

ANNEX 1: Statement of the Shared Resources Director

I declare that in accordance with the Commission's communication on clarification of the responsibilities of the key actors in the domain of internal audit and internal control in the Commission¹, I have reported my advice and recommendations to the Director-General/Head of Service on the overall state of internal control in the DG/service.

I hereby certify that the information provided in Parts 2 and 3.1 of the present AAR and in its annexes 2 to 5 is, to the best of my knowledge, accurate and exhaustive.

Brussels, 29/03/2011

[signed]

Hans de JONG

¹ SEC(2003)59 of 21.01.2003.

ANNEX 2: Human and Financial resources by ABB activity – DG CLIMA

Code ABB Activity	ABB Activity	Human Resources by ABB activity			decentralised administrative appropriations
		Establishment Plan posts	External Personnel	Total	
07 02	Global Environmental Affairs	25	11	36	522.157
07 03	Implementation of community environmental policy & legislation	96	23	119	2.006.184
07 AWBL-02	Policy Strategy & coordination for CLIMA D.G.	11	0	11	219.856
	Total	132	34	166	2.748.197

ANNEX 2: Human and Financial resources by ABB activity – ENV/CLIMA - SRD

Code ABB Activity	ABB Activity	Human Resources by ABB activity			decentralised administrative appropriations
		Establishment Plan posts	External Personnel	Total	
07 AWBL - 01	Administrative support for ENV D.G.	81	11	92	52.840
	Total	81	11	92	52.840

Annex 3 Financial Reports - DG CLIMA - Financial Year 2010

Table 1 : Commitments

Table 2 : Payments

Table 3 : Commitments to be settled

Table 4 : Balance Sheet

Table 5 : Economic Outturn Account

Table 6 : Average Payment Time Limits

Table 7 : Income

Table 8 : Recovery of undue Payments

Table 9 : Ageing Balance of Recovery Orders

Table 10 : Waivers of Recovery Orders

Table 11 : Negotiated Procedures (excluding Building Contracts)

Table 12 : Summary of Contracts (excluding Building Contracts)

Table 13 : Building Contracts

Table 14 : Contracts declared Secret

Additional comments

TABLE 1: OUTTURN ON COMMITMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Commitment appropriations authorised *	Commitments made	%
		1	2	3=2/1
Title 07 : Environment				
07 01	Administrative expenditure of `Environment, policy area	3,66	3,42	93,48 %
07 03	Implementation of Community environmental policy and legislation	10,10	9,45	93,59 %
Total Title 07		13,76	12,88	93,56 %
Total DG CLIMA		13,76	12,88	93,56 %

* Commitment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous commitment appropriations for the period (e.g. internal and external assigned revenue).

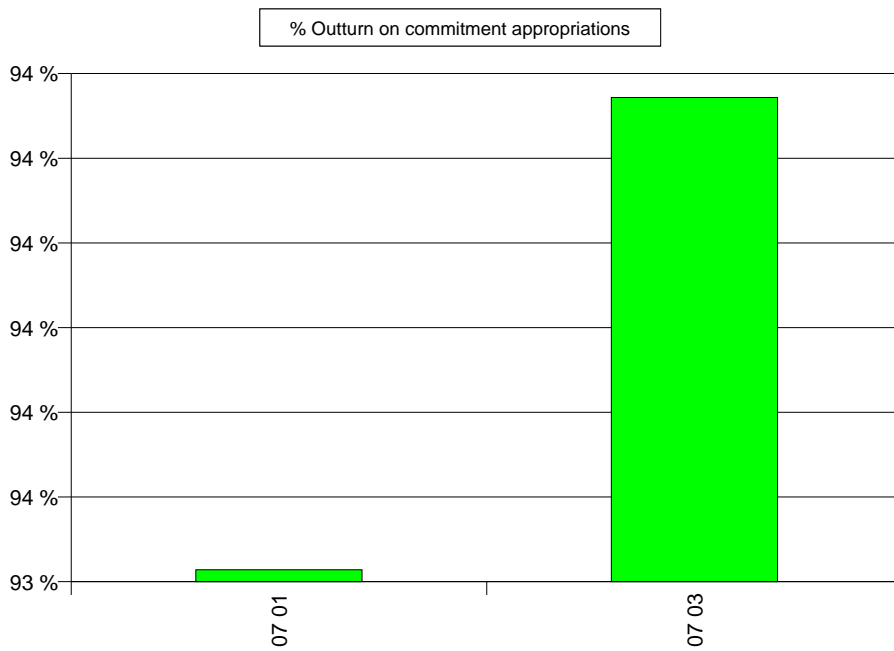


TABLE 2: OUTTURN ON PAYMENT APPROPRIATIONS IN 2010 (in Mio €)				
Chapter		Payment appropriations authorised *	Payments made	%
		1	2	3=2/1
Title 07 : Environment				
07 01	Administrative expenditure of `Environment` policy area	4,99	3,09	61,92 %
07 02	Global environmental affairs	0,46	0,06	13,73 %
07 03	Implementation of Community environmental policy and legislation	6,59	5,47	82,95 %
Total Title 07		12,04	8,62	71,59 %
Total DG CLIMA		12,04	8,62	71,59 %

* Payment appropriations authorised include, in addition to the budget voted by the legislative authority, appropriations carried over from the previous exercise, budget amendments as well as miscellaneous payment appropriations for the period (e.g. internal and external assigned revenue).

% Outturn on payment appropriations

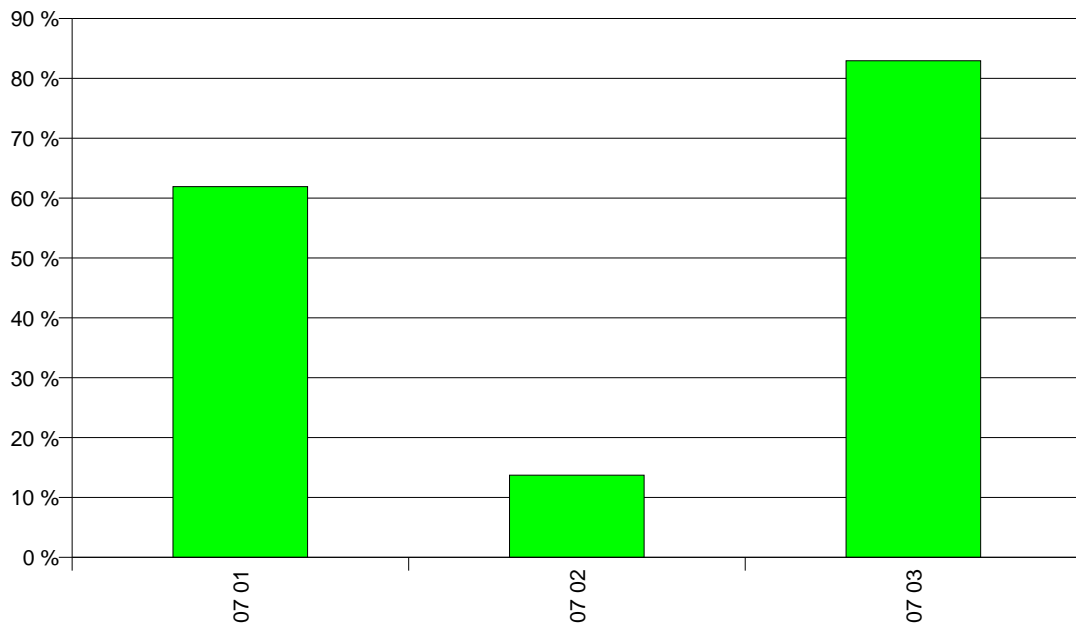
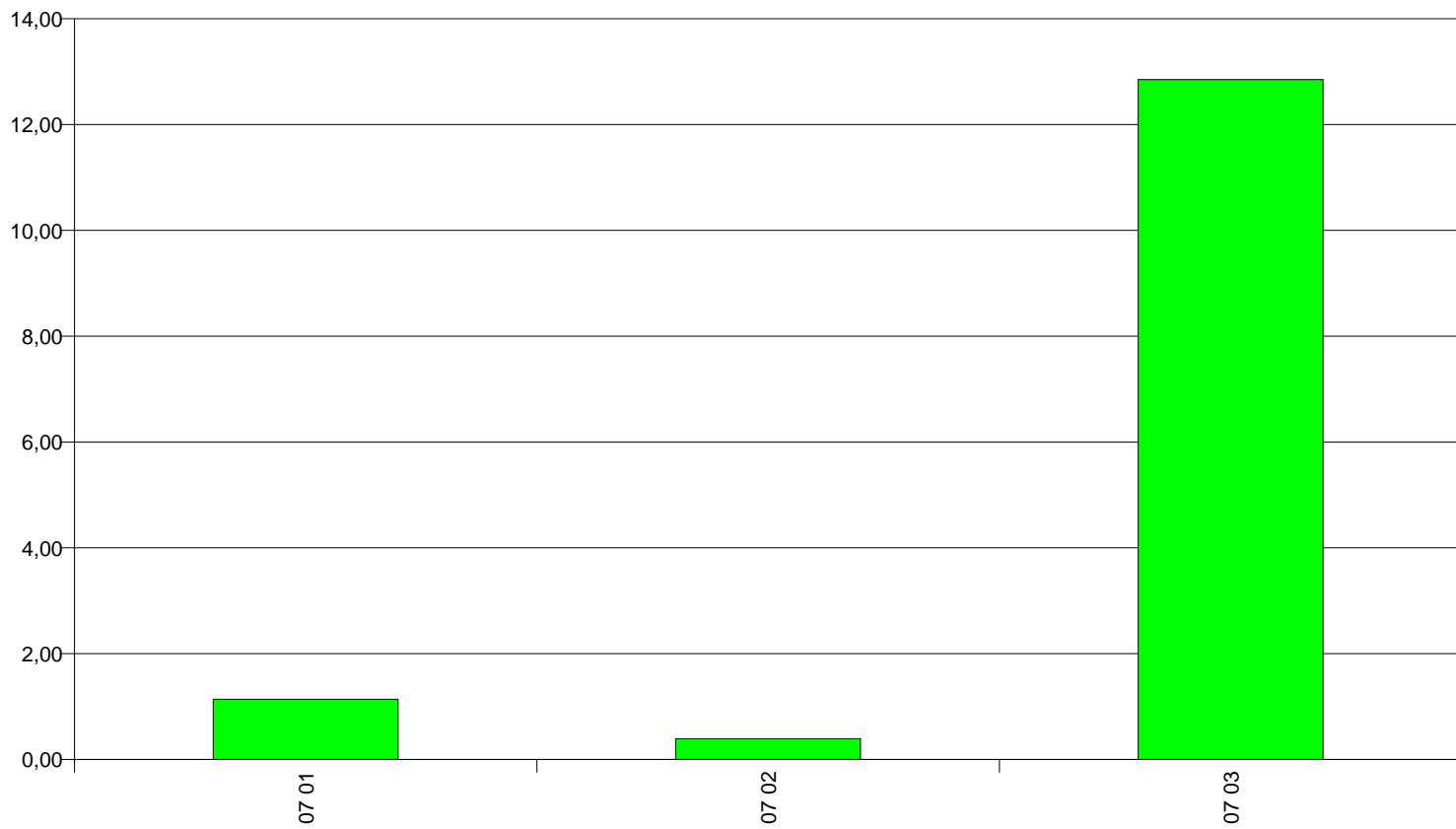


TABLE 3 : BREAKDOWN OF COMMITMENTS TO BE SETTLED AT 31/12/2010 (in Mio €)

Chapter	2010 Commitments to be settled				Commitments to be settled from financial years previous to 2010	Total of Commitments to be settled at end of financial year 2010 (incl.corrections)	Total of Commitments to be settled at end of financial year 2009 (incl.corrections)	
	Commitments 2010	Payments 2010	RAL 2010	% to be settled				
	1	2	3=1-2	4=1-2/1				
Title 07 : Environment								
07 01	Administrative expenditure of `Environment, policy area	3,42	2,29	1,14	33,25 %	0,00	1,14	1,33
07 02	Global environmental affairs	0,00	0,00	0,00	#DIV/0	0,39	0,39	0,46
07 03	Implementation of Community environmental policy and legislation	9,45	1,17	8,28	87,66 %	4,57	12,85	8,87
Total Title 07		12,88	3,45	9,42	73,19 %	4,96	14,38	10,66
Total DG CLIMA		12,88	3,45	9,42	73,19 %	4,96	14,38	10,66

Breakdown of Commitments remaining to be settled (in Mio EUR)



Note : The figures are those related to the provisional accounts and not yet audited by the Court of Auditors

TABLE 4 : BALANCE SHEET CLIMA

BALANCE SHEET	2010	2009
A.I. NON CURRENT ASSETS	432.815,02	
A.I.5. LT Pre-Financing	432.815,02	
A.II. CURRENT ASSETS	3.568.629,24	
A.II.2. Short-term Pre-Financing	3.568.629,24	
ASSETS	4.001.444,26	
P.III. CURRENT LIABILITIES	-3.628.583,99	
P.III.4. Accounts Payable	-3.628.583,99	
LIABILITIES	-3.628.583,99	
NET ASSETS (ASSETS less LIABILITIES)	372.860,27	
P.I.2. Accumulated Surplus / Deficit		
Non-allocated central (surplus)/deficit*		
TOTAL		

* This figure is a balancing amount presented here so as to reflect the fact that the accumulated result of the Commission is not attributed to each DG

It should be noted that the balance sheet and economic outturn account presented in Annex 3 to this Annual Activity Report, represent only the (contingent) assets, (contingent) liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and economic outturn account they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

TABLE 5 : ECONOMIC OUTTURN ACCOUNT CLIMA

ECONOMIC OUTTURN ACCOUNT	2010	2009
II.1 SURPLUS/ DEF. FROM OPERATING ACTIVT	10.375.589,24	
II.1.1. OPERATING REVENUES	638.550,00	
II.1.1.1. Other operating revenue	638.550,00	
II.1.2. OPERATING EXPENSES	9.737.039,24	
II.1.2.1. Administrative Expenses	1.948.344,89	
II.1.2.2. Operating Expenses	7.788.694,35	
II.2. SURPLUS/DEF. NON OPERATING ACTIVIT	-876,89	
II.2. FINANCIAL OPERATIONS	-876,89	
II.2.1. Financial revenue	-4.359,30	
II.2.2. Financial expenses	3.482,41	
ECONOMIC OUTTURN ACCOUNT	10.374.712,35	

It should be noted that the balance sheet and economic outturn account presented in Annex 3 to this Annual Activity Report, represent only the (contingent) assets, (contingent) liabilities, expenses and revenues that are under the control of this Directorate General. Significant amounts such as own resource revenues and cash held in Commission bank accounts are not included in this Directorate General's accounts since they are managed centrally by DG Budget, on whose balance sheet and economic outturn account they appear. Furthermore, since the accumulated result of the Commission is not split amongst the various Directorates General, it can be seen that the balance sheet presented here is not in equilibrium.

Additionally, the figures included in tables 4 and 5 are provisional since they are, at this date, still subject to audit by the Court of Auditors. It is thus possible that amounts included in these tables may have to be adjusted following this audit.

TABLE 6: AVERAGE PAYMENT TIME LIMITS FOR 2010 - DG CLIMA

Legal Times							
Maximum Payment Time (Days)	Total Number of Payments	Nbr of Payments within Time Limit	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
30	164	143	87,20 %	15,17	21	12,80 %	45,86
45	15	11	73,33 %	22,09	4	26,67 %	93,00
Total Number of Payments	179	154	86,03 %		25	13,97 %	
Average Payment Time	20,93			15,66			53,40

Target Times							
Target Payment Time (Days)	Total Number of Payments	Nbr of Payments within Target Time	Percentage	Average Payment Times (Days)	Nbr of Late Payments	Percentage	Average Payment Times (Days)
20	1	1	100,00 %	14,00			
30	178	151	84,83 %	15,44	27	15,17 %	51,89
Total Number of Payments	179	152	84,92 %		27	15,08 %	
Average Payment Time	20,93			15,43			51,89

Suspensions							
Average Report Approval Suspension Days	Average Payment Suspension Days	Number of Suspended Payments	% of Total Number	Total Number of Payments	Amount of Suspended Payments	% of Total Amount	Total Paid Amount
11	18	21	11,73 %	179	940.576,23	9,17 %	10.253.644,81

Late Interest paid in 2010			
DG	GL Account	Description	Amount (Eur)
DG CLIMA	65010100	Interest on late payment of charges New FR	3 482,41
			3 482,41

TABLE 7 : SITUATION ON REVENUE AND INCOME IN 2010								
Chapter		Revenue and income recognized			Revenue and income cashed from			Outstanding balance
		Current year RO	Carried over RO	Total	Current Year RO	Carried over RO	Total	
		1	2	3=1+2	4	5	6=4+5	
Title 5: REVENUE ACCRUING FROM THE ADMINISTRATIVE OPERATION OF THE INSTITUTION								
52	REVENUE FROM INVESTMENTS OR LOANS GRANTED, BANK AND OTHER INTEREST	4.359,30	0,00	4.359,30	4.359,30	0,00	4.359,30	0,00
	Total Title 5	4.359,30	0,00	4.359,30	4.359,30	0,00	4.359,30	0,00
Total DG CLIMA		4.359,30	0,00	4.359,30	4.359,30	0,00	4.359,30	0,00

Note : The figures are those related to the provisional accounts and not yet audited by the Court of Auditors

Annex 3 Financial Reports - DG CLIMA
Report printed on 21/03/2011

**TABLE 8 : RECOVERY OF UNDUE PAYMENTS
(Number of Recovery Contexts and corresponding Transaction Amount)**

RECOVERY ORDERS ISSUED IN 2010 Year of Origin (commitment)	TOTALS	
	Nbr	RO Amount

EXPENSES

	Nbr	Amount
INCOME LINES IN INVOICES	0	

	Irregularity	
	Nbr	Non-Eligible Amount
NON ELIGIBLE AMOUNT IN COST CLAIMS	1	11.585,79

	Error		Irregularity		No error / irregularity	
	Nbr	Credit Note Amount	Nbr	Credit Note Amount	Nbr	Credit Note Amount
CREDIT NOTES	3	-10.811,37	1	-22.080,00	2	-2,29

Note : The figures are those related to the provisional accounts and not yet audited by the Court of Auditors. The provisional closure will be based on the recovery context situation at 28/02/2011.

TABLE 9: AGEING BALANCE OF RECOVERY ORDERS AT 31/12/2010 FOR CLIMA

Year of Origin	Number at 01/01/2010	Number at 31/12/2010	Evolution	Open Amount (Eur) at 01/01/2010	Open Amount (Eur) at 31/12/2010	Evolution
Totals						

TABLE 10 : RECOVERY ORDER WAIVERS IN 2010 >= EUR 100.000

	Waiver Central Key	Linked RO Central Key	RO Accepted Amount (Eur)	LE Account Group	Commission Decision	Comments
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Total DG CLIMA	
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Number of RO waivers	0
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J u s t i f i c a t i o n s :

No data to be reported

TABLE 11 : CENSUS OF NEGOTIATED PROCEDURES - DG CLIMA - YEAR 2010**Contracts > 60.000**

Negotiated Procedure Legal base	Number of Procedures	Amount (€)
Art. 126 1b	2	969.016,97
Total	2	969.016,97

TABLE 12 : SUMMARY OF PROCEDURES OF DG CLIMA EXCLUDING BUILDING CONTRACTS

Internal procedures > € 60,000	2009		2010	
Contract Class	Count	Amount (€)	Count	Amount (€)
Service	20	4.431.382,89	25	6.429.667,57
TOTAL	20	4.431.382,89	25	6.429.667,57
Procedure Type	Count	Amount (€)	Count	Amount (€)
Negotiated Procedure with at least one candidate (Art 129.3 IR)	1	129.988,00		
Negotiated Procedure without publication of a contract notice Art. 126 IR			2	969.016,97
Open Procedure (Art. 122.2 IR)	13	3.664.259,89	12	3.663.020,60
Restricted Procedure(Art. 122.2 IR)			2	237.400,00
Service - Negotiated Procedure with a single offer (Art. 242 IR)	1	100.000,00		
Restricted Procedure involving a call for expressions of interest (AMI) (Art. 128 IR)	5	537.135,00	9	1.560.230,00
TOTAL	20	4.431.382,89	25	6.429.667,57

External procedures > € 10,000	2010	
Contract Class	Count	Amount (€)
Service	3	3.398.600,00
TOTAL	3	3.398.600,00
Procedure Type	Count	Amount (€)
Service-International Restricted Procedure with four to eight tenderers after prior pub. (Art. 241.1&2 IR)	3	3.398.600,00
TOTAL	3	3.398.600,00

Additional comments

TABLE 13 : BUILDING CONTRACTS

Total number of contracts :	0
Total amount :	

Legal base	Contract Number	Contractor Name	Description	Amount (€)
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No data to be reported

TABLE 14 : CONTRACTS DECLARED SECRET

Total Number of Contracts :	0
Total amount :	

Legal base	Contract Number	Contractor Name	Type of contract	Description	Amount (€)
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No data to be reported

ANNEX 4: Materiality criteria

1. *Qualitative criteria for defining significant weaknesses*

The different parameters relevant in DG CLIMA for determining significant weaknesses are the following ones:

- **Significant control system weaknesses:** significant control system weakness detected during the period in reports made by IAC, IAS, ECA, DG BUDG or in the annual reports from Authorizing officers by subdelegation. Those reports do not reveal any material qualitative weakness of the control system for 2010.
- **Significant shortcoming in Internal control standards** appearing in the yearly survey on Internal control standards implementation by management. The survey for 2010 did not reveal significant systematic shortcomings.
- **Insufficient audit coverage and/or inadequate information from internal control systems.** The audit coverage was sufficient. However as DG CLIMA manages mainly procurements no systematic ex-post audits of beneficiaries of grants is foreseen. No inadequate information was reported from internal control systems.
- **Critical issues outlined by the European Court of Auditors, the Internal Audit Service and OLAF.** No critical recommendations were made by the ECA, the IAS or OLAF.
- **Overall opinion of the SIAC:** the SIAC did not reveal any shortcoming or systemic weakness in its audits.

Potential **reputational risks:** a reputational risk has been identified concerning the Emission trading scheme. The risk materialised in an event occurred in 2010. The significance of the event was assessed against the following 3 criteria: political importance of the event, breadth of awareness of the events and duration. Then, an assessment in order to issue a reservation was made according the three following qualitative criteria:

- does the deficiency fall within the scope of the AOD declaration?
- is the deficiency significant in qualitative terms?
- is there a significant reputational event?

As the answers to those three questions were: "yes", it was decided to issue a reservation for this reputational event.

2. *Quantitative criteria for defining reservations*

The quantitative criterion is used to define if a reservation has to be made on the grants managed by the DG. The materiality of the risk appears when the conclusion of an **ex-post audit of those grants** recommends the need to establish a recovery order due to ineligibility of costs, false declarations of expenditures or work not implemented as declared.

However, DG CLIMA manages very few grants. On 2010, from a total of 202 payments, only 9 payments (less than 5%) were made on grants. On those payments only three were final payments. They represented only 2, 44% of the total amount of payments made by the DG. Those payments concerns mainly the ENRTP programme subdelegated from DEVCO. So there is not enough payments on grants to justify a systematic ex-post audits approach in view of the declaration of assurance.

Only audits based on suspicion of mismanagement and fraud will be conducted. If the results of those audits would led to recommend the recovery of an amount superior to 2% of the budget of the activity a reservation would have been issued.

ANNEX 5:

ICT N°1:

Management mode:

Direct centralized management.
 Majority are procurement files
 Grants awarded with no intermediaries.
 Reimbursement of actual eligible costs.
 Co-financing required.

Key figures:

Commitments

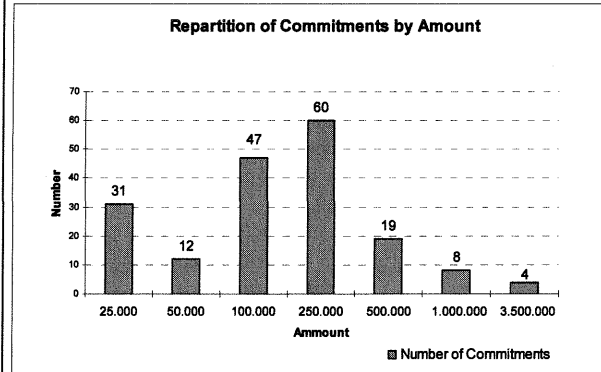
DG CLIMA had 181 open commitments at end of 2010 for a total of €35.373.239. The largest number of commitments (60) are those with individual values between €100.000 and €250.000 (sum of values €9.467.305). They account for 33,15% of the total number of commitments and 26,76% of the total value. There are a considerable number (47) with individual values between €50.000 and €100.000 making up 25,97% of the total number and 10,11% of the amount.

By far the most numerous category are commitments made for services (SEA, SER and SEI* 126 for a value of €23.781.481). They secure 69,61% of the total number and 67,22% of the total amount. Grants for Actions/ Projects mostly consisting of commitments made under ENRTP. Represent 11,05% of the total number and 22,97% of the total sum of commitments.

Payments:

In 2010 DG CLIMA made 202 payments for a total value of €11.581.151. It can be observed that there are a very high number of payments made for very small sums. There are 40 payments for sums under €500 representing close to 20% of the total number of payments but less than 0,1% of the total amount. Payments of less than €25 000 represent more than half of the number of payments for less than 3% of the total amount.

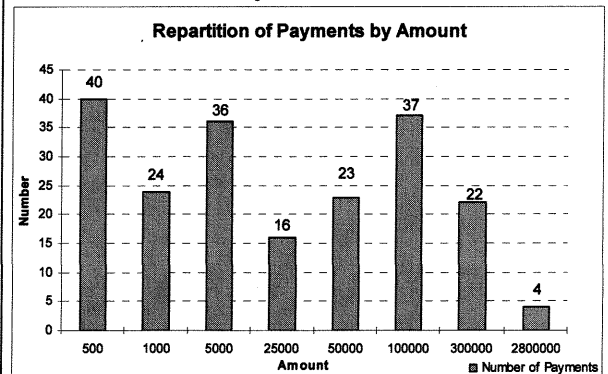
Commitments



Amount (€)	Number	Share (%)	Value	Share (%)
≤ 25.000	31	17,13%	327.248	0,93%
≤ 50.000	12	6,63%	469.807	1,33%
≤ 100.000	47	25,97%	3.577.231	10,11%
≤ 250.000	60	33,15%	9.467.305	26,76%
≤ 500.000	19	10,50%	7.717.168	21,82%
≤ 1.000.000	8	4,42%	6.060.338	17,13%
≤ 3.500.000	4	2,21%	7.754.147	21,92%
Total	181	100%	35.373.239	100%

Type*	Number	Share(%)	Value (€)	Share(%)
AUT	23	12,71%	2.727.706,8	7,71%
COI	3	1,66%	145.490,0	0,41%
ETU	6	3,31%	590.647,6	1,67%
IRE	3	1,66%	2.495,6	0,01%
SEA	107	59,12%	20.637.204,7	58,34%
SEI	18	9,94%	2.491.677,4	7,04%
SER	1	0,55%	652.599,0	1,84%
SUP	20	11,05%	8.125.417,5	22,97%
Total	181	100%	35.373.238,6	100%

Payments



Roughly half of the payments are categorized as Other Expenses but they make only up to 7,20% of the total value paid during 2010. Payments for Services represent 43, 07 % of the number of payments for a total value of 58,58% of the overall amount. There are only 9 payments for grants for actions but they represent 33.41% of the total amount paid.

The most common type of payment is the Single Payment. There are 114 such payments (56,44% of the total number) for a value of €1.169.699.84 which is only 10,1% of the total value. Prefinancings represent half of the total amount paid during 2010 while final Payments represent close to a quarter of the total amount paid.

Out of the 202 payments 87% were made within the legal delay. This is a good result if we take in consideration the delayed creation of the dedicated management fund centre in ABAC. The average payment delay was 20 days.

Amount (€)	Number	Share (%)	Value (€)	Share (%)
≤ 500	40	19,80%	8.232	0,07%
≤ 1.000	24	11,88%	16.080	0,14%
≤ 5.000	36	17,82%	95.773	0,83%
≤ 25.000	16	7,92%	192.354	1,66%
≤ 50.000	23	11,39%	888.551	7,67%
≤ 100.000	37	18,32%	2.731.970	23,59%
≤ 300.000	22	10,89%	3.502.787	30,25%
≤ 2.800.000	4	1,98%	4.145.402	35,79%
Total	202	100,00%	11.581.151	100,00%

Type	Number	Share (%)	Value (€)	Share (%)
AUT	102	50,50%	833.299,14	7,20%
COI	0	0,00%	-	0,00%
ETU	1	0,50%	90.991,60	0,79%
IRE	3	1,49%	2.495,58	0,02%
SEA	64	31,68%	4.852.995,88	41,90%
SEI	21	10,40%	1.409.788,83	12,17%
SER	2	0,99%	522.079,20	4,51%
SUP	9	4,46%	3.869.501,21	33,41%
Total	202	100%	11.581.151,44	100%

Type	Number	Share (%)	Value (€)	Share (%)
Final Payment	33	16,34%	2.731.880,61	23,59%
Interim Payment	16	7,92%	1.886.802,29	16,29%
Prefinancing TP	39	19,31%	5.792.768,40	50,02%
Single payment	114	56,44%	1.169.699,84	10,10%
Total	202	100%	11.581.151,14	100%

	NO	YES	Total
Total Count of Payment	26	176	202
Total Sum of Payment	1.687.600	9.893.551	11.581.151
Total Average of Payment Processing Days (incl.Stops)	53	15	20

Management and control systems : stages and main actors

Selection process (of beneficiaries, intermediaries, agencies, contractors etc), including **preventive** measures

Characteristics of the selection process of beneficiaries

- *Proposals are selected according to their professional credentials and financial capacity/stability and other criteria imposed by the legal basis.*
- *Beneficiaries are also checked against a legal entity list and the Early Warning System.*

* AUT - Autres Depenses, COA - Consultants Autres, COI - Consultants Inform, ETU – Etudes, FOA - Fournitures Autres, IRE - Interets de retard, SEA - Prest. Service Autres, SEI - Prest. Service Inform, SER - Services autres –Inactif, SUF - Subventions de Fonctionnement, SUP - Subventions Actions/Projets

<p>Communication and information measures to improve the quality of financial management and provision of supporting data by beneficiaries, contractors and intermediaries</p>	<p>Description of the DG communication strategy towards beneficiaries, internal proceedings</p> <ul style="list-style-type: none"> • Program website • Information meeting with beneficiaries • Kick-off meeting with contractors • Monitoring missions by staff of the DG or external experts. Use of Commission contractual templates adapted and approved by DG BUDG. • Direct contact with project and financial officers at the Commission to resolve particular queries.
<p>Detective and corrective controls: Checks and monitoring during the initial phases of the programme/contract Checks and monitoring during the final/ closure phases of the programme/contract</p>	<p>Controls before and during the implementation period of the projects</p> <ul style="list-style-type: none"> • Control provisions provided in the contracts (penalty, recovery clauses, termination, etc...) • Review and checks during the contract preparation phase of technical action plan and budget in view of consistency and plausibility; • Desk checks of expenditure based on supporting documents, including progress reports, final technical implementation report (compared with the total amount of transactions of the year). • Controls carried out by operational units on technical implementation report in order to deliver the "conforme aux faits" • Controls carried out by financial units on financial and legal matters in order to deliver the "bon à payer", • At any time during the implementation period, the Commission can carry out on the spot controls and/or audits with substantive testing of a sample of transactions. • Mid-term review of each programme, taking account of the report of an external evaluator, followed by changes to improve the value for money or the impact of its activities.
<p>Preventive and corrective controls and audit: Desk reviews, on-the-spot audits carried out either <i>ex-ante</i> or <i>ex-post</i>.</p>	<p>Controls at the end of the project</p> <ul style="list-style-type: none"> • Control provisions provided in the contracts (penalty, recovery clauses, termination, ex post controls and/or audit.) • At any time during the 5 years after final payment, the Commission can carry out on the spot controls and/or audits with substantive testing of a sample of transactions.
<p>Feedback which enables control activities to be optimised</p>	
<p>Verification that processes are working as designed</p>	<ul style="list-style-type: none"> • Annual surveys to management and summary reviews and discussion during Director's and Management' coordination meetings.
<p>Monitoring of performance of independent bodies, 3rd party auditors, externally contracted auditors</p>	<p>NA</p>

High level management reporting (e.g. to the Director General and its role in monitoring problem issues)

- *The political priorities of the Commission are transposed into specific objectives in the DG's Annual Management Plan*
- *Description of reporting system*
Yearly reporting by the authorizing officers by sub-delegation to the Director General in the framework of the AMP cycle. Implementation of the key actions to be carried out and the progress achieved on the relevant targets and indicators appropriate to each action are monitored through the review of the AMP.
- *The progress made during the year is reported in the Annual Activity Report (AAR), and eventually the Synthesis report for the Commission as a whole.*