BUFI

FINANCIAL STATEMENTS
AS AT 31 DECEMBER 2011

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To the Commission of the European Communities
Represented by the Director of the Directorate Financial operations, programme management and liaison with the EIB Group-
Economic and Financial Affairs DG (DG ECFIN)

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the financial statements

We have audited the accompanying financial statements of BUFI managed by the Economic and Financial Affairs DG (DG ECFIN) on behalf of the European Commission (the "Commission"), which comprise the balance sheet as at December 31, 2011, and the economic outturn account, statement of changes in equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

DG ECFIN's Management responsibility for the financial statements

DG ECFIN's Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting rules applicable to the European Communities set out in note 2, and for such internal control as DG ECFIN's Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the réviseur d'entreprises agréé

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier*. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Société à responsabilité limitée au capital de 35.000 €
RCS Luxembourg B 67.895
Autorisation d'établissement : 10022179

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An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the *réviseur d'entreprises agréé's* judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, *the réviseur d'entreprises agréé* considers internal control relevant to the entity's preparation and fair presentation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by DG ECFIN's Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of BUFI as of December 31, 2011 and its financial performance and its cash flows for the year then ended, in accordance with the accounting rules applicable to the European Communities set out in note 2.

Without qualifying our opinion, we emphasize that the accounting policies used and disclosures made are not intended to, and do not, comply with all the requirements of the International Financial Reporting Standards.

For Deloitte Audit, *Cabinet de révision agréé*

Martin Flaunet *Réviseur d'entreprises agréé*
Partner

April 10, 2012

Economic outturn account for the year ended 31 December 2011

(amounts expressed in EUR)

	Notes	2011	2010
		EUR	**EUR**
Financial operations revenues		**20.308.720,04**	**1.432.928,44**
Interest income	2.4.1	17.166.283,78	1.432.928,44
Interest income on cash and cash equivalents		*193.250,29*	*113.514,15*
Interest income on Term Deposits over 3 Months		*2.320.170,90*	*409.904,56*
Interest income on financial assets at amortized cost		*14.652.862,59*	*909.509,73*
Other financial income		3.142.266,47	
Realised revenues on sale of AFS assets		*3.142.266,47*	
Other financial income		169,79	0,00
Other financial income		*169,79*	
Financial operations expenses		**237.972,08**	**173.201,35**
Interest expenses	2.4.1	0,00	1.867,13
Interest expenses on financial liabilities		*0,00*	*1.867,13*
Other financial charges		0,00	83.758,30
Realised losses on sale of AFS assets		*0,00*	*83.758,30*
Other Financial expenses	2.4.2	237.972,08	87.575,92
IT Costs		*58.169,00*	*50.241,00*
Custody Fees Clearstream		*161.798,53*	*19.334,92*
Audit fees		*18.000,00*	*18.000,00*
Other financial expenses		*4,55*	*0,00*
ECONOMIC RESULT OF THE YEAR		**20.070.747,96**	**1.259.727,09**

The accompanying notes form an integral part of these financial statements.

Balance sheet as at 31 December 2011
(amounts expressed in EUR)

ASSETS

	Notes	2011	2010
		EUR	EUR
CURRENT ASSETS		**1.478.077.930,16**	**528.495.990,60**
Short-term investments		**1.358.318.943,96**	**514.995.618,97**
Available For Sales Securities	2.3.1, 4	1.358.318.943,96	514.995.618,97
Short-term receivables		**119.606.981,11**	**12.921.959,73**
Term Deposits between 3 Months and 1 Year	2.3.2, 5	119.606.981,11	12.921.959,73
Cash and cash equivalents	**2.3.3, 6**	**152.005,09**	**578.411,90**
TOTAL		**1.478.077.930,16**	**528.495.990,60**

LIABILITIES

	Notes	2011	2010
		EUR	EUR
EQUITY		**29.744.911,48**	**1.412.742,63**
Change in fair value		**8.414.436,43**	**153.015,54**
Bufi reserve (special reserve)		**1.259.727,09**	**0,00**
Economic result of the year		**20.070.747,96**	**1.259.727,09**
NON CURRENT LIABILITIES		**1.358.300.495,99**	**526.959.095,99**
Financial liabilities	2.3.4	**1.358.300.495.,99**	**526.959.095,99**
Fines received	9, 10	1.358.300.495,99	526.959.095,99
CURRENT LIABILITIES		**90.032.522,69**	**124.151,98**
Accounts Payables		**90.032.522,69**	**124.151,98**
Current payables	8	90.032.522,69	124.151,98
TOTAL		**1.478.077.930,16**	**528.495.990,60**
Contingent Liabilities	**9**	**1.386.014.949,88**	**527.910.635,78**

The accompanying notes form an integral part of these financial statements.

Cash flow statement (direct method) as at 31 December 2011

(amounts expressed in EUR)

	Notes	2011	2010
		EUR	**EUR**
Cash flow from operating activities	**11**		
Fines received		1.381.732.111,56	971.374.994,47
Fines transferred to DG Budget		(460.440.711,56)	(444.365.898,48)
Interest income		18.936.868,32	501.458,98
Purchase securities	4	(1.882.358.379,28)	(602.868.599,95)
Sales and maturities securities	4	1.046.186.099,69	88.851.747,95
Bank costs		169,79	(1.867,13)
Custody fees		(153.186,82)	(13.423,94)
Audit fees		(18.000,00)	0,00
IT Cost		(108.410,00)	0,00
Purchase MM		(1.097.040.000,00)	(576.321.500,00)
Sales MM		992.837.031,49	563.421.500,00
Net cash flow from operating activities		(426.406,81)	578.411,90
Net decrease/increase in cash and cash equivalents		(426.406,81)	578.411,90
Cash and cash equivalents at 1 January	**6**	***578.411,90***	***0,00***
Cash and cash equivalents at 31 December	**6**	***152.005,09***	***578.411,90***

Statement of changes in equity as at 31 December 2011

(amounts expressed in EUR)

Equity	Fair-value reserve	BUFI reserve	Economic result of the year	Equity (total)
	EUR	**EUR**	**EUR**	**EUR**
Balance as of 31.12.2010	**153.015,54**	**0,00**	**1.259.727,09**	**1.412.742,63**
Transfer to General Budget	0,00	0,00	0,00	0,00
Economic result of the year 2011	0,00	0,00	20.070.747,96	20.070.747,96
Transfer to BUFI reserve	0,00	1.259.727,09	(1.259.727,09)	0,00
Fair-value reserve	8.261.420,89	0,00	0,00	8.261.420,89
Balance as of 31.12.2011	**8.414.436,43**	**1.259.727,09**	**20.070.747,96**	**29.744.911,48**

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

Note 1 - General Information

BUFI is an internal policy-based financial instrument created, following the Commission Decision C(2009) 4264, for the management of provisionally cashed "competition" fines.

For this purpose the fines shall be invested on the capital markets in a BUFI Fund which is kept separate from the other portfolios managed by DG ECFIN. The Fund does not exist as a separate legal entity. It is an investment portfolio as agreed and governed by a Service Level Agreement (SLA) signed in December 2009 between DG BUDG and DG ECFIN. The Fund shall aim for a portfolio Duration of one year with a possible deviation in both directions of up to 3 months.

The asset management is supervised by a Treasury Management Committee (TMC). The same standards of diligence and care shall apply as for other DG ECFIN managed funds. The annual investment strategy for the Fund and other strategic decisions shall be taken at the level of the TMC.

The implicit capital of the fines received and the Guaranteed Return, based on the performance of a specific benchmark[1] and calculated for the period of investment, are based on the assumption that each fine is to be managed for a minimum of 22 months. Fines which will be managed less than 22 months will be guaranteed at a lower rate reflecting the higher risk for the capital protection.

The Fund had been set up since 1 January 2010 and became active in August 2010 with the first inflow of fines.

Note 2 - Accounting policies

2.1. Legal provisions and the Financial Regulation

As the BUFI Fund is part of the Commission's Annual Accounts, the accounts are kept in accordance with Council Regulation (EC, Euratom) No 1605/2002 of 25 June 2002 (OJ L 248 of 16 September 2002, p. 1, with a corrigendum in OJ L 25 of 30 January 2003, p. 43) on the Financial Regulation applicable to the general budget of the European Communities and Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of this Financial Regulation.

The article 133 of the Financial Regulation states that the Accounting Officer of the Commission adopts the accounting rules and methods and the harmonised Chart of Accounts to be applied by all the institutions. In this framework, he adopted the EC “new” Accounting Rules on 28 December 2004 which were subsequently updated in October 2006, December 2008, December 2009 and in December 2010. The accrual-based accounting policy is inspired by International Public Sector Accounting Standards (IPSAS) or by default, International Financial Reporting Standards (IFRS) as respectively issued by the International Public Sector Accounting Standard Board and International Accounting Standard Board (IASB).

The valuation and accounting rules adopted by the Accounting Officer of the Commission are applied in all the European Institutions and bodies currently 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.

2.2. Currency and basis for conversion

2.2.1. Functional and reporting currency

The financial statements are presented in euro (EUR), which is the Entity's functional and reporting currency. All accounting records are maintained in that currency.

[1] The BUFI benchmark has a duration of around 1 year and is a composite index composed of four pillars: (a) 3 months euro sovereign (15%), (b) 6 months euro sovereign (20%), (c) 1 year euro sovereign (40%) and (d) 2 year euro sovereign (25%).

Notes to the financial statements

2.2.2. Transactions and balances

Foreign currency transactions are translated into euros using the exchange rates prevailing at the month of the transactions.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the economic outturn account.

2.3. Balance sheet

2.3.1. Available-for-sale securities

Available-for-sale financial assets are non-derivative financial instruments that are either designated in this category or not classified in the following other categories: financial assets through profit or loss, loans and receivables and held-to-maturity investments.

Purchases and sales of available-for-sale financial assets are recognised on trade date – the date on which the BUFI Fund commits to purchase or sell the asset. Available-for-sale financial assets are initially recognised at fair value, which is normally the transaction price (i.e. the fair value of the consideration received) plus transaction costs and are subsequently re-measured at their fair value.

Changes in the fair value of monetary financial assets denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the asset and other changes in the carrying amount of the asset. The translation differences are recognised in the income statement and other changes in the carrying amount are recognised in equity. Changes in the fair value of non-monetary financial assets classified as available-for-sale are recognised in equity.
When financial assets classified as available-for-sale are sold or impaired, the cumulative fair value adjustments previously recognised in equity are recognised in the income statement.

Interest on available-for-sale financial assets calculated using the effective interest rate method is recognised in the income statement.

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 BUFI Fund establishes a fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

The BUFI Fund assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

2.3.2. Short-Term 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 BUFI Fund provides money to a debtor with no intention of trading the receivable. They are included in current assets for maturities within 12 months of the balance sheet date.

Term deposits with banks with an initial maturity of more than 90 days and less than 12 months are considered as short-term loans.

2.3.3. Cash and cash equivalents

Cash and cash equivalents are defined as short term. They include cash in hand, deposits held at call with banks (maximum duration 90 days), other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within financial liabilities under current liabilities on the balance sheet.

Deposits held at call with banks having a longer duration than 90 days are shown under short term loans.

2.3.4. Financial liabilities

Financial liabilities are composed of "fines received". Under this item are shown the provisionally cashed fines from the companies awaiting final judgment of a Community Court.

Revenue from fines is recognised in the central accounts of the European Commission when the Commission's decision imposing a fine has been taken and it is officially notified to the addressee.

Fines cashed and invested by DG ECFIN through the BUFI, in line with the SLA, are considered as a liability to the EU budget.

2.4. Economic outturn account

2.4.1. Interest income and expense

Interest income and expense are recognised in the economic outturn account using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the instrument (or, when appropriate, a shorter period) to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Entity estimates cash flows considering all contractual terms of the instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and commissions 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 used to discount the future cash flows for the purpose of measuring the impairment loss.

2.4.2. Other financial expenses

When the Commission decision concerning a fine is annulled, in whole or in part, by a judgment of a Community Court, the part of the nominal amount of the fine and plus the Guaranteed Return thereon has to be paid to the company. The amount of the Guaranteed Return is booked as a financial expense.

Note 3 - Financial risk management

3.1. Risk management policies and hedging

The asset management is carried out by the Commission in accordance with internal guidelines and the asset management guidelines which are included in the SLA signed in December 2009 between DG BUDG and DG ECFIN. Written procedures manuals covering specific areas such as treasury management have been developed and are used by the relevant operating units. Financial and operational risks are identified and evaluated and compliance with internal guidelines and procedures is checked regularly.

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

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

(b) aiming at delivering under normal circumstances a return which on average is equal to the return of the BUFI Benchmark minus costs incurred.

Investments are restricted basically to the following categories: **term deposits** with euro-zone Central Banks, euro-zone sovereign debt agencies, fully state-owned or state-guaranteed banks or supranational institutions; **bonds, bills and Certificates of Deposit** issued by sovereign entities creating a direct euro-zone sovereign exposure or which are issued by supranational institutions.

The main investment limits are as follows:

- For benchmark countries (currently France and Germany, rated AAA/Aaa): up to 100% of the portfolio;
- For other authorised issuers (a minimum rating of Aa2 (Moody's or equivalent) is required): up to 25% of the portfolio.

3.2. Market risk

The BUFI Fund is exposed to market risk due to investments in debt securities classified on the balance sheet as available for sale.

3.2.1. Currency Risk

Currency risk is the risk that the EU's operations or its investments' value will be affected by changes in exchange rates. This risk arises from the change in price of one currency against another.
The financial assets are in EUR so there is no currency risk.

3.2.2. Interest rate risk

Interest rate risk is the possibility of a reduction in the value of a security, especially a bond, resulting from a rise in interest rates. In general, as rates rise, the price of a fixed rate bond will fall, and vice versa.

3.2.2.1. Debt securities

There are no bonds with variable interest rates in the BUFI portfolio. 34% of the bond portfolio at the balance sheet date are zero coupon bonds.

3.3. Credit risk

The Entity takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due.

The highest concentration of exposure is towards France and Germany as each of these countries represents respectively 63% and 26% of the total volume of the portfolio.

Notes to the financial statements

Note 4 - Available-for-sale securities

(EUR)

	Debt securities
Amount at 31 December 2010	**514.995.618,97**
Acquisitions	1.864.396.704,88
Disposals and maturities	(1.042.141.760,00)
Change in carrying amount	21.068.380,11
Amount at 31 December 2011	1.358.318.943,96

Details of the available-for-sale portfolio (by type of securities) at the balance sheet date are as follows:

(EUR)

Type	31 December 2011	31 December 2010
Debt securities - at fair value		
Zero coupon bonds	460.960.669,00	351.617.397,20
Fixed rate bonds	881.539.749,80	161.839.247,46
Total	1.342.500.418,80	513.456.644,66
Accruals	15.818.525,16	1.538.974,31
Total debt securities	1.358.318.943,96	514.995.618,97
Total available-for-sale portfolio	1.358.318.943,96	514.995.618,97

Debt securities

At 31 December 2011, all investments are denominated in EUR and quoted in an active market.

Note 5 - Short-term receivables

Other receivables are composed of Term Deposits between 3 Months and 1 year.

	31/12/2011 EUR	31/12/2010 EUR
Short Term Receivables	*119.606.981,11*	*12.921.959,73*
Short-term deposits between 3 Months and 1 year	119.600.000,00	12.900.000,00
Accruals	6.981,11	21.959,73
Total	**119.606.981,11**	**12.921.959,73**

Notes to the financial statements

Note 6 - Cash and cash equivalents

	31/12/2011 EUR	31/12/2010 EUR
Unrestricted cash:	*152.005,09*	*578.411,90*
Current accounts (bank accounts)	152.005,09	578.411,90
Short-term deposits and other cash equivalents	0,00	0,00
Total	**152.005,09**	**578.411,90**

Note 7 - Financial liabilities (see Note 2.3.4)

Note 8 - Current liabilities

Running and direct costs stipulated under Article 9 of the SLA (IT costs, legal cost, audit cost and financial charges) accrued and not yet paid are shown under this item.

	31/12/2011 EUR	31/12/2010 EUR
Payable DG Budget (fines)	90.000.000,00	50.000,00
IT costs	0,00	50.241,00
Audit costs	18.000,00	18.000,00
Custody fees December 2011	14.522,69	5.910,98
Total	**90.032.522,69**	**124.151,98**

Note 9 - Off balance sheet commitments entered into

The nominal amount of provisionally cashed fines received as at 31/12/2011 is EUR1.358.300.495,99. This nominal, along with the potential Guaranteed Return of the provisionally cashed fines corresponds to the contingent liabilities, as disclosed below:

Nominal amount 31/12/11	Guaranteed return	Contingent liabilities
1.358.300.495,99	*27.714.453,89*	*1.386.014.949,88*

Note 10 - BUFI Reserve

The calculation is based on Article 6 and Annex 7 of the SLA.

a) Target Amount
2% of amount of provisionally cashed fines at 31 December 2011

2% of EUR 1.358.300.495,99 = EUR 27.166.009,92

b) BUFI Fund Reserve at 31 December 2011 EUR 1.259.727,09

Notes to the financial statements

c) Increase of the BUFI Reserve

Accumulated profit of the year 2011	EUR	20.070.747,96
Transfer to BUFI Reserve	EUR	-20.070.747,96
Balance of retained earnings	EUR	0,00

Transfer of excess return (Interest Earned) To EU Budget

As the target amount of the BUFI Reserve has to be kept in the BUFI Fund, only the retained earnings after potential allocation to the BUFI Reserve can be distributed.

Calculation after allocation to the BUFI Reserve

R= Plac-GR-AFS

Where is

Plac	accumulated Profit/loss (financial statements) to be distributed
AFS	AFS Fair value reserve (non-realised profits/loss of portfolio, a non realised profit has a positive value)
GR	Accrued Guaranteed Return
R	Amount to be paid to EU budget ("excess return")

Calculation at 31 December 2011

After allocation to the BUFI Reserve (see above), the balance of the retained earnings is nil.

Note 11 - Purpose and preparation of the cash flows statement

Cash flow information is used to provide a basis for assessing the ability of the Entity to generate cash and cash equivalents, and its need to utilise those cash flows.

The cash flow table is prepared using the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

Cash flows arising from transactions in a foreign currency are recorded in the Entity reporting currency (euro), by applying to the foreign currency amount the exchange rate between the euro and the foreign currency at the date of the cash flow.

Note 12 - Events after the balance sheet date

At the time of issuance of the accounts on 10 April 2012, no material issues had come to the attention of the Directorate General for Economic and Financial Affairs – Directorate for Finance, Coordination with EIB Group, EBRD and IFIs or were reported to it that would require separate disclosure under this section. The accounts and related notes were prepared using the most recently available information and this is reflected in the information presented above.