund (AMIF) and the Internal Security Fund (ISF) from initially EUR 2 billion to EUR 3.7 billion. Immediate financial support for activities related to the refugee crisis outside the EU led to an increase in Humanitarian aid (EUR 2.2 billion), the creation of the EU Trust Fund for Syria (EUR 500 million), the creation of the EU Emergency Trust Fund for Africa (EUR 1.8 billion), the creation of the refugee facility in Turkey (EUR 1 billion) and other measures relating to security and boarder control (EUR 300 million), counter terrorism (EUR 100 million) and to the return of displaced persons and refugees (EUR 280 million).

EU budget response to the refugee crisis



Total EUR 10.1 billion

Support package for European farmers

The general political and market environment during the financial year 2015 led to difficulties for European farmers concerning their cashflow situation and linked to increasingly instable markets. These difficulties created risks not only to European farmers but also to the EU institutions as regards their successful implementation of the Common Agricultural Policy. The Commission has reacted to this situation by mobilising EUR 420 million of substantial aid to address problems in the coming years in the dairy and pigmeat sectors. In addition, other measures such as the introduction of new Private Storage Aid schemes for dairy and pigmeat and the possibility of advancing direct payments to farmers were introduced. In total, the measures taken in 2015 bring the overall package (future budgets) to European farmers to about EUR 500 million. This immediate response demonstrates that the Commission takes its responsibility towards farmers very seriously and is prepared to back it up with the appropriate funds.

Cost claims and invoices to be paid

The issue in 2015 as regards cost claims and invoices to be paid were:

- the unexpected pace of submission of cost claims and invoices which were not in line with forecasts and so the EU institutions had to adapt to the payment needs; and

- the lack of payment appropriations at year-end to pay cost claims and invoices received which needed to be financed via amending budgets.

After several years of a persistent pressure on payment appropriations, the financial year 2015 saw a significant improvement with regard to payments. The amount of cost claims and invoices to be paid at year-end decreased from EUR 25.8 billion in 2014 to EUR 15.2 billion at the end of 2015. The major part of this decrease relates to the previous programming periods of cohesion policy since the amount of cost claims and invoices to be paid for the 2014-2020 programmes was negligible at the end of 2014 and 2015.

Within the Commission, short-term cashflow forecasting is done weekly (sometimes daily) to ensure that the immediate payment obligations of the EU can be met, respecting the limits of the payment appropriations available in the budget. This short term forecast is the basis used to estimate the amount of own resources to be called monthly from Member States. On the first working day of each month Member States must credit to the Commission’s own resource accounts one-twelfth of the total amount of the VAT and GNI-based resource entered in the Union's budget. Depending on the Commission's cash position, Member States may be asked in the first quarter of the year to bring forward, by one or two months, the VAT and GNI based resources. Those advances have to be deducted from calls for funds in later months, depending on the forecasted cash needs.

For the medium and long-term, the Commission monitors in detail the payment requirements of the EU as part of its regular activities. For example, this is required for the preparation of Commission proposals on the MFF, as part of the annual budget preparation and when preparing amending budgets. In the negotiation phase of the MFF, the models used and the assumptions underlying are monitored regularly and updated when necessary. The results of the models are channelled into the budgetary negotiations establishing the MFF payment ceiling.

Event after the balance sheet date – Referendum in the United Kingdom

On 23 June 2016, the citizens of the United Kingdom voted to leave the European Union. To give effect to this decision of the British people, Article 50 of the Treaty on European Union must be invoked. This article sets out the procedure to be followed if a Member State decides to leave the European Union, and only when this article is activated can the negotiations on the departure of the United Kingdom begin. In accordance with the guidelines provided by the European Council, the Union shall then negotiate and conclude an agreement with the United Kingdom, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. At the time of the signing of these accounts, formal notification of the triggering of Article 50 has not been presented.

NOTE ACCOMPANYING THE CONSOLIDATED ACCOUNTS

The consolidated annual accounts of the European Union for the year 2015 have been prepared on the basis of the information presented by the institutions and bodies under Article 148(2) of the Financial Regulation applicable to the general budget of the European Union. I hereby declare that they were prepared in accordance with Title IX of this Financial Regulation and with the accounting principles, rules and methods set out in the notes to the financial statements.

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

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

[signed]

Manfred Kraff

Accounting Officer of the Commission

8 July 2016

EUROPEAN UNION
FINANCIAL YEAR 2015

CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES

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

CONTENTS

BALANCE SHEET

EUR millions

	Note	31.12.2015	31.12.2014
NON-CURRENT ASSETS			
Intangible assets	*2.1*	*337*	*282*
Property, plant and equipment	*2.2*	*8 700*	*7 937*
Investments accounted for using the equity method	*2.3*	*497*	*409*
Financial assets	*2.4*	*56 965*	*56 438*
Pre-financing	*2.5*	*29 879*	*18 358*
Exchange receivables and non-exchange recoverables	*2.6*	*870*	*1 198*
		97 248	**84 623**
CURRENT ASSETS			
Financial assets	*2.4*	*9 907*	*11 811*
Pre-financing	*2.5*	*15 277*	*34 237*
Exchange receivables and non-exchange recoverables	*2.6*	*9 454*	*14 380*
Inventories	*2.7*	*138*	*128*
Cash and cash equivalents	*2.8*	*21 671*	*17 545*
		56 448	**78 101**
TOTAL ASSETS		**153 696**	**162 724**
NON-CURRENT LIABILITIES			
Pension and other employee benefits	*2.9*	*(63 814)*	*(58 616)*
Provisions	*2.10*	*(1 716)*	*(1 537)*
Financial liabilities	*2.11*	*(51 764)*	*(51 851)*
		(117 293)	**(112 005)**
CURRENT LIABILITIES			
Provisions	*2.10*	*(314)*	*(745)*
Financial liabilities	*2.11*	*(7 939)*	*(8 828)*
Payables	*2.12*	*(32 191)*	*(43 180)*
Accrued charges and deferred income	*2.13*	*(68 402)*	*(55 973)*
		(108 846)	**(108 726)**
TOTAL LIABILITIES		**(226 139)**	**(220 730)**
NET ASSETS		**(72 442)**	**(58 006)**
Reserves	*2.14*	*4 682*	*4 435*
*Amounts to be called from Member States**	*2.15*	*(77 124)*	*(62 441)*
NET ASSETS		**(72 442)**	**(58 006)**

** The European Parliament adopted a budget on 25 November 2015 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 2016. 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	2015	2014
REVENUE			
Revenue from non-exchange transactions			
GNI resources	*3.1*	*95 355*	*104 688*
Traditional own resources	*3.2*	*18 649*	*17 137*
VAT resources	*3.3*	*18 328*	*17 462*
Fines	*3.4*	*531*	*2 297*
Recovery of expenses	*3.5*	*1 547*	*3 418*
Other	*3.6*	*5 067*	*5 623*
Sub-total		**139 478**	**150 625**
Revenue from exchange transactions			
Financial income	*3.7*	*1 846*	*2 298*
Other	*3.8*	*1 562*	*1 066*
Sub-total		**3 408**	**3 364**
Total Revenue		**142 886**	**153 989**
EXPENSES*			
Implemented by Member States	*3.9*		
European Agricultural Guarantee Fund		*(45 032)*	*(44 465)*
European Agricultural Fund for Rural Development and other rural development instruments		*(16 376)*	*(14 046)*
European Regional Development Fund and Cohesion Fund		*(38 745)*	*(43 345)*
European Social Fund		*(9 849)*	*(12 651)*
Other		*(2 380)*	*(2 307)*
Implemented by the Commission, executive agencies and trust funds	*3.10*	*(15 626)*	*(15 311)*
Implemented by other EU agencies and bodies	*3.11*	*(1 209)*	*(1 025)*
Implemented by third countries and international organisations	*3.11*	*(3 031)*	*(2 770)*
Implemented by other entities	*3.11*	*(2 107)*	*(1 799)*
Staff and pension costs	*3.12*	*(10 273)*	*(9 662)*
Changes in employee benefits actuarial assumptions	*3.13*	*(2 040)*	*(9 170)*
Finance costs	*3.14*	*(1 986)*	*(2 926)*
Share of net deficit of joint ventures and associates	*3.15*	*(641)*	*(640)*
Other expenses	*3.16*	*(6 623)*	*(5 152)*
Total Expenses		**(155 919)**	**(165 269)**
ECONOMIC RESULT OF THE YEAR		**(13 033)**	**(11 280)**

*

Implemented by Member States: Shared management

Implemented by the Commission, executive agencies and trust funds: Direct Management

Implemented by other EU agencies and bodies, third countries, international organisations and other entities: Indirect management.

CASHFLOW STATEMENT

EUR millions

	Note	2015	2014
Economic result of the year		*(13 033)*	*(11 280)*
Operating activities	4.2		
Amortisation		*74*	*61*
Depreciation		*489*	*408*
(Increase)/decrease in loans		*1 591*	*(1 298)*
(Increase)/decrease in pre-financing		*7 439*	*6 844*
(Increase)/decrease in exchange receivables and non-exchange recoverables		*5 253*	*(1 898)*
(Increase)/decrease in inventories		*(10)*	*-*
Increase/(decrease) in pension and employee benefits liability		*5 198*	*11 798*
Increase/(decrease) in provisions		*(253)*	*414*
Increase/(decrease) in financial liabilities		*(977)*	*1 146*
Increase/(decrease) in payables		*(10 989)*	*6 967*
Increase/(decrease) in accrued charges and deferred income		*12 429*	*(309)*
Prior year budgetary surplus taken as non-cash revenue		*(1 435)*	*(1 005)*
Other non-cash movements		*32*	*130*
Investing activities	4.3		
(Increase)/decrease in intangible assets and property, plant and equipment		*(1 381)*	*(2 347)*
(Increase)/decrease in investments accounted for using the equity method		*(87)*	*(60)*
(Increase)/decrease in available for sale financial assets		*(213)*	*(1 536)*
NET CASHFLOW		**4 126**	**8 035**
Net increase/(decrease) in cash and cash equivalents		*4 126*	*8 035*
Cash and cash equivalents at the beginning of the year	*2.8*	*17 545*	*9 510*
Cash and cash equivalents at year-end	*2.8*	*21 671*	*17 545*

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 31.12.2013	**99**	**3 974**	**(45 560)**	**(4 365)**	**(45 852)**
Movement in Guarantee Fund reserve	*–*	*247*	*(247)*	*–*	*–*
Fair value movements	*139*	*–*	*–*	*–*	*139*
Other	*–*	*(24)*	*16*	*–*	*(8)*
Allocation of the 2013 economic result	*–*	*(0)*	*(4 365)*	*4 365*	*–*
2013 budget result credited to Member States	*–*	*–*	*(1 005)*	*–*	*(1 005)*
Economic result of the year	*–*	*–*	*–*	*(11 280)*	*(11 280)*
BALANCE AS AT 31.12.2014	**238**	**4 197**	**(51 161)**	**(11 280)**	**(58 006)**
Movement in Guarantee Fund reserve	*–*	*189*	*(189)*	*–*	*–*
Fair value movements	*54*	*–*	*–*	*–*	*54*
Other	*–*	*2*	*(24)*	*–*	*(22)*
Allocation of the 2014 economic result	*–*	*3*	*(11 283)*	*11 280*	*–*
2014 budget result credited to Member States	*–*	*–*	*(1 435)*	*–*	*(1 435)*
Economic result of the year	*–*	*–*	*–*	*(13 033)*	*(13 033)*
BALANCE AS AT 31.12.2015	**292**	**4 390**	**(64 091)**	**(13 033)**	**(72 442)**

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

1.1. LEGAL BASIS AND ACCOUNTING RULES

The accounts of the EU are kept in accordance with Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26.10.2012, 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 1 "Financial Statements" 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 related to financial instruments and 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. The complete list of consolidated entities can be found in note **9** of the EU financial statements. It now comprises 52 controlled entities, 7 joint ventures and 1 associate. In comparison with 2014, the scope of consolidation remained unchanged except for one new joint venture included and one joint venture removed – see note **2.3**.

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. An individual assessment for each entity is made in order to decide whether one or all of the criteria listed above are sufficient to result in control.

Under this approach, the EU's institutions (except the 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-entity transactions and balances" between EU controlled entities are eliminated, while unrealised gains and losses on such transactions are not material and so have not been eliminated.

Joint 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 (see **1.5.4** below).

Associates

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

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

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

1.4. BASIS OF PREPARATION

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 re-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	31.12.2015	31.12.2014	Currency	31.12.2015	31.12.2014
BGN	**1.9558**	*1.9558*	**PLN**	**4.2639**	*4.2732*
CZK	**27.0230**	*27.7350*	**RON**	**4.5240**	*4.4828*
DKK	**7.4626**	*7.4453*	**SEK**	**9.1895**	*9.3930*
GBP	**0.7340**	*0.7789*	**CHF**	**1.0835**	*1.2024*
HRK	**7.6380**	*7.6580*	**JPY**	**131.0700**	*145.2300*
HUF	**315.9800**	*315.5400*	**USD**	**1.0887**	*1.2141*

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

1.5. BALANCE SHEET

1.5.1. Intangible assets

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

1.5.2. Property, plant and equipment

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

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

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

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

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

Leases

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

Leases where the lessor retains a significant portion of the risks and rewards inherent to ownership are classified as operating leases. Operating lease payments are recognised as an expense in the statement of financial performance on a straight-line basis over the lease term.

1.5.3. Impairment of non-financial assets

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

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

1.5.4. Investments accounted for using the equity method

Participations in associates and joint ventures

Participations in associates and joint ventures are accounted for using the equity method and are initially recognised at cost. The EU's interest in the results of its associates and joint ventures is recognised in the statement of financial performance, and its share in the movements in reserves is recognised in the reserves. The initial cost together with all movements (further contributions, share of economic results and reserve movements, impairments, and dividends) give the book value of the associate or joint venture in the financial statements at the balance sheet date. Distributions received from an associate or joint venture reduce the carrying amount of the asset.

If the EU's share of deficits of a joint venture equals or exceeds its interest in the joint venture, the EU discontinues recognising its share of further losses ("unrecognised losses"). The unrecognised share of losses is the result of a technical accounting exercise needed when using the equity method of accounting. These unrecognised losses do not represent losses for the EU and are due to the fact that the expense recognition normally takes place before the capital increase for the contribution in kind of the venturers other than the EU.

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

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.

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.

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 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, or in case the EU is subrogated to the rights of the original lender following a payment made by the EU under a guarantee contract. Payments due within 12 months of the balance sheet date are classified as current assets. Payments due after 12 months from the balance sheet date are classified as non-current assets. Loans and receivables include term deposits with the original maturity above three months.

(iii) Held-to-maturity investments

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

(iv) Available for sale financial assets

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

Initial recognition and measurement

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available for sale (except cash and cash equivalents) 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 are measured at their nominal amount, which is considered to be the fair value of the loan. The reasoning for this is as follows:

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

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

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

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

Subsequent measurement

(i) Financial assets at fair value through 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. The EU currently holds no investments in this category.

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

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

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

Impairment of financial assets

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

(a) *Assets carried at amortised cost*

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

(b) *Assets carried at fair value*

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

Investments in venture capital funds

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

1.5.6. Inventories

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

1.5.7. Pre-financing amounts

Pre-financing is a payment intended to provide the beneficiary with a cash advance, i.e. a float. It may be split into a number of payments over a period defined in the particular contract, decision, agreement or basic legal act. The float or advance is either used for the purpose for which it was provided during the period defined in the agreement or it is repaid. If the beneficiary does not incur eligible expenditure, they have the obligation to return the pre-financing advance to the EU. The amount of the pre-financing may be reduced (wholly or partially) by the acceptance of eligible costs (which are recognised as expenses).

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

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

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

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

1.5.8. Exchange receivables and non-exchange recoverables

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

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

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

1.5.9. Cash and cash equivalents

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

1.5.10. Pension and other employee benefits

Pension obligations

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

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

Post-employment sickness benefits

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

1.5.11. Provisions

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

1.5.12. Financial liabilities

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

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

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

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

The EU trust funds created and managed by the Commission are considered as part of the Commission's operational activities and are accounted for in the Commission accounts. Therefore, contributions from other donors to the EU trust funds fulfil the criteria of revenues from non-exchange transactions under conditions and they are presented as liabilities until the costs are incurred by the trust fund. The trust fund is required to finance specific projects and return remaining funds at the time of winding-up. At the balance sheet date the outstanding contribution liabilities are measured at contributions received less the expenses incurred by the trust fund, including estimated amounts when necessary, and allocated to the contributions of other donors in accordance with the underlying agreements.

1.5.14. Accrued and deferred income and charges

Transactions and events are recognised in the financial statements in the period to which they relate. At year-end, if an invoice is not yet issued but the service has been rendered, the supplies have been delivered by the EU or a contractual agreement exists (e.g. by reference to a treaty), an accrued income will be recognised in the financial statements. In addition, at year-end, if an invoice is issued but the services have not yet been rendered or the goods supplied have not yet been delivered, the revenue will be deferred and recognised in the subsequent accounting period.

Expenses are also accounted for in the period to which they relate. At the end of the accounting period, accrued expenses are recognised based on an estimated amount of the transfer obligation of the period. The calculation of accrued expenses is done in accordance with detailed operational and practical guidelines issued by the Commission which aim at ensuring that the financial statements provide a faithful representation of the economic and other phenomena they purport to represent.

1.6. STATEMENT OF FINANCIAL PERFORMANCE

1.6.1. Revenue

REVENUE FROM NON-EXCHANGE TRANSACTIONS

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

GNI based resources and VAT resources

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

Traditional own resources

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

Fines

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

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

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

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

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

REVENUE FROM EXCHANGE TRANSACTIONS

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

Interest income and expense

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

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

Dividend income

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

1.6.2. Expenses

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

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

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

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

1.7. CONTINGENT ASSETS AND LIABILITIES

1.7.1. Contingent assets

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

1.7.2. Contingent liabilities

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

2. NOTES TO THE BALANCE SHEET

ASSETS

2.1. INTANGIBLE ASSETS

EUR millions

Gross carrying amount at 31.12.2014	*577*
Additions	*134*
Disposals	*(14)*
Transfer between asset categories	*0*
Other changes	*0*
Gross carrying amount at 31.12.2015	*698*
Accumulated amortisation at 31.12.2014	*(295)*
Amortisation charge for the year	*(74)*
Disposals	*9*
Transfer between asset categories	*0*
Other changes	*-*
Accumulated amortisation at 31.12.2015	*(361)*
Net carrying amount at 31.12.2015	**337**
Net carrying amount at 31.12.2014	*282*

The above amounts relate primarily to computer software.

2.2. PROPERTY, PLANT AND EQUIPMENT

The increase in property, plant and equipment is mainly related to the further development of assets relating to the Galileo and Copernicus space programmes, these being built with the assistance of the European Space Agency (ESA).

For Galileo, the EU's Global Navigation Satellite System (GNSS), the assets under construction at 31 December 2015 total EUR 2 110 million (2014: EUR 1 478 million). An amount of EUR 17 million (2014: EUR 17 million) of non-capitalisable development costs has been recognised as expenses during the period. When completed, the system will comprise 30 satellites and a network of ground stations. At the balance sheet date 12 Galileo satellites have been already launched.

Regarding Copernicus, the European Earth observation programme, the related assets have been recognised on the EU balance sheet since 2014, following their transfer from ESA. At the balance sheet date, EUR 1 188 million relating to the Copernicus satellites currently being constructed are recognised as assets under construction (2014: EUR 1 228 million). Moreover, EUR 498 million relating to the Sentinel 1A and 2A satellites in orbit are recognised as assets under the heading plant and equipment, net of accumulated depreciation (2014: EUR 283 million) after Sentinel 2A has been launched and became operational during the reporting period. Sentinel 1A and 2A satellites are depreciated over their expected useful life of 7 years.

Property, plant and equipment

EUR millions

	Land and Buildings	Plant and Equipment	Furniture and Vehicles	Computer Hardware	Other	Finance leases	Assets under construction	Total
Gross carrying amount at 31.12.2014	*4 768*	*990*	*242*	*623*	*261*	*2 693*	*3 176*	*12 754*
Additions	*41*	*58*	*16*	*54*	*34*	*61*	*998*	*1 262*
Disposals	*(8)*	*(25)*	*(12)*	*(53)*	*(8)*	*(1)*	*(38)*	*(145)*
Transfer between asset categories	*54*	*261*	*-*	*0*	*(11)*	*0*	*(305)*	*–*
Other changes	*1*	*3*	*2*	*2*	*0*	*31*	*1*	*39*
Gross carrying amount at 31.12.2015	**4 856**	**1 288**	**248**	**627**	**277**	**2 784**	**3 832**	**13 911**
Accumulated depreciation at 31.12.2014	*(2 549)*	*(477)*	*(168)*	*(501)*	*(173)*	*(950)*		*(4 817)*
Depreciation charge for the year	*(158)*	*(116)*	*(18)*	*(69)*	*(27)*	*(103)*		*(489)*
Depreciation written back	*-*	*0*	*0*	*1*	*0*	*-*		*1*
Disposals	*6*	*24*	*11*	*52*	*7*	*1*		*101*
Transfer between asset categories	*-*	*(10)*	*-*	*0*	*10*	*0*		*–*
Other changes	*0*	*(3)*	*(1)*	*(1)*	*0*	*(2)*		*(6)*
Accumulated depreciation at 31.12.2015	**(2 701)**	**(581)**	**(176)**	**(517)**	**(182)**	**(1 054)**		**(5 211)**
NET CARRYING AMOUNT AT 31.12.2015	**2 155**	**708**	**72**	**110**	**94**	**1 730**	**3 832**	**8 700**
NET CARRYING AMOUNT AT 31.12.2014	*2 219*	*513*	*74*	*122*	*89*	*1 743*	*3 176*	*7 937*

2.3. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

EUR millions

	Note	31.12.2015	31.12.2014
Participations in joint ventures	*2.3.1*	*5*	*–*
Participations in associates	*2.3.2*	*491*	*409*
Total		**497**	**409**

Participations in joint ventures and associates are accounted for using the equity method.

2.3.1. Participations in joint ventures

EUR millions

	GJU	SESAR	BBI	Clean Sky	IMI	ECSEL	FCH	Total
Participations at 31.12.2014	–	*0*	–	*0*	*0*	*0*	*0*	*0*
Contributions	–	*93*	*1*	*224*	*147*	*145*	*67*	*677*
Share of net result	–	*(93)*	*4*	*(163)*	*(147)*	*(145)*	*(67)*	*(611)*
Recognition of previously unrecognised share of loss	–	–	–	*(61)*	–	–	–	*(61)*
Other equity movements	–	*0*	*0*	*0*	*0*	*0*	*0*	*(0)*
Participations at 31.12.2015	**–**	**0**	**5**	**0**	**0**	**0**	**0**	**5**
Unrecognised share of loss	–	*(252)*	–	*(38)*	*(161)*	*(55)*	*(156)*	*(662)*

** For a detailed explanation of unrecognised losses see note **1.5.4.***

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

EUR millions

	31.12.2015	31.12.2014
Non-current assets	*188*	*250*
Current assets	*301*	*178*
Non-current liabilities	*–*	*–*
Current liabilities	*(856)*	*(813)*
Revenue	*13*	*2*
Expenses	*(811)*	*(666)*

ITER International Fusion Energy Organisation (ITER)

Following a review of the accounting for joint ventures, it has been determined that the ITER Organisation does not meet the criteria for recognition as a joint venture. Since 2015, it is no longer recorded as a joint venture, and EU contributions to the ITER Organisation are treated as expenses. As the carrying value of the ITER Organisation at 31 December 2014 was zero, and the impact of the change is not material, no adjustment of prior year results has been made.

GALILEO Joint Undertaking (GJU)

The GJU was put into liquidation at the end of 2006 and the process is still on-going. The entity was inactive and still undergoing liquidation in 2015.

SESAR Joint Undertaking

At 31 December 2015, the Commission held 41.28 % (2014: 43.53 %) of the ownership participation in SESAR.

Joint Technology Initiatives

Public private partnerships (PPPs) in the form of Joint Technology Initiatives (JTIs), which were implemented through Joint Undertakings (JUs) within the meaning of Article 187 of the Treaty, have been created in order to implement the objectives of the Lisbon Growth and Jobs Agenda. The Bio Based Industries (BBI), Clean Sky, Innovative Medicines Initiative (IMI), ECSEL (amalgamation of the former ARTEMIS & ENIAC JUs) and Fuel Cells Hydrogen (FCH) JUs are PPPs created in the form of JTIs. The ownership participation at year-end is as follows: 57.81 % in BBI (2014: N/A), 63.59 % (2014: 61.39 %) in Clean Sky, 67.07 % (2014: 80.47 %) in IMI, 96.29 % (2014: 95.47 %) in ECSEL and 64.86 % (2014: 70.85 %) in FCH.

2.3.2. Participations in associates

European Investment Fund

The participation of the Commission in the European Investment Fund (EIF) is treated as an associate using the equity method of accounting. The EIF is the EU's financial institution specialising in providing risk capital and guarantees to SMEs.

EUR millions

	EIF
Participations at 31.12.2014	*409*
Contributions	*44*
Share of net result	*31*
Other equity movements	*7*
Participations at 31.12.2015	**491**

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

EUR millions

	31.12.2015	31.12.2014
Assets	*578*	*497*
Liabilities	*(87)*	*(87)*
Revenue	*51*	*38*
Surplus/(deficit)	*26*	*21*

The Commission has paid in 20 % of its participation, the balance being uncalled, corresponding to an amount of EUR 909 million.

EUR millions

	Total EIF capital	Commission subscription
Total share capital	*4 286*	*1 136*
Paid-in	*(857)*	*(227)*
Uncalled	**3 429**	**909**

2.4. FINANCIAL ASSETS

EUR millions

	Note	31.12.2015	31.12.2014
Non-current financial assets			
Available for sale financial assets	*2.4.1*	*7 222*	*6 550*
Loans	*2.4.2*	*49 743*	*49 888*
Total		**56 965**	**56 438**
Current financial assets			
Available for sale financial assets	*2.4.1*	*2 399*	*2 856*
Loans	*2.4.2*	*7 508*	*8 955*
Total		**9 907**	**11 811**
Total		**66 871**	**68 249**

2.4.1. Available for sale financial assets

EUR millions

	31.12.2015	31.12.2014
BUFI investments	*2 647*	*3 068*
Guarantee Fund for external actions	*2 002*	*1 825*
ECSC in Liquidation	*1 699*	*1 699*
European Bank for Reconstruction and Development (EBRD)	*188*	*188*
Sub-total	**6 536**	**6 780**
Budgetary Instruments:		
Risk Sharing Finance Facility (RSFF)	*773*	*842*
Horizon 2020	*765*	*514*
ETF Start up	*485*	*399*
Project Bond Initiative	*217*	*125*
Loan Guarantee Instrument for TEN-T projects (LGTT)	*208*	*186*
Risk Capital Operations	*152*	*145*
European Fund for South East Europe	*118*	*117*
Other budgetary instruments	*366*	*298*
Sub-total	**3 084**	**2 626**
Total	**9 620**	**9 406**
Non-current	*7 222*	*6 550*
Current	*2 399*	*2 856*

BUFI investments

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

Guarantee Fund for external actions

The Guarantee Fund for external actions covers loans guaranteed by the EU in particular EIB lending operations outside the EU and loans under macro-financial assistance (MFA) and Euratom loans outside the EU. It is a long-term instrument (non-current part: EUR 1 614 million) managed by the EIB and intended to cover any defaulting loans guaranteed by the EU. The Fund is endowed by payments from the EU budget, the proceeds from interest on investments made from the Fund's assets, and sums recovered from defaulting debtors for whom the Fund has had to activate its guarantee. Any yearly surplus arising is paid back as revenue for the EU budget. The EU is required to include a guarantee reserve to cover loans to third countries. This reserve is intended to cover the requirements of the Guarantee Fund and, where necessary, activated guarantees exceeding the amount available in the Fund, so that these amounts may be charged to the budget. This reserve corresponds to the target amount of 9 % of the loans outstanding at year-end.

ECSC in Liquidation

Regarding the ECSC in liquidation amounts, all available for sale financial assets are debt securities denominated in EUR and quoted in an active market.

European Bank for Reconstruction and Development

As the European Bank for Reconstruction and Development (EBRD) is not quoted on any stock exchange and in view of the contractual restrictions included in the EBRD's articles of incorporation relating, amongst others, to the sale of participating interests, capped at acquisition cost and only authorised to existing shareholders, the Commission's shareholding is valued at cost less any write-down for impairment.

EUR millions

	Total EBRD capital	Commission subscription
Total Share Capital	*29 674*	*900*
Paid-in	*(6 202)*	*(188)*
Uncalled	**23 472**	**712**

Budgetary Instruments

The EU holds available for sale financial assets in the form of debt securities (e.g. bonds) and equity instruments. The debt securities are mainly used to temporarily invest the amounts allocated to the EU guarantee and risk-sharing instruments until they are used to satisfy the guarantee calls.

Risk-Sharing Finance Facility

The Risk-Sharing Finance Facility (RSFF) is managed by the EIB and the Commission's investment portfolio is used to provision financial risk for loans and guarantees given by the EIB to eligible research projects. In total, a Commission budget of up to EUR 1 billion was allocated to the RSFF under the 2007-2013 MFF. Under the 2014-2020 MFF, there are no new budget contributions foreseen to the RSFF. In 2015, EUR 65 million of the EU contribution to the RSFF was transferred to its successor debt instrument under Horizon 2020. At 31 December 2015, the Commission contribution to the RSFF, including also EFTA and third countries, amounts to EUR 791 million. It should be noted that the Commission's overall risk is limited to the amount it contributes to the Facility.

Horizon 2020

Under the EU Regulation establishing Horizon 2020 – the Framework Programme for Research and Innovation (2014-2020), new financial instruments have been established in order to enhance access to finance to entities engaged in research and innovation (R&I). These instruments are: *the InnovFin Loan and Guarantee Service for R&I* - under which the Commission shares the financial risk related to a portfolio of new financing operations entered into by the EIB, *the InnovFin SME Guarantee including the SME Initiative Uncapped Guarantee Instrument (SIUGI)* – guarantee facilities managed by the EIF providing guarantees and counter-guarantees to the financial intermediaries for the new portfolios of loans (under SIUGI the Commission shares the financial risk related to the guarantee given with Member States, EIF and EIB) and *the InnovFin Equity Facility for R&I* providing for investments in venture capital funds and managed by the EIF. At 31 December 2015, the total EU contribution to the Horizon 2020 financial instruments amounted to EUR 1 060 million.

ETF Start up

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

Fair value hierarchy of available for sale financial assets:

EUR millions

	31.12.2015	31.12.2014
Level 1: Quoted prices in active markets	*8 123*	*8 183*
Level 2: Observable inputs other than quoted prices	*188*	*76*
Level 3: Valuation techniques with inputs not based on observable market data	*1 310*	*1 147*
Total	**9 620**	**9 406**

During the period EUR 10 million was transferred from level 2 to level 1.

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

EUR millions

Opening balance at 31.12.2014	*1 147*
Purchases and sales	*98*
Gains or losses for the period in financial income or finance costs	*(27)*
Gains or losses in net assets	*91*
Transfers into level 3	*–*
Transfers out of level 3	*–*
Other	*–*
Closing balance at 31.12.2015	**1 310**

2.4.2. Loans

EUR millions

	31.12.2015	31.12.2014
Loans from borrowed funds	*56 874*	*58 509*
Loans granted from the budget	*377*	*334*
Total	**57 251**	**58 843**
Non-current	*49 743*	*49 888*
Current	*7 508*	*8 955*

Loans granted from borrowed funds

EUR millions

	MFA	Euratom	BOP	EFSM	ECSC in Liqui-dation	Total
Total at 31.12.2014	*1 842*	*349*	*8 590*	*47 507*	*221*	*58 509*
New loans	*1 245*	*-*	*-*	*12 160*	*-*	*13 405*
Repayments	*(67)*	*(48)*	*(2 700)*	*(12 160)*	*-*	*(14 975)*
Exchange differences	*-*	*-*	*-*	*-*	*14*	*14*
Changes in carrying amount	*4*	*-*	*(79)*	*2*	*(6)*	*(79)*
Impairment	*-*	*-*	*-*	*-*	*-*	*–*
Total at 31.12.2015	**3 024**	**301**	**5 811**	**47 509**	**229**	**56 874**
Non-current	*2 937*	*251*	*4 200*	*42 050*	*218*	*49 656*
Current	*87*	*50*	*1 611*	*5 459*	*11*	*7 218*

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

MFA is a policy-based financial instrument of untied and undesignated balance of payment and/or budget support to partner countries currently following an IMF programme. It takes the form of medium/long term loans or grants or an appropriate combination of both and generally complements financing provided in the context of an IMF-supported adjustment and reform program. These loans are guaranteed by the Guarantee Fund for external actions. At 31.12.2015, EUR 1 323 million relating to a loan facility agreement under MFA assistance were granted to Ukraine (EUR 1 200 million), to Tunisia (EUR 100 million), to Georgia (EUR 13 million) and to Kyrgyzstan (EUR 10 million) but not yet disbursed.

The Euratom legal entity (represented by the Commission) lends money to both Member States and non-Member States to finance projects relating to energy installations. At 31 December 2015, loans of EUR 300 million were granted to Ukraine but not yet disbursed. Guarantees from third-parties of EUR 301 million (2014: EUR 349 million) have been received covering Euratom loans.

The BOP facility, a policy-based financial instrument, provides medium-term financial assistance to Member States of the EU. It enables the granting of loans to Member States which are experiencing, or are seriously threatened with, difficulties in their balance of payments or capital movements. Only Member States which have not adopted the Euro may benefit from this facility. BOP assistance to Latvia was granted before the introduction of the Euro on 1 January 2014. The maximum outstanding amount of loans granted under the instrument is limited to EUR 50 billion. Borrowings related to these BOP loans are guaranteed by the EU budget – thus at 31 December 2015, the budget is exposed to a maximum possible risk of EUR 5.8 billion regarding these loans.

EFSM enables the granting of financial assistance to a Member State in difficulties or seriously threatened with severe difficulties caused by exceptional circumstances beyond its control. The assistance may take the form of a loan or credit line. The ECOFIN Council conclusions of 9 May 2010 restrict the facility to EUR 60 billion but the legal limit restricts the outstanding amount of loans or credit lines to the margin available under the own resources ceiling. Borrowings related to loans disbursed under the EFSM are guaranteed by the EU budget – thus at 31 December 2015, the budget is exposed to a maximum possible risk of EUR 47.5 billion regarding these loans. As both EFSM programmes have expired, there is no outstanding available undisbursed amounts. It is not foreseen that the EFSM will engage in new financing programmes or enter into new loan facility agreements.

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

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

Loans	31.12.2015	31.12.2014
Macro Financial Assistance (MFA)	*0 % - 4.54 %*	*0.181 % - 4.54 %*
Euratom	*0.08 % - 5.76 %*	*0.26 % - 5.76 %*
Balance of Payment (BOP)	*2.375 % - 3.625 %*	*2.375 % - 3.625 %*
European Financial Stability Mechanism (EFSM)	*0.625 % - 3.75 %*	*1.875 % - 3.750 %*
ECSC in Liquidation	*5.2354 % - 5.8103 %*	*5.2354 % - 5.8103 %*

Loans granted from the budget

EUR millions

	31.12.2015	31.12.2014
Loans with special conditions	*113*	*130*
*ECSC in liquidation housing loans**	*6*	*9*
Term deposits between 3 and 12 months	*257*	*195*
Total	**377**	**334**
Non-current	*88*	*116*
Current	*290*	*217*

** Granted from ECSC i.L. own funds.*

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

Impairment on loans granted from the budget

EUR millions

	31.12.2014	Additions	Reversals	Write-off	Other	31.12.2015
Loans with special conditions	*6*	*75*	*0*	*0*	*149*	*231*
ECSC in liquidation housing loans	*–*	*0*	*0*	*0*	*0*	*–*
Total	**6**	**75**	**0**	**0**	**149**	**231**

The loans with special conditions heading includes also subrogated loans, i.e. defaulting loans which were granted by the EIB and for which all rights have been subrogated to the EU following the payment from the Guarantee Fund for external actions, and which are fully impaired for an amount of EUR 217 million (2014: EUR 149 million).

2.5. PRE-FINANCING

EUR millions

	Note	31.12.2015	31.12.2014
Non-current pre-financing			
Pre-financing	*2.5.1*	*28 543*	*15 980*
Other advances to Member States	*2.5.2*	*1 332*	*2 378*
Contribution to Trust Funds		*4*	*–*
Total		**29 879**	**18 358**
Current pre-financing			
Pre-financing	*2.5.1*	*11 498*	*29 222*
Other advances to Member States	*2.5.2*	*3 779*	*5 015*
Total		**15 277**	**34 237**
Total		**45 156**	**52 595**

Pre-financing represents a large portion of the EU's total assets, and thus receives proper and regular attention. It should be noted that the level of pre-financing amounts in the various programmes must be sufficient to ensure the necessary funding for the beneficiary to start the project, while also safeguarding the financial interests of the EU and taking into consideration legal, operational and cost-effectiveness constraints. All these elements have been given due consideration by the Commission in an effort to improve the follow-up of pre-financing.

2.5.1. Pre-financing

EUR millions

	Gross amount	Cleared via cut-off	Net amount at 31.12.2015	Gross amount	Cleared via cut-off	Net amount at 31.12.2014
Shared management						
EAFRD & other rural development instruments	*4 726*	*(1 629)*	*3 097*	*5 644*	*(2 115)*	*3 529*
ERDF & CF	*24 268*	*(7 416)*	*16 852*	*24 934*	*(2 182)*	*22 752*
ESF	*7 251*	*(1 325)*	*5 926*	*6 884*	*(953)*	*5 931*
Other	*4 359*	*(2 365)*	*1 994*	*4 626*	*(2 535)*	*2 091*
Total	**40 604**	**(12 735)**	**27 869**	**42 088**	**(7 785)**	**34 303**
Direct Management *Implemented by:*						
Commission	*12 512*	*(9 536)*	*2 976*	*13 173*	*(10 215)*	*2 958*
EU executive agencies	*11 065*	*(7 767)*	*3 298*	*9 079*	*(6 618)*	*2 461*
Trust funds	*14*	*(5)*	*9*	*-*	*-*	*-*
Total	**23 591**	**(17 308)**	**6 283**	**22 252**	**(16 833)**	**5 419**
Indirect Management *Implemented by:*						
Other EU agencies & bodies	*627*	*(95)*	*532*	*548*	*(98)*	*450*
Third countries	*2 151*	*(1 229)*	*922*	*1 981*	*(1 169)*	*812*
International organisations	*6 640*	*(4 014)*	*2 626*	*6 236*	*(3 476)*	*2 760*
Other entities	*5 330*	*(3 521)*	*1 809*	*4 370*	*(2 910)*	*1 460*
Total	**14 748**	**(8 859)**	**5 889**	**13 135**	**(7 653)**	**5 482**
Total	**78 943**	**(38 902)**	**40 041**	**77 474**	**(32 273)**	**45 202**
Non-current	*28 543*	*–*	*28 543*	*15 980*	*–*	*15 980*
Current	*50 401*	*(38 902)*	*11 498*	*61 495*	*(32 273)*	*29 222*

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

For shared management this transition between programming periods also explains the movement between current and non-current balances. New pre-financing paid concerning the programming period 2014-2020 is typically booked as non-current; the amounts paid during 2015 total EUR 10 billion, of which EUR 7 billion are related to cohesion policy. The programming period 2007-2013 is in its closing phase and thus more amounts become due within twelve months.

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 2015 the nominal value of guarantees received in respect of pre-financing amounted to EUR 844 million while the on-going value of those guarantees was EUR 626 million (2014: EUR 957 million and EUR 605 million respectively).

Certain pre-financing amounts paid out under the 7th Research Framework Programme for research and technological development (FP7) and under Horizon 2020 are effectively covered by a Participants Guarantee Fund (PGF). The PGF is a mutual benefit instrument set up to cover the risks relating to non-payment of amounts by the beneficiaries during the implementation of the indirect actions of FP7 and Horizon 2020. All participants of indirect actions receiving a grant from the EU contribute 5 % of the total contribution to the PGF's capital.
At 31 December 2015 pre-financing amounts covered by the PGF totalled EUR 1.7 billion (2014: EUR 1.8 billion). The EU (represented by the Commission) acts as an executive agent of the participants of the PGF, but the fund is owned by the participants.

At year-end, the PGF had total assets of EUR 1 838 million (2014: EUR 1 640 million). The assets of the PGF also include financial assets that are managed by the Directorate-General for Economic and Financial Affairs. As the PGF is a separate entity the assets of the fund are not consolidated in these EU annual accounts.

2.5.2. Other advances to Member States

EUR millions

	31.12.2015	31.12.2014
Advances to Member States for financial instruments under shared management	*3 287*	*3 823*
Aid Schemes	*1 824*	*3 570*
Total	**5 111**	**7 393**
Non-current	*1 332*	*2 378*
Current	*3 779*	*5 015*

Under the framework of the structural funds programmes and also under the EAFRD 2007-2013, it was possible to make advance payments from the EU budget to Member States so as to allow them to contribute to financial instruments (be it in the form of loans, equity investments or guarantees). These financial instruments are set up and managed under the responsibility of the Member States, not the Commission. Nevertheless, monies that are unused by these instruments at year-end are the property of the EU (as with all pre-financing) and are thus treated as an asset on the EU's balance sheet. 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 to identify them in the statements of expenditure submitted to the Commission.

For rural development, the Commission requested information on the unused amounts directly from the paying agencies in the Member States. On the basis of this information, it is estimated that EUR 56 million remained unused at 31 December 2015.

For cohesion policy, every year the Commission collects information from the Member States on these financial instruments and consolidates it in an annual implementation report. The next report, on unused amounts at end 2015, is due on 1 October 2016, thus the information in it will not be available in time for inclusion in these accounts. Consequently, the value of this asset is estimated on the basis of the most recent reliable information available, i.e. the annual implementation report as at 31 December 2014 and disbursements made during 2015. The estimate also relies on the assumption that funds will be used in full and used evenly over the remaining period of operation (ending 31 March 2017). It is estimated that at year end 2015 an amount of EUR 3 231 million was still to be used for investments in final beneficiaries.

As the period of operation is coming to an end, a targeted data collection exercise was launched, aimed at gathering information on the unspent funds as at 31 December 2015 from the Member States. The data provided showed clearly that the estimate calculated by the Commission is reasonably accurate.

The total contribution requested by Member States to the Commission concerning these instruments was EUR 10 938 million, of which EUR 353 million remained unpaid at year end. In 2015, limited amounts relating to the 2014-2020 programming period have been paid.

Similar to the above, advances paid by the Member States for various aid schemes (state aid, market measures of EAGF) that were not used at year end are recorded as assets on the EU's balance sheet. The Commission has estimated the value of these advances based on information provided by the Member States; the resulting amounts are included under the Aid Schemes sub-headings above. Of the total amount, it is estimated that EUR 972 million representing advances paid in the context of rural development remained unused at the end of 2015.

2.6. EXCHANGE RECEIVABLES AND NON-EXCHANGE RECOVERABLES

EUR millions

	Note	31.12.2015	31.12.2014
Non-current			
Recoverables from non-exchange transactions	*2.6.1*	*857*	*1 158*
Receivables from exchange transactions	*2.6.2*	*13*	*40*
Total		**870**	**1 198**
Current			
Recoverables from non-exchange transactions	*2.6.1*	*8 882*	*13 828*
Receivables from exchange transactions	*2.6.2*	*572*	*551*
Total		**9 454**	**14 380**
Total		**10 324**	**15 578**

2.6.1. Recoverables from non-exchange transactions

EUR millions

	Note	31.12.2015	31.12.2014
Non-current			
Member States	*2.6.1.1*	*857*	*305*
Accrued income and deferred charges	*2.6.1.3*	*–*	*853*
Total		**857**	**1 158**
Current			
Member States	*2.6.1.1*	*6 845*	*10 679*
Fines	*2.6.1.2*	*1 601*	*2 270*
Accrued income and deferred charges	*2.6.1.3*	*369*	*832*
Other recoverables		*67*	*48*
Total		**8 882**	**13 828**
Total		**9 739**	**14 987**

2.6.1.1. Recoverables from Member States

EUR millions

	31.12.2015	31.12.2014
Established in the A account	*3 041*	*2 789*
Established in the separate account	*1 283*	*1 617*
Own resources to be received	*–*	*5 413*
Impairment	*(760)*	*(1 144)*
Other	*10*	*12*
Own resources recoverables	**3 573**	**8 686**
European Agricultural Guarantee Fund (EAGF)	*3 846*	*2 250*
European Agricultural Fund for Rural Development (EAFRD)	*750*	*52*
Temporary Rural Development Instrument (TRDI)	*26*	*27*
Special Accession Programme for Agriculture and Rural Development (SAPARD)	*175*	*166*
Impairment	*(1 092)*	*(840)*
EAGF and rural development recoverables	**3 705**	**1 655**
Pre-financing recovery expected	**313**	**437**
VAT paid and recoverable	**36**	**44**
Other recoverables from Member States	**75**	**161**
Total	**7 701**	**10 984**
Non-current	*857*	*305*
Current	*6 845*	*10 679*

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

Own resources recoverables

The Member States' contribution to the EU budget contributions based on VAT and GNI is subject to an annual adjustment, which is performed every year on the first working day of December. The adjustment in 2014 included major revisions for GNI dating back to 2002, thus resulting in an unprecedented EUR 9.5 billion across all EU Member States, of which EUR 5.4 billion were still to be received at year end. The outstanding amounts were received during 2015, in accordance with the planned deferred payments.

The adjustment of 2015 did not result in any amounts to be recovered from the Member States.

EAGF and Rural Development recoverables

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

2.6.1.2. Fines

This refers to fines issued by the Commission which were not (provisionally) cashed at year end (EUR 2 165 million) less amounts written-down (EUR 181 million) and less amounts corresponding to Court decisions in favour of the undertaking (EUR 384 million). Guarantees totalling EUR 1 428 million were received for the fines outstanding at year-end (2014: EUR 1 916 million). It should be noted that EUR 116 million of these receivables were due for payment after 31 December 2015.

The decrease in the balance of the open fines at year end is due to the fact that fines became definitive and were transferred to the budget during 2015 and that fines were reduced by the Court of Justice.

2.6.1.3. Accrued income and deferred charges

EUR millions

	31.12.2015	31.12.2014
Cohesion, Agriculture & Rural Development Funds: financial corrections	*10*	*1 502*
Other accrued income	*162*	*83*
Deferred charges relating to non-exchange transactions	*196*	*101*
Total	***369***	***1 686***
Non-current	*–*	*853*
Current	*369*	*832*

2.6.2. Receivables from exchange transactions

EUR millions

	31.12.2015	31.12.2014
Non-current		
Other receivables	*13*	*40*
Total	**13**	**40**
Current		
Customers	*225*	*211*
Impairment on receivables from customers	*(107)*	*(103)*
Deferred charges relating to exchange transactions	*228*	*219*
Other	*227*	*224*
Total	**572**	**551**
Total	**585**	**591**

The impairment on receivables from customers disclosed above includes EUR 39 million of impairment determined on an individual basis.

2.7. INVENTORIES

EUR millions

	31.12.2015	31.12.2014
Scientific materials	*55*	*66*
Other	*83*	*62*
Total	**138**	**128**

2.8. CASH AND CASH EQUIVALENTS

EUR millions

	Note	31.12.2015	31.12.2014
Accounts with Treasuries and Central Banks		*17 119*	*11 840*
Current accounts		*110*	*303*
Imprest accounts		*4*	*4*
Transfers (cash in transit)		*–*	*–*
Other term deposits		*28*	*28*
Bank accounts for budget implementation and other term deposits	*2.8.1*	**17 262**	**12 174**
Cash belonging to financial instruments	*2.8.2*	**1 298**	**1 275**
Cash relating to fines	*2.8.3*	**1 908**	**2 738**
Cash relating to other institutions, agencies and bodies		**1 012**	**1 358**
Cash relating to Trust Funds		**192**	**–**
Total		**21 671**	**17 545**

2.8.1. Bank accounts for budget implementation and other term deposits

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

The high balance at the end of 2015 is mainly due to high own resources contributions related to the part of the 2014 VAT and GNI balances that was only paid by Member States during 2015, to the 2015 VAT and GNI balances paid in 2015, and to an important amount of fines for breach of competition rules that became definitive. The amending budget based on the own resource regulation reducing the Member States' contributions accordingly was adopted late in the year 2015, hence the corresponding amounts were returned to the Member States only in January 2016, for a total amount of EUR 9.5 billion. Also, two Member States have paid their 2016 GNI balance in advance.

2.8.2. Cash belonging to financial instruments

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

2.8.3. Cash relating to fines

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

The decrease in this balance is due to the fact that since 2010, all new 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 note **2.4.1**).

LIABILITIES

2.9. PENSION AND OTHER EMPLOYEE BENEFITS

Net employee benefit scheme liability

EUR millions

	Pension Scheme of European Officials	Other retirement benefit schemes	Joint Sickness Insurance Scheme	31.12.2015 Total	31.12.2014 Total
Defined Benefit Obligation	*54 967*	*1 613*	*7 662*	*64 242*	*59 053*
Plan assets		*(149)*	*(280)*	*(428)*	*(437)*
Net liability	**54 967**	**1 465**	**7 382**	**63 814**	**58 616**

The increase in the total employee benefits liability is primarily due to movements in the two main schemes:

The Pension Scheme of European Officials:

- There was a significant impact from the further reduction in the Real Discount Rate from 0.7 % to 0.6 %. A decrease in the discount rate has increased the current value of benefits and increased the current service cost.
- There was also a movement in the expected rate of salary increases from 1.1 % to 1.2 %.
- Other changes to actuarial assumptions and parameters (for example, actuarial gains/losses based on experience and changes in population) affected the calculation of the liability.

The Joint Sickness Insurance Scheme, where there were updated financial assumptions.

The defined benefit obligation represents a theoretical estimate of the amount an employer would have to pay into the scheme to satisfy the obligations it had towards pension scheme members at that point in time. However, the schemes are ongoing, and as such, all payments required to be made from the scheme on an annual basis are included in the EU budget each year.

2.9.1. Pension Scheme of European Officials

In accordance with Article 83 of the Staff Regulations, the payment of the benefits provided for in the staff pension scheme constitutes a charge to the EU's budget. The scheme is not funded, but the Member States guarantee the payment of these benefits collectively. In addition, officials contribute one third to the long-term financing of this scheme via a compulsory contribution from their salaries.

The liabilities of the pension scheme were assessed on the basis of the number of staff and retired staff at 31 December 2015 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 Commission will further strengthen its processes used for calculating the employee benefits liability during 2016 – possible results, where appropriate, will be reflected in the 2016 accounts.

2.9.2. Other retirement benefit schemes

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

2.9.3. Joint Sickness Insurance Scheme

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

Movement in present value of employee benefits defined benefit obligation

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

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

EUR millions

	Pension Scheme of European Officials	Other retirement benefit schemes	Joint Sickness Insurance Scheme	Total
Present value as at 31.12.2014	**50 897**	**1 488**	**6 668**	**59 053**
Current Service Cost	*3 323*	*77*	*243*	*3 643*
Interest cost	*1 170*	*27*	*140*	*1 337*
Net Actuarial (gains) and losses	*1 429*	*91*	*674*	*2 194*
Contributions from members			*21*	*21*
Benefits paid	*(1 244)*	*(52)*	*(85)*	*(1 380)*
Liability increase/(decrease) due to taxes on pensions	*(608)*	*(17)*		*(625)*
Present value as at 31.12.2015	**54 967**	**1 613**	**7 662**	**64 242**

Current service costs are the increase in the present value of the defined benefit obligation arising from current members' service in the current period.
Interest costs are the increase during the period in the present value of the defined benefit obligation because the benefits are one period closer to settlement.
Net Actuarial gains and losses comprise:

- Experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred); and
- Effects of changes in actuarial assumptions such as financial assumptions, mortality rates and projected salary increases. These assumptions are inherently uncertain and therefore can show significant movements from year to year.

Benefits paid are benefits paid during the year according to the rules of the scheme (e.g. pensions for retirees). These benefits paid lead to a decrease in the defined benefit obligation as they are no longer to be paid in the future.

Actuarial assumptions - employee benefits

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

	Pension Scheme of European Officials	Joint Sickness Insurance Scheme
2015		
Nominal discount rate	*2.0 %*	*2.1 %*
Expected inflation rate	*1.4 %*	*1.4 %*
Real discount rate	*0.6 %*	*0.7 %*
Expected rate of salary increases	*1.2 %*	*1.2 %*
Medical cost trend rates	*N/A*	*3.0 %*
Retirement age	*63/64/65*	*63/64/66*
2014		
Nominal discount rate	*2.0 %*	*2.1 %*
Expected inflation rate	*1.3 %*	*1.3 %*
Real discount rate	*0.7 %*	*0.8 %*
Expected rate of salary increases	*1.1 %*	*1.1 %*
Medical cost trend rates	*N/A*	*3.0 %*
Retirement age	*63/64/65*	*63*

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

The nominal discount rate is determined as the value of the Euro zero-coupon yield (with a maturity of 18 years as of December 2015 for the Pension Scheme of European Officials (PSEO), and 20 years for the Joint Sickness Insurance Scheme). The inflation rate used is the expected inflation rate over the equivalent period. It must be determined empirically, based on prospective values as expressed by index-linked bonds on the European financial markets. The real discount rate is calculated from the nominal discount rate and the expected long-term inflation rate.

Movement in present value of plan assets

EUR millions

	Other retirement benefit schemes	Joint Sickness Insurance Scheme	Total
Present value as at 31.12.2014	**165**	**272**	**437**
Net movement in plan assets	*(16)*	*8*	*(8)*
Present value as at 31.12.2015	**149**	**280**	**428**

5 year trend

EUR millions

	2011	2012	2013	2014	2015
Employee benefits liability	*34 835*	*42 503*	*46 818*	*58 616*	*63 814*

The significant increase in the employee benefits liability over the five years can largely be explained by a reduction in the real discount rate used to discount the future cash flows. This reduction is linked to the underlying exceptional economic conditions, particularly the fall in interest rates. For the main PSEO scheme, for example, the real discount rate fell from 3.0 % at the end of 2011 to 0.6 % at the end of 2015.

Amounts recognised in the Statement of Financial Performance

EUR millions

	Pension Scheme of European Officials	Other retirement benefit schemes	Joint Sickness Insurance Scheme	Total
2015				
Current service cost	*2 981*	*68*	*243*	*3 293*
Interest cost	*1 050*	*24*	*140*	*1 214*
Change in plan assets			*(71)*	*(71)*
Sub-total – recorded in staff and pension costs	***4 031***	***92***	***312***	***4 435***
Actuarial gains and losses	1 282	84	674	2 040
Total recognised	**5 313**	**176**	**986**	**6 475**

Joint Sickness Insurance Scheme sensitivity

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

EUR millions

	One percentage point increase	One percentage point decrease
The aggregate of the current service cost and interest cost components of net periodic post-employment medical costs	*88*	*(54)*
The accumulated post-employment benefit obligation for medical costs	*2 765*	*(1 686)*

2.10. PROVISIONS

EUR millions

	Amount at 31.12.2014	Additional provisions	Unused amounts reversed	Amounts used	Transfer to current	Change in estimation	Amount at 31.12.2015
Legal cases	*728*	*252*	*(52)*	*(469)*	–	*0*	*459*
Nuclear site dismantling	*1 091*	–	–	*(32)*	–	*19*	*1 078*
Financial	*332*	*262*	*(0)*	*(179)*	–	*(5)*	*411*
Fines	*30*	*4*	*(30)*	–	–	–	*4*
Other	*102*	*19*	*(19)*	*(24)*	–	*0*	*79*
Total	**2 282**	**537**	**(101)**	**(703)**	**–**	**15**	**2 030**
Non-current	**1 537**	**315**	**(48)**	**(22)**	**(87)**	**20**	**1 716**
Current	**745**	**222**	**(53)**	**(681)**	**87**	**(6)**	**314**

Legal cases

This is the estimate of amounts that will probably have to be paid out after the year-end in relation to a number of on-going legal cases. The decrease noted in 2015 was generated by the use of previously created provisions for legal cases relating to ERDF financial corrections (EUR 457 million) – these cases have been lost, and most of the amounts had been paid by year end. New provisions have been recorded in 2015 for legal cases relating to cohesion (EUR 120 million) and agriculture (EUR 123 million).

Nuclear site dismantlement

In 2014 the basis for the provision was updated as per the "2014 updated JRC Strategy on Decommissioning and Waste Management" (D&WM). It represents the follow up of the comments raised by the Review of the JRC D&WM programme made by external experts in 2012. In accordance with EU accounting rules, this provision is indexed for inflation and then discounted to its net present value (using the Euro zero-coupon swap curve). At 31 December 2015, this results in a provision of EUR 1 078 million, split between amounts expected to be used in 2016 (EUR 25 million) and afterwards (EUR 1 053 million).

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

Financial provisions

These concern mainly provisions which represent the estimated losses that will be incurred in relation to the guarantees given by the different financial instruments, where the EIF and the EIB are empowered to issue guarantees in their own name but on behalf of and at the risk of the 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).

2.11. FINANCIAL LIABILITIES

EUR millions

	Note	31.12.2015	31.12.2014
Non-current financial liabilities			
Borrowings	*2.11.1*	*49 642*	*49 743*
Other financial liabilities	*2.11.2*	*2 122*	*2 108*
Total		**51 764**	**51 851**
Current financial liabilities			
Borrowings	*2.11.1*	*7 218*	*8 727*
Other financial liabilities	*2.11.2*	*721*	*101*
Total		**7 939**	**8 828**
Total		**59 703**	**60 680**

2.11.1. Borrowings

EUR millions

	31.12.2015	31.12.2014
Borrowings	*56 860*	*58 491*
*Elimination: Guarantee Fund for external actions**	*-*	*(20)*
Total	**56 860**	**58 470**

** At 31.12.2014, the Guarantee Fund for external actions held EFSM bonds issued by the Commission, so these needed to be eliminated.*

Borrowings by financial instrument

EUR millions

	MFA	Euratom	BOP	EFSM	ECSC in Liquid-dation	Total
Total at 31.12.2014	*1 842*	*349*	*8 590*	*47 507*	*203*	*58 491*
New borrowings	*1 245*	*-*	*-*	*12 160*	*-*	*13 405*
Repayments	*(67)*	*(48)*	*(2 700)*	*(12 160)*	*-*	*(14 975)*
Exchange differences	*-*	*-*	*-*	*-*	*13*	*13*
Changes in carrying amounts	*4*	*-*	*(79)*	*2*	*(1)*	*(74)*
Total at 31.12.2015	**3 024**	**301**	**5 811**	**47 509**	**215**	**56 860**
Non-current	*2 937*	*251*	*4 200*	*42 050*	*204*	*49 642*
Current	*87*	*50*	*1 611*	*5 459*	*11*	*7 218*

Borrowings mainly include debts evidenced by certificates amounting to EUR 56 656 million (2014: EUR 58 261 million). The changes in carrying amount correspond to the change in accrued interests.

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

Borrowings	31.12.2015	31.12.2014
Macro Financial Assistance (MFA)	*0 % - 4.54 %*	*0.181 % - 4.54 %*
Euratom	*0 % - 5.6775 %*	*0.138 % - 5.6775 %*
Balance of Payment (BOP)	*2.375 % - 3.625 %*	*2.375 % - 3.625 %*
European Financial Stability Mechanism (EFSM)	*0.625 % - 3.75 %*	*1.875 % - 3.750 %*
ECSC in Liquidation	*6.92 % - 9.78 %*	*6.92 % - 9.78 %*

2.11.2. Other financial liabilities

EUR millions

	31.12.2015	31.12.2014
Non-current		
Finance lease liabilities	*1 648*	*1 674*
Buildings paid for in instalments	*352*	*371*
Financial guarantee liability relating to the European Fund for Strategic Investments (EFSI)	*–*	*-*
Other	*122*	*63*
Total	**2 122**	**2 108**
Current		
Fines to be reimbursed	*625*	*–*
Finance lease liabilities	*75*	*81*
Buildings paid for in instalments	*21*	*20*
Total	**721**	**101**
Total	*2 842*	*2 209*

Finance lease liabilities

EUR millions

Description	Future amounts to be paid			
	< 1 year	1-5 years	> 5 years	Total Liability
Land and buildings	*69*	*385*	*1 256*	*1 711*
Other tangible assets	*6*	*7*	*–*	*13*
Total at 31.12.2015	**75**	**392**	**1 256**	**1 723**
Interest element	*57*	*265*	*352*	*674*
Total future minimum lease payments at 31.12.2015	**132**	**658**	**1 608**	**2 396**
Total future minimum lease payments at 31.12.2014	*151*	*638*	*1 700*	*2 489*

2.12. PAYABLES

EUR millions

	Gross Amount	Adjust-ments*	Net Amount at 31.12.2015	Gross Amount	Adjust-ments*	Net Amount at 31.12.2014
Cost claims and invoices received from:						
Member States:						
European Agricultural Fund for Rural Development & other rural development instruments	*2 621*	*(230)*	*2 391*	*318*	*(23)*	*295*
European Regional Development Fund & Cohesion Fund	*8 361*	*(950)*	*7 411*	*19 928*	*(2 306)*	*17 622*
European Social Fund	*3 355*	*(2)*	*3 353*	*5 893*	*(272)*	*5 621*
Other	*434*	*(102)*	*332*	*751*	*(93)*	*658*
Private and public entities	*1 928*	*(223)*	*1 705*	*1 718*	*(106)*	*1 612*
Total costs claims & invoices received	**16 699**	**(1 507)**	**15 192**	**28 608**	**(2 800)**	**25 808**
European Agricultural Guarantee Fund	**6 851**	**N/A**	**6 851**	**11 066**	**N/A**	**11 066**
Own Resources Payables	**9 506**	**N/A**	**9 506**	**5 945**	**N/A**	**5 945**
Sundry Payables	**356**	**N/A**	**356**	**156**	**N/A**	**156**
Other	**286**	**N/A**	**286**	**204**	**N/A**	**204**
Total	**33 698**	**(1 507)**	**32 191**	**45 980**	**(2 800)**	**43 180**

** Estimated non-eligible amounts and pending prepayments.*

Payables include cost statements received by the Commission under the framework of grant activities. They are credited for the amount being claimed from the moment the demand is received. If the counterpart is a Member State, they are classified as such. It is the same procedure for invoices and credit notes received under procurement activities. The cost claims concerned have been taken into account through the year-end cut-off procedures. Following these cut-off entries, estimated eligible amounts have therefore been recorded in the accounts as expenses, while the remaining part is disclosed as "Estimated non-eligible amounts and pending prepayments" (see below).

The biggest movement in payables is related to cohesion policy (EUR 10 763 million in 2015 compared to EUR 23 243 million in 2014) and it is mainly due to a lower level of submission of cost statements by Member States for the programming period 2007-2013. The cost statements submitted in relation to the programming period 2014-2020 are also limited because the Member States are delayed in complying with one basic pre-requisite - designating the management and control authorities.

Own resources payables refer to the contribution of Member States to the EU budget to be reimbursed at year-end following the 8th amending budget of 2015. The significant increase compared to last year is due to the late adoption of amending budget 8/2015 which was based on the own resource regulation only paid to Member States in January 2016.

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 non-eligible. The largest amounts concern the Structural Actions DGs. Payables are also reduced by the part of requests for reimbursement received concerning other advances to Member States (see note **2.5.2**) still to pay at year end (EUR 770 million).

Requests for pre-financing

In addition to the above amounts, EUR 711 million of requests for pre-financing have been received and were not yet paid at year-end. According to the EU accounting rules, these amounts are not booked as payables.

2.13. ACCRUED CHARGES AND DEFERRED INCOME

EUR millions

	31.12.2015	31.12.2014
Accrued charges	*67 358*	*55 798*
Deferred income	*869*	*56*
Other	*175*	*118*
Total	**68 402**	**55 973**

The increase in accrued charges is due to the start of implementation of the 2014-2020 MFF where the Commission has estimated costs incurred under the new MFF but where cost claims are not yet received.

The increase in deferred income is due to advance payments of EUR 726 million for own resources contributions. Such payments are rather common – in 2014 EUR 557 million had been paid in advance, but the amount was part of the amounts payable. As of 2015 it was decided that the nature of these amounts is deferred income and should be disclosed as such.

The split of accrued charges is as follows:

EUR millions

	31.12.2015	31.12.2014
European Agricultural Guarantee Fund	*38 263*	*33 667*
European Agricultural Fund for Rural Development & other rural development instruments	*14 806*	*13 414*
European Regional Development Fund and Cohesion Fund	*5 026*	*3 157*
European Social Fund	*2 636*	*976*
Other	*6 627*	*4 584*
Total	**67 358**	**55 798**

NET ASSETS

2.14. RESERVES

EUR millions

	Note	31.12.2015	31.12.2014
Fair value reserve	*2.14.1*	*292*	*238*
Guarantee Fund reserve	*2.14.2*	*2 561*	*2 372*
Other reserves	*2.14.3*	*1 829*	*1 825*
Total		**4 682**	**4 435**

2.14.1. Fair value reserve

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

Movements of the fair value reserve relating to available for sale financial assets during the period:

EUR millions

	2015	2014
Included in fair value reserve	*79*	*135*
Included in the statement of financial performance	*(33)*	*(10)*
Total	**46**	**125**

In addition, an amount of EUR 7 million (2014: EUR 15 million) in the overall movement of the fair value reserve relates to investments accounted for using the equity method.

2.14.2. Guarantee Fund reserve

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

2.14.3. Other reserves

The amount relates primarily to the ECSC in liquidation reserve (EUR 1 534 million) for the assets of the Research Fund for Coal and Steel, which was created in the context of the winding-up of the ECSC.

2.15. AMOUNTS TO BE CALLED FROM MEMBER STATES

EUR millions

Amounts to be called from Member States at 31.12.2014	**62 441**
Return of 2014 budget surplus to Member States	*1 435*
Movement in Guarantee Fund reserve	*189*
Other reserve movements	*26*
Economic result of the year	*13 033*
Amounts to be called from Member States at 31.12.2015	**77 124**

This amount represents that part of the expenses incurred by the EU up to 31 December that must be funded by future budgets. Many expenses are recognised under accrual accounting rules in the year N although they may be actually paid in year N+1 (or later) and therefore funded using the budget of year N+1 (or later). The inclusion in the accounts of these liabilities coupled with the fact that the corresponding amounts are financed from future budgets, results in liabilities greatly exceeding assets at the year-end. The most significant amounts to be highlighted are the European Agricultural Guarantee Fund activities. The majority of the amounts to be called are in fact paid by the Member States in less than 12 months after the end of the financial year in question as part of the budget of the following year.

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