Annual accounts of the

European Peace Facility

Assistance Measures

Financial year 2021

CONTENTS

CERTIFICATION OF THE ACCOUNTS

I acknowledge my responsibility for the preparation and presentation of the annual accounts of the European Peace Facility Assistance Measures (EPF AM) in accordance with Article 80 and Article 243 of the Financial Regulation ('FR')[1] and Chapter 2 of book 3 of the EPF Implementing Rules and I hereby certify that the annual accounts of the EPF AM for the year 2021 have been prepared in accordance with Title XIII of the FR and the accounting rules adopted by the Commission's Accounting Officer, as are to be applied by all the institutions and union bodies.

I have obtained from the Authorising Officer, who guarantee its reliability, all the information necessary for the production of the accounts that show the EPF AM assets and liabilities and the budgetary implementation. Based on this information, and on such checks as I deemed necessary to sign off the accounts, I have a reasonable assurance that the accounts present fairly, in all material aspects, the financial position, the results of the operations and the cash-flow of the EPF AM.

Rosa ALDEA BUSQUETS

Accounting Officer of the European Peace Facility Assistance Measures

[1] REGULATION (EU, Euratom) 2018/1046 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 July 2018 on the financial rules applicable to the general budget of the Union, amending Regulations (EU) No 1296/2013, (EU) No 1301/2013, (EU) No 1303/2013, (EU) No 1304/2013, (EU) No 1309/2013, (EU) No 1316/2013, (EU) No 223/2014, (EU) No 283/2014, and Decision No 541/2014/EU and repealing Regulation (EU, Euratom) No 966/2012.

BACKGROUND INFORMATION

1. General background on the European Peace Facility

Establishment

The European Peace Facility (EPF) was established by Council Decision (CFSP) 2021/509 of 22 March 2021 as an off-budget instrument on the basis of Articles 28(1), 41(2), 42(4) and 30(1) of the Treaty on European Union (TEU). Its objective is to enable Member States to finance Union actions under the Common Foreign and Security Policy (CFSP) to preserve peace, prevent conflicts and strengthen international security in accordance with the relevant provisions of the TEU, thus acting more swiftly to promote human security, address instability and work towards a safer world. The Facility will fund actions which due to their military and defence implications, are not funded under the EU budget.

The EPF is a new fund worth EUR 5 692 million financed outside the EU Budget for a period of seven years (2021-2027), which:

- creates a single instrument to finance all CFSP actions in military and defence areas; and
- replaces the Athena mechanism and the African Peace Facility, taking over the military and defence related aspects previously covered under those instruments.

The EPF has a two-pillar structure:

(a) Operations (OPS) - financing the common costs of Union operations under Articles 42(4) and 43(2) TEU having military or defence implications and which therefore, according to Article 41(2)TEU, cannot be charged to the Union budget; and

(b) Assistance measures (AM) consisting of Union actions under Article 28 TEU where the Council decides unanimously, pursuant to Article 41(2) TEU, that the operating expenditure arising therefrom shall be charged to the Member States.

Assistance measures under point (b) are: (i) actions to strengthen the capacities of third States and regional and international organisations relating to military and defence matters; (ii) support to military aspects of peace support operations led by a regional or international organisation or by third States.

Mission

The EPF will maximise the impact, effectiveness and sustainability of overall EU external actions in peace and security:

- ensuring the availability of EU funding on a reliable and predictable basis;
- allowing for rapid crisis response and the provision of urgent assistance; and
- providing long-term capacity building support to EU partners.

Main operational activities

The EPF closes a gap in the EU’s ability to provide military and defence assistance, improving the capacities of partners to address crises, prevent conflicts and cater for their own security and stability – to the benefit of their population. With the EPF, the EU will:

- fund the common costs of the military Common Security and Defence Policy (CSDP) missions and operations; support Peace Support Operations conducted by international and regional organisations, as well as partner countries around the world; and
- strengthen the capacities of third States and regional and international organisations relating to military and defence matters (e.g. providing military equipment for the armed forces or infrastructure for security purposes).

Governance

As a CFSP instrument, its implementation is ensured by the High Representative, with the support of the European External Action Service. For the purposes of financial administration, the High Representative is assisted also by the Commission's Service for Foreign Policy Instruments (FPI) for assistance measures. The General Secretariat of the Council is the administrator for common costs of military CSDP missions or operations.

An EPF Committee composed of all Member States representatives manages the EPF, in particular budgets and accounts. The Council takes political decisions on the EPF, such as where the assistance should be allocated, based on proposals by the High Representative. Member States can also submit proposals for assistance measures under the EPF.

Sources of financing

In accordance with the Council decision (CFSP) 2021/509 of 22 March 2021, the EPF is financed through contributions from EU member states.

2. Annual accounts

Basis for preparation

The legal framework and the deadlines for the preparation of the annual accounts are set by Council decision (CFSP) 2021/509 and the EPF Implementing Rules[2]. As per the EPF Implementing Rules, the annual accounts are prepared in accordance with the rules adopted by the Accounting Officer of the Commission (EU Accounting Rules, EAR), which are based on internationally accepted accounting standards for the public sector (IPSAS).

Accounting Officer

In accordance with Council Decision (CFSP) 2021/509, the High Representative appoints the Accounting Officer for assistance measures who is, amongst other tasks, responsible for the preparation of the annual accounts.

In accordance with Article 2 of Commission Decision C(2021) 2011 of 24 March 2021, the Accounting Officer of the Commission shall act as the Accounting Officer of EPF Assistance Measures (EPF AM).

Composition of the annual accounts

The annual accounts cover the period from 1 January to 31 December (5 May to 31 December 2021 for the first year) and comprise the financial statements and the financial implementation report. While the financial statements and the complementary notes are prepared on an accrual accounting basis, the report on financial implementation is primarily based on movements of cash.

Process from provisional accounts to discharge

The annual accounts are subject to an audit by the EPF College of Auditors. The provisional annual accounts prepared by the Accounting Officer are transmitted, by the 15th of May of the following year, to the College of Auditors. Following the audit, the Accounting Officer prepares the final annual accounts and submits them to the Committee by 30th September.

[2] Rules for the implementation of revenue and expenditure financed under the European Peace Facility.

3. Operational highlights

Achievements of the year

During its inception phase, in the second semester of 2021 the Facility has taken over the EU support to the military components of the African-led Peace Support Operations from the African Peace Facility .

Due to the late start of the EPF in 2021, implementation of EPF assistance measures concretely started in the last quarter of 2021 .

A set of assistance measures (in Mozambique, Bosnia and Herzegovina, Ukraine, Georgia, Moldova, Mali) was adopted by the Council in the last quarter of 2021, for which the implementation has started in 2022.

Budget and budget implementation

Following the adoption of the 3rd amending budget in December 2021, the EPF budget for assistance measures in 2021 amounted to EUR 259 430 600 in commitment appropriations and EUR 209 755 600 in payment appropriations.

The budget includes one title covering the EPF general part for assistance measures (title 51) and seven titles for assistance measures (titles 52 to 58).

The Council only adopted the above-mentioned six assistance measures in the last quarter of 2021. This thus had a significant impact on the implementation rates for commitment and payment appropriations.

As far as commitment appropriations are concerned, the overall implementation rate is 52%. A higher implementation rate of 98% is registered for title 51 – General Part and of 100% for title 52 - General programme for support to the African Union under the EPF in 2021. However, the late adoption of six assistance measures led to no commitments being made and hence the relevant commitment appropriations have been carried over to 2022.

The payment appropriations implementation rate is 98% for title 51 – General part. For the other titles, no payments were made, as no commitments had been made. Only one grant contract for Urgent Measures was signed in 2021, leading to one pre-financing payment only. The payment appropriations not consumed in 2021 have been carried over to 2022.

Impact of the activities in the financial statements

It should be noted that EPF became financially autonomous as from 5th May 2021. The 2021 annual accounts are thus the first annual accounts established for the EPF Assistance Measures. Consequently, there are no comparative figures to be shown for the financial year 2020.

EUROPEAN PEACE FACILITY
ASSISTANCE MEASURES
FINANCIAL YEAR 2021

FINANCIAL STATEMENTS AND EXPLANATORY NOTES

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

CONTENTS

BALANCE SHEET

		EUR '000
	Note	31.12.2021
CURRENT ASSETS		
Pre-financing	*2.1*	*2 796*
Exchange receivables and non-exchange recoverables	*2.2*	*209 195*
		211 991
TOTAL ASSETS		**211 991**
NON-CURRENT LIABILITIES		
Financial liabilities	*2.3*	*(2 452)*
		(2 452)
CURRENT LIABILITIES		
Payables	*2.4*	*(218)*
Accrued charges	*2.5*	*(65 676)*
		(65 894)
TOTAL LIABILITIES		**(68 346)**
NET ASSETS		**143 645**
FUNDS & RESERVES		
Economic result of the year		*143 645*
NET ASSETS		**143 645**

STATEMENT OF FINANCIAL PERFORMANCE

EUR '000

	Note	2021
REVENUE		
Revenue from non-exchange transactions		
Revenue from contributions	*3.1*	*209 756*
		209 756
Revenue from exchange transactions		
Financial revenue	*3.2*	*6*
		6
Total revenue		**209 762**
EXPENSES		
Operating expenses	*3.3*	*(65 690)*
Staff cost	*3.4*	*(174)*
Other expenses	*3.5*	*(252)*
Total expenses		**(66 117)**
ECONOMIC RESULT OF THE YEAR		**143 645**

CASHFLOW STATEMENT[3]

	EUR '000 2021
Economic result of the year	*143 645*
Operating activities	
(Increase)/decrease in pre-financing	*(2 796)*
(Increase)/decrease in exchange receivables and non-exchange recoverables	*(209 195)*
Increase/(decrease) in financial liabilities	*2 452*
Increase/(decrease) in payables	*218*
Increase/(decrease) in accrued charges	*65 676*
NET CASHFLOW	**–**

[3] Following the appointment of the Accounting Officer of the Commission as the Accounting Officer of EPF AM, the treasury of EPF AM was integrated into the Commission's treasury system. Because of this, EPF AM does not have any bank accounts of its own. All payments and receipts are processed via the Commission's treasury system and registered on intercompany accounts, which are presented under the heading exchange receivables.

STATEMENT OF CHANGES IN NET ASSETS

EUR '000

	Economic result of the year	Net Assets
Economic result of the year	*143 645*	*143 645*
BALANCE AS AT 31.12.2021	**143 645**	**143 645**

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

1.1. ACCOUNTING PRINCIPLES

The objective of financial statements is to provide information about the financial position, performance and cashflows of an entity that is useful to a wide range of stakeholders.

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

1.2. BASIS OF PREPARATION

1.2.1. Reporting period

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

1.2.2. Currency and basis for conversion

The annual accounts are presented in thousands of euros, the euro being the EU's functional currency. 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 date when they were purchased.

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

Euro exchange rates

Currency	31.12.2021	31.12.2020	Currency	31.12.2021	31.12.2020
BGN	**1.9558**	*1.9558*	**PLN**	**4.5969**	4.5597
CZK	**26.8580**	26.2420	**RON**	**4.9490**	4.8683
DKK	**7.4364**	7.4409	**SEK**	**10.2503**	10.0343
GBP	**0.84028**	0.8990	**CHF**	**1.0331**	1.0802
HRK	**7.5156**	7.5519	**JPY**	**130.3800**	126.4900
HUF	**369.1900**	330.5300	**USD**	**1.1326**	1.1234

1.2.3. 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, financial risk of accounts receivable and the amounts disclosed in the notes concerning financial instruments, impairment allowance for financial assets at amortised cost and for financial guarantee contract liabilities, accrued revenue and charges, provisions, degree of impairment of intangible assets and property, plant and equipment, net realisable value of inventories, contingent assets and liabilities. Actual results could differ from those estimates.

Reasonable estimates are an essential part of the preparation of financial statements and do not undermine their reliability. An estimate may need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience. By its nature, the revision of an estimate does not relate to prior periods and is not the correction of an error. The effect of a change in accounting estimate shall be recognised in the surplus or deficit in the periods in which it becomes known.

1.2.4. Application of new and revised European Union Accounting Rules (EAR)

Revised EAR which is effective for annual periods beginning on or after 1 January 2021

In 2020, the Accounting Officer adopted the revised EAR 11 'Financial Instruments', which is mandatorily effective as of 1 January 2021. The revised EAR 11 is based on the new IPSAS 41 'Financial Instruments', the amended IPSAS 28 'Financial Instruments: Presentation' and the amended IPSAS 30 'Financial Instruments: Disclosures' which were issued in August 2018. It establishes the financial reporting principles for financial assets and financial liabilities. In accordance with the transition provisions of the revised EAR 11, the entity accounts for any changes from the initial application, on 1 January 2021. The revised EAR 11 does not require the restatement of prior periods.

Changes from the application of the revised EAR 11

The only financial instruments of the entity are receivables from exchange transactions. In accordance with the revised EAR 11 requirements, the entity has classified these receivables as 'financial assets at amortised cost'. The entity has applied the impairment requirements of the revised EAR 11 to the receivables.

1.3. BALANCE SHEET

1.3.1. 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, he has the obligation to return the pre-financing advance to the entity. Thus, as the entity retains control over the pre-financing and is entitled to a refund for the ineligible part, the amount is recognised as an asset.

Pre-financing is initially recognised on the balance sheet when cash is transferred to the recipient. It is measured at the amount of the consideration given. In subsequent periods pre-financing is measured at the amount initially recognised on the balance sheet less eligible expenses (including estimated amounts where necessary) incurred during the period.

1.3.2. Receivables and recoverables

The EU accounting rules require separate presentation of exchange and non-exchange transactions. To distinguish between the two categories, the term 'receivable' is reserved for exchange transactions, whereas for non-exchange transactions, i.e. when the EU receives value from another entity without directly giving approximately equal value in exchange, the term 'recoverables' is used (e.g. recoverables from Member States related to own resources).

Receivables from exchange transactions meet the definition of financial instruments. The entity classified them as financial assets at amortised cost and measured them accordingly.

Recoverables from non-exchange transactions are carried at fair value as at the date of acquisition less write-down for impairment. A write-down for impairment is established when there is objective evidence that the entity will not be able to collect all amounts due according to the original terms of the recoverables. 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.

1.3.3. Cash and cash equivalents

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

1.3.4. Payables

Included under accounts payable are both amounts related to exchange transactions such as the purchase of goods and services, and to non-exchange transactions e.g. to cost claims from beneficiaries, grants or other EU funding, or pre-financing received (see note **1.4.1**).

Where grants or other funding are provided to the beneficiaries, the cost claims are recorded as payables for the requested amount, at the moment 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. The corresponding expenses are entered in the accounts when the supplies or services are delivered and accepted by the entity.

1.3.5. Accrued and deferred revenue 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, or the supplies have been delivered by the entity or a contractual agreement exists (e.g. by reference to a contract), an accrued revenue 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 Accounting Officer. These aim at ensuring that the financial statements provide a faithful representation of the economic and other phenomena they purport to represent. By analogy, if a payment has been made in advance for services or goods that have not yet been received, the expense will be deferred and recognised in the subsequent accounting period.

1.4. STATEMENT OF FINANCIAL PERFORMANCE

1.4.1. Revenue

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the entity, which represents an increase in net assets, other than increases relating to contributions from owners.

Depending on the nature of the underlying transactions in the statement of financial performance, revenue is distinguished between:

(i) Revenue from non-exchange transactions

Revenue from non-exchange transactions are taxes and transfers, because the transferor provides resources to the recipient entity, without the recipient entity providing approximately equal value directly in exchange. Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes. For the EU entities, transfers mostly comprise funds received from the

Commission (e.g. balancing subsidy to the traditional agencies, operating subsidy for the delegation agreements).

The entity shall recognise an asset in respect of transfers when the entity controls the resources as a result of a past event (the transfer) and expects to receive future economic benefits or service potential from those resources, and when the fair value can be reliably measured. An inflow of resources from a non-exchange transaction recognised as an asset (i.e. cash) is also recognised as revenue, except to the extent that the entity has a present obligation in respect of that transfer (condition), which needs to be satisfied before the revenue can be recognised. Until the condition is met the revenue is deferred and recognised as a liability.

(ii) 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.

1.4.2. Expenses

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or the incurring of liabilities that result in decreases in net assets. They include both the expenses from exchange transactions and expenses from non-exchange transactions.

Expenses from exchange transactions arising from the purchase of goods and services are recognised when the supplies are delivered and accepted by the entity. They are valued at the 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 recognised in the statement of financial performance.

Expenses from non-exchange transactions 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 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 expense.

1.5. CONTINGENT ASSETS AND LIABILITIES

1.5.1. 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 entity. A contingent asset is disclosed when an inflow of economic benefits or service potential is probable.

1.5.2. Contingent liabilities

A contingent liability is either a possible obligation 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 entity; or a present obligation where it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation.

A contingent liability also arises in the rare circumstances where a present obligation exists but cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the accounts. They are disclosed unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

1.6. CONTRIBUTIONS FROM MEMBER STATES

Contributions from Member States to the EPF fulfil the criteria of revenues from non-exchange transactions (see note **1.4.1**).

2. NOTES TO THE BALANCE SHEET

ASSETS

2.1. PRE-FINANCING

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 underlying contract, decision, agreement or basic legal act.

EUR '000

	31.12.2021
Current pre-financing	*2 796*
Total	**2 796**

2.2. EXCHANGE RECEIVABLES AND NON-EXCHANGE RECOVERABLES

Exchange transactions are transactions in which the entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange. Non-exchange transactions are transactions in which an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

EUR '000

	31.12.2021
Central treasury liaison account	*188 124*
Amounts receivable from Member States	*20 831*
Accrued income relating to non-exchange transactions	*4*
Deferred charges relating to exchange transactions	*237*
Total	**209 195**

The result of the incoming and outgoing payments represents the cash balance available to EPF.

The amount of kEUR 20 831 under the heading amounts receivable from Member states is mainly due to outstanding payments not receivedfrom several Member States at year-end.

The amount of kEUR 4 of accrued income relates to late payment interest which was still due at year-end.

Deferred charges of kEUR 237 relate to staff costs for contract agents paid to the Commission in advance.

LIABILITIES

2.3. FINANCIAL LIABILITIES

In accordance with article 28 of the Council Decision (CFSP) 2021/509 of 22 March 2021, the EPF AM keeps a minimum deposit to provide early financing for urgent measures. The amount of the minimum deposit is decided and revised by the Committee. On 9th June 2021, the Committee reached an agreement to establish the minimum deposit for assistance measures at EUR 7 million.

The minimum deposit is funded by the contributions from the Member States. In accordance with article 28.3 of the Council Decision (CFSP) 2021/509, Member States have the option to pay the minimum deposit in advance or within 5 days from the request of payment in case of urgent measures.

EUR '000

Member Statesi	Net contributions at 31.12.2021
Total	**2 452**

As at 31 December 2021, Member States opted to pay the amount of the minimum deposit in advance.

2.4. PAYABLES

Payables are liabilities to pay for goods or services that have been received or supplied and - unlike accrued charges - have already been invoiced or formally agreed with the supplier. Payables can relate to both exchange transactions (such as the purchase of goods and services) and non-exchange transactions (e.g. cost claims from beneficiaries of grants, pre-financing or other EU funding).

	EUR '000
	31.12.2021
Member States	*218*
Total	**218**

The amount of kEUR 218 under the heading Member States represents an amount paid at year-end. This amount was paid back in March 2022.

2.5. ACCRUED CHARGES AND DEFERRED INCOME

Accruals are liabilities to pay for goods or services that have been received or supplied but - unlike payables - have not yet been invoiced or formally agreed with the supplier. They include amounts due to employees (e.g. accruals for untaken holidays). The calculation of accruals is based on the open amount of budgetary commitments at year-end. The portion of the estimated accrued charges relating to pre-financing paid has been recorded as a reduction of the pre-financing amounts.

Transactions and events are recognised in the financial statements in the period to which they relate. At year-end, if an invoice is issued but the services have not yet been rendered or the goods have not yet been delivered, the revenue will be deferred and recognised in the subsequent accounting period.

	EUR '000
	31.12.2021
Accrued charges	*65 000*
Deferred Income	*676*
Total	**65 676**

3. NOTES TO THE STATEMENT OF FINANCIAL PERFORMANCE

REVENUE

REVENUE FROM NON-EXCHANGE TRANSACTIONS

Revenue from non-exchange transactions relates to transactions where the transferor provides resources to the recipient entity without the recipient entity providing approximately equal value directly in exchange.

3.1. REVENUE FROM CONTRIBUTIONS

This heading represents contributions from Member States recognised as revenue.

EUR '000

	2021
Revenues from contributions	*209 756*

REVENUE FROM EXCHANGE TRANSACTIONS

The revenue from exchange transactions and events relates to following types of transactions: rendering of services; sale of goods; and the use by others of entity assets yielding interest, royalties and dividends.

3.2. FINANCIAL REVENUE

EUR '000

	2021
Interest Income on late payment	*6*

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EXPENSES

3.3. OPERATIONAL COSTS

EUR '000

	2021
Direct Management implemented by Commission departments	*690*
Indirect Management by International Organisations	*65 000*
Total	**65 690**

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3.4. STAFF COSTS

This heading includes the expenses for salaries relating to contract agent staff.

EUR '000

	2021
Staff Costs	*174*
Total	**174**

3.5. OTHER EXPENSES

Included under this heading are expenses of an administrative nature.

EUR '000

	2021
IT Costs	*252*
Total	**252**

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4. OTHER SIGNIFICANT DISCLOSURES

4.1. OUTSTANDING COMMITMENTS NOT YET EXPENSED

The outstanding commitments not yet expensed comprise the budgetary RAL ('Reste à Liquider') less related amounts that have been included as expenses in the current year's statement of financial performance. The RAL represents the open budgetary commitments for which payments and/or de-commitments have not yet been made. This is the normal consequence of the existence of multi-annual programmes.

EUR '000

	31.12.2021
Outstanding commitments not yet expensed	*65 988*

4.2. RELATED PARTIES

The related parties of the EPF are the European Commission, the Council and the European External Action Service. Transactions between these entities take place as part of the normal operations of the Trust Fund and as this is the case, no specific disclosure requirements are necessary for these transactions in accordance with the EU accounting rules.

4.3. EVENTS AFTER REPORTING DATE

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

Ukraine

In accordance with EU accounting rule 19, Events After the Reporting Date, the war in Ukraine that began in February 2022 is considered as a non-adjusting event, thus not requiring adaptions to amounts in these financial statements at 31 December 2021.

By the end of 2021, and based on Council Decision (CFSP) 2021/2135 the EPF AM granted Ukraine an assistance measure of EUR 31 million . The objective of this measure is to enhance the overall resilience of Ukraine and help strengthen the capacities of the Ukrainian Armed Forces, including their ability to provide their services to civilians in crises or emergency situations

Based on Council Decisions (CFSP) 2022/338 and (CFSP) 2022/339 of the 28 February 2022, the EPF AM granted Ukraine two further assistance measures of EUR 450 million and EUR 50 million respectively. These assistance measures were increased to EUR 900 million and EUR 100 million respectively via the revised Council Decisions (CFSP) 2022/471 and 2022/472 of the 23 March 2022. The objective of these Assistance Measures is to contribute to strengthening the capabilities and resilience of the Ukrainian Armed Forces to defend the territorial integrity and sovereignty of Ukraine and protect the civilian population against the ongoing military aggression.

Based on the facts and circumstances at the time of preparation of these financial statements, in particular the evolving situation, the financial effect of the war in Ukraine on the EPF finances cannot be reliably estimated.

5. FINANCIAL INSTRUMENTS DISCLOSURES

5.1. TYPES OF RISK

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

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

(2) Interest rate risk is the possibility of a reduction in the value of a security, especially a bond, resulting from an increase in interest rates. In general, higher interest rates will lead to lower prices of fixed rate bonds, and vice versa. The European Peace Facility does not have any securities thus it is not exposed to the interest rate risk.

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

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

5.2. CURRENCY RISKS

At 31 December 2021 the ending balances of financial assets and financial liabilities did not include any amounts quoted in currencies other than euro. The European Peace Facility is thus not exposed to any significant currency risk.

5.3. CREDIT RISK

At 31 December 2021 the financial assets compose of exchange receivables of kEUR 188 361. The exchange receivables comprise of deferred charges (kEUR 237) and the liaison account with the Commission (kEUR 188 124). Therefore at year end the EPF is not exposed to any significant credit risk.

5.4. LIQUIDITY RISK

Maturity analysis of financial liabilities by remaining contractual maturity

The financial liabilities largely comprise of long term liabilities to Member States. Outstanding amounts will be paid when the European Peace Facility is wound-up.

REPORT ON FINANCIAL IMPLEMENTATION

CONTENTS

1. BUDGETARY PRINCIPLES AND STRUCTURE

1.1. BUDGETARY PRINCIPLES

The establishment and implementation of the European Peace Facility EPF budget is governed by the following basic principles set out in chapter III of Council Decision (CFSP) 2021/509 of 22 March 2021 and in book 1 and Titles II to IV of book 3 of the Rules for the implementation of revenue and expenditure financed under the European Peace Facility (EPF Implementing Rules) of 7 July 2021:

Principles of unity and budget accuracy

This principle means that no revenue shall be collected and no expenditure effected unless booked to a line in the EPF budget. No expenditure may be committed or authorised in excess of the appropriations authorised by the budget. An appropriation may be entered in the budget only if it is for an item of expenditure considered necessary.

Principle of annuality

The appropriations entered in the budget shall be authorised for a financial year which shall run from 1 January to 31 December.

Principle of equilibrium

Revenue and payment appropriations shall be in balance.

Principle of unit of account

The budget shall be drawn up and implemented in euros and the accounts shall be presented in euros.

Principle of specification

Appropriations shall be earmarked for specific purposes by title and chapter. The chapters shall be further subdivided into articles and items.

Principle of sound financial management

Appropriations shall be used in accordance with the principle of sound financial management, namely in accordance with the principles of economy, efficiency and effectiveness.

Principle of transparency

The budget shall be established and implemented and the accounts presented in accordance with the principle of transparency.

The administrator for assistance measures shall manage the publication of the budget and any amending budgets.

1.2. STRUCTURE AND PRESENTATION OF THE BUDGET

Following the provisions of Council Decision (CFSP) 2021/509 of 22 March 2021 and the EPF Implementing Rules approved by the EPF committee throught WK 8984 2021 of 7 July 2021, the budget accounts shall consist of a statement of revenue and a statement of expenditure. The statement of expenditure must be set out on the basis of a nomenclature with a classification by purpose. That nomenclature shall be determined by EPF and shall make a clear distinction between administrative appropriations and operating appropriations:

Title 51

Budget lines relating to administrative and staff expenditure such as salaries and allowances for personnel working with EPF. It also includes mission expenses, indemnities, banking costs, IT costs, auditing costs.

Title 52 to 58

Budget lines providing for the implementation of the activities and tasks assigned to the EPF by its establishing Council Decision (CFSP) 2021/509.

Assigned revenue

Budget lines relating to financing of specific items of expenditure. They can be externally or internally assigned.

2. BUDGET RESULT

EUR '000

	2021
Revenue	
of which:	
African Union	
AM Bosnia and Herzegovina	
AM Georgia	
AM Mali	
AM Moldova	
AM Ukraine	
EUTM Mozambique	
General Part	
Expenditure	
of which:	
Other expenditure	
Payment appropriations carried over to the following year	
of which:	
Other expenditure	
Cancellation of unused appropriations carried over from year n-1	
Exchange rate differences	
Budget result	**(21 580)**

3. RECONCILIATION OF ECONOMIC RESULT WITH BUDGET RESULT

The economic result of the year is calculated on the basis of accrual accounting principles. The budget result is however based on cash accounting rules. As the economic result and the budget result both cover the same underlying operational transactions, it is a useful control to ensure that they are reconcilable. The table below shows this reconciliation, highlighting the key reconciling amounts, split between revenue and expenditure items.

EUR '000

	2021
ECONOMIC RESULT OF THE YEAR	**143 645**
Adjustment for accrual items (items not in the budgetary result but included in the economic result)	
Adjustments for accrual cut-off (net)	*65 450*
Recovery orders issued in the year and not yet cashed	*(21 583)*
Adjustment for budgetary items (item included in the budgetary result but not in the economic result)	
New pre-financing paid in the year and remaining open as at 31 December	*(3 486)*
Payment appropriations carried over to next year	*(205 606)*
BUDGET RESULT OF THE YEAR	**(21 580)**

4. IMPLEMENTATION OF BUDGET REVENUE

4.1. Implementation of budget revenue – Titles 51-58

EUR '000

Item	Income appropriations Final budget
	2
Total Title 51 General Part	681
Total Title 52 African Union	104 000
Total Title 53 EUTM Mozambique	37 300
Total Title 54 AM Bosnia and Herzegovina	500
Total Title 55 AM Ukraine	27 900
Total Title 56 AM Moldova	6 300
Total Title 57 AM Georgia	11 475
Total Title 58 AM Mali	21 600
GRAND TOTAL	**209 756**

5. IMPLEMENTATION OF BUDGET EXPENDITURE

5.1 Breakdown & changes in commitment appropriations

EUR '000

Item	Budget appropriations Final adopted budget
Total Title 51	681
Total Title 52	130 000
Total Title 53	44 000
Total Title 54	10 000
Total Title 55	31 000
Total Title 56	7 000
Total Title 57	12 750
Total Title 58	24 000
GRAND TOTAL	**259 431**

5.2 Breakdown & changes in payment appropriations

EUR '000

Budget appropriations	
Item	Final adopted budget
Total Title 51	681
Total Title 52	104 000
Total Title 53	37 300
Total Title 54	500
Total Title 55	27 900
Total Title 56	6 300
Total Title 57	11 475
Total Title 58	21 600
GRAND TOTAL	**209 756**

5.3 Implementation of commitment appropriations

EUR '000

Item	Total approp. available
	1
Total Title 51	681
Total Title 52	130 000
Total Title 53	44 000
Total Title 54	10 000
Total Title 55	31 000
Total Title 56	7 000

EUR '000

Item	Total approp. available
	1
Total Title 57	12 750
Total Title 58	24 000
GRAND TOTAL	**259 431**

5.4 Implementation of payment appropriations

EUR '000

Item	Total approp. availab.
	1
Total Title 51	681
Total Title 52	104 000
Total Title 53	37 300
Total Title 54	500
Total Title 55	27 900
Total Title 56	6 300
Total Title 57	11 475

EUR '000

Item	Total approp. availab.
	1
Total Title 58	21 600
GRAND TOTAL	**209 756**

6. OUTSTANDING COMMITMENTS

EUR '000

7. GLOSSARY

Administrative appropriations

Appropriations to cover the running costs of the entities (staff, buildings, office equipment).

Adopted budget

Draft budget becomes the adopted budget as soon as approved by the budgetary authority.

Amending budget

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

Appropriations

Budget funding.

The budget forecasts both commitments (legal pledges to provide finance) and payments (cash or bank transfers to the beneficiaries). Appropriations for commitments and payments often differ — differentiated appropriations — because multiannual programmes and projects are usually fully committed in the year they are decided and are paid over the years as the implementation of the programme and project progresses.

Assigned revenue

Revenue dedicated to finance specific items of expenditure.

Budget result

The difference between income received and amounts paid, including adjustments for carry-overs, cancellations and exchange rate differences.

For agencies, the resulting amount will have to be reimbursed to the funding authority.

Budget implementation

Consumption of the budget through expenditure and revenue operations.

Budget item / Budget line / Budget position

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

Budgetary commitment

Operation by which the authorising officer responsible reserves the budget appropriations necessary to cover for subsequent payments to honour legal commitments.

Cancellation of appropriations

Appropriations which have not been used by the end of the financial year and which cannot be carried over, shall be cancelled.

Carryover of appropriations

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

Commitment appropriations

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

De-commitment

Operation whereby the authorising officer responsible cancels wholly or partly the reservation of appropriations previously made by means of a budgetary commitment.

Differentiated appropriations

Differentiated appropriations are used to finance multiannual operations; they cover, for the current financial year, the total cost of the legal obligations entered into for operations whose implementation extends over more than one financial year.

Economic result

Impact on the balance sheet of expenditure and revenue based on accrual accounting rules.

Entitlements established

Right to collect income from a debtor as recognised through the issuing of a recovery order.

Exchange rate difference

The difference resulting from currency exchange rates applied to the transactions concerning countries outside the euro area, or from the revaluation of assets and liabilities in foreign currencies at the date of the accounts.

Expenditure

Term used to describe spending the budget from all types of funds sources.

Grants

Direct financial contributions from the budget to third-party beneficiaries, engaged in activities that serve Union policies.

Legal basis / basic act

The legal act adopted by the legislative authority (usually the Council and European Parliament) specifying the objective of a Union spending programme, the purpose of the appropriations, the rules for intervention, expiry date and the relevant financial rules to serve as a legal basis for the implementation of the spending programme.

Legal commitment

The act whereby the Authorising Officer enters into an obligation towards third parties which results in a charge for the Union budget.

Common forms of legal commitments are contracts in the case of procurement, grant agreements and grant decisions.

Non-differentiated appropriations

Appropriations which meet annual needs and must therefore be committed during the budget year. Only amounts qualifying for automatic carryover can be disbursed in the following year. Non-differentiated appropriations which have not been used, i.e. committed, by the end of the year, are cancelled (unless, exceptionally, permission is given by a Commission decision for a non-automatic carryover). Non-differentiated appropriations apply to administrative expenditure and commitment appropriations equal payment appropriations.

Operational appropriations

Operational appropriations finance the different policies, mainly in the form of grants or procurement.

Outstanding commitments

Outstanding commitments (or RAL, from the French 'reste à liquider') are defined as the amount of appropriations committed that have not yet been paid. They stem directly from the existence of multiannual programmes and the dissociation between commitment and payment appropriations.

Payment appropriations

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

RAL (Reste à liquider)

Amount remaining to be paid on a budgetary commitment at a given moment. Cf. Outstanding commitments

Surplus

Positive difference between revenue and expenditure, which has to be returned to the funding authority. Cf. Budget result

Transfer between budget lines

Transfers between budget lines imply the relocation of appropriations from one budget line to another, in the course of the financial year, and thereby they constitute an exception to the budgetary principle of specification.