



European X-Ray Free-Electron Laser Facility GmbH

Albert-Einstein-Ring 19

22761 Hamburg

Germany

FINANCIAL RULES:

European X-Ray Free-Electron Laser Facility GmbH

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at its 8th meeting on 29—30 June 2011

In accordance with the Articles of Association of the “European X-Ray Free-Electron Laser Facility GmbH”, hereinafter referred to as the Company, and in particular Art. 11 para. 2 lit. f and Chapter V thereof, the XFEL Council has adopted the following Financial Rules.

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SECTION I:

GENERAL PRINCIPLES

Article 1 FINANCIAL YEAR

In accordance with Art. 1 para. 3 of the Articles of Association, the financial year shall begin on 1 January and shall end on 31 December.

Article 2 ADMINISTRATIVE AND FINANCE COMMITTEE

2.1 An Administrative and Finance Committee, composed of up to two representatives of the Shareholders of each Contracting Party, shall be set up by the Council.

The terms of reference of this Committee and its Rules of Procedure shall be adopted by the Council. The terms of reference shall include the provisions of Annex I.

2.2 The Administrative and Finance Committee shall, in reaching its decisions, follow the rules for voting and quorum as prescribed for the Council in Art. 11 para. 2 lit. f, Art. 11 para. 3 lit. c and d, and Art. 12 of the Articles of Association.

2.3 For the election and position of the chair and the vice-chair, Art. 9 of the Articles of Association shall apply analogously.

Article 3 BUDGET AND FINANCIAL ESTIMATES

3.1 The budget of the Company shall be the instrument that shall authorise annually and in advance the estimated expenditure and income of the Company, excluding value added tax.

3.2 In these Financial Rules, the term “expenditure” refers to commitments and payments.

- 3.3 The Multi-Annual Financial Estimates establish the general framework for the detailed annual budget.
- 3.4 Establishment and implementation of the budget shall be governed by the principles of efficiency and economy and ensure that optimum use is made of the Company's resources.

Article 4 CURRENCY

The budget and all other financial documents shall be expressed in the euro currency unit.

Article 5 INTERNAL FINANCIAL REGULATIONS

The Company shall draw up Internal Financial Regulations, required for implementing these Financial Rules, to be approved by the Council by qualified majority upon proposal of the Administrative and Finance Committee.

The Internal Financial Regulations will, in particular, include a system of internal financial and budgetary control, which

- ensures that no commitment of funds of the Company (above a threshold amount of 50 k€¹) will be entered into without the prior approval of the Management Board,
- is based on the delegation of authority to enter into commitments and to authorise or to make payments.

They shall also regulate items, such as sale of the Company's property, inventory, write-offs, and manufacturing.

¹ The recruitment of personnel is excluded from the threshold amount of 50 k€.

SECTION II: PREPARATION, PRESENTATION, AND STRUCTURE OF THE BUDGET

Article 6 STRUCTURE OF THE ANNUAL BUDGET

- 6.1 The annual budget shall show in full the planned expenditure and the expected income and clearly define the purpose of expenditure and specify the sources of income.
- 6.2 The annual budget, subdivided by nature of expenditure and by major activities according to the following Articles, shall include:
- a) the commitments
 - carried forward from the previous year,
 - authorised for the budget year,
 - still binding at the end of the year together with a schedule of payments in future years resulting from these commitments;
 - b) the payments that the Company will need to make during the budget year in prices of the budget year;
 - c) the cash contributions (planned amounts and schedule of payments) of
 - each Shareholder and
 - each organisation with which an arrangement for long-term use in accordance with Art. 8 of the Convention has been agreed;
 - d) the in-kind contributions of each Shareholder (as authorized by the Council);
 - e) any other income;

f) the expenditure authorised for the previous year and the real expenditure of the last complete year, including any carry-forward.

6.3 The annual budget figures will be accompanied by such general analysis and detailed information as is necessary to explain and justify the funds requested.

Article 7 SUBDIVISION

7.1 Payments and commitments shall be subdivided by nature of expenditure using titles, as follows:

- Personnel
- Recurrent
- Capital.

Each title shall be further subdivided into chapters corresponding to the main classes of the general accounts.

7.2 Payments and commitments shall also be subdivided by the following major activities:

- Beamlines and Experiments (= Work Package Group 3),
- Research and Development Programme,
- Machine and Technical Infrastructure (= Work Package Groups 1, 2, 4, 5, and 6), and
- Management, Administration, and General Support.

7.3 The expenditures under titles and under major activities shall correlate with each other.

7.4 The subdivisions mentioned above shall be implemented according to the model attached in Annex II.

Article 8 MULTI-ANNUAL FINANCIAL ESTIMATES

8.1 In fulfilment of the requirements arising from Art. 4 para. 7 of the Convention and of Art. 11 para. 3 lit. c of the Articles of Association, the following financial estimates have to be prepared:

- Overall Financial Estimates (covering the whole construction period) and
- Medium-term Financial Estimates (from four years before the end of the construction period on).

8.2 The Overall Financial Estimates shall show the complete costs of the project for the construction period. They shall show in particular:

- the actual expenditure in previous years since the start of construction,
- the expenditure under the approved budget for the current year,
- the proposed expenditure for the forthcoming year,
- the latest estimates of expenditure for the remaining years, and
- the previous and planned use of the risk budget,

and shall allow a comparison to be made between the latest estimates and the previous estimates.

8.3 The Medium-term Financial Estimates shall cover five years and show:

- the actual expenditure of the last complete year,
- the expenditure under the approved budget for the current year, in current prices,
- the proposed expenditure for the forthcoming year, in estimated prices for that year, and
- the latest estimates of expenditure for the following four years, at the same prices as for the forthcoming year.

- 8.4 The estimates shall be established by titles and by major activities according to the model attached in Annex III.

Article 9 SUBMISSION OF THE DRAFT BUDGET AND THE FINANCIAL ESTIMATES

- 9.1 By 31 March of each year the Management Board shall submit to the Administrative and Finance Committee a preliminary draft budget for the following year, together with Medium-Term Financial Estimates.
- 9.2 By 31 October of each year the Management Board shall submit the final proposal of the budget for the following year and the Medium-Term Financial Estimates, together with the comments and recommendations of the Administrative and Finance Committee, to the Council for approval in accordance with Art. 11 para. 3 lit. c of the Articles of Association.

Article 10 PROVISIONAL BUDGET

If the budget is not approved by the beginning of the year, the Management Board is authorised

- a) to call contributions on the basis of the preceding year's contributions in monthly instalments until the new budget is approved,
- b) under recurrent and personnel costs, to make payments each month up to one-twelfth of the amount approved in the previous budget,
- c) under capital costs, to make payments arising from existing commitments and to enter into new commitments only if the corresponding payments can be ensured within the funding schedule resulting from a).

SECTION III:

IMPLEMENTATION OF THE BUDGET

Article 11 AUTHORISATION

11.1 In accordance with

- the budget approved by the Council and subject to its decisions,
- the provisions of the Company's Articles of Association, and
- these Financial Rules complemented by the Internal Financial Regulations,

the Management Board is within the current financial year's budget authorised to enter into commitments and make payments for the purposes for which expenditure has been approved.

11.2 All payments must be preceded by commitments.

Article 12 SEPARATION OF POWERS

The implementation of the budget shall be carried out according to the principle of separation of authorising officers and accounting officers.

Article 13 RECORDING AND INFORMATION

All transactions shall be recorded. The Management Board shall keep the Administrative and Finance Committee informed of the financial position of the Company during the course of the financial year.

Article 14 TRANSFERS AND OTHER MODIFICATIONS

- 14.1 The Management Board may, within the current financial year's budget, decide upon the transfer of expenditures
- a) between chapters within the same title and between activity components within the same major activity in the budget, provided such transfers do not exceed 20 % of the initial figure of the approved budget allocation of both the chapters and the activity components concerned and
 - b) between titles or major activities in the budget, provided such inter-title or inter-major-activity transfers do not exceed 20 % of the initial figure of the approved budget allocation of both the titles and the major activities concerned. Such transfers do not prejudice any rise in expenses in future financial years.
- 14.2 Any other proposed transfer requires the prior approval of the Council, upon recommendation of the Administrative and Finance Committee.
- 14.3 If the income set out in Art. 6.2 lit. e is less than the provision in the budget, expenditure shall be constrained accordingly.
- 14.4 Independently from transfers according to Art. 14.1, the Management Board may increase an expenditure provision in the annual budget if this increase is compensated by corresponding income in excess of the initial budget provision and does not exceed 20 % of the initial budget.
- 14.5 The Management Board shall report to the Administrative and Finance Committee and to the Council at their next meetings presenting information on, and justification for, all transfers it has initiated in accordance with Art. 14.1 lit. b, as well as on any other change in the budget.
- 14.6 The approved budget for each of the titles and major activities set out in Art. 7 subdivided by chapters and components, amended by any transfers or modifications made in accordance with Art. 14.1 to 14.5 above, sets the upper limit of the payments and commitments to be used for those titles and major activities available during the budget year.

Article 15 CONTRIBUTIONS IN CASH, CALL FOR FUNDS

- 15.1 The contributions of the Shareholder will, in principle, be called in four equal yearly instalments. Other payment arrangements may be agreed between the Management Board and the Shareholder concerned. All Shareholders shall be informed of any such agreement.
- 15.2 The Company shall send out the call at least 60 days before the requested date of payment. Shareholders shall pay their contributions in the euro currency unit.
- 15.3 The Company shall, on behalf of the Shareholders, prudently invest funds not immediately required to meet payments due. Interest earnings resulting from Shareholders' cash contributions belong to the Company and are recorded in the Company's Annual Profit and Loss Account (*Gewinn- und Verlustrechnung*). Unless the Council decides unanimously to allocate this interest partially or totally as income to the annual budget of the current financial year, the interest earnings shall, on a quarterly basis, be allocated to the future contributions of the Shareholders in proportion to their cash contribution due (or part thereof) that was received by the indicated deadline.

Such interest earnings are to be credited against the contributions towards construction costs committed (in accordance with Art. 5 para. 2, 3 of the Convention) by the Contracting Party that has designated the respective Shareholder(s). If such Contracting Party has already completely fulfilled its obligation to make contributions towards construction costs, interest earnings are to be credited against contributions the Contracting Party is obliged to make towards operating costs as defined in the scheme to be agreed upon in accordance with Art. 5 para. 5 and 6 of the Convention. The contributions towards construction costs and the interest earnings are not refundable except in case of liquidation of the Company according to Art. 28 of the Articles of Association.

- 15.4 All contributions received from a Shareholder shall be used first and foremost to eliminate or reduce any outstanding contribution deficit from previous calls for contribution. Only when all deficits have been paid shall contributions be allocated to the last quarter for which calls for contribution have been sent. If, under these circumstances, insufficient funds have been received for the last quarter, then the concerned Shareholder's share of interest, as defined in Art. 15.3, shall be limited *pro rata* to that part of its contributions received in time, if any.
- 15.5 If the Company incurs additional costs due to the late payment of a Shareholder, it is authorized to debit the late contributor with the corresponding amount.
- 15.6 The balance of funds resulting from the closing of the previous financial year (approved by the Council) or from differences in payments in the current year is normally adjusted in the next call for funds. Other arrangements may be agreed between the Management Board and the Shareholders.

Article 16 CONTRIBUTIONS IN KIND

- 16.1 According to Art. 5 para. 2 of the Convention, contributions to construction costs may be provided in kind. Each such contribution shall be subject to a specific agreement to be decided by the Council (Technical Document 4 to the Convention). The agreement sets out, *inter alia*, the financial value assigned to the in-kind contribution concerned.
- 16.2 The value of the in-kind contribution (IKC) will be credited to the Shareholder / Contracting Party concerned (and can subsequently be subtracted from the cash contribution), once the milestones determined in the IKC agreement, if applicable, have been reached satisfactorily, or once the deliverables are accepted and their ownership is transferred to the Company. Especially in the event that personnel are made available to the Company, the Shareholder / Contracting Party shall be given the opportunity to have the IKC accredited annually.

- 16.3 The Company shall decide on the compliance with the contractual milestones or on the acceptance of the deliverables as being in accordance with the agreement.

In case of disagreement, the Management of the Company and that of the Shareholder concerned shall try to settle the dispute amicably. In case of continued disaccord, the Council shall have the final vote after prior consultation with the Machine Advisory Committee or the Scientific Advisory Committee.

Article 17 LOANS

In principle, the Company is funded through contributions of its Shareholders. It is not entitled to take loans unless they are used to bypass a short-term deficit of contributions of single Shareholders up to 6 months, the sum not exceeding 10 % of the annual budget (of the operation period), and provided that the respective Shareholder(s) bear(s) the additional costs (interest and fees) for raising the loan.

Article 18 VOLUNTARY CONTRIBUTIONS

- 18.1 Voluntary contributions, gifts, and donations for the Company, whether or not in cash, may be accepted by the Management Board with the consent of the Council, provided that they are consistent with the nature and the functions of the Company. The acceptance of any such contributions, which directly or indirectly involve additional financial liability for the Company, shall require the prior consent of the Council.
- 18.2 Contributions accepted in accordance with Art. 18.1 for purposes specified by the donors shall be treated as trust funds or special accounts.
- 18.3 Contributions in respect of which no purpose is specified shall be treated as miscellaneous income and reported as “gifts” in the accounts of the financial year.

Article 19 AWARD OF CONTRACTS

The arrangements for awarding contracts for supplies, works, or services are specified in separate "Rules for Procurement and the Award of Contracts of the European XFEL Company".

Article 20 TRAVELLING AND SUBSISTENCE EXPENSES

Travelling and subsistence expenses of representatives of Contracting Parties or Shareholders shall, as a rule, be borne by the Contracting Party or Shareholder concerned. The Council may, however, authorize the reimbursement of expenditure incurred by representatives of Contracting Parties or Shareholders in connection with special tasks laid upon them by the Company.

SECTION IV: ACCOUNTING

Article 21 OPERATION OF ACCOUNTS

- 21.1 The accounts shall be kept in the euro currency unit by the double entry method, on the basis of the financial year, in accordance with German accounting rules. They shall be authenticated by supporting documents. Entries shall be classified according to a nomenclature that makes a clear distinction between the balance sheet and the profit and loss account on the one hand, and the accounts of budgetary expenditure and income on the other hand.
- 21.2 The detailed conditions for drawing up and operating the accounting plan shall be determined by the Internal Financial Regulations (Art. 5).
- 21.3 A provisional out-turn forecast of income and expenditure shall be presented to the Administrative and Finance Committee and to the Council together with the final budget proposal for the following year, as provided for in Art. 9.2 above.

Article 22 CLOSING OF ACCOUNTS

- 22.1 The accounts shall be closed at the end of the financial year to enable a balance sheet and the income and expenditure accounts as well as the profit and loss account to be drawn up.
- 22.2 The annual income and expenditure accounts shall be presented in the same form with the same subdivisions as the budget and shall be prefaced by a commentary on the financial management for the year in question. The commentary shall explain any transfers, carry-forward of commitments, carry-forward of funds, or similar events.
- 22.3 The balance sheet shall show the assets and liabilities of the Company as of 31 December of the terminated financial year.

- 22.4 The rules of the German Commercial Code for large-scale corporations regarding the preparation and audit of the year-end results and management report apply as appropriate.

Article 23 CARRY-FORWARD

- 23.1 The authority to enter into commitments shall be valid only during the financial year for which it has been granted. Uncommitted balances may be carried forward at the end of the year. The Administrative and Finance Committee will be informed.

- 23.2 For capital expenditure and for recurrent expenditure, which relates to the replacement of assets, the unexpended balances of committed funds shall be carried forward to the following financial year.

For other expenditure they may be carried forward, if in exceptional circumstances the corresponding activities need to be postponed to the following financial year. In such case, the Management Board prepares a report to be submitted to the Administrative and Finance Committee for information.

- 23.3 Income committed but not received at the end of the financial year is carried forward to the income budget of the following year.

SECTION V: AUDITING

Article 24 PRINCIPLES OF AUDIT

Audit shall be conducted in accordance with generally accepted auditing standards. Its scope shall be such that it is capable of verifying that the Management Board and the Administration of the Company are complying with German law and decrees, as well as with the rules and regulations of the Company, and are making appropriate and economical use of funds and are properly safeguarding the assets of the Company.

Article 25 INTERNAL AUDIT

- 25.1 The Management Board shall establish an Internal Audit Service, which shall report directly to the Management Board and which shall undertake an audit of the legality, propriety, and regularity of the implementation of the budget in accordance with the present Financial Rules, in particular Art. 3.4 hereof, and shall examine whether the financial management of the Company has been sound and effective.

The Terms of Reference of the Internal Audit Service shall be set out in the Internal Financial Regulations.

- 25.2 The measures taken in respect of the appointment, promotion, and any disciplinary action or transfer of the Head of the Internal Audit Service shall be subject to reasoned decisions to be forwarded, for information, to the Administrative and Finance Committee.

Article 26 ANNUAL EXTERNAL AUDIT

26.1 Before the end of the financial year, the Management Board shall, with the approval of the Council, appoint an independent External Auditor. The External Auditor shall be an appropriately qualified company selected after competitive tender. The auditor may be reappointed for at most four one-year terms. Alternatively, the Supreme Audit Institutions of the countries, which are Contracting Parties to the Convention, may be appointed as External Auditors.

The audit shall be conducted in accordance with the principles set out in Annex IV to these Rules.

26.2 Within three months after the end of the financial year, the Management Board shall submit to the External Auditor the annual income and expenditure accounts, the profit and loss account, the balance sheet of the previous year, and the management report, as specified in Art. 22 above.

26.3 The Management Board shall also make available to the External Auditor, on his or her request, the records established by the Internal Audit Service.

26.4 The External Auditor shall examine

- the annual income and expenditure accounts (including the compliance with the rules and regulations of the Company),
- the profit and loss accounts and the balance sheet of the Company, and
- the proper conduct of business and regularity of the management

and report to the Council through the Management Board and the Administrative and Finance Committee.

The detailed Terms of Reference of the External Auditor shall be approved by the Council.

26.5 Within six months after the end of the financial year, the Management Board shall submit the accounts and balance sheet, together with the report of the External Auditor and his / her comments, to the Administrative and Finance Committee and to the Council.

[The following amendment of the first sentence of Art. 26.5 was approved by the Council (cf. XFEL Council 11-08/11-15), pending the decision of the respective change in Art. 18 para. 3 of the Articles of Association: “The Managing Directors must present to the Council and the Administrative and Finance Committee a copy of the annual financial statement, the original of which must bear the legally binding signatures of the Managing Directors, as well as the management report together with the audit report (“Prüfungsbericht” in the sense of the HGB) including a written statement immediately upon receipt of the audit report. The Council decides upon the adoption of the annual financial statement within the first eight months after the end of the financial year.”]

On recommendation of the Administrative and Finance Committee, the Council decides to discharge the Managing Directors.

Article 27 EXTRAORDINARY AUDIT

27.1 The Council may at any time direct the auditors to make an extraordinary audit of any accounts of the Company, including deposit, reserve, and special accounts.

27.2 In the event that several Shareholders simultaneously request audits in accordance with Art. 19 of the Articles of Association, the Council, advised by the Administrative and Finance Committee, shall regulate the procedure.

SECTION VI: GENERAL PROVISIONS

Article 28 AMENDMENTS

- 28.1 According to Art. 11 para. 2 lit. f of the Articles of Association, amendments of the Financial Rules require unanimous vote of the Council.
- 28.2 The Annexes I to IV of these Financial Rules may be amended by the Council by qualified majority.

Article 29 ENTRY INTO FORCE

These Financial Rules shall enter into force on the date of their approval by the Council.

ANNEX I:

TERMS OF REFERENCE OF THE ADMINISTRATIVE AND FINANCE COMMITTEE

The Administrative and Finance Committee is established as a Committee of the Council under Art. 11 para. 3 lit. f of the Articles of Association. It is charged with the general responsibility of advising the Council on all matters of administrative issues and of financial management.

The Administrative and Finance Committee shall in particular:

- 1 examine the budget estimates and any supplementary or revised estimates and comment thereon and express a recommendation to the Council;
- 2 lay down the terms on which, consistent with the proper financing of the Company, contributions of Shareholders shall be paid;
- 3 decide on the form of budget estimates and accounts;
- 4 examine the annual accounts and the auditors' report and report thereon to the Council;
- 5 control the establishment and define the purpose of deposit, reserve and special accounts;
- 6 report to the Council on the financial implications of the admission of new Shareholders;
- 7 examine and make a proposal on the procedures, drawn up by the Management Board in accordance with Art. 5 of the Financial Rules, to the Council for approval;
- 8 consider matters which, in accordance with the provisions of the Staff Regulations, require the approval of the Committee or recommendations from it to the Council;

9 consider any financial or accounting points to which attention has been drawn by the auditors;

10 review, if and when necessary, the duties of the auditors.

The Administrative and Finance Committee shall also undertake any other duties and responsibilities attributed to it

- by the Internal Financial Regulations or

- by the Council,

and may exercise on behalf of the Council powers delegated to it.

ANNEX II.1: MODEL FOR EXPENDITURE BUDGET

	Actually spent in year n - 2		Approved Budget for year n - 1		Outstanding commitments at the end of year n - 1	Budget Proposal for year n		Outstanding commitments at the end of year n	To be met by payments during the years					
	New Commitments	Payments	New Commitments	Payments		New Commitments	Payments		n+1	n+2	n+3	n+4 and later		
By major activities	Beamlines and Experiments (total)													
	Personnel													
	Recurrent													
	Operating costs													
	Other recurrent costs													
	Capital													
	Construction													
	Development													
	Research and Development (total)													
	Machine and Technical Infrastructure (total)													
Personnel														
Recurrent														
Capital														
Construction														
Development														
Management and Administration (total)														
Personnel														
Recurrent														
Capital														
By titles	Total Personnel													
	Total Recurrent													
	Operating costs													
	Representation costs													
	Other recurrent costs													
	Total Capital													
Grand Total														

ANNEX II.2:

MODEL FOR INCOME BUDGET

Items	Received for year n - 2		Approved Budget for year n - 1		Budget Proposal for year n	
	Comm	Paymts	Comm	Paymts	Comm	Paymts
Shareholders' contributions						
Carry-forward						
New (in cash)						
New (in kind)						
Other contributions (Art. 8 Conv.)						
Other income						
Sale of beam time						
Other sales						
Scientific collaboration						
EU funds						
Other third party funding						
Miscellaneous						
GRAND TOTAL						

ANNEX III:

MODEL FOR MEDIUM-TERM FINANCIAL ESTIMATES

Expenditure and income from year n-2 to year n+4 – page 1 (in k€, excluding taxes)

Items	Actual for year n - 2		Approved Budget for year n - 1		Budget Proposal for year n		Estimates for year n + 1	
	Comm	Paymts	Comm	Paymts	Comm	Paymts	Comm	Paymts
MAJOR ACTIVITIES								
Beamlines and Experiments								
Personnel								
Recurrent								
Capital								
In-house research								
Machine and Technical Infrastructure								
Personnel								
Recurrent								
Capital								
Mgmt and Administration								
Personnel								
Recurrent								
Capital								
TITLES								
Total Personnel								
Total Recurrent								
Total Capital								
TOTAL EXPENDITURE								
TYPE								
Shareholders' contributions								
In cash (incl. carry forward)								
In kind								
Other contributions								
Other income								
TOTAL INCOME								

Expenditure and income from year n-2 to year n+4 – page 2 (in k€, excluding taxes)

Items	Estimates for year n + 2		Estimates for year n + 3		Estimates for year n + 4	
	Comm	Paymts	Comm	Paymts	Comm	Paymts
MAJOR ACTIVITIES						
Beamlines and Experiments						
Personnel						
Recurrent						
Capital						
In-House Research						
Machine and Technical Infrastructure						
Personnel						
Recurrent						
Capital						
Management and Administration						
Personnel						
Recurrent						
Capital						
TITLES						
Total Personnel						
Total Recurrent						
Total Capital						
TOTAL EXPENDITURE						
TYPES						
Shareholders' contributions						
In cash (incl. carry forward)						
In kind						
Other contributions						
Other income						
TOTAL INCOME						

ANNEX IV:

EXTERNAL AUDITORS

1. The external auditors shall examine the accounts of the Company including all deposit, reserve, and special accounts in order to certify:
 - 1.1 that the annual accounts are in accord with the books and records of the Company;
 - 1.2 that the financial transactions recorded in the accounts were in accordance with the budgetary provisions, the regulations, and other applicable directives;
 - 1.3 that the securities and monies on deposit and in hand have been verified by certificate received directly from the depositories, or by actual audit.
2. Subject to the directions of the Council, the auditors shall be the sole judges as to the acceptance in whole or in part of the certifications by the Management Board or other staff of the Company; they may proceed to such detailed examination and verification as they choose of all financial records, including those relating to supplies and equipment.
3. The auditors shall verify by spot checks the reliability of the internal control and may make such reports with respect thereto, as they deem necessary, to the Council, to the Administrative and Finance Committee, or to the Management Board.
4. The auditors shall at any time have free access to all books of account and records which they deem necessary to carry out the audit. Confidential documents required for the purposes of the audit shall be made available by the Management Board or any other authorized staff member, on request by the auditor.
5. The auditors, in addition to certifying the accounts, shall make such observations as they deem necessary with respect to the methods of accounting and internal auditing, and, in general, the financial consequences of administrative practices.

6. Audit objections to any item in the accounts shall be immediately communicated to the Management Board. In no case shall the auditors include criticism in their report without first affording the Management Board an opportunity to explain the various points under observation.
7. The auditors shall prepare a report on the accounts certified in which they should mention *inter alia*:
 - 7.1 the extent and character of their examination;
 - 7.2 any deficiencies and defects in the accounts or in the accounting system revealed by the audit.

8. The auditors shall certify the correctness of the financial statements in the following terms:

"The financial statements of the Company for the financial year ended ... have been examined in accordance with the instructions given to us.

We have obtained all the information and explanations that we have required and we certify, as a result of the audit, that in our opinion the financial statements give a true and fair view of the state of the affairs of the Company."

adding, should it be necessary,

"subject to the observations in our report."

9. The auditors shall have no power to disallow financial transactions, but shall bring to the notice of the Management Board any transaction that, in their opinion, may be of doubtful financial wisdom, legality, or propriety.