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粮食及  
农业组织

Food and Agriculture  
Organization of the  
United Nations

Organisation des Nations  
Unies pour l'alimentation  
et l'agriculture

Продовольственная и  
сельскохозяйственная организация  
Объединенных Наций

Organización de las  
Naciones Unidas para la  
Alimentación y la Agricultura

منظمة  
الغذية والزراعة  
للأمم المتحدة

# CONFERENCE

**Forty-first Session**

**Rome, 22-29 June 2019**

**Audited Accounts - FAO 2017**

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**FINANCIAL STATEMENTS for 2017**

**of the**

**Food and Agriculture Organization**

**of the**

**United Nations**



# TABLE OF CONTENTS

<u>PART A</u>		Page
<b>Independent Auditor's Report</b>		<b>1</b>
<b>Certification of Financial Statements</b>		<b>3</b>
<b>Director-General's Statement</b>		<b>4</b>
<b>Statement on Internal Control</b>		<b>5</b>
<b>Statement I</b>	<b>Statement of Financial Position as at 31 December 2017</b>	<b>8</b>
<b>Statement II</b>	<b>Statement of Financial Performance for the year ended 31 December 2017</b>	<b>9</b>
<b>Statement III</b>	<b>Statement of Changes in Equity for the year ended 31 December 2017</b>	<b>10</b>
<b>Statement IV</b>	<b>Cash Flow Statement for the year ended 31 December 2017</b>	<b>11</b>
<b>Statement V</b>	<b>Statement of Comparison of Budget and Actual Amounts for the year ended 31 December 2017</b>	<b>12</b>
<b>Statement V</b>	<b>Statement of Comparison of Budget and Actual Amounts for the year ended 31 December 2016</b>	<b>15</b>
<b>Statement VA</b>	<b>Statement of Comparison of Budget and Actual Amounts for the biennium ended 31 December 2017</b>	<b>16</b>
<b>Notes to the Financial Statements</b>		<b>17</b>

## PART B

### **Report of the External Auditor**

**The Report of the External Auditor is available under Conference document reference number C 2019/6 B.**





Republic of the Philippines  
**COMMISSION ON AUDIT**  
Commonwealth Avenue, Quezon City, Philippines

## **INDEPENDENT AUDITOR'S REPORT**

**To the FAO Conference of Member Nations**

### **Opinion**

We have audited the financial statements of the Food and Agriculture Organization of the United Nations (FAO), which comprise the statement of financial position as at 31 December 2017, and the statement of financial performance, statement of changes in net assets/equity, statement of cash flow, and statement of comparison of budget and actual amounts for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the FAO as at 31 December 2017, and its financial performance, changes in net assets/equity, cash flow, and comparison of budget and actual amounts for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS).

### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the FAO in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the FAO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the FAO or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the FAO's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an

audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economics decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 FAO's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the FAO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Report on Other Legal and Regulatory Requirements**

Further, in our opinion, the transactions of the Food and Agriculture Organization of the United Nations that have come to our notice or which we have tested as part of our audit have, in all significant respects, been in accordance with the FAO Financial Regulations.

In accordance with Article 12.9 of the Financial Regulations, we have also issued a long-form report on our audit of the Food and Agriculture Organization of the United Nations.



**Michael G. Aguinaldo**  
Chairperson, Commission on Audit  
Republic of the Philippines  
External Auditor

**Quezon City, Philippines**  
**6 July 2018**



## FINANCIAL STATEMENTS 2017

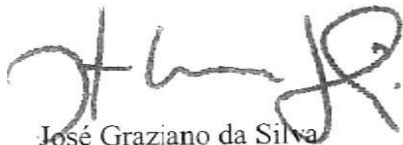
### CERTIFICATION OF FINANCIAL STATEMENTS

**The amounts shown in the statements properly reflect the recorded financial transactions for the period:**



Dilek Macit  
Assistant Director-General  
Corporate Services Department

**Approved:**



José Graziano da Silva  
Director-General

*6 July 2018*

## DIRECTOR-GENERAL'S STATEMENT

In accordance with Financial Regulation XI of the Food and Agriculture Organization of the United Nations (FAO), I have the honour to submit for adoption by the Conference the Financial Statements for the year ended 31 December 2017 prepared in accordance with International Public Sector Accounting Standards (IPSAS) and FAO's Financial Rules and Regulations.

Consolidation of IPSAS adoption has strengthened the financial reporting of FAO in the areas of Assets and Liabilities, which were a historically weak area of reporting across the UN system organizations.

Under Financial Regulation X.1, the Director-General is accountable to the Governing Bodies for the internal control of the Organization, in order to ensure effective financial administration and exercise of economy, and effective custody of the physical assets of the Organization.

Internal control and accountability processes are exercised continually at all levels within the organization in line with the requirements established in FAO's Accountability Policy. The Accountability Policy lays out the elements of FAO's system of internal control.

For the first time this year, a Statement on Internal Control (SIC) has been issued with the annual financial statements. The SIC has been prepared based on a thorough and organization-wide review of internal controls by managers as well as on recommendations of FAO's internal and external oversight mechanisms.

The Organization continues to strengthen its commitment towards transparency and safeguarding of funds entrusted to the Organization through progressing on improvements to the process of safeguarding of assets, strengthening the Accountability Policy and diversified and prudent investment strategies.

# STATEMENT ON INTERNAL CONTROL

## Scope of Responsibility

The Director-General of the Food and Agriculture Organization is accountable for maintaining a sound system of internal control that supports the achievement of FAO's vision, goals and objectives, while safeguarding the funds and assets, in accordance with the responsibilities entrusted under FAO's Constitution, General Rules, Financial Regulations and by the Governing Bodies.

## Purpose of the System of Internal Control

The system of internal control is designed to reduce and manage, rather than eliminate, risks and to increase the likelihood that FAO's policies, aims and objectives will be achieved. It therefore provides a reasonable assurance and not absolute guarantee of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritize the risks to the achievement of the Organization's mandate and objectives, to evaluate the likelihood of those risks being realized and the impact should they be realized, and to manage them efficiently, effectively, and economically. The system of internal control has been in place at FAO for the financial reporting period 1 January 2017 through 31 December 2017, and up to the date of the signature of this document.

The system of internal control covers all aspects of FAO's activities. Managers and their staff throughout FAO are required to use internal controls to develop, implement, monitor and adjust strategies, policies, processes and plans with a view to the following benefits:

- a) Developing controls that efficiently and effectively respond to the operational and other risks faced in achieving FAO's objectives;
- b) Maintaining and improving the reliability, appropriateness and timeliness of financial and non-financial information;
- c) Improving the observance of legal, statutory or regulatory obligations; FAO's ethical standards; and of its internal rules;
- d) Reducing losses and waste of assets and resources, whether through misdirected effort, avoidable errors, mismanagement, abuse or fraud; and
- e) Sustaining and increasing the confidence among member countries and other stakeholders in the reliability and efficiency of FAO's management systems.

## Risk and Control Framework

FAO operates its internal controls within a comprehensive policy framework covering accountability, risk management, controls, fraud prevention and detection and ethical behaviour. High-level oversight is provided by the *Executive Management Monitoring Team* (EMMT) with reporting and escalation responsibilities defined by FAO's internal management governance policies. The Internal Controls Steering Group (ICSG), chaired by the Deputy Director-General (Operations), provides coordination and internal governance of control-related initiatives while the Office of Strategy, Planning and Resource Management manages FAO's policies on accountability, risk management and the Internal Control Framework as well as leads the internal control reporting process.

The design of procedures and tools for control-sensitive business processes is assigned to specific *corporate business offices* that are also responsible for facilitating operational monitoring and reporting.

Compliance with the Internal Control Framework is the responsibility of the *line managers* in headquarters and the decentralized offices. As a basic premise, however, all FAO staff, consultants, subscribers, contractors and partners are expected to bring risk and control issues to the attention of the Organization.

## **Review of Effectiveness**

As Director-General, I review the effectiveness of the system of internal control. My review is informed by:

- a) Letters of Representation from the Deputy Directors-General, Assistant Directors-General and Directeur de Cabinet, in which they provide assurance that FAO's management and control systems are being applied methodically and effectively across the organizational units under their command;
- b) analysis of the Internal Control Questionnaires completed by offices and divisions throughout FAO, and the resulting control improvement plans;
- c) conclusions and recommendations in the Annual Reports of the Inspector-General, the Audit Committee, the Ethics Officer and Ombudsperson and the Office of Evaluation;
- d) observations, conclusions and recommendations made by the External Auditor in their long form report, management letters and other reports; and
- e) other matters that have come to my attention during the year, for example data from corporate monitoring systems such as the Operational Monitoring Dashboard.

FAO further benefits from the activities of its Inspector-General, its Audit Committee, its External Auditor, its Office of Evaluation, the UN Joint Inspection Unit as well as from the work of its Governing Bodies that exercise oversight and support the implementation of the Internal Control Framework.

Based on the experience of this first year of implementing formal internal control reporting, the process will be further strengthened and streamlined.

FAO is committed to a process of continuous development and improvement in risk management and internal control and has identified five main areas for improvement in internal control over the next year:

### ***Enterprise Risk Management (ERM)***

FAO has an approved corporate policy on risk management in place since several years. In 2018, several focused initiatives are planned in order to strengthen the Organization's risk management practices, such as:

- a) Pursue actions aiming at building awareness of corporate risks and risk management practices.
- b) Promote systematic risk management through enhanced integration of risk identification (including fraud risks), mitigation, monitoring and reporting in planning and reporting processes.
- c) Update the Corporate Risk Log to provide integration with the risks identified in the work planning and through internal control reporting processes, refining the articulation of root causes.

### ***Fraud Prevention and Detection***

FAO has a solid "zero-tolerance" policy framework in place and a strong investigative capacity in the Inspector-General's Office. To build on this foundation, two interrelated initiatives will be undertaken to improve fraud awareness, prevention, detection and reporting performance:

- a) Initiate the systematic assessment of fraud risk vulnerabilities throughout the Organization leading to the development of a corporate fraud prevention and control strategy and action plan.
- b) Strengthen guidance, tools and training materials for the preparation, monitoring and reporting on fraud prevention and detection plans, at corporate and country level.

### ***Competencies and Capacity in Control-Sensitive Positions***

FAO will upgrade capacity and competencies of critical roles in operating the internal control system at all locations. Two initiatives are planned in this area:

- a) Develop an enhanced training programme, including new courses on internal controls and fraud prevention, and strengthen follow-up of compliance.
- b) Continued strengthening of internal control capacities in all locations through tailored support.

### ***Accountability and Managerial Oversight***

Two initiatives are planned in this area, based on FAO's existing Accountability Framework:

- a) Expand FAO's business intelligence and dashboard capabilities to provide support to the various oversight roles and related accountability in the monitoring of effectiveness of the internal control system at different organizational levels, with particular attention to the requirements of Decentralized Offices.
- b) Increase awareness of managers' accountability for timely implementation of audit recommendations, with a view to strengthening management and improving the achievement of the Organization's objectives.

### ***Programmatic planning and implementation***

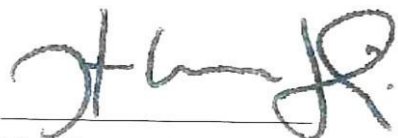
The Organization's capacity in the areas of programmatic planning and implementation will be enhanced starting with:

- a) Review of the training curriculum and training requirements in the areas of resource mobilization, including partnerships, and programme management, implementation and monitoring.
- b) Continuous attention to good management practices for projects and programmes funded by voluntary contributions to ensure timely delivery of quality outputs.

### **Conclusion**

Effective internal control, no matter how well designed, has inherent limitations. Furthermore, because of changes of conditions, the effectiveness of internal control may vary over time. I am committed to addressing any weaknesses in internal controls noted during the year brought to my attention.

Based on the aforementioned, I conclude that, to the best of my knowledge and information, there are no material weaknesses which would prevent the external auditor from providing an unqualified opinion on the Organization's financial statements nor are there other significant matters arising which would need to be raised in the present document for the year ended 31 December 2017 and up to the date of approval of the financial statements.



The Director-General

Date: - 6 JUL 2018

<b>STATEMENT I – STATEMENT OF FINANCIAL POSITION</b>			
<b>AS AT 31 DECEMBER 2017</b>			
<i>(thousands of US dollars)</i>	Note	31-Dec-17	31-Dec-16 (Restated)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	690,629	684,713
Investments and derivative financial instruments	4	510,025	524,801
Receivables from non-exchange transactions	5	316,139	174,281
Receivables from exchange transactions	6	7,164	8,076
Prepayments and other current assets	7	40,306	38,171
Inventories	8	7,900	9,347
		1,572,163	1,439,389
<b>Non-current assets</b>			
Investments	4	522,784	442,950
Receivables from non-exchange transactions	5	637	890
Prepayments and other non-current assets	7	470	995
Property, plant and equipment	9	26,965	24,526
Intangible assets	10	5,225	4,770
		556,081	474,131
<b>Total assets</b>		<b>2,128,244</b>	<b>1,913,520</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	11	23,666	25,960
Accrued expenses	11	150,397	106,230
Payments received in advance	12	348,799	487,435
Employee benefit obligations	13	17,630	17,883
Provisions	16	777	1,407
Other current liabilities	17	381	421
		541,650	639,336
<b>Non-current liabilities</b>			
Employee benefit obligations	13	1,527,419	1,319,199
Other non-current liabilities	17	45,429	51,929
		1,572,848	1,371,128
<b>Total liabilities</b>		<b>2,114,498</b>	<b>2,010,464</b>
<b>Net assets</b>		<b>13,746</b>	<b>(96,944)</b>
<b>Equity</b>			
Accumulated surplus / (deficit)		112,753	(138,878)
Reserves	18	(99,007)	41,934
<b>Total equity</b>		<b>13,746</b>	<b>(96,944)</b>

<b>STATEMENT II – STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2017</b>			
<i>(thousands of US dollars)</i>	Note	31-Dec-17	31-Dec-16 (Restated)
<b>Revenue</b>			
<b>Revenue from non-exchange transactions</b>			
Assessments of Member Nations under Regular Programme	19	478,200	487,424
Voluntary contributions	19	1,056,853	897,750
Other non-exchange revenue	19	69,075	63,723
		1,604,128	1,448,897
<b>Revenue from exchange transactions</b>			
Exchange revenue	19	8,037	6,406
		8,037	6,406
<b>Total revenue</b>		<b>1,612,165</b>	<b>1,455,303</b>
<b>Expenses</b>			
Employee benefits and other personnel costs	20	399,390	382,996
Consultants	20	260,164	230,546
Travel costs	20	114,278	94,161
Depreciation, amortization and impairment of long-lived assets	20	9,032	7,989
Training expenses	20	42,480	34,366
Contractual services	20	347,339	271,286
Grants and other transfer payments	20	31,951	24,300
Supplies and consumables used	20	169,140	162,980
Other expenses	20	29,631	25,376
<b>Total expenses</b>		<b>1,403,405</b>	<b>1,234,000</b>
<b>Non-operating income and expenses</b>			
Investment income	21	69,954	12,408
Foreign exchange gains / (losses)	21	14,336	3,290
Finance income / (expenses)	21	(41,419)	(37,542)
<b>Total non-operating income and expenses</b>		<b>42,871</b>	<b>(21,844)</b>
<b>Surplus</b>		<b>251,631</b>	<b>199,459</b>

<b>STATEMENT III – STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017</b>						
<i>(thousands of US dollars)</i>						
	Note	Accumulated surplus / (deficit)	Special Reserve Account	Actuarial gains & (losses) reserve	Cumulative unrealized gains / (losses) on available- for-sale investments	Total equity / (deficit)
<b>Balance year ended 31 Dec 2016</b>		<b>(165,086)</b>	<b>17,559</b>	<b>(427)</b>	<b>45,055</b>	<b>(102,899)</b>
Correction of Error		26,208	-	-	(20,253)	5,955
<b>Balance year ended 31 Dec 2016 (Restated)</b>		<b>(138,878)</b>	<b>17,559</b>	<b>(427)</b>	<b>24,802</b>	<b>(96,944)</b>
Actuarial gains / (losses)	18	-	-	(167,239)	-	(167,239)
Unrealized holding gains / (losses)	18	-	-	-	26,298	26,298
<b>Net revenue recognized directly in equity</b>		<b>-</b>	<b>-</b>	<b>(167,239)</b>	<b>26,298</b>	<b>(140,941)</b>
<b>Surplus for the period</b>		<b>251,631</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>251,631</b>
<b>Balance year ended 31 Dec 2017</b>		<b>112,753</b>	<b>17,559</b>	<b>(167,666)</b>	<b>51,100</b>	<b>13,746</b>



<b>STATEMENT IV – CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017</b>			
<i>(thousands of US dollars)</i>	Notes	31-Dec-17	31-Dec-16 (Restated)
<b>Cash flows from operating activities</b>			
Surplus / (deficit) for the period		<b>251,631</b>	<b>199,459</b>
Adjustments required to reconcile surplus / (deficit) for the period to cash flows from operating activities:			
Depreciation and amortization	20	9,032	7,989
Provision for doubtful accounts	20	(901)	5,607
Provision for contingent liabilities	20	(629)	(3,672)
Internal Project Support Costs		847	(493)
(Gains) / losses on sale or disposal of fixed assets		1,660	416
(Gains) / losses on trading and derivative investments	21	(14,073)	(1,668)
(Gains) / losses on Available-for-sale investments	21	(55,883)	(10,740)
Changes in assets and liabilities:			
Receivables from non-exchange transactions		(141,129)	20,873
Receivables from exchange transactions		1,003	(3,978)
Inventories		1,447	5,250
Other current and non-current assets		(962)	6,796
Accounts payable and accrued expenses		41,872	(14,478)
Staff related liabilities		40,729	28,756
Advances		(138,637)	(98,015)
Other current and non-current liabilities		(6,541)	(3,976)
<b>Net cash flows from operating activities</b>		<b>(10,534)</b>	<b>138,126</b>
<b>Cash flows from investing activities</b>			
Net purchases of property, plant and equipment		(11,294)	(8,435)
Purchases of intangible assets		(1,988)	(626)
Net purchases / sales of trading and derivative investments		24,679	(1,998)
Net purchases / sales of available-for-sale investments		5,053	(9,820)
<b>Net cash flows from investing activities</b>		<b>16,450</b>	<b>(20,879)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>5,916</b>	<b>117,247</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>684,713</b>	<b>567,466</b>
<b>Cash and cash equivalents at end of period</b>		<b>690,629</b>	<b>684,713</b>

Please note that there were no cash flows from financing activities during the year.

STATEMENT V – STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS (a)											
FOR THE YEAR ENDED 31 DECEMBER 2017											
<i>(thousands of US dollars)</i>											
Chapter	Approved Budget (b)	Amounts brought forward (c)	Transfers (d)	Amounts carried forward (e)	Revised Budget	Actual Other Income (f)	Actual Expenditure (g)	Currency variance (h)	Budget rate net expenditure (i)	Budget vs. actual variance (j)	
<b>1</b>	Contribute to the eradication of hunger, food insecurity and malnutrition	42,196	265	-	-	42,461	(9,123)	55,064	1,374	47,315	(4,854)
<b>2</b>	Increase and improve provision of goods and services from agriculture, forestry and fisheries in a sustainable manner	100,368	653	-	-	101,021	(17,265)	123,242	3,246	109,223	(8,202)
<b>3</b>	Reduce rural poverty	32,854	353	2,850	-	36,057	(5,475)	44,189	999	39,713	(3,656)
<b>4</b>	Enable more inclusive and efficient agricultural and food systems at local, national and international levels	52,633	117	1,400	-	54,150	(14,998)	72,779	1,820	59,601	(5,451)
<b>5</b>	Increase the resilience of livelihoods to threats and crises	25,421	174	2,500	-	28,095	(8,610)	37,739	844	29,973	(1,878)
<b>6</b>	Technical Quality, Knowledge and Services	29,607	-	1,850	-	31,457	(826)	35,794	1,022	35,990	(4,533)
<b>7</b>	Technical Cooperation Programme	69,065	81,505	-	(73,965)	76,605	(39)	75,865	779	76,605	-
<b>8</b>	Outreach	38,870	134	1,800	-	40,804	(2,733)	46,841	1,235	45,343	(4,539)
<b>9</b>	Information Technology	17,718	47	-	-	17,765	(8,006)	28,491	536	21,021	(3,256)
<b>10</b>	FAO Governance, Oversight and Direction	38,491	561	(7,900)	-	31,153	(6,148)	44,221	1,162	39,235	(8,082)
<b>11</b>	Efficient and Effective Administration	35,637	330	(2,500)	-	33,467	(21,101)	56,127	1,757	36,783	(3,316)
<b>12</b>	Contingencies	300	-	-	-	300	-	-	-	-	300
<b>13</b>	Capital Expenditure	8,446	-	-	(5,934)	2,512	-	2,466	46	2,512	-
<b>14</b>	Security Expenditure	11,210	-	-	(3,016)	8,194	(5,369)	13,256	307	8,194	-
	<b>Sub-total</b>	<b>502,818</b>	<b>84,139</b>	-	<b>(82,915)</b>	<b>504,042</b>	<b>(99,693)</b>	<b>636,074</b>	<b>15,127</b>	<b>551,509</b>	<b>(47,467)</b>
	Transfer to Tax Equalization Fund	45,050	-	(45,050)	-	-	-	-	-	-	-
	TCP deferred income (Chapter 15)	81,505	(81,505)	-	73,965	73,965	-	-	-	-	73,965
	Transformational Change deferred income	2,634	(2,634)	-	-	-	-	-	-	-	-
	Capital expenditure account	32,246	-	-	5,934	38,181	-	-	-	-	38,181
	Security expenditure account	18,408	-	-	3,016	21,424	-	-	-	-	21,424
	<b>Total</b>	<b>682,661</b>	-	<b>(45,050)</b>	-	<b>637,612</b>	<b>(99,693)</b>	<b>636,074</b>	<b>15,127</b>	<b>551,509</b>	<b>86,103</b>

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16 (Restated)</b>
<b>Actual expenses as per Statement V</b>	<b>636,074</b>	<b>525,026</b>
<b>Basis differences</b>		
In-kind / in-service expenses	44,856	39,462
Accruals basis	(45,200)	9,897
PP&E, intangibles and inventory	(2,945)	(424)
Consolidation	(864)	(863)
<b>Total basis differences</b>	<b>(4,153)</b>	<b>48,072</b>
<b>Presentation differences</b>		
Provision expenses	(1,531)	1,935
SCV and Pool distributions	(489)	(715)
Classification of income / expenditure items	616	6,310
<b>Total presentation differences</b>	<b>(1,404)</b>	<b>7,530</b>
<b>Entity differences</b>		
Expenses under Other Fund, excluding TCP	(48,670)	764
Expenses under Trust Fund and UNDP	778,687	674,452
<b>Total entity differences</b>	<b>730,017</b>	<b>675,216</b>
<b>Expenses and non-operating income and expenses as per the Statement of Financial Performance</b>	<b>1,360,534</b>	<b>1,255,844</b>
<b>Of which: Total expenses</b>	<b>1,403,405</b>	<b>1,234,000</b>
<b>Non-operating income and expenses</b>	<b>(42,871)</b>	<b>21,844</b>

Refer to Note 24 for further information on the Statement of Comparison of Budget and Actual Amounts.

### Notes to Statement V: Statement of Comparison of Budget and Actual Amounts

(a) The budget and accounting basis is different. This statement of Comparison of Budget and Actual Amounts is prepared on the budget basis. The budget is prepared on a modified cash basis.

(b) Annualized share (at 50%) of the Conference resolution 6/2015 net appropriation of USD 1,005.6 million with budget distribution by Chapter reflecting redistribution of unidentified further efficiency gains and savings of USD 2.7 million (CR 6/2015) and other adjustments as approved by Council in Adjustments to PWB 2016-17 (CL 153/3 and CL 153/REP Report of the 153<sup>rd</sup> Council, page 1, para 8b). As authorised by the Conference Resolution 6/2015, which allows for any unspent balance of the 2014-15 appropriations to be carried forward for any additional expenditures of a one-time nature associated with consolidation of transformational change, USD 2.6 million of the USD 5.6 million unspent balance of the 2014-15 appropriation is brought forward as deferred income (C 2015/REP Report of the Conference, page 23 para 2, C 2017/6A Statement VA).

(c) USD 81.5 million of TCP 2016 appropriation deferred until 2017. USD 2.6 million of the USD 5.6 million unspent balance of the 2014-15 appropriation carried forward as authorized by Conference Resolution 6/2015 was applied towards 2017 one-time nature costs associated with consolidation of transformational change in Strategic and Functional Objectives, thereby reducing the amount of the 2017 budget to fund these costs. None of the USD 6.1 million unspent balance from 2016 in the Capital Expenditure Facility (Chapter 13) was made available for use in 2017.

(d) The Tax Equalization Fund was established as of 1 January 1972. In line with the practice followed since 1972-73, the 2017 budget is presented on a gross basis, by adding to the total effective working budget an appropriation for staff assessment. This has no effect on the contributions payable by Members not levying tax on FAO staff emoluments; their full share of the staff assessment appropriation is refunded by deduction from the contributions payable by them. Members which levy tax on FAO staff emoluments have their shares of the appropriation for staff assessment reduced by the amount estimated to be required to meet claims from the FAO staff concerned for tax reimbursement.

(e) USD 74.0 million of TCP 2017 appropriation deferred until 2018 (at budget rate of exchange). USD 5.9 million deferred until 2018 under Capital Expenditure Facility, and USD 3.0 million deferred until 2018 under Security Expenditure Facility (both at budget rate of exchange).

(f) Actual Other Income is comprised of the following items:

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
Voluntary contributions	70,366	67,289
Funds received under inter-organizational arrangements	105	228
Jointly financed activities	18,582	19,918
Other sundry income	10,639	9,747
<b>Total actual other income</b>	<b>99,693</b>	<b>97,182</b>

(g) Represents amounts charged to the Regular Programme budget and the TCP prior biennium appropriation (USD 560.2 million and USD 75.9 million, respectively, for 2017). The Organization accounts for payments for health insurance premiums on behalf of retirees differently for financial reporting than for budgetary reporting. For 2017, USD 10.9 million (USD 10.6 million in 2016) of payments for health insurance premiums on behalf of retirees are recognized as expenditure but are recorded as reduction of ASMC liability for financial reporting purposes.

(h) Currency Variance represents adjustments to the actual expenditure to reflect the translation of Euro-denominated transactions at the Budget Rate of Exchange rather than the UN Operational Rate of exchange in effect at the date of the transactions.

(i) Budget rate net expenditure represents actual net expenditure adjusted by currency variance.

(j) Variance between adjusted net budget and budget rate net expenditure in 2017, applied to the 2016 surplus of USD 51.3 million, with the biennial balance of USD 3.9 million carried forward to the first year of the 2018-19 biennium.

**STATEMENT V – STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE YEAR ENDED 31 DECEMBER 2016**

<i>(thousands of US dollars)</i>		Approve d Budget	Amounts brought forward	Transfers	Amounts carried forward	Revised Budget	Actual Other Income	Actual Expenditure	Currency variance	Budget rate net expenditure	Budget vs. actual variance
<b>Chapter</b>											
<b>1</b>	Contribute to the eradication of hunger, food insecurity and malnutrition	42,195	329	-	-	42,524	(7,249)	42,822	1,465	37,038	5,486
<b>2</b>	Increase and improve provision of goods and services from agriculture, forestry and fisheries in a sustainable manner	100,367	586	-	-	100,953	(18,636)	106,631	3,644	91,639	9,314
<b>3</b>	Reduce rural poverty	32,853	142	-	-	32,995	(4,586)	32,793	1,098	29,305	3,690
<b>4</b>	Enable more inclusive and efficient agricultural and food systems at local, national and international levels	52,633	120	-	-	52,753	(13,783)	59,046	2,011	47,274	5,479
<b>5</b>	Increase the resilience of livelihoods to threats and crises	25,420	104	-	-	25,524	(5,379)	28,057	943	23,621	1,903
<b>6</b>	Technical Quality, Knowledge and Services	29,608	-	-	-	29,608	(713)	24,879	892	25,058	4,550
<b>7</b>	Technical Cooperation Programme	69,066	79,461	-	(81,505)	67,022	-	66,048	974	67,022	-
<b>8</b>	Outreach	38,870	-	-	-	38,870	(3,258)	36,212	1,347	34,301	4,569
<b>9</b>	Information Technology	17,719	11	-	-	17,730	(5,471)	18,548	1,080	14,157	3,573
<b>10</b>	FAO Governance, Oversight and Direction	38,492	805	-	-	39,297	(9,934)	39,138	1,785	30,989	8,308
<b>11</b>	Efficient and Effective Administration	35,638	836	-	-	36,474	(22,493)	51,783	3,021	32,311	4,163
<b>12</b>	Contingencies	300	-	-	-	300	-	-	-	-	300
<b>13</b>	Capital Expenditure	8,446	-	-	(6,086)	2,360	-	2,307	53	2,360	-
<b>14</b>	Security Expenditure	11,210	332	-	-	11,542	(5,680)	16,762	460	11,542	-
	<b>Sub-total</b>	<b>502,817</b>	<b>82,726</b>	<b>-</b>	<b>(87,591)</b>	<b>497,952</b>	<b>(97,182)</b>	<b>525,026</b>	<b>18,773</b>	<b>446,617</b>	<b>51,335</b>
	Transfer to Tax equalization Fund	45,050	-	(45,050)	-	-	-	-	-	-	-
	TCP deferred income (Chapter 15)	79,461	(79,461)	-	81,505	81,505	-	-	-	-	81,505
	Transformational Change deferred income	5,567	(2,933)	-	-	2,634	-	-	-	-	2,634
	Capital expenditure account	26,160	-	-	6,086	32,246	-	-	-	-	32,246
	Security expenditure account	18,740	(332)	-	-	18,408	-	-	-	-	18,408
	<b>Total</b>	<b>677,795</b>	<b>-</b>	<b>(45,050)</b>	<b>-</b>	<b>632,745</b>	<b>(97,182)</b>	<b>525,026</b>	<b>18,773</b>	<b>446,617</b>	<b>186,128</b>

**STATEMENT VA – STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS  
FOR THE BIENNIUM ENDED 31 DECEMBER 2017**

<i>(thousands of US dollars)</i>	Chapter	Approved Budget (b)	Amounts brought forward (c)	Transfers (d)	Amounts carried forward (e)	Revised Budget	Actual Other Income (f)	Actual Expenditure (g)	Currency variance (h)	Budget rate net expenditure (i)	Budget vs. actual variance (j)
<b>1</b>	Contribute to the eradication of hunger, food insecurity and malnutrition	84,391	594	-	-	84,985	(16,372)	97,886	2,839	84,353	632
<b>2</b>	Increase and improve provision of goods and services from agriculture, forestry and fisheries in a sustainable manner	200,735	1,239	-	-	201,974	(35,901)	229,873	6,890	200,862	1,112
<b>3</b>	Reduce rural poverty	65,707	495	2,850	-	69,052	(10,061)	76,982	2,097	69,018	34
<b>4</b>	Enable more inclusive and efficient agricultural and food systems at local, national and international levels	105,266	237	1,400	-	106,903	(28,781)	131,825	3,831	106,875	28
<b>5</b>	Increase the resilience of livelihoods to threats and crises	50,841	278	2,500	-	53,619	(13,989)	65,796	1,787	53,594	25
<b>6</b>	Technical Quality, Knowledge and Services	59,215	-	1,850	-	61,065	(1,539)	60,673	1,914	61,048	17
<b>7</b>	Technical Cooperation Programme	138,131	79,461	-	(73,965)	143,627	(39)	141,913	1,753	143,627	-
<b>8</b>	Outreach	77,740	134	1,800	-	79,674	(5,991)	83,053	2,582	79,644	30
<b>9</b>	Information Technology	35,437	58	-	-	35,495	(13,477)	47,039	1,616	35,178	317
<b>10</b>	FAO Governance, Oversight and Direction	76,983	1,366	(7,900)	-	70,450	(16,082)	83,359	2,947	70,224	226
<b>11</b>	Efficient and Effective Administration	71,275	1,166	(2,500)	-	69,941	(43,594)	107,910	4,778	69,094	847
<b>12</b>	Contingencies	600	-	-	-	600	-	-	-	-	600
<b>13</b>	Capital Expenditure	16,892	-	-	(12,020)	4,872	-	4,773	99	4,872	-
<b>14</b>	Security Expenditure	22,420	332	-	(3,016)	19,736	(11,049)	30,018	767	19,736	-
	<b>Sub-total</b>	<b>1,005,635</b>	<b>85,360</b>	<b>-</b>	<b>(89,001)</b>	<b>1,001,994</b>	<b>(196,875)</b>	<b>1,161,100</b>	<b>33,900</b>	<b>998,126</b>	<b>3,868</b>
	Transfer to Tax Equalization Fund	90,100	-	(90,100)	-	-	-	-	-	-	-
	TCP deferred income (Chapter 15)	79,461	(79,461)	-	73,965	73,965	-	-	-	-	73,965
	Transformational Change deferred income	5,567	(5,567)	-	-	-	-	-	-	-	-
	Capital expenditure account	26,160	-	-	12,020	38,181	-	-	-	-	38,181
	Security expenditure account	18,740	(332)	-	3,016	21,424	-	-	-	-	21,424
	<b>Total</b>	<b>1,225,663</b>	<b>-</b>	<b>(90,100)</b>	<b>-</b>	<b>1,135,563</b>	<b>(196,875)</b>	<b>1,161,100</b>	<b>33,900</b>	<b>998,126</b>	<b>137,437</b>

**Note 1. The Organization*****Objectives and activities***

1.1 The Food and Agriculture Organization of the United Nations ('FAO' or 'the Organization'), was established pursuant to its Constitution originally adopted on 16 October 1945. The headquarters of the Organization is located in Rome, Italy. In addition, there are Representation Offices throughout the world, in charge of implementing the values, mission and vision of the Organization. The purpose of the Organization is to raise levels of nutrition and standards of living, secure improvements in the efficiency of the production and distribution of all food and agricultural products, better the condition of rural populations and thus contribute toward an expanding world economy and ensure humanity's freedom from hunger.

***Funding***

1.2 The Organization's "Regular Programme" Programme of Work is approved by the Conference of Member Nations. The related budget appropriations voted are financed by annual contributions based on an assessment on Member Nations and Associate Members by the Conference. Unutilized appropriations at the close of the financial period are cancelled, except for the Technical Cooperation Programme (TCP) appropriation which remains available for obligations during the financial period following that for which the funds were voted and Capital Expenditure and Security Expenditure appropriations, which are transferred to the Capital Expenditure Account and the Security Expenditure Account, respectively, to be carried forward for use in subsequent financial periods.

1.3 Voluntary contributions for special purposes, which are consistent with the policies, aims and activities of the Organization, may be accepted by the Director-General and Trust and Special Funds established accordingly. In addition, the Organization receives funds under an inter-organizational arrangement with the United Nations Development Programme (UNDP) to participate as an executing agency for UNDP technical cooperation projects or act as implementing agency for UNDP funded projects executed by other executing agencies. Voluntary contributions and funds received include payment towards recovering certain costs relating to technical, managerial and administrative services (support costs) which are a necessary part of extra-budgetary projects.

1.4 The statements on segment reporting by fund provide further detail on how these activities are managed and financed.

**Note 2. Significant accounting policies*****Basis of preparation***

2.1 These are the fourth set of financial statements prepared on the accrual basis of accounting in accordance with the requirements of International Public Sector Accounting Standards (IPSAS) using the historic cost convention, other than certain investments and liabilities for employee benefits which are carried at fair value. The Cash Flow Statement has been prepared using the indirect method.

2.2 The accounting policies set out below are applied consistently in the preparation and presentation of these financial statements.

***Use of estimates***

2.3 The financial statements include certain reasonable estimates based on nature and assumptions by management. Estimates include, but are not limited to: fair value of donated goods, other post-employment benefits obligations, amounts for litigations, financial risk on inventories and accounts receivables, accrued charges, contingent assets and liabilities, and degree of impairment of fixed assets. Changes in estimates are reflected in the period in which they become known.

***Functional currency***

2.4 The financial statements are presented in United States Dollars, which is the functional currency of the Organization.

***Presentation***

2.5 These financial statements present the results of FAO as a single entity consisting of: (a) General and Related Funds and (b) Trust and UNDP Funds.

***Foreign currency transactions***

2.6 Foreign currency transactions are translated into United States Dollars using the United Nations Operational Rate of Exchange (UNORE), which approximates the exchange rates prevailing at the dates of the transactions. The UNORE are set once a month, and revised mid-month if there are significant exchange rate fluctuations relating to individual currencies.

2.7 Monetary assets and liabilities denominated in foreign currencies are translated into United States Dollars using the closing rate of the UNORE as at the end of the reporting period. Non-monetary items carried at historical cost are translated using the historical exchange rate that existed at the date when the item was recognized and non-monetary items held at fair value are translated using the exchange rate at the date of the re-valuation.

2.8 Realized and unrealized 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 recognized in the Statement of Financial Performance.

***Cash and cash equivalents***

2.9 Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly-liquid investments with original maturities of three months or less.

2.10 Bank overdrafts for which the right of offset does not exist are recorded within other current liabilities on the Statement of Financial Position.

***Investments******Classification***

2.11 The Organization classifies its investments in the following two categories:

- i) *Held-for-trading* investments are acquired principally for the purpose of selling in the short-term and classified as current assets; and
- ii) *Available-for-sale* investments are not considered trading or the Organization does not have the ability or intent to hold until maturity. They are designated to fund the Organization's post-employment liabilities and classified as non-current assets.

***Accounting treatment of investments***

2.12 Purchases and sales of investments are recognized on the trade-date, which is the date on which the Organization enters into a legally binding agreement to purchase or sell the investment. Investments are initially recognized at fair value. The carrying value of Held-for-trading investments and Available-for-sale investments are subsequently adjusted to reflect the current fair market value on a periodic basis. Gains and losses arising from changes in the market value of Held-for-trading investments are recognized in the Statement of Financial Performance during the period in which they arise. Changes in the market value of Available-for-sale investments are recorded as unrealized gains and losses within reserves in the Statement of Financial Position with the exception of unrealized foreign exchange gains and losses on debt securities, which are recognised in the Statement of Financial Performance during the period in which they occur. When Available-for-sale investments are subsequently sold or impaired, any cumulative market value



adjustments previously recognized in the unrealized gains and losses account within reserves are recognized in the Statement of Financial Performance.

2.13 Interest on Available-for-sale fixed income investments and dividends on Available-for-sale equity investments are recognized in the Statement of Financial Performance during the period earned and when the right to receive dividend payments is established, respectively.

2.14 The fair values of all investments are based on quoted prices in active financial markets.

### ***Derecognition***

2.15 The Organization derecognizes an investment when:

- a) The rights to receive cash flows from the investment have expired or are waived; or
- b) The Organization has transferred its rights to receive cash flows from the investment or has assumed an obligation to pay the received cash flows in full without material delay to a third party; and either:
  - (a) the Organization has transferred substantially all the risks and rewards of the asset; or
  - (b) the Organization has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

### ***Impairment of investments***

2.16 The Organization assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired, other than those classified as Held-for-trading investments. An investment or a group of investments is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the investment (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the investment or a group of investments that can be reliably estimated.

2.17 The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in surplus or deficit. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in surplus or deficit.

2.18 For Available-for-sale financial assets at each reporting date, the Organization assesses whether there is objective evidence that an investment or a group of investments is impaired. In the case of investments classified as Available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value was below its original cost. Where there is evidence of impairment, the cumulative loss that had been recognized directly in Net Assets / Equity – measured as the difference between the acquisition cost (net of any principal repayment and amortization) and the current fair value, less any impairment loss on that investment previously recognized in the surplus or deficit – is removed from the reserve in net assets and recognized in surplus or deficit.

### ***Derivative financial instruments***

2.19 Derivative financial instruments are financial instruments that contains all three of the following characteristics:

- i) value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable;
- ii) requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- iii) settled at a future date.

2.20 Derivative financial instruments are recognized at fair value on their trade-date. The carrying value of derivative financial instruments is adjusted to reflect the current fair market value on a periodic basis. Gains and losses arising from changes in the market value of derivative financial instruments are recorded directly in the Statement of Financial Performance.

### ***Receivables***

2.21 The Organization classifies its receivables as ‘loans and receivables’. Receivables are stated at nominal value unless the effect of discounting is material.

### ***Allowance for doubtful accounts***

2.22 The Organization records an allowance for doubtful accounts for voluntary contributions based on a review of receivables at the reporting date when there is objective evidence of its impairment. Assessed contributions are provided for after being outstanding for more than two years. Other allowances can be calculated individually or by application of a statistical method.

2.23 The Organization reports allowance for doubtful accounts in the Statement of Financial Position. The recognition of an allowance for doubtful accounts and the recognition of an expense associated with the write-off of a receivable are both reflected as expenses within the Statement of Financial Performance.

### ***Prepaid and other assets***

2.24 The Organization classifies its prepayments and other assets as ‘loans and receivables’. These items are recognized in the Statement of Financial Position at their nominal value unless the effect of discounting is material. Agreements with Service Providers or beneficiaries that require the provision of service, will be recognized on a pro-rata temporis method straight-lined over the estimated period.

### ***Inventories***

2.25 Inventories are stated at the lower of cost, current replacement cost or net realizable value. Current replacement cost, is utilized for inventories to be distributed to beneficiaries and is the cost the Organization would incur to acquire the asset on the reporting date. Net realizable value, which is utilized for inventories to be sold by the Organization, is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Estimated freight costs for inventories is added to the cost of project inputs when calculating the total value.

2.26 Inventories held for distribution for specific projects shall be measured utilizing the specific identification method. Inventories held for sale not identified for use by a specific project shall be measured utilizing the FIFO method. Field office publications will not be valued as inventory.

2.27 If recorded value of the inventories falls below the current replacement costs due to obsolescence, damage, price changes, etc. then impairment is recorded in the Statement of Financial Performance in the year in which the inventories are deemed to be impaired.

### ***Property, plant and equipment***

2.28 Property, plant and equipment (PP&E) are stated at historical cost less accumulated depreciation and any recognized impairment loss. For donated assets, fair value as of the date of acquisition is utilized as a proxy for historical cost. Heritage assets are not capitalized.

2.29 Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to the Organization and the cost of the item can be measured reliably. All repairs and maintenance are charged to the Statement of Financial Performance during the financial period in which they incur.

2.30 Depreciation is charged to write off the cost of assets over their estimated useful lives using the straight-line method. The useful lives of major classes of PP&E are:

<b>Class</b>	<b>Estimated useful lives</b>
Office furniture and fixtures	5 – 7 years
Machinery and equipment	5 – 7 years
Computer and IT equipment	3 years
Motor vehicles	3 – 5 years
Buildings	5 – 40 years
Leasehold improvements	Shorter of lease term or useful life

2.31 FAO utilizes the transitional provision to recognize items of PP&E gradually over the five-year transition period. Assets purchased starting 2014 will be recognized on the financial statements, while assets purchased prior to 2014 are being transitioned in over a five year period from 2014 onwards.

2.32 The cost, accumulated depreciation and accumulated impairment losses of an item of PP&E shall continue to be reflected in the financial statements until the time the item meets the criteria for derecognition. An item of PP&E shall be derecognized from the financial statements when the item is disposed or no future economic benefit or service potential is expected from its use or disposal.

2.33 Project assets are derecognized upon final disposal or upon transfer to designated beneficiaries, by FAO. Vehicles (automobiles, station wagons or vans) in the field will only be derecognized when title and restrictions on use as documented in mutual agreements, have officially been transferred from FAO to a government, an Implementing Partner or a beneficiary. Gains or losses on the disposal or derecognition of items of PP&E shall be disclosed through surplus or deficit when the asset is derecognized.

### ***Intangible assets***

2.34 Intangible assets are carried at historical cost less accumulated amortization and any recognized impairment loss. For donated intangible assets, fair value as of the date of acquisition is utilized as a proxy for historical cost.

#### ***Amortization***

2.35 Amortization is provided on a straight-line basis on all intangible assets of finite life, at rates that will write off the cost or value of the assets to their estimated residual values. Residual values in most cases are expected to be zero. The useful lives of major classes of intangible assets are:

<b>Class</b>	<b>Estimated useful life</b>
Software acquired separately	Contractual obligation or up to 5 years
Software internally developed	Based on business case up to 5 years
Intangible assets under development	No amortization
Other intangible assets	Based on expected asset life

#### ***Software acquisition and development***

2.36 Acquired computer software licenses are capitalized based on costs incurred to acquire and bring to use the specific software. Costs that are directly associated with the development of software for use by the Organization are capitalized as an intangible asset. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

2.37 Gains or losses on the disposal or derecognition of items of intangible assets shall be disclosed through surplus or deficit when the asset is derecognized.

2.38 FAO utilizes the transitional provision to recognize intangible assets purchased or put to use starting in 2014.

***Impairment***

2.39 Assets that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

***Leases******Operating leases***

2.40 Leases where the lessor retains a significant portion of the risks and rewards inherent in ownership are classified as operating leases. Expenditures incurred under operating leases are charged to the Statement of Financial Performance as expense, on a straight-line basis, over the period of the lease.

***Borrowings***

2.41 Borrowings are accounted for on the amortized cost basis and borrowing costs are expensed as incurred. Where the Organization holds interest-free loans or does not pay interest on loans, the benefit to FAO of the arrangement is treated as an in-kind contribution.

***Provisions and contingencies***

2.42 Provisions are recognized for contingent liabilities when the Organization has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

2.43 The amount of the provision is the best estimate of the expenditures expected to be required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the amount of the provision is the present value of the expected expenditures to settle the obligation.

2.44 Contingent liabilities for which the possible obligations are uncertain, or yet to be confirmed whether the Organization has a present obligation that could lead to an outflow of resources, are disclosed.

***Employee benefit obligations***

2.45 The organization recognises expenses and liabilities in respect of the following employee benefits:

- i) *Short-term employee benefits* comprise of wages, salaries, allowances, paid annual leave and paid sick leave. They are due to be settled within 12 months after the end of the period in which the employees render the related service and are measured at their value based on accrued entitlements at current rates of pay;
- ii) *Post-employment benefits* are employee benefits that are payable after the completion of employment. They comprise of defined benefit plans, consisting of the Separation Payments Scheme (SPS), the Terminal Payments Fund (TPF) and the After Service Medical Coverage plan (ASMC). The post-employment benefit obligations are calculated annually by independent actuaries. All actuarial gains and losses are recognized immediately in reserves; and
- iii) *Other non-current employee benefits* comprise of Compensation Payments which are due to staff members and their dependents in case of death, injury or illness attributable to the performance of official duties and, in certain circumstances, to supplement the disability and survivors' pensions paid by the United Nations Joint Staff Pension Fund. The Compensation Payments benefit obligations are calculated annually by independent actuaries. All actuarial gains and losses are recognized immediately in the Statement of Financial Performance.

2.46 FAO recognizes the following categories of employee benefits:

- short-term employee benefits due to be settled within twelve months after the end of the accounting period in which employees render the related service;

- post-employment benefits;
- other long-term employee benefits; and
- termination benefits.

### ***United Nations Joint Staff Pension Fund***

2.47 FAO is a member organization participating in the United Nations Joint Staff Pension Fund (UNJSPF), which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in Article 3(b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

2.48 2. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. FAO and the UNJSPF, in line with the other participating organizations in the Fund, are not in a position to identify FAO's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, FAO has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 39 Employee Benefits. The FAO's contributions to the plan during the financial period are recognized as expenses in the Statement of Financial Performance.

### ***Revenue recognition***

#### ***Non-exchange revenue***

2.49 Assessed contributions are assessed and approved for a two-year budget period. The amount of these contributions is then apportioned between the two years for invoicing and payment. Assessed contributions are recognized as revenue at the beginning of the apportioned year in the relevant two-year budget period.

2.50 Voluntary contributions and other transfers which are supported by enforceable agreements are recognized as revenue at the time the agreement becomes binding and when control over the underlying asset is obtained, unless the agreement establishes a condition on the transferred asset that requires recognition of a liability. In such cases, revenue is recognized as the conditional liability is discharged.

2.51 In prior years FAO has used the IPSAS 23 transitional provision for voluntary contributions. As of 1<sup>st</sup> January 2017, the Organization is fully IPSAS compliant, and the balance on projects using the transitional provision was recognized in revenue during the period.

#### ***Donated and in-kind contributions***

2.52 In-kind contributions of goods that directly support approved operations and activities and can be reliably measured, are recognized at fair value. These contributions include the use of premises, project inputs, utilities and interest on concessionary loans under the Working Capital Fund.

2.53 The Organization is provided the use of buildings and facilities for no or nominal charge from the government owning such facilities. The Organization recognizes this "right to use" of such buildings and facilities as a donated operating lease. As such, revenue and expense will be recorded equally based on rental market value. As each of the facilities and the related agreements to utilize such facilities, is unique, fair value of right to use agreements is generally determined based upon valuation techniques such as local market conditions and estimated cash flows, assuming an arms-length transaction.

2.54 Certain services are donated or provided in-kind to the Organization to assist the Organization in carrying out its mandate. These in-kind contributions of services are not recognized on the financial statements, due primarily to the practical challenges of estimating the fair value of such donations and related

uncertainties associated with determining the Organization's control over them. These services primarily include:

- Administrative and security personnel provided by host governments, primarily in the Organization's decentralized offices;
- Technical staff provided by either Member Nations and educational institutions;
- Volunteer staff providing primarily administrative support;
- Services of volunteers;
- Maintenance and repair for the Organization's facilities.

### ***Exchange revenue***

2.55 Revenue from exchange transactions are measured at the fair value of the consideration received or receivable and are recognized as goods and services are delivered.

### ***Unearned revenue***

2.56 The Organization receives funds in the form of voluntary contributions, which are used to finance specific projects agreed between the Organization and the donor. Some agreements have conditions such that the Organization has a present obligation to return the funds or related assets to the donor to the extent that the conditions are not met. Consequently, where such conditions exist, a corresponding liability is recognized upon receipt of the funds. This liability is reduced as the conditions are satisfied.

### ***Expense recognition***

#### ***Exchange expense***

2.57 The Organization recognizes exchange expense arising from the purchase of goods and services at the point the supplier performs its contractual obligations, which is when the goods and services are delivered and accepted. For some service contracts, this process may occur in stages.

#### ***Non-exchange expense***

2.58 Transactions with service providers and beneficiaries requiring the provision of service will be recognized under the pro-rata temporis method and agreements with beneficiaries without the provision of service will be recognized upon payment. Project inventories are recognized upon delivery to beneficiaries.

### ***Restatement of Financial Statements as a result of Change in Accounting Policy and Correction of an Error***

2.59 On 31 December 2015, the net unrealised foreign exchange losses on the AFS debt securities amounted to USD 10.1 million. The accounting policy that governs unrealized foreign exchange gains and losses on debt securities, requires their recognition in the Statement of Financial Performance during the period in which they occur, by removing the value from the Organization's reserves - *Unrealized gains on investments*. Due to an error, the value of the cumulative unrealised foreign exchange losses as at 31 December 2015 carried forward was presented as a net unrealised foreign exchange gain during the accounting in 2016 for investments. The effect of this error resulted in a total USD 20.2 million overstatement of reserves - *Unrealized gains on investments* and understatement in the Statement of Financial Performance, within Non-operating income and expenses, *Investment income*.

2.60 During the preparation of the 2017 Financial Statements the Organization identified an error in the calculation of the prepaid component of the Staff Education Grant benefit included within the 2016 Financial Statements. The effect of this error was the understatement of the prepayments' balance of USD 6.0 million

and an overstatement of 2016 expenses for Employee benefits and other personnel costs for the same amount.

2.61 As at 31 December 2017, the Organization effected a reclassification of creditor balances relating to wages, salaries and social security contributions out of Other current liabilities, and in to current Employee benefit liabilities, in line with IPSAS 39. The reclassification amounted to USD 4.8 million and had no impact on the net assets of the Organization.

During 2017, the Organization has corrected the Financial Statements accordingly, by restating the following 2016 comparative balances for the effect of these errors. The two tables below show the restatement of each line item affected.

### 31 December 2016 Comparative year Financial Statement Line Item/ Balance Affected

(thousands of US dollars)	Note	Reported 31-Dec-16	Correction of Error Adjustment			Change in Policy	Restated 31-Dec-16
			Unrealised FX Gains/ losses	Prepay- ment of Staff Education Grant	Reclassific -ation of Liabilities	Consolida- tion of IPSAS 35 to 38	
<b>Statement of Financial Position (Extract)</b>							
<b>Current assets</b>							
Prepayments and other current assets	7	32,217	-	5,954	-	-	38,171
<b>Current assets</b>		<b>1,433,435</b>	<b>-</b>	<b>5,954</b>	<b>-</b>	<b>-</b>	<b>1,439,389</b>
<b>Current liabilities</b>							
Employee benefit obligations	13	13,097	-	-	4,786	-	17,883
Other current liabilities	17	5,208	-	-	(4,786)	-	422
<b>Current liabilities</b>		<b>639,337</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>639,337</b>
<b>Net assets</b>		<b>(102,898)</b>	<b>-</b>	<b>5,954</b>	<b>-</b>	<b>-</b>	<b>(96,944)</b>
<b>Equity</b>							
Accumulated surplus / (deficit)	18	(165,085)	20,253	5,954	-	-	(138,878)
Reserves	18	62,187	(20,253)				41,934
<b>Total Equity</b>		<b>(102,898)</b>	<b>-</b>	<b>5,954</b>	<b>-</b>	<b>-</b>	<b>(96,944)</b>

(thousands of US dollars)	Note	Reported 31-Dec-16	Correction of Error Adjustment			Change in Policy	Restated 31-Dec-16
			Unrealised FX Gains/ losses	Prepay- ment of Staff Education Grant	Reclassific- -ation of Liabilities	Consolida- tion of IPSAS 35 to 38	
<b>Statement of Financial Performance (Extract)</b>							
<b>Revenue from exchange transactions</b>							
Exchange revenue	19	7,267	-	-	-	(863)	6,405
<b>Total Revenue from exchange transactions</b>		<b>7,267</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(863)</b>	<b>6,405</b>
<b>Expenses</b>							
Wages, salaries and employee benefits and other staff costs	20	389,408	-	(5,954)	-	(458)	382,996
Consultants	20	230,621	-	-	-	(75)	230,546
Travel costs	20	94,251	-	-	-	(90)	94,161
Contracted services	20	271,307	-	-	-	(21)	271,286
Supplies and consumables used	20	162,990	-	-	-	(10)	162,980
Other expenses	20	25,586	-	-	-	(210)	25,376
<b>Total Expenses</b>		<b>1,240,818</b>	<b>-</b>	<b>(5,954)</b>	<b>-</b>	<b>(863)</b>	<b>1,234,000</b>
<b>Non-operating income and expenses</b>							
Investment Income	21	(7,845)	20,253	-	-	-	12,408
<b>Total Non-operating income and expenses</b>		<b>(42,097)</b>	<b>20,253</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(21,844)</b>
<b>Surplus for the period</b>		<b>173,252</b>	<b>20,253</b>				<b>193,505</b>
<b>Statement of Changes in Equity (Extract)</b>							
Accumulated surplus / (deficit)		(165,085)	20,253	5,954	-	-	(138,878)
Cumulative unrealized gains / (losses) on available-for-sale investments	18	45,055	(20,253)	-	-	-	24,802
<b>Total Equity</b>		<b>(102,898)</b>	<b>-</b>	<b>5,954</b>	<b>-</b>	<b>-</b>	<b>(96,944)</b>

***IPSAS 35, Consolidated Financial Statements; IPSAS 36, Investments in Associates and Joint Ventures; IPSAS 37, Joint Arrangements; IPSAS 38, Disclosure of Interests in Other Entities***

2.62 The Organization has adopted IPSAS 35, *Consolidated Financial Statements*; IPSAS 37, *Joint Arrangements*; and IPSAS 38, *Disclosure of interests in other entities*, which replace IPSAS 6, *Consolidated and Separate Financial Statements*; IPSAS 7, *Investments in Associates*; and IPSAS 8, *Interests in Joint Ventures*, as part of its 2017 financial statements. These changes primarily affect the method under which the relationships are evaluated amongst the entities and their agreements when presented on the financial statements. None of the amendments had a material effect on the Organization's financial statements.



### ***Impact of adoption of IPSAS 35 to 38***

2.63 The revenue and expenses related to the Codex Alimentarius, were de-recognised, in accordance with the requirements of IPSAS 37, Joint Arrangements, resulting in the reduction of both revenue and expenses for year end 31 December 2016 by USD 0.9 million. There was no impact on the Net Surplus for the ended 31 December 2016 or on the Statement of Financial Position.

### **Note 3. Cash and cash equivalents**

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
Cash at banks and money market funds	163,730	88,764
Short-term time deposits	355,002	455,002
Cash equivalents held with investment managers	171,897	140,947
<b>Total cash and cash equivalents</b>	<b>690,629</b>	<b>684,713</b>

3.1 Due to the short-term, highly liquid nature of cash and cash equivalents, there is no significant interest rate or credit risk associated with these balances.

3.2 Of the total cash and cash equivalents, USD (0.1) million (USD 0.2 million in 2016) is held in currencies that are not readily convertible into other currencies. These balances are held in order to satisfy general business and project-related requirements in the various countries in which the Organization operates. Approximately, USD 0.7 million (USD 0.7 million in 2016) of cash at banks is currently restricted due to various operational reasons.

### **Note 4. Investments and derivative financial instruments**

#### **Investments**

4.1 The investments of the Organization are comprised of:

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
<b>Current</b>		
<b>Held-for-trading investments</b>		
Government bonds	477,666	492,937
Corporate bonds	24,984	26,173
Mortgage backed securities	6,628	8,681
Other	-	-
<b>Total held-for-trading investments</b>	<b>509,278</b>	<b>527,791</b>
<b>Derivative financial instruments</b>	<b>747</b>	<b>(2,990)</b>
<b>Total current</b>	<b>510,025</b>	<b>524,801</b>
<b>Non-current</b>		
<b>Available-for-sale investments</b>		
Government bonds	192,386	171,226
Corporate bonds	43,762	37,674
Equities	286,636	234,050
<b>Total available-for-sale investments</b>	<b>522,784</b>	<b>442,950</b>
<b>Total non-current</b>	<b>522,784</b>	<b>442,950</b>

4.2 The held-for-trading investments are current investments at year-end due to the fact that these investments are managed on a short-term basis to ensure preservation of capital for Trust Fund donors while providing a return. Additionally, these investments are generally available and required for use in current operations and carried at fair value. The unrealized gains and losses on the trading portfolio are recognized in the Statement of Financial Performance as incurred.

4.3 The Organization's available-for-sale investments are classified as non-current investments at year-end and carried at fair value. The unrealized gains and losses on the available-for-sale investments are recognized in the Statement of Financial Position. The available-for-sale investments are not for use in the Organization's current operations and have been designated for funding the Organization's post-employment benefits. The investments are not subject to separate legal restrictions and do not qualify as Plan Assets as defined in IPSAS 39, *Employee Benefits*.

4.4 Principal movements in all investments during the year were:

<i>(thousands of US dollars)</i>	<b>Balance 31-Dec- 16</b>	<b>Net additions / (deductions)</b>	<b>Management fees</b>	<b>Interest received</b>	<b>Realized</b>	<b>Unrealized Gains/ (Losses) change other</b>	<b>Unrealize d Gains/ (Losses) change FX</b>	<b>Balance 31-Dec- 17</b>
<b>Held-for-trading investments</b>								
Fixed income	<b>527,791</b>	(22,310)	(1,030)	5,715	(1,441)	553	-	509,278
<b>Available-for-sale investment</b>								
Equities	<b>234,050</b>	(423)	(738)	6,257	18,566	28,924	-	286,636
Fixed income	<b>208,900</b>	(4,525)	(659)	3,322	10,561	173	18,375	<b>236,148</b>
<b>Total investments</b>	<b>970,741</b>	<b>(27,257)</b>	<b>(2,427)</b>	<b>15,294</b>	<b>27,686</b>	<b>29,650</b>	<b>18,375</b>	<b>1,032,062</b>

4.5 The cost, unrealized gains or losses and fair value of the available-for-sale investments by investment type were:

<i>(thousands of US dollars)</i>						
	31-Dec-17			31-Dec-16		
	Cost	Unrealized gains / (losses) on available-for-sale investments	Fair value	Cost	Unrealized gains / (losses) on available-for-sale investments	Fair value
<b>Available-for-sale investments</b>						
Government bonds	185,107	7,278	192,385	176,579	(5,353)	171,226
Corporate bonds and other	42,725	1,037	43,762	39,746	(2,072)	37,674
Equities	243,471	43,165	286,636	219,808	14,242	234,050
<b>Total available-for-sale investments</b>	<b>471,303</b>	<b>51,480</b>	<b>522,783</b>	<b>436,133</b>	<b>6,817</b>	<b>442,950</b>

4.6 The unrealized gains of USD 51.5 million as at 31 December 2017 (USD 6.8 million gains in 2016) are the result of very favourable market conditions affecting equities and fixed income investments. In addition, EUR / USD foreign rate impact on the fixed income investment portfolio during 2017 was favourable, as the EUR gained just over 14% of its value to the USD over the year. Unrealized gains of USD 51.1 million are recorded within equity and the cumulative remainder USD 0.4 million of unrealized foreign exchange net losses generated on the debt portfolios are recorded directly in the Statement of Financial Performance during the period in which they occur.

### Derivative financial instruments

4.7 The Organization uses derivative financial instruments within its investment portfolio for the purpose of mitigating the foreign currency risk in the portfolio. The Organization utilizes forward contracts, options and swaps in order to mitigate this risk. There are no non-current derivatives in this category.

4.8 The face value represents the value of the contract. The face value and the fair value of the derivative financial instruments are as follows:

<i>(thousands of US dollars)</i>				
	31-Dec-17		31-Dec-16	
	Face value	Fair value	Face value	Fair value
<b>Assets</b>				
Forward contracts	-	-	6,457	27
Swaps	227,246	1,134	-	-
<b>Total derivative financial asset instruments</b>	<b>227,246</b>	<b>1,134</b>	<b>6,457</b>	<b>27</b>
<b>Liabilities</b>				
Forward contracts	(10,674)	(130)	-	-
Swaps	(18,952)	(257)	(352,551)	(3,017)
<b>Total derivative financial liability instruments</b>	<b>(29,626)</b>	<b>(387)</b>	<b>(352,551)</b>	<b>(3,017)</b>

**Note 5. Receivables from non-exchange transactions**

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
<b>Current receivables</b>		
<b>Assessed contributions receivable</b>		
Assessments on Member Nations	182,174	74,798
Working Capital Fund	36	36
Special Reserve Account	2,288	2,288
Allowance for doubtful accounts	(19,338)	(19,951)
<b>Total assessed contributions receivable</b>	<b>165,160</b>	<b>57,171</b>
<b>Voluntary contributions receivable</b>		
Voluntary contributions	158,870	124,741
Allowance for doubtful accounts	(8,832)	(8,545)
<b>Total voluntary contributions receivable</b>	<b>150,038</b>	<b>116,196</b>
<b>Other receivables</b>		
Other receivables	4,100	4,223
Allowance for doubtful accounts	(3,159)	(3,309)
<b>Total other receivables</b>	<b>941</b>	<b>914</b>
<b>Total current receivables</b>	<b>316,139</b>	<b>174,281</b>
<b>Non-current assessed contributions receivable</b>		
Assessment of Member Nations under Regular Programme	637	890
<b>Total non-current assessed contributions receivable</b>	<b>637</b>	<b>890</b>
<b>Total receivables from non-exchange transactions</b>	<b>316,776</b>	<b>175,171</b>

5.1 Certain Member Nations have payment plans for their assessments which are due after more than one year from 31 December 2017. Amounts due subsequent to 31 December 2017 of USD 0.6 million, have been classified as non-current. The increase of USD 107.4 million in the value of outstanding assessments on Member Nations from 31 December 2016 is primarily due to the delayed payment by the Organization's major donors in 2017 of their current assessments.

5.2 The increase in the value of outstanding receivables due from voluntary contributions is the result primarily from the increase in voluntary funding, during the year.

5.3 The allowance for doubtful amounts is based on the estimate of amounts that are not probable of collection under the original terms of the receivables.

<i>(thousands of US dollars)</i>	<b>Balance at 31-Dec-16</b>	<b>Increase</b>	<b>Amounts written off</b>	<b>Allowance reversed</b>	<b>Balance at 31- Dec-17</b>
<b>Assessed contributions receivable</b>					
Assessments on Member Nations	(17,628)	(4,544)	-	5,157	(17,015)
Working Capital Fund	(35)	-	-	-	(35)
Special Reserve Account	(2,288)	-	-	-	(2,288)
<b>Total assessed contributions receivable</b>	<b>(19,951)</b>	<b>(4,544)</b>	<b>-</b>	<b>5,157</b>	<b>(19,338)</b>
<b>Voluntary contributions receivable</b>					
Voluntary contributions	(8,545)	(296)	-	9	(8,832)
<b>Total voluntary contributions receivable</b>	<b>(8,545)</b>	<b>(296)</b>	<b>-</b>	<b>9</b>	<b>(8,832)</b>
<b>Other receivables</b>					
Other receivables	(3,309)	-	-	150	(3,159)
<b>Total other receivables</b>	<b>(3,309)</b>	<b>-</b>	<b>-</b>	<b>150</b>	<b>(3,159)</b>
<b>Total allowance for doubtful accounts</b>	<b>(31,805)</b>	<b>(4,840)</b>	<b>-</b>	<b>5,316</b>	<b>(31,329)</b>

5.4 The aging of receivables is:

<i>(thousands of US dollars)</i>	Carrying amount	< 1 year	1 – 3 years	3 – 5 years	> 5 years
<b>Current receivables</b>					
<b>Assessed contributions receivable</b>					
Assessments on Member Nations	182,173	157,011	11,804	1,398	11,960
Working Capital Fund	36	-	-	-	36
Special Reserve Account	2,288	-	-	-	2,288
Allowance for doubtful accounts	(19,338)	-	(4,544)	(510)	(14,284)
<b>Total assessed contributions receivable</b>	<b>165,160</b>	<b>157,011</b>	<b>7,261</b>	<b>888</b>	<b>-</b>
<b>Voluntary contributions receivable</b>					
Voluntary contributions	158,870	84,466	33,650	29,969	10,785
Allowance for doubtful accounts	(8,832)	(287)	-	-	(8,545)
<b>Total voluntary contributions receivable</b>	<b>150,038</b>	<b>84,179</b>	<b>33,650</b>	<b>29,969</b>	<b>2,240</b>
<b>Other receivables</b>					
Other receivables	4,100	213	728	49	3,110
Other allowance for doubtful accounts	(3,159)	-	-	(49)	(3,110)
<b>Total other receivables</b>	<b>941</b>	<b>213</b>	<b>728</b>	<b>-</b>	<b>-</b>
<b>Total current receivables</b>	<b>316,139</b>	<b>241,403</b>	<b>41,639</b>	<b>30,857</b>	<b>2,240</b>
<b>Non-current assessed contributions receivable</b>					
Assessment of Member Nations under Regular Programme	637	637	-	-	-
<b>Total non-current assessed contributions receivable</b>	<b>637</b>	<b>637</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total receivables</b>	<b>316,776</b>	<b>242,040</b>	<b>41,639</b>	<b>30,857</b>	<b>2,240</b>

5.5 Contributions in arrears related to 12 countries facing voting rights issues amount to USD 4.9 million for assessed contributions. FAO does not have collateral for any of the assessments, however, FAO rules and regulations require that Member Nations cannot be in arrears in payment of its financial contributions to the Organization in an amount equal to or exceeding the contributions due from it for the two preceding calendar years. Actions specified by the rules and procedures include a loss of voting rights, ineligibility for election to the Council and loss of seat in the Council.

5.6 The net reduction in provisions of USD 6.7 million recorded during 2017 are mainly the result of the collection of assessments on Member Nations.

5.7 The main types of other receivables are in relation to the Government Counterpart Cash Contribution (GCCC) and jointly financed projects with other international organizations, in which the Organization makes payments on behalf of such third parties.

**Note 6. Receivables from exchange transactions**

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
Due from UN and other organizations	8,297	9,299
Less: Allowance for doubtful accounts	(1,133)	(1,223)
<b>Total receivables from exchange transactions</b>	<b>7,164</b>	<b>8,076</b>

6.1 Receivables from exchange transactions are in relation to recoveries due from the Rome based international organizations, e.g. IFAD and World Food Programme for the administrative services which FAO provides; utility recharges to be recovered from businesses which have offices within the FAO headquarters e.g. the bookshop, the travel agent etc., and others.

**Allowance for doubtful accounts**

<i>(thousands of US dollars)</i>	<b>Balance at 31-Dec-16</b>	<b>Expense</b>	<b>Amounts written off</b>	<b>Allowance reversed</b>	<b>Balance at 31-Dec-17</b>
Due from UN and other organizations	(1,223)	-	55	35	(1,133)
<b>Total allowance for receivables from exchange transactions</b>	<b>(1,223)</b>	<b>-</b>	<b>55</b>	<b>35</b>	<b>(1,133)</b>

6.2 The aging of receivables is:

<i>(thousands of US dollars)</i>	<b>Carrying amount</b>	<b>&lt; 1 year</b>	<b>1 – 3 years</b>	<b>3 – 5 years</b>	<b>&gt; 5 years</b>
Due from UN and other organizations	8,297	7,164	79	665	389
Less: Allowance for doubtful accounts	(1,133)	-	(79)	(665)	(389)
<b>Total receivables from exchange transactions</b>	<b>7,164</b>	<b>7,164</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Note 7. Prepayments and other assets**

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16 (Restated)</b>
Employee receivables	19,910	19,597
Prepayments	12,793	13,143
Other assets	9,394	7,732
Less: Allowance for doubtful accounts	(1,321)	(1,306)
<b>Total prepayments and other assets</b>	<b>40,776</b>	<b>39,166</b>
Total current	40,306	38,171
Total non-current	470	995
<b>Total prepayments and other assets</b>	<b>40,776</b>	<b>39,166</b>

7.1 The total prepayments and other assets as of 31 December 2017 consist of employee receivables, prepayments and other assets. The employee receivables represents advances given to employees such as salary advances, education grants, and travel advances, whereas prepayments are primarily comprised of advances to service providers under the approved Letters of Agreements. Other assets are predominantly accrued interest income on the Organizations cash and cash equivalents and investment portfolios. The 2016 amounts have been restated for the prior period error identified in Note 2.60 relating to the calculation of the 2016 prepaid staff education grant.

7.2 Current commitments are expected to be utilized or collected within a year of the balance sheet date.

**Allowance for doubtful accounts**

<i>(thousands of US dollars)</i>	<b>Balance at 31-Dec-16</b>	<b>Expense</b>	<b>Amounts written off</b>	<b>Allowance reversed</b>	<b>Balance at 31-Dec-17</b>
Employee receivables	(707)	(15)	-	-	(722)
Other assets	(599)	-	-	-	(599)
<b>Total allowance for prepayments and other assets</b>	<b>(1,306)</b>	<b>(15)</b>	<b>-</b>	<b>-</b>	<b>(1,321)</b>

**Note 8. Inventories**

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
Project inputs	7,155	8,296
Publications	694	931
Other	51	120
<b>Total inventories</b>	<b>7,900</b>	<b>9,347</b>

8.1 For the year ended 31 December 2017, the Organization recognizes USD 144.7 million (USD 143.0 million in 2016) in expense associated with project inputs and USD 3.7 million (USD 2.3 million in 2016) associated with publications utilized during the period. The project inputs consumed include donated inventories of USD 0.6 million (USD 0.8 million in 2016). None of the agricultural inputs became obsolete due to changes in project requirements during 2017 (USD 0.3 million in 2016).



**Note 9. Property, plant and equipment**

<i>(thousands of US dollars)</i>	<b>Balance at 31-Dec-16</b>	<b>Additions</b>	<b>Disposals / Transfers</b>	<b>Depreciation</b>	<b>Balance at 31-Dec-17</b>
<b>Cost of PP&amp;E</b>					
Office furniture and fixtures	1,845	371	(265)	-	1,951
Machinery and equipment	5,273	993	(241)	-	6,025
Computer and IT equipment	17,171	716	(1,923)	-	15,964
Motor vehicles	54,246	8,934	(9,033)	-	54,147
Buildings	3,357	460	-	-	3,817
Leasehold improvements	3,288	504	(87)	-	3,705
Assets under construction	511	992	(703)	-	800
<b>Total cost of PP&amp;E</b>	<b>85,691</b>	<b>12,970</b>	<b>(12,252)</b>	<b>-</b>	<b>86,409</b>
<b>Accumulated depreciation</b>					
Office furniture and fixtures	(1,545)	-	257	(105)	(1,393)
Machinery and equipment	(3,731)	-	219	(567)	(4,079)
Computer and IT equipment	(15,590)	-	1,879	(1,054)	(14,765)
Motor vehicles	(39,535)	-	6,923	(5,422)	(38,034)
Buildings	(417)	-	-	(166)	(583)
Leasehold improvements	(347)	-	(15)	(228)	(590)
<b>Total accumulated depreciation</b>	<b>(61,165)</b>	<b>-</b>	<b>9,263</b>	<b>(7,542)</b>	<b>(59,444)</b>
<b>Net PP&amp;E</b>	<b>24,526</b>	<b>12,970</b>	<b>(2,989)</b>	<b>(7,542)</b>	<b>26,965</b>

9.1 The Organization is applying transitional provisions under IPSAS 17. In 2017 a total of USD 7.9 million was transitioned onto the financial statements and included in the opening balances (USD 13.3 million in 2016), comprising office furniture and fixtures with a cost and accumulated depreciation of USD 0.03 million, machinery and equipment with a cost and accumulated depreciation of USD 0.4 million, computer and IT equipment with a cost and accumulated depreciation of USD 1.6 million, and motor vehicles with a cost and accumulated depreciation of USD 5.8 million. Major classes of PP&E not yet transitioned include office furniture and fixtures, machinery and equipment and vehicles acquired after 2009 and prior to 2014 and computer and IT equipment acquired after 2011 and before 2014. FAO will be using the entire five years under transition to ensure the underlying process is in place to support complete and accurate information regarding those PP&E. During 2018, an approximate USD 5.2 million of assets will be recognized under the final year of available transition provisions.

9.2 In 2017, construction in progress in the value of USD 0.7 million was completed and placed in service (none in 2016).

9.3 Additions of USD 12.3 million were purchased in 2017 (USD 9.9 million in 2016). Disposals from PP&E in the amount of USD 2.3 million (USD 1.8 million in 2016) were realized in 2017, which were property transfers to beneficiaries (host governments, NGOs or other recipient organizations) involved in special projects (USD 1.2 million in 2016). The remainder are donations, obsolescence, casualty losses and other write-offs. Fully-depreciated assets with a cost of USD 38.7 million are in use at the end of 2017 (USD 26 million in 2016).

9.4 The Organization reviews PP&E for indicators of impairment. These reviews did not identify any impairment during the year.

9.5 Accrual for purchase commitments for PP&E at 31 December 2017 is USD 0.7 million (USD 0.2 million in 2016). Assets on the financial statements of the Organization that are being held for disposal have a total cost and accumulated depreciation of USD 1.1 million (USD 0.3 million in 2016).

**Note 10. Intangible Assets**

<i>(thousands of US dollars)</i>	<b>Balance at 31-Dec-16</b>	<b>Additions</b>	<b>Disposals / Transfers</b>	<b>Amortization</b>	<b>Balance at 31-Dec-17</b>
<b>Cost of intangible assets</b>					
Software acquired separately	779	272	(64)	-	987
Software internally developed	6,129	902	-	-	7,032
Intangible assets under development	391	1,716	(902)	-	1,204
<b>Total cost of intangible assets</b>	<b>7,299</b>	<b>2,890</b>	<b>(966)</b>	<b>-</b>	<b>9,223</b>
<b>Accumulated amortization</b>					
Software acquired separately	(349)	-	21	(186)	(514)
Software internally developed	(2,180)	-	-	(1,304)	(3,484)
<b>Total accumulated amortization</b>	<b>(2,529)</b>	<b>-</b>	<b>21</b>	<b>(1,490)</b>	<b>(3,998)</b>
<b>Net intangible assets</b>	<b>4,770</b>	<b>2,890</b>	<b>(945)</b>	<b>(1,490)</b>	<b>5,225</b>

10.1 At 31 December 2017, the cost and related accumulated amortization of intangible assets purchased or developed by the Organization are USD 9.2 million (USD 7.3 million in 2016) and USD 4.0 million (USD 2.5 million in 2016) respectively. During 2017, USD 0.9 million of software development projects were completed and placed in service (USD 0.4 million in 2016).

10.2 FAO performs an impairment review when conditions arise indicating the need as such. These reviews did not identify any impairment during the year.

**Note 11. Accounts payable and accrued expenses**

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
<b>Accounts payable</b>		
Accounts Payable	19,348	24,782
Money Vendor	4,362	965
Pass through transactions	(44)	213
<b>Total accounts payable</b>	<b>23,666</b>	<b>25,960</b>
<b>Accrued expenses</b>		
Purchase order accrued expenses	111,818	71,973
NSHR accrued expenses	26,298	22,203
Travel accrued expenses	9,228	6,219
Payroll accrued expenses	354	401
Other accruals	2,699	5,435
<b>Total accrued expenses</b>	<b>150,397</b>	<b>106,231</b>
<b>Total accounts payable and accrued expenses</b>	<b>174,063</b>	<b>132,191</b>

11.1 Accounts payable constitute amounts due for goods and services for which invoices have been received. Accruals are liabilities for goods and services that have been received or provided to FAO during the period but not invoiced for payment.

**Note 12. Payments received in advance**

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
Assessments on Member Nations received in advance	45,521	30,040
Voluntary contributions received in advance	260,273	411,384
SFERA contributions	43,005	46,011
<b>Total payments received in advance</b>	<b>348,799</b>	<b>487,435</b>

12.1 Assessments on Member Nations received in advance are funds received from Member Nations against future year's assessment.

12.2 Voluntary contributions received in advance represent funds received from donors related to a contribution agreement.

12.3 Voluntary contributions received which are subject to conditions will be recognized as revenue, as and when the conditions are satisfied.

12.4 The Trust Funds also include activities under the Special Fund for Emergency and Rehabilitation Activities (SFERA), which was established in May 2003 to support a rapid response to emergency and rehabilitation activities. The SFERA is funded by voluntary contributions.

**Note 13. Employee benefit obligations**

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16 (Restated)</b>
<b>Current employee benefit obligations</b>		
Annual leave	11,845	11,661
Home leave travel	1,757	1,436
Other short term employee benefits	4,028	4,786
<b>Total current employee benefit obligations</b>	<b>17,630</b>	<b>17,883</b>
<b>Non-current employee benefit obligations</b>		
<b>Post-employment benefit obligations</b>		
After Service Medical Coverage	1,395,850	1,192,347
Termination Payment Fund	58,107	59,947
Separation Payment Scheme	52,462	49,368
<b>Total post-employment benefit obligations</b>	<b>1,506,419</b>	<b>1,301,662</b>
<b>Other non-current employee benefit obligations</b>		
Compensation Payment Fund	21,000	17,537
<b>Total non-current employee benefit obligations</b>	<b>1,527,419</b>	<b>1,319,199</b>
<b>Total employee benefit obligations</b>	<b>1,545,049</b>	<b>1,337,082</b>

**Valuation of employee benefit obligations**

13.1 Employee benefit obligations for post-employment and other non-current employee benefit obligations are determined by independent professional actuaries. Current employee benefit obligations are calculated by FAO based on personnel data and past payment experience. As at 31 December 2017, total employee benefit obligations amounted to USD 1,545.0 million (USD 1,337.1 million in 2016), of which USD 1,527.4 million (1,319.2 million in 2016) were calculated by the actuaries and USD 17.6 million (17.9 million in 2016) were calculated by FAO. FAO has elected to report all the actuarially valued employee benefit obligations within non-current liabilities due to the impracticality of allocating these using an alternative method.

As at 31 December 2017, the Organization effected a reclassification of creditor balances relating to wages, salaries and social security contributions out of Other current liabilities, and in to current Employee benefit liabilities, Other short term employee benefits, in line with IPSAS 39.

**Current employee benefit obligations**

13.2 Current employee benefit obligations relate to wages, salaries, allowances, paid annual leave and paid sick leave.

**Post-employment benefit obligations****Separation Payments Scheme**

13.3 Separation Payments Scheme (SPS) are due to General Service category staff at Headquarters who are entitled to receive a separation payment equivalent to 1/12<sup>th</sup> of the staff member's Final Net Annual Salary rate multiplied by years of service between 1 January 1975 and 31 December 1990, plus 1/13.5<sup>th</sup> of the staff member's Final Net Annual Salary rate multiplied by years of service after January, 1, 1991. SPS are subject to actuarial review to ascertain the liabilities and recommend rates of contribution.

**Terminal Payments Fund**

13.4 Terminal Payments Fund (TPF) relate to payment of accrued annual leave, repatriation grant, cost of repatriation travel and the removal of household goods for all eligible staff, and death grant. TPF are subject to actuarial review to ascertain the related liabilities and recommend rates of contribution. Termination indemnity is not included in the valuation, in accordance with IPSAS.

**After Service Medical Coverage**

13.5 After Service Medical Coverage (ASMC) provides for worldwide coverage of necessary medical expenses of eligible former staff members and their eligible dependants. The ASMC liability represents the present value of the share of the Organization's medical insurance costs for retirees and active staff post-retirement benefits accrued to-date. ASMC is subject to actuarial review to ascertain the related liabilities and recommend rates of contribution.

**Other non-current employee benefit obligations****Compensation Payments Fund**

13.6 Compensation Payments Fund (CPF) are due to staff members and their dependants in case of death, injury or illness attributable to the performance of official duties and, in certain circumstances, to supplement the disability and survivors' pensions paid by the United Nations Joint Staff Pension Fund. CPF are subject to actuarial review to ascertain the liabilities and recommend rates of contribution.

## Actuarial Assumptions and Methods

13.7 The following assumptions and methods have been used to determine the value of post-employment benefit obligations and other non-current employee benefit obligations:

		<b>Details</b>	
<b>Actuarial Methods</b>			
ASMC	Projected Unit Credit Cost with service prorate.		
SPS	Projected Unit Credit Cost method.		
TPF	Commutation of Accrued leave and Repatriation Travel and Removal use projected unit credit with an attribution period from the entry on duty date to separation; Repatriation Grant, Death Grant and Termination Indemnity payable before retirement eligibility use projected unit credit with an attribution based on the actual benefit formula; Termination Indemnity payable after retirement eligibility is excluded from the valuation and accounted for as it occurs.		
CPF	One Year Term Cost.		
FAO used a yield curve approach based on Aon Hewitt AA Bond Universe Curve outside of the Euro Zone and the iBoxx Euro Zone curve for the discount rate in the Euro Zone.			
<b>Discount rates</b>		<b>2017</b>	<b>2016</b>
SPS		1.1%	1.2%
TPF		2.7%	2.8%
ASMC		2.5%	2.7%
CPF		3.7%	4.1%
<b>General Inflation rate</b>		<b>2017</b>	<b>2016</b>
SPS		1.8%	2.5%
TPF		2.1%	2.5%
ASMC		1.9%	2.5%
CPF		2.2%	2.5%
<b>Medical cost inflation rate</b>	At 31 December 2017, the assumed increases in medical costs are 4.6% for 2018, decreasing 0.1% every 2 years to 4.1% in 2030, and then decreasing 0.1% every year to 3.7% in 2033 and later years.		
	At 31 December 2016, the assumed increases in medical costs were 5.0% for 2017, decreasing 0.1% every 2 years to 4.4% in 2029, and then decreasing 0.1% every three years to 4.0% in 2041 and later years.		
<b>Year-end spot rate €/USD</b>	1.195 (1.046 in 2016)		
<b>Life Expectancy</b>	Based on the mortality tables of the UN Joint Staff Pension Fund		

### Reconciliation of defined benefit obligation

13.8 The following tables provide additional information and analysis in relation to employee benefit obligations, as calculated by the actuaries:

<i>(thousands of US dollars)</i>	ASMC	TPF	SPS	CPF	Total
<b>Net defined benefit obligation at 31-Dec-16</b>	<b>1,192,347</b>	<b>59,947</b>	<b>49,368</b>	<b>17,537</b>	<b>1,319,199</b>
Service cost for year ended 31 Dec 2017	33,038	5,930	3,147	395	<b>42,510</b>
Interest cost for year ended 31 Dec 2017	31,815	1,563	573	692	<b>34,643</b>
Actual gross benefit payments for the year 31 Dec 2017	(24,594)	(7,929)	(6,025)	(1,525)	<b>(40,073)</b>
Remeasurements (demographic) for the year ended 31 Dec 2017	139,723	1,487	(46)	1,204	<b>142,368</b>
Remeasurements (financial) for the year ended 31 Dec 2017	23,521	(2,891)	5,445	2,697	<b>28,772</b>
<b>Net defined benefit obligation at 31-Dec-17</b>	<b>1,395,850</b>	<b>58,107</b>	<b>52,462</b>	<b>21,000</b>	<b>1,527,419</b>

13.9 Demographic remeasurements relate principally to an update in the UNJSPF Mortality Tables due to longer life expectancies. Financial remeasurements with a significant impact on the value of the employee benefit obligations for the year ending 31 December 2017 include decreasing assumed medical trend rates and claims experience, off-set by the Euro-Dollar exchange rate and lower discount rates causing a net increase to the value of liabilities.

### Annual expense recognized

13.10 The annual expense amounts recognized in the Statement of Financial Performance, within employee benefits and other personnel costs, and finance income / (expenses), and are as follows:

<i>(thousands of US dollars)</i>	31-Dec-17	31-Dec-16
Service cost	42,510	36,886
Past Service (credit) / cost / Prior Service (credit) recognition	-	(2,628)
Remeasurements (demographic and financial)	3,901	(117)
Interest cost	34,643	35,634
<b>Total expense recognized</b>	<b>81,054</b>	<b>69,775</b>

13.11 During 2017, the Organization recorded USD 3.9 million of plan remeasurements in the Statement of Financial Performance (USD (0.1) million in 2016) in relation to the Compensation Payment Fund, and a further USD 167.2 million of remeasurements on the post employment benefits plans were recorded within equity (USD 170.3 million in 2016).

13.12 In 2018, the Organization adopted changes to its cost sharing provisions that would reduce the cost to the plan in the long run by approximately 5%. These changes will be reflected beginning with the 31 December 2018 valuation.

### ASMC plan – sensitivity analysis

13.13 Following are the three principal assumptions in the valuation of the ASMC plan:

- i) exchange rate between the Euro and the US Dollar;
- ii) discount rate used to determine the present value of benefits that will be paid from the plan in the future; and

iii) medical inflation rate.

13.14 A 1% change in the discount and medical inflation rate would have the following effects on the defined benefit obligation:

<i>(thousands of US dollars)</i>		<b>Ultimate medical inflation rate</b>	
<b>Exchange rate</b>	<b>Discount rate</b>	<b>3.7% per year</b>	<b>4.7% per year</b>
1.195 USD per EUR	2.5%	1,395,850	1,701,355
1.095 USD per EUR	2.5%	1,475,626	1,798,591
1.195 USD per EUR	1.5%	1,718,504	2,094,627
1.095 USD per EUR	1.5%	1,816,720	2,214,339

13.15 A 1% change in the discount and medical inflation rate would have the following effects on the current service cost:

<i>(thousands of US dollars)</i>		<b>Ultimate medical inflation rate</b>	
<b>Exchange rate</b>	<b>Discount rate</b>	<b>3.7% per year</b>	<b>4.7% per year</b>
1.195 USD per EUR	2.5%	36,615	51,069
1.095 USD per EUR	2.5%	38,708	53,988
1.195 USD per EUR	1.5%	51,232	71,455
1.095 USD per EUR	1.5%	54,160	75,539

#### **TPF plan – sensitivity analysis**

13.16 The principal assumption in the valuation of the TPF plan is the discount rate used to determine the present value of benefits that will be paid from the plan in the future.

13.17 A 1% reduction in the discount rate would have the following effect on the defined benefit obligation:

<i>(thousands of US dollars)</i>	<b>Defined Benefit Obligation</b>
<b>Discount rate</b>	
2.7%	58,107
1.7%	62,628

13.18 A 1% change in the discount and medical inflation rate would have the following effects on the current service cost:

<i>(thousands of US dollars)</i>	<b>Current service cost</b>
<b>Discount rate</b>	
2.7%	6,242
1.7%	6,769

#### **SPS plan – sensitivity analysis**

13.19 The principal assumption in the valuation of the SPS plan is the discount rate used to determine the present value of benefits that will be paid from the plan in the future.

13.20 A 1% reduction in the discount rate would have the following effect on the defined benefit obligation:



<i>(thousands of US dollars)</i> Discount rate	Defined Benefit Obligation
1.1%	52,462
0.1%	56,765

13.21 A 1% change in the discount and medical inflation rate would have the following effects on the current service cost:

<i>(thousands of US dollars)</i> Discount rate	Current service cost
1.1%	3,141
0.1%	3,472

### CPF plan – sensitivity analysis

13.22 The principal assumption in the valuation of the CPF plan is the discount rate used to determine the present value of benefits that will be paid from the plan in the future.

13.23 A 1% reduction in the discount rate would have the following effect on the defined benefit obligation:

<i>(thousands of US dollars)</i> Discount rate	Defined Benefit Obligation
3.7%	21,000
2.7%	24,014

13.24 A 1% change in the discount and medical inflation rate would have the following effects on the current service cost:

<i>(thousands of US dollars)</i> Discount rate	Current service cost
3.7%	420
2.7%	503

### Future funding

13.25 The ASMC Funding for 2016-17 was assessed in both EUR (67%) and USD (33%) in line with the currency mix of the liability. Assessed funds were transferred into the investment portfolio based on the percentage of total Member contributions actually received. Following this methodology, USD 1.5 million and EUR 2.9 million were transferred to the long term portfolio in 2017 (USD 2.7 million and EUR 4.6 million in 2016). Long-term investments and any generated income are applied first to ensure the adequacy of funding of the SPS and CPRF. Any additional investments and related income then is earmarked for the ASMC and subsequently for the TPF. As of 31 December 2017, both the ASMC and TPF continue to be underfunded. The earmarking of the long-term investments and the SPS advances to the plans is shown in the below table:

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
<b>Fully funded by earmarked long-term investments</b>		
CPF	21,000	17,536
SPS	52,462	49,368
<b>Total fully funded by earmarked long-term investments</b>	<b>73,462</b>	<b>66,904</b>
<b>Partially funded by earmarked long-term investments</b>		
ASMC	460,882	376,736
<b>Total partially funded by earmarked long-term investments</b>	<b>460,882</b>	<b>376,736</b>
<b>Total funded liabilities</b>	<b>534,344</b>	<b>443,640</b>
<b>Unfunded by earmarked long-term investments</b>		
ASMC	934,968	815,611
TPF	58,107	59,947
<b>Total unfunded by earmarked long-term investments</b>	<b>993,075</b>	<b>875,558</b>

13.26 During 2017, USD 7.1 million was assessed for the ASMC liability from member nations (USD 7.1 million in 2016) The diversification of asset classes, currency composition and duration of FAO's long term investments is determined in accordance with the parameters effecting the valuation of its liabilities.

### **Maturity profile**

13.27 The table below presents the maturity profile of the Organization's post-employment benefit obligations and other non-current employee benefit obligations, expressed in nominal value:

<i>(thousands of US dollars)</i>	<b>ASMC</b>	<b>TPF</b>	<b>SPS</b>	<b>CPF</b>	<b>Total</b>
<b>Years</b>					
Due in 0-5 Years	178,049	26,554	21,021	6,708	<b>232,332</b>
Due in 6-10 Years	227,995	18,326	18,882	6,017	<b>271,220</b>
Due in 11-15 Years	270,672	12,655	8,542	5,135	<b>297,004</b>
Due in 16-20 Years	296,108	8,329	5,494	4,221	<b>314,152</b>
Due in 21-25 Years	302,974	4,205	2,620	3,471	<b>313,270</b>
Due in 26-30 Years	292,222	1,446	465	2,873	<b>297,006</b>
Due in More than 30 Years	870,241	458	101	9,580	<b>880,380</b>
<b>Total</b>	<b>2,438,261</b>	<b>71,793</b>	<b>57,125</b>	<b>38,005</b>	<b>2,605,364</b>

### **Note 14. United Nations Joint Staff Pension Fund**

14.1 The Fund's Regulations state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the Open Group Aggregate Method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

14.2 FAO's financial obligation to the UNJSPF consists of its mandated contribution, at the rate established by the United Nations General Assembly (currently at 7.9% for participants and 15.8% for member organizations) together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the United Nations General Assembly has invoked the provision of Article 26, following determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as of the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

14.3 During 2017, the Fund identified that there were anomalies in the census data utilized in the actuarial valuation performed as of 31 December 2015. As such, as an exception to the normal biennial cycle, a roll forward of the participation data as of 31 December 2013 to 31 December 2016 was used by the Fund for their 2016 financial statements. An actuarial valuation as of 31 December 2017 is currently being performed.

14.4 The roll forward of the participation data as of 31 December 2013 to 31 December 2016 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 150.1% (127.5% in the 2013 valuation). The funded ratio was 101.4% (91.2% in the 2013 valuation) when the current system of pension adjustments was taken into account.

14.5 After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as of 31 December 2016, for deficiency payments under Article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the plan. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as of the valuation date. At the time of this report, the General Assembly has not invoked the provision of Article 26.

14.6 Should Article 26 be invoked due to an actuarial deficiency, either during the ongoing operation or due to the termination of the UNJSPF pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the UNJSPF during the preceding three years (2014, 2015 and 2016) amounted to USD 6,751.0 million, of which 2.4% was contributed by FAO.

14.7 During 2017, contributions paid to UNJSPF amounted to USD 53.0 million (2016 USD 52.5 million). Expected contributions due in 2018 are approximately USD 53.1.

14.8 The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board and to the United Nations General Assembly on the audit every year. The UNJSPF publishes quarterly reports on its investments and these can be viewed by visiting the UNJSPF at [www.unjspf.org](http://www.unjspf.org).

### **Note 15. Operating lease commitments**

15.1 For the year ended 31 December 2017, total rental expense under operating leases are USD 6.3 million (USD 7.6 million in 2016). At 31 December 2017, obligations for property leases to be paid in the subsequent years aggregated to USD 5.3 million (USD 4.7 million in 2016). The commitments below do not include nominal lease transactions. The total aggregate lease payments for the periods are due to be paid as follows:

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
Within twelve months	2,887	2,819
More than one to five years	2,394	1,696
Beyond five years	8	226
<b>Total lease commitments</b>	<b>5,289</b>	<b>4,741</b>

**Note 16. Provisions and contingencies**

16.1 The provisions of the Organization are comprised of:

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
Labour-related and other claims	777	1,347
Pending negotiations and arbitrations	-	60
<b>Total provisions and contingencies</b>	<b>777</b>	<b>1,407</b>

16.2 The movement in the provisions during 2017 were as follows:

<i>(thousands of US dollars)</i>	<b>Balance at 31-Dec-16</b>	<b>Increases</b>	<b>Amounts charged</b>	<b>Amounts reversed</b>	<b>Balance at 31-Dec-17</b>
Labour-related and other claims	1,347	9	(22)	(557)	777
Pending negotiations and arbitrations	60	8	(23)	(45)	-
<b>Total provisions</b>	<b>1,407</b>	<b>17</b>	<b>(45)</b>	<b>(602)</b>	<b>777</b>

**Labour-related and other claims**

16.3 As part of its normal ongoing operations, FAO receives claims related to labor or contract disputes. The Organization intends to defend itself fully in all cases, however the possibility that it will incur liabilities related to these complaints is not remote. The total amount of possible losses is approximately USD 1.0 million (USD 1.3 million in 2016).

**Pending negotiations and arbitrations**

16.4 As at 31 December 2017, the Organization has no pending litigations with suppliers.

**Note 17. Other liabilities**

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16 (Restated)</b>
<b>Current</b>		
Settlements with employees	29	29
Other accounts payables	352	392
<b>Total current</b>	<b>381</b>	<b>421</b>
<b>Non-current</b>		
Voluntary contributions received in advance	-	6,148
Staff fiduciary accounts	19,684	20,036
Working Capital Fund	25,745	25,745
<b>Total non-current</b>	<b>45,429</b>	<b>51,929</b>
<b>Total other liabilities</b>	<b>45,810</b>	<b>52,351</b>

17.1 Settlements with employees represent Staff Credit Union recovery related transactions. As at 31 December 2017, the Organization effected a reclassification of creditor balances relating to wages, salaries

and social security contributions out of Other current liabilities, and in to current Employee benefit liabilities, Other short term employee benefits, in line with IPSAS 39.

17.2 The purposes of the Working Capital Fund are (i) to advance money on a reimbursable basis to the General Fund in order to finance budgetary expenditures pending receipt of contributions to the budget, (ii) finance emergency expenditures not provided for in the current budget, and (iii) make loans for such purposes as the Council may authorize in specific cases. The authorized level for the Fund was set by Conference resolution 15/91 at USD 25 million and is increased by the Working Capital Assessments on new Member Nations. The Fund is presented as a liability since it is refundable to Member Nations who withdraw from the Organization, after liquidation of any financial obligations such nation may have to the Organization.

### Working Capital Fund

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
<b>Authorized level at beginning and end of period</b>	<b>25,793</b>	<b>25,793</b>
<b>Balance at beginning and end of period</b>	<b>25,745</b>	<b>25,745</b>

17.3 During 2017 no new Member Nations joined the Organization and the Working Capital Fund was not utilized during the year. The authorized level is part of the assessments to Member Nations and the balance comprises of the receipts of those assessments.

### Note 18. Reserves

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16 (Restated)</b>
Special Reserve Account	17,559	17,559
Unrealized gains on investments	51,100	24,802
Actuarial gains / (losses) reserve	(167,666)	(427)
<b>Total reserves</b>	<b>(99,007)</b>	<b>41,934</b>

18.1 The purpose of the Special Reserve Account (SRA) is to protect the Organization's Programme of Work against the effects of unbudgeted extra costs arising from adverse currency fluctuations and unbudgeted inflationary effects. The authorized level of the SRA is set by Conference Resolution 13/81 at up to 5% of the effective working budget for the respective subsequent biennium, amounting to USD 50.3 million at 31 December 2017.

18.2 Unrealized gains on investments relate to the available-for-sale portfolios. USD 26.3 million unrealized gains on investments (USD 14.9 million losses in 2016) are recognized in equity during 2017. The cumulative foreign exchange rate portion of unrealized gains arising on debt portfolios amounted to USD 0.4 million (USD 18.0 million losses at 31 December 2016), and has been charged to the Statement of Financial Performance in line with accounting standards in the period in which it has arisen. The increase in the value of unrealized gains on investments is due to current market values. The 2016 amounts have been restated for the prior period error identified in Note 2.59 relating to the recognition of unrealised foreign exchange net losses on debt securities.

18.3 Actuarial gains and losses reserve results from the increase or decrease in either the present value of a defined benefit obligation or the fair value of any related plan assets. There were USD 167.2 million (USD 170.3 million losses in 2016) actuarial losses recognized in equity during the year ended 31 December 2017, and a further USD 3.9 million of loss (USD 0.1 million gain in 2016) was recognized in the Statement of Financial Performance in relation to the CPF.

**Note 19. Revenue**

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16 (Restated)</b>
<b>Non-exchange revenue</b>		
<b>Assessments on Member Nations</b>	<b>478,200</b>	<b>487,424</b>
<b>Voluntary contributions</b>		
TF contributions	1,052,703	897,546
UNDP contributions	4,150	204
<b>Total voluntary contributions</b>	<b>1,056,853</b>	<b>897,750</b>
<b>Other non-exchange revenue</b>		
Associate Member Assessments	21	20
Jointly Financed Activities	19,541	18,887
Government counterpart cash contributions	1,463	1,633
In-kind donations	48,050	43,183
<b>Total other non-exchange revenue</b>	<b>69,075</b>	<b>63,723</b>
<b>Total non-exchange revenue</b>	<b>1,604,128</b>	<b>1,448,897</b>
<b>Exchange revenue</b>	<b>8,037</b>	<b>6,406</b>
<b>Total revenue</b>	<b>1,612,615</b>	<b>1,455,303</b>

19.1 Assessments from Member Nations Conference Resolution CR 6/2015 approved appropriations of USD 1,005.6 million to be used for the Programme of Work as proposed by the Director General for 2016-17. Such appropriations, plus an amount of USD 14.1 million to fund the amortization of ASMC, minus estimated Miscellaneous Income of USD 5.0 million, were budgeted to be financed by contributions from Member Nations of USD 1,014.8 million. The contributions are comprised of split assessments in US Dollars of USD 546.1 million and in Euros of 384.2 million (equivalent to USD 468.7 million at the budget rate of exchange of USD 1.22 to Euros 1.00). The difference between actual Assessments on Member Nations of USD 478.2 million and amounts approved under the Conference Resolution, of USD 1,005.6 million, reflect the recognition of only one year of the biennial revenue and the difference between the average UNORE of USD 1.05 to Euros 1.00 at the time the Euros 384.2 million was assessed and the rate of exchange applied in the budget.

19.2 The split assessment arrangement was approved by Conference Resolution 11/03, in 2003 and this arrangement was first used for the assessments on Member Nations in 2004-05. Based on total assessments expressed in USD as reported in the Statement of Financial Performance, the actual split of assessments in USD and Euro for 2017 was approximately 54% and 46%, respectively (2016; 54% and 46% respectively).

19.3 Other Non-exchange revenue is driven by the recognition of income for in-kind donated facilities located in Rome of USD 31.7 million (USD 26.5 million in 2016) and USD 14.8 million (USD 15.2 million in 2016) for in-kind donated facilities world-wide; and Jointly Financed Activities, principally established with the World Bank, the African Development Bank and the Asian Development Bank. A counterpart expense of USD 46.5 million (USD 41.7 million in 2016) is recorded as in-kind donated facilities.

19.4 Of the remainder in-kind donated goods of USD 1.5 million (USD 1.5 million in 2016), USD 0.6 million (USD 0.7 million in 2016) relates to donated interest revenue on the Working Capital Fund concessionary loan of USD 25.7 million (USD 25.7 million in 2016) granted by Member Nations. A counterpart expense of USD 0.6 million (USD 0.7 million in 2016) is recorded in interest expense calculated

at 2.5% (2.7% in 2016) using the ASMC discount rate. Other donated goods received include USD 0.6 million (USD 0.8 million in 2016) in inventory, and USD 0.3 million in PP&E (none in 2016).

19.5 Exchange revenue mainly represents payments to the Organization of expenditure incurred on behalf of third parties, including other international organizations to which services such as medical, social security, legal and administrative are provided. Prior period exchange revenue is restated by USD 0.9 million due to the revised IPSAS on *Joint Arrangements*.

19.6 In 2017, following the end of the IPSAS 23 transitional provision for voluntary contributions, the Organization has recognized the balance on projects classed as 'Pre 2014 – scheduled for completion post 2016' of USD 120.4 million, within revenue. Voluntary contributions revenue in the 'Post 2013' class are recognized using the IPSAS accounting policy and standards, and the Organization is now fully compliant with IPSAS 23.

## Note 20. Expenses

20.1 Employee benefits and other personnel costs include all compensation entitlements for Regular Programme and Project Professional and General Service category staff.

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16 (Restated)</b>
<b>Employee benefits and other personnel costs</b>		
Base salary	186,102	189,551
Post adjustment	46,177	49,361
Staff medical insurance	36,027	26,692
Pension plan	52,981	52,535
Staff Compensation Plan	393	427
Staff Termination Plan	6,144	6,395
Staff Separation Scheme	3,059	3,199
Education grant	15,285	14,785
Locally hired non-professional staff	2,852	2,422
Entitlement travel	7,415	6,636
Income Tax Reimbursement	2,542	2,555
Dependents Allowance	12,631	5,401
Installation, assignment and mobility allowance	12,154	9,514
Other employee benefits and staff costs	15,628	13,523
<b>Total employee benefits and other personnel costs</b>	<b>399,390</b>	<b>382,996</b>

20.2 Dependent's allowance in 2017 substantially increased due to the implementation of the Unified Salary Scale for the Professional and Higher Categories of Staff removing the dependency rate of salary, instead dependency allowances for dependent spouse and children was introduced."

20.3 The 2016 Employee benefits and other personnel costs have been restated by USD 6.0 million due to the error identified in Note 2.60 relating to the staff education grant calculation. Additionally, various other 2016 expenses have been restated, for a total of USD 0.9 million, due to the revised IPSAS on *Joint Arrangements*.

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16 (Restated)</b>
<b>Consultants</b>		
Internationally recruited	90,912	85,710
Locally recruited	90,851	80,342
National projects personnel	66,917	61,206
Other consultants expenses	11,484	3,288
<b>Total consultants</b>	<b>260,164</b>	<b>230,546</b>

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16 (Restated)</b>
<b>Travel costs</b>		
Duty travel	25,014	22,199
Consultants	43,397	35,102
Governing body meetings	40,042	31,908
Other travel costs	5,825	4,952
<b>Total travel costs</b>	<b>114,278</b>	<b>94,161</b>

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
<b>Depreciation, amortization and impairment of long-lived assets</b>		
Depreciation of PP&E	7,542	6,694
Amortization of intangible assets	1,490	1,291
Impairment of long-lived assets	-	4
<b>Total depreciation, amortization and impairment of long-lived assets</b>	<b>9,032</b>	<b>7,989</b>

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
<b>Training expenses</b>		
In-service	5,850	5,936
Other training expenses	36,630	28,430
<b>Total training expenses</b>	<b>42,480</b>	<b>34,366</b>

20.4 In-service training represents the cost of on-site training carried out at the local office in relation to projects in the field. Other training expenses include the costs of training materials and expenses incurred with participation in off-site training courses, including lodging and daily subsistence.



<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16 (Restated)</b>
<b>Contractual services</b>		
Services	105,306	55,321
Repairs and maintenance	21,525	30,420
Rental expense	8,510	7,354
In-kind donated facilities	46,502	41,721
Communications and IT	7,450	7,082
Letters of Agreement	145,674	118,867
Other contracted services	12,372	10,521
<b>Total contractual services</b>	<b>347,339</b>	<b>271,286</b>

20.5 Services mainly represents contracts entered into by projects, and include amongst others statistical services, contracts for environmental protection and waste, agriculture, crop protection and irrigation services, and fisheries and aquaculture services. The increase from 2016 reflects a greater use of cash-based interventions (including cash transfers, voucher programmes and cash-for-work) in project implementation during the period.

20.6 Letters of agreement mainly comprise of the following items; USD 39.6 million (USD 32.3 million in 2016 in relation to agreements for scientific research services and surveys, USD 33.7 million (USD 22.3 million in 2016) for distribution of inputs and community micro infrastructure, USD 27.6 million (USD 26.4 million in 2016) for training beneficiaries, and USD 25.0 million (USD 18.9 million in 2016) for capacity development of national public institutions.

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16 (Restated)</b>
<b>Grants and other transfer payments</b>		
National execution with governments	25,910	20,692
Contributions to joint UN administrative activities	5,815	3,572
Other grants and transfer payments	226	36
<b>Total grants and other transfer payments</b>	<b>31,951</b>	<b>24,300</b>

20.7 National execution with governments relates to funds transferred in advance to operations partners for the implementation of parts of, or an entire, project entrusted to FAO.

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16 (Restated)</b>
<b>Supplies and consumables used</b>		
Utilities	4,054	3,803
Vehicles maintenance and running costs	5,070	5,282
Inventories distributed	148,345	145,274
Inventories sold	121	154
Inventories write-down	-	262
Supplies and consumables	11,550	8,205
<b>Total supplies and consumables used</b>	<b>169,140</b>	<b>162,980</b>

20.8 During the year ended 31 December 2017, FAO incurred USD 31.8 million of expenses for Plants and Seeds (USD 40.0 million in 2016), USD 16.9 million of expenses for expendable equipment (USD 20.2

million in 2016), USD 8.3 million of expenses for Fertilizers (USD 7.3 million in 2016), USD 10.5 million for Animal Feed (USD 8.1 million in 2016), USD 21.0 million for Medical and Veterinary Supplies (USD 15.3 million in 2016), USD 7.9 million for Other Field Supplies and Equipment (USD 12.7 million for 2016), USD 12.8 million for Agricultural tools (USD 9.0 million in 2016), and USD 10.3 million for Livestock (USD 8.4 million in 2016). These costs have been included within the category “Inventories distributed”.

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16 (Restated)</b>
<b>Other expenses</b>		
Provisions for receivables	(901)	5,607
Provisions for contingent liabilities	(629)	(3,672)
Actuarial gains / (losses)	3,902	-
Insurance	1,252	1,373
Bank charges	1,458	1,323
Other operating expenses	24,549	20,745
<b>Total other expenses</b>	<b>29,631</b>	<b>25,376</b>

20.9 The increase in actuarial gains/ (losses) was due to remeasurements from changes in financial and demographic assumptions relating to the Compensation Payment Fund. The increase in other operating expenses was primarily due to the increase in closure of finalized Trust Fund projects. As the Organization is now fully compliant with IPSAS 23, accounting for projects that close with cash balances repayable to donors results in the recognition of an expense (USD 9.2 million in 2017, USD 7.2 million in 2016) to offset the associated revenue recognized in prior periods. Additionally, the loss on disposal of items of PP&E during 2017 (USD 1.7 million) was more significant than in the prior year (USD 0.4 million) due to the additional disposals undertaken.

#### **Note 21. Non-operating income and expenses**

##### **Investment income**

21.1 The investment income recorded within other income and expenses represents the returns earned on the held-for-trading and the available-for-sale investment portfolios, inclusive of the cash and cash equivalent portion reallocated in the Statement of Financial Position to cash and cash equivalents, as well as the losses in fair value of derivative financial instruments.

21.2 Net returns generated on the held-for-trading and available-for-sale investment portfolios represent the investment income earned, in addition to gains and losses of market value realized in 2017.

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16 (Restated)</b>
<b>Return on investments, held-for-trading</b>		
Interest income	11,542	7,865
(Losses) on disposal	(684)	(3,734)
Fees and commissions charged	(1,743)	(713)
Unrealized gains / (losses)	555	2,625
<b>Total return on investments, held-for-trading</b>	<b>9,670</b>	<b>6,043</b>
<b>Return on investments, available-for-sale</b>		
Interest and dividend income	9,776	8,992
Unrealized foreign exchange gains / (losses)	18,375	(7,859)
Gains / (losses) on disposal	29,128	10,303
Fees and commissions charged	(1,397)	(696)
<b>Total return on investments, available-for-sale</b>	<b>55,882</b>	<b>10,740</b>
<b>Fair value loss on derivative financial instruments</b>		
Fair value gains / (losses) on derivative financial instruments	4,402	(4,375)
<b>Total fair value gains / (losses) on derivative financial instruments</b>	<b>4,402</b>	<b>(4,375)</b>
<b>Total investment income</b>	<b>69,954</b>	<b>12,408</b>

21.3 In 2017, given FAO's prudent, low risk investment style and low but gradually increasing interest rate environment the total return on the held-for-trading investment portfolio was 1.0% (0.6% in 2016), exceeding the benchmark return by 0.2%.

21.4 The available-for-sale investment portfolio represents the accumulated assets set aside over a period of decades to fund the Organization's share of staff-related liabilities. The current investment policy sets a strategic asset allocation for the long-term portfolio of 50% equities and 50% fixed income. The fixed income portion is in Euros, while the equities are in US Dollars. During 2017 the available-for-sale investment portfolio yielded an annual return of 19.6%, versus a benchmark return of 20.6%.

21.5 The 2016 amounts have been restated for the prior period error identified in Note 2.59 relating to the recognition of unrealised foreign exchange net losses on debt securities.

#### **Foreign exchange gains and losses**

21.6 USD 14.3 million (USD 3.3 million loss in 2016) net foreign exchange gains represents the net amount exchange differences incurred by the Organization during the year ended 31 December 2017. The majority of the exchange differences have been generated by the Euro portion of the Assessments on Member Nations and the revaluation of monetary assets and liabilities at the reporting date.

## Finance income and expenses

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
Interest income / (expenses)	(6,776)	(1,908)
Interest cost of staff related liabilities	(34,643)	(35,633)
<b>Total finance income / (expenses)</b>	<b>(41,419)</b>	<b>(37,541)</b>

21.7 The finance expenses of the Organization are predominantly borne in relation to operating the staff related schemes. These costs represent the increase in the present value of the defined benefit obligation because the benefits are one period closer to settlement.

## Note 22. Financial instruments

22.1 This note presents information about the Organization's exposure to various risks, policies and processes for measuring and managing the risks, and its management of capital. Further quantitative disclosures are included throughout these financial statements.

### Value of financial instruments

<i>(thousands of US dollars)</i>	<b>31-Dec-17 Fair value &amp; Carrying amount</b>	<b>31-Dec-16 Fair value &amp; Carrying amount</b>
<b>Financial assets</b>		
Held-for-trading financial instruments	509,278	527,791
Available-for-sale financial instruments	522,784	442,950
Derivative financial instruments	747	(2,990)
Receivables from non-exchange transactions	322,992	175,171
Receivables from exchange transactions	7,564	8,076
Other assets	8,955	8,289
Cash and cash equivalents	690,629	684,713
<b>Total financial assets</b>	<b>2,062,949</b>	<b>1,844,000</b>
<b>Financial liabilities</b>		
Accounts payable and accruals	174,102	132,191
Other liabilities	1,578,974	1,371,624
<b>Total financial liabilities</b>	<b>1,753,076</b>	<b>1,503,815</b>

22.2 The fair value of the financial assets and liabilities are included at the amount at which the instrument can be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation. The fair value and carrying amounts of the investment portfolio are the same because they are marked to market. The item "Other liabilities" excludes non-cash items such as advances and accruals for annual leave that are not settled in the short term with cash payments.

22.3 The following methods and assumptions are used to estimate the fair values:

- i) Cash and short-term deposits, trade receivables, trade payables and other current assets and liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments;
- ii) Long-term fixed-rate and variable-rate receivables / borrowings are evaluated by the Organization based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics. Based on this evaluation, allowances are taken to

account for the incurred losses of these receivables and market related interest rates. As at 31 December 2017, the carrying amounts of such receivables, net of allowances, are not materially different from their calculated fair values;

- iii) Fair value of quoted notes and bonds is based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities; and
- iv) Fair value of financial assets is derived from quoted market prices in active markets.

### The fair value hierarchy

22.4 The fair value hierarchy represents the categorization of market pricing to indicate the relative ease with which the value of investments held can be realized.

22.5 The Organization uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- i) Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;
- ii) Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as price) or indirectly (i.e., derived from prices); and
- iii) Level 3: Techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

22.6 The majority of FAO's financial instruments have quoted prices in active markets and are classified as Level 1. Derivative instruments that are "over-the-counter" are classified as Level 2 because their fair value is observable either directly as a price, or indirectly after being derived from prices. The instruments shown under the Level 2 fair value measurement category consist of the forward contracts for foreign currency hedges and the derivative contracts in the externally managed portfolios.

### Financial instruments measured at fair value

<i>(thousands of US dollars)</i>	31-Dec-17			Total
	Level 1	Level 2	Level 3	
<b>Current assets</b>				
Financial assets at fair value through surplus or deficit	509,278	-	-	<b>509,278</b>
Financial assets at fair value through equity	522,784	-	-	<b>522,784</b>
Derivative financial instruments	-	747	-	<b>747</b>
<b>Current liabilities</b>				
Derivative financial instruments	-	-	-	-
<b>Total financial instruments measured at fair value</b>	<b>1,032,062</b>	<b>747</b>	<b>-</b>	<b>1,032,809</b>

<i>(thousands of US dollars)</i>	31-Dec-16			Total
	Level 1	Level 2	Level 3	
<b>Current assets</b>				
Financial assets at fair value through surplus or deficit	527,791	-	-	<b>527,791</b>
Financial assets at fair value through equity	442,950	-	-	<b>442,950</b>
Derivative financial instruments	-	(2,990)	-	<b>(2,990)</b>
<b>Current liabilities</b>				
Derivative financial instruments	-	-	-	-
<b>Total financial instruments measured at fair value</b>	<b>970,741</b>	<b>(2,990)</b>	<b>-</b>	<b>967,751</b>

22.7 During the reporting period ending 31 December 2017, there were no transfers between level 1 and level 2 fair value measurements.

### Financial risks of the Organization

22.8 FAO has developed risk management policies in accordance with its Financial Rules and Regulations. The Organisation is exposed to a variety of financial risks, including market (foreign currency exchange and price), liquidity, interest rate and credit risks. The primary objective of the Investment Policy of FAO is to maximise the long term return on the portfolio. The Organization considers the maximisation of risk-adjusted returns and the use of applicable benchmarks to evaluate investment manager performance.

### Financial risk management

22.9 The Organization's financial risk management is carried out by a central treasury function using guidelines set out by the FAO Investment Committee and advice from the World Bank. The Organization manages the risks associated with its investment portfolio through providing strict guidelines, and then actively managing compliance with these guidelines, to each of the Organization's investment managers who are responsible for the management of assets in the equity and fixed-income markets. These guidelines include limits on the investment managers' level of exposure to currencies, asset classes, interest rate risk, credit quality, credit concentration of equity investments and their level of investment in derivative financial instruments. Additionally, a detailed strategic asset allocation review for non-current investments is conducted by specialized firms within the context of an Asset and Liability study (ALM). Reviews are conducted approximately every five years and the last study was undertaken and finalized in 2013. In late 2017 a new ALM study was mandated the results for which will be available in 2018.

### Foreign currency exchange risk

22.10 FAO's principal headquarters is located in the Euro zone and the Organization operates field offices on a global level, where it incurs expenses in local currency. Consequently, a significant amount of FAO's expenses are in other currencies (principally Euro), and the Organization is therefore exposed to foreign currency exchange risk arising from fluctuations in currency exchange rates. In 2003, in order to mitigate its foreign currency risk associated with Regular Programme Euro denominated expenses, the Organization began assessing a portion of Member Nation contributions in US Dollars and a portion in Euro. With the introduction of split assessments on Member Nations, the Organization has entered into US Dollar / Euro swaps with banks as counterparty, to fund delays of Euro receipts of these assessments. Given the worldwide geographical representation of the Organization, FAO maintains a minimum level of assets in local currencies, and holds accounts in US dollars, Euros and other currencies at Headquarters.

22.11 Additionally, the Organization receives voluntary contributions in both US Dollars and other currencies. The Organization generally converts these amounts to US Dollars immediately upon receipt of the funds. Expenditures under projects funded by voluntary contributions are made in both US Dollars and other currencies. The US Dollar funds held are converted to local currency when necessary, to satisfy the

obligations of the organization. No derivative financial instruments are utilized to mitigate the risk associated.

22.12 The carrying amount of the Organization's foreign currency denominated financial assets and financial liabilities, translated to US Dollars at the year-end are set out below. Some of the financial assets are denominated in difficult to use currencies ('illiquid currencies') that cannot be readily converted to US dollars:

<i>(thousands of US dollars)</i>	31-Dec-17				Total
	US Dollar	Euro	Others	Illiquid	
Cash and cash equivalents	651,104	36,439	3,214	(128)	<b>690,629</b>
Held-for-trading investments	632,129	-	(122,851)	-	<b>509,278</b>
Available-for-sale investments	236,871	103,293	182,619	-	<b>522,783</b>
Derivative financial instruments	(88,798)	167,405	(77,860)	-	<b>747</b>
<b>Total financial assets</b>	<b>1,431,306</b>	<b>307,137</b>	<b>(14,878)</b>	<b>(128)</b>	<b>1,723,438</b>

<i>(thousands of US dollars)</i>	31-Dec-16				Total
	US Dollar	Euro	Others	Illiquid	
Cash and cash equivalents	673,172	14,352	(2,982)	171	<b>684,713</b>
Held-for-trading investments	527,791	-	-	-	<b>527,791</b>
Available-for-sale investments	217,376	94,049	131,525	-	<b>442,950</b>
Derivative financial instruments	(79,391)	98,547	(22,146)	-	<b>(2,990)</b>
<b>Total financial assets</b>	<b>1,338,948</b>	<b>206,948</b>	<b>106,397</b>	<b>171</b>	<b>1,652,464</b>

22.13 FAO enters into forward foreign exchange contracts and swap contracts to manage short-term cash flows of foreign currency balances to minimize the foreign currency transaction risk. At 31 December 2017 and 31 December 2016, the total amount of open derivative positions with the internally managed investment portfolios were as follows:

<i>(thousands of US dollars)</i>	31-Dec-17					
	Currency forward purchased (LCY)	Currency forward purchased (USD)	Unrealized gains / (losses) (USD)	Currency forward sold (LCY)	Currency forward sold (USD)	Unrealized gains / (losses) (USD)
Net purchased/ sold amount						
Euro	-	-	-	(25,000)	(30,013)	<b>(387)</b>
<b>Total</b>		-	-		<b>(30,013)</b>	<b>(387)</b>

<i>(thousands of US dollars)</i>	31-Dec-16					
	Currency forward purchased (LCY)	Currency forward purchased (USD)	Unrealized gains / (losses) (USD)	Currency forward sold (LCY)	Currency forward sold (USD)	Unrealized gains / (losses) (USD)
Net purchased/ sold amount						
Euro	-	-	-	(36,114)	(37,996)	<b>(190)</b>
<b>Total</b>		-	-		<b>(37,996)</b>	<b>(190)</b>

22.14 In accordance with the investment guidelines set up for each externally managed portfolio, the external investment managers use forward foreign exchange contracts to manage the currency risk of groups of securities within each portfolio. The net values of these instruments as at 31 December 2017 and 31

December 2016 that were in place to hedge foreign exchange risk in the available-for-sale investment portfolios have been reclassified to “derivative financial instruments” in the Statement of Financial Position and summarized below:

<i>(thousands of US dollars)</i>		31-Dec-17					Unrealized gains / (losses) (USD)	Total unrealized gains / (losses) (USD)
Net purchased / sold amount	Currency forward bought (LCY)	Currency forward bought (USD)	Un-realized gains / (losses) (USD)	Currency forward sold (LCY)	Currency forward sold (USD)			
Australian Dollar	1,179	922	24	(7,332)	(5,735)	(58)	(34)	
Canadian Dollar	1,047	836	17	(11,244)	(8,981)	(206)	(189)	
Danish Krone	-	-	-	(21,024)	(3,406)	(58)	(58)	
British Pound sterling	687	930	10	(42,422)	(57,479)	(938)	(929)	
Swiss Franc	197	203	2	(532)	(546)	(10)	(7)	
Euro	143,740	173,065	2,519	(4,385)	(5,272)	(111)	2,408	
Japanese Yen	318,893	2,834	(8)	(651,052)	(5,786)	2	(6)	
Norwegian Krone	9,890	1,210	9	(7,868)	(963)	(9)	-	
New Zealand Dollar	2,023	1,438	39	(2,570)	(1,827)	(44)	(5)	
Swedish Krona	10,427	1,275	30	(23,126)	(2,834)	(74)	(44)	
United States Dollar	44,037	44,037	-	(132,835)	(132,835)	-	-	
Mexican Peso	9,745	496	(14)	(8,847)	(450)	13	(1)	
<b>Total</b>		<b>227,246</b>	<b>2,628</b>		<b>(226,114)</b>	<b>(1,494)</b>	<b>1,134</b>	

<i>(thousands of US dollars)</i>		31-Dec-16					Unrealized gains / (losses) (USD)	Total unrealized gains / (losses) (USD)
Net purchased / sold amount	Currency forward bought (LCY)	Currency forward bought (USD)	Un-realized gains / (losses) (USD)	Currency forward sold (LCY)	Currency forward sold (USD)			
Australian Dollar	1,947	1,408	(39)	(8,658)	(6,261)	231	192	
Canadian Dollar	984	734	5	(10,242)	(7,642)	150	155	
Danish Krone	-	-	-	(20,624)	(2,937)	28	28	
British Pound sterling	2,323	2,872	(10)	(34,619)	(42,818)	208	198	
Swiss Franc	325	320	(15)	(965)	(951)	16	1	
Euro	147,123	155,502	(4,081)	(17,951)	(18,958)	357	(3,724)	
Japanese Yen	328,275	2,817	(207)	(779,160)	(6,687)	540	333	
Norwegian Krone	9,135	1,061	(16)	(1,177)	(137)	3	(13)	
New Zealand Dollar	1,073	748	(6)	(1,615)	(1,124)	28	22	
Swedish Krona	14,394	1,586	12	(27,906)	(3,080)	5	17	
United States Dollar	57,044	57,044	-	(136,435)	(136,435)	-	-	
Mexican Peso	9,600	465	(6)	(6,489)	(314)	(3)	(9)	
South African Rand	-	-	-	(204)	(15)	-	-	
<b>Total</b>		<b>224,557</b>	<b>(4,363)</b>		<b>(227,359)</b>	<b>1,563</b>	<b>(2,800)</b>	

22.15 Foreign exchange exposures on future payroll costs are hedged by the Organization through the utilization of the split assessment regime. Consequently, the Organization does not use financial instruments to mitigate the foreign currency exposure associated with payroll costs. The Organization does not use financial instruments to hedge the foreign exchange exposures on receivables and payables. Currency exchange risk also arises as a result of the differences in timing of recording the foreign currency receivables or payables and the cash receipt or payment in subsequent periods. Any receipts in currencies other than the United States Dollar are exchanged in the spot market.



### Equity price risk

22.16 Equity price risk is the risk of a decline in the value of a security or a portfolio, and is dependent on the volatility of the securities held within a portfolio. The Organization seeks to mitigate this risk by maintaining well-diversified equity investment portfolios. The table below shows the diversification of the Organization's equity portfolios as at the period end, as well as the asset allocation between other types of externally managed investments:

<i>(thousands of US dollars)</i>		31-Dec-17					
Sector	Cost	Unrealized gains / (losses)	Market value	Accruals	Market including accruals	% of Equities	% of Total
<b>Equities</b>							
Consumer discretionary	27,963	5,335	33,298	45	33,343	12%	2%
Consumer staples	20,484	920	21,404	38	21,442	7%	1%
Energy	15,520	2,756	18,276	20	18,296	6%	1%
Financials	42,808	7,169	49,976	74	50,050	17%	3%
Health care	26,829	3,006	29,835	36	29,871	10%	2%
Industrials	27,712	5,753	33,465	10	33,475	12%	2%
Information technology	28,976	12,857	41,833	11	41,844	16%	3%
Materials	14,513	2,578	17,091	10	17,101	6%	1%
Equities ETF	10,290	1,624	11,914	2	11,916	4%	1%
Telecommunication services	8,172	23	8,195	33	8,228	3%	1%
Utilities	11,852	(36)	11,816	55	11,871	4%	1%
Real Estate	8,488	1,181	9,669	48	9,717	3%	0%
Other/ Fee accrual	(136)	-	(136)	-	(136)	0%	0%
<b>Total equities</b>	<b>243,471</b>	<b>43,166</b>	<b>286,636</b>	<b>382</b>	<b>287,018</b>	<b>100%</b>	<b>18%</b>
<b>Non-equities</b>							
Fixed income	737,774	7,651	745,425	2,887	748,313		47%
Cash and cash equivalents	553,288	196	553,483	34	553,517		35%
Derivative financial instruments	-	1,134	1,134	-	1,134		0%
<b>Total non-equities</b>	<b>1,291,062</b>	<b>8,981</b>	<b>1,300,042</b>	<b>2,921</b>	<b>1,302,964</b>		<b>82%</b>
<b>Total assets in externally managed portfolios</b>	<b>1,534,533</b>	<b>52,147</b>	<b>1,586,678</b>	<b>3,303</b>	<b>1,589,982</b>		<b>100%</b>

<i>(thousands of US dollars)</i>		31-Dec-16					
Sector	Cost	Unrealized gains / (losses)	Market value	Accruals	Market including accruals	% of Equities	% of Total
<b>Equities</b>							
Consumer discretionary	26,903	1,954	28,857	50	28,906	12.3%	1.8%
Consumer staples	21,871	680	22,551	46	22,596	9.6%	1.4%
Energy	8,871	448	9,319	8	9,326	4.0%	0.6%
Financials	33,011	2,027	35,038	56	35,095	15.0%	2.2%
Health care	18,965	953	19,918	21	19,940	8.5%	1.3%
Industrials	27,021	1,129	28,150	22	28,172	12.0%	1.8%
Information technology	27,068	8,768	35,836	12	35,848	15.3%	2.3%
Materials	18,499	544	19,043	60	19,103	8.2%	1.2%
Equities ETF	17,538	(2,972)	14,566	-	14,567	6.2%	0.9%
Telecommunication services	7,448	(173)	7,275	17	7,292	3.1%	0.5%
Utilities	8,189	106	8,295	16	8,310	3.5%	0.5%
Other	4,424	778	5,202	5	5,208	2.2%	0.3%
Performance fee accrual	-	-	-	228	228	0.1%	0.1%
<b>Total equities</b>	<b>219,808</b>	<b>14,242</b>	<b>234,050</b>	<b>541</b>	<b>224,591</b>	<b>100%</b>	<b>14.9%</b>
<b>Non-equities</b>							
Fixed income	745,333	(8,643)	736,691	2,401	739,092		46.9%
Cash and cash equivalents	602,261	186	602,447	263	602,710		38.2%
Derivative financial instruments	-	(2,800)	(2,800)	-	(2,800)		-
<b>Total non-equities</b>	<b>1,347,594</b>	<b>(11,257)</b>	<b>1,336,338</b>	<b>2,664</b>	<b>1,339,002</b>		<b>85.1%</b>
<b>Total assets in externally managed portfolios</b>	<b>1,567,402</b>	<b>2,985</b>	<b>1,570,388</b>	<b>3,205</b>	<b>1,563,593</b>		<b>100.0%</b>

### Interest rate risk

22.17 Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Organization seeks to earn a competitive market rate of return on its investment portfolio, however, capital preservation and liquidity are emphasized over the rate of return.

22.18 The investing horizon is based upon the anticipated liquidity needs of the Organization, including the requirement that the principal objective of the Organization's non-current available-for-sale investment portfolio is to fund the Organization's share of staff-related liabilities. Within this context and following FAO's prudent, conservative, low risk investment style and the prevailing market conditions in 2016, the Organization earned a total return of 1.0% for the year (0.6% in 2016) on its trading portfolio versus 0.8% for the benchmark, whilst the non-current portfolio designated as available-for-sale earned 19.6%, versus a benchmark of 20.6%. The Organization is exposed to changes in interest rates on floating rate financial and fixed income assets.

### Credit risk

22.19 Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to FAO, and it arises principally on the Organization's investments, loans, receivables, and cash and cash equivalents. The maximum exposure to credit risk at 31 December 2017 and 31 December 2016 are:

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>	<b>31-Dec-16</b>
Investments	745,425	736,691
Cash and cash equivalents	690,629	684,713
Receivables for non-exchange transactions	322,992	175,171
Receivables for exchange transactions	7,564	8,076
Other assets	8,955	8,289
<b>Maximum exposure to credit risk</b>	<b>1,775,565</b>	<b>1,612,940</b>

### Organizational policy on allowable financial instruments

22.20 To manage credit risk, the Organization assesses the credit quality of those parties with whom the Organization invests in based on the investment policy that restricts investments to particular types of financial instruments along with investment ceilings per issuer depending on the credit quality of the issuer.

22.21 Credit risk associated with cash and cash equivalents is managed through specific bank selection criteria designed to evaluate the bank security, reputation, adherence and compliance to local and international laws and regulations, and where applicable, ratings of recognized rating agencies. The table below shows the Organization's concentration of credit risk by credit rating:

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>						<b>Short Term Rating Moody's / S&amp;P P- 1/A-1</b>	<b>Total by Instrument</b>
	<b>Aaa</b>	<b>Aa</b>	<b>A</b>	<b>Baa</b>	<b>NR</b>	<b>NR</b>		
Corporate bonds	3,539	11,737	23,579	29,916	-	-	<b>68,771</b>	
Government agencies	119,914	89,876	4,999	-	2,800	-	<b>217,589</b>	
Government bonds	36,345	231,736	-	1,808	-	-	<b>269,889</b>	
Index linked government bonds	15,465	124,851	2,411	8,065	-	-	<b>150,792</b>	
Government MBS	1,883	2,106	2,640	-	-	-	<b>6,629</b>	
Municipal / provincial bonds	17,960	5,588	8,480	-	-	-	<b>32,028</b>	
Fee accrual	-	-	-	-	(273)	-	<b>(273)</b>	
<b>Total instruments</b>	<b>195,106</b>	<b>465,894</b>	<b>42,109</b>	<b>39,789</b>	<b>2,527</b>	<b>-</b>	<b>745,425</b>	

<i>(thousands of US dollars)</i>	<b>31-Dec-16</b>						<b>Short Term Rating Moody's / S&amp;P P- 1/A-1</b>	<b>Total by Instrument</b>
	<b>Aaa</b>	<b>Aa</b>	<b>A</b>	<b>Baa</b>	<b>NR</b>	<b>NR</b>		
Corporate bonds	3,701	10,083	24,472	22,591	3,000	-	<b>63,847</b>	
Government agencies	144,561	88,996	40,915	-	-	-	<b>274,472</b>	
Government bonds	42,970	194,818	-	4,581	-	-	<b>242,369</b>	
Index linked government bonds	10,949	102,155	2,510	5,135	-	-	<b>120,749</b>	
Government MBS	2,275	3,021	3,384	-	-	-	<b>8,681</b>	
Municipal/ provincial bonds	17,597	5,956	3,020	-	-	-	<b>26,573</b>	
<b>Total instruments</b>	<b>222,053</b>	<b>405,029</b>	<b>74,301</b>	<b>32,307</b>	<b>3,000</b>	<b>-</b>	<b>736,691</b>	

### Liquidity risk

22.22 Liquidity risk is the risk that the Organization will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial assets. The liquidity risk of the Organization is primarily managed on an individual fund basis. For the Extra Budgetary Programme, commitment can generally only be made once funds are available and therefore liquidity risk is minimal. For the Regular Programme, the appropriation based budget for incurring expenditures ensures that expenses do not exceed revenue streams for any given year, and monthly cash flow forecasting ensures that the Organization has sufficient cash on demand to meet expected operating expenses as they arise. Furthermore, the Working Capital Fund and the Special Reserve Account can both advance monies to the General Fund on a reimbursement basis to finance expenditures pending receipt of assessed contributions and in the event of adverse currency fluctuations and unbudgeted inflationary trends. The combined balance on the Working Capital Fund and the Special Reserve Account provides a liquidity cushion to the Organization's Regular Programme of approximately one month. The contractual policy of both the Organization's receivables and payables is within 30 days of invoice.

### Interest rate risk

22.23 If the weighted average interest rate had been 100 basis points higher or lower, the value of the investment portfolios would have been affected as follows in the sensitivity analysis:

<i>(thousands of US dollars)</i>	31-Dec-17	
	Increase / (decrease) in basis points	Effect on surplus / (deficit)
Held-for-trading	100	(3,023)
Held-for-trading	(100)	3,023
Available-for-sale investments	100	(25,815)
Available-for-sale investments	(100)	25,815

<i>(thousands of US dollars)</i>	31-Dec-16	
	Increase / (decrease) in basis points	Effect on surplus / (deficit)
Held-for-trading	100	(3,123)
Held-for-trading	(100)	3,123
Available-for-sale investments	100	(21,797)
Available-for-sale investments	(100)	21,797

### Foreign exchange rate risk

22.24 All of the Organization's foreign currency investments in the fixed income available-for-sale investment portfolios that are non US Dollar denominated are hedged to the Euro. If the USD / Euro exchange rate at 31 December 2017 and 31 December 2016 had been 5% higher or lower the value of the Euro denominated investment portfolios would have been affected as follows:

<i>(thousands of US dollars)</i>	31-Dec-17	
	Increase / (decrease) in USD/EUR exchange rate	Effect on surplus / (deficit)
Available-for-sale investments (fixed income only)	5%	12,335
Available-for-sale investments (fixed income only)	(5%)	(12,335)

<i>(thousands of US dollars)</i>	31-Dec-16	
	Increase / (decrease) in USD/EUR exchange rate	Effect on surplus / (deficit)
Available-for-sale investments (fixed income only)	5%	10,513
Available-for-sale investments (fixed income only)	(5%)	(10,513)

### Equity price risk

22.25 If the equity market risk at 31 December 2017 and 31 December 2016 had been 10% higher or lower, the value of the equity investment portfolios would have been affected as follows:

<i>(thousands of US dollars)</i>	31-Dec-17	
	Increase / (decrease) in Equity Market Risk	Effect on surplus / (deficit)
Available-for-sale investments	10%	27,923
Available-for-sale investments	(10%)	(27,923)

<i>(thousands of US dollars)</i>	31-Dec-16	
	Increase / (decrease) in Equity Market Risk	Effect on surplus / (deficit)
Available-for-sale investments	10%	23,062
Available-for-sale investments	(10%)	(23,062)

### Note 23. Segments

23.1 The Organization operates, and generally reports financial information to the Director-General and the Governing Bodies in two segments, the General and Related Fund and the Trust Funds and UNDP.

23.2 Amounts received by the Organization with respect to the General and Related Fund are utilized in the execution of the Organization's mandate based upon the Programme of Work supporting the appropriations approved by the Member Nations and funded through assessed contributions.

23.3 Amounts received by the Organization with respect to the Trust Funds and UNDP are utilized in the execution of the Organization's mandate based upon specific project activities in addition to the Programme of Work and are funded through voluntary contributions from countries, other organization and under an inter-organizational arrangement with the UNDP.

23.4 For the year ended 31 December 2017, the Organization acquired for the General Fund and the Trust Fund and UNDP, PP&E for internal use amounting to USD 4.9 million (USD 4.9 million in 2016) and USD 8.1 million (USD 5.0 million in 2016), respectively.

23.5 The accumulated deficit under the General and Related Fund represents the unfunded liability associated with the After Service Medical Coverage Plan, offset in part by the unexpended portion of assessed contributions, including cash received and accounts receivable from Member Nations, to be utilized for future operational requirements.

23.6 The accumulated surplus under the Trust Funds and UNDP represented the unexpended portion of voluntary contributions to be utilized for future project related operational requirements.

23.7 The 2016 data has been restated due to the revised IPSAS on *Joint Arrangements* and correction of the prior period error presented in note 2.59.

23.8 The Statement of Financial Position at 31 December 2017 and 31 December 2016, on a segment basis, are as follows:

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>		<b>Total</b>
	<b>General and Related</b>	<b>Trust and UNDP</b>	
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	227,475	463,154	690,629
Investments and derivative financial instruments	746	509,279	510,025
Receivables from non-exchange transactions	166,187	149,952	316,139
Receivables from exchange transactions	7,164	-	7,164
Prepayments and other current assets	36,246	4,060	40,306
Inventories	749	7,151	7,900
	438,567	1,133,596	1,572,163
<b>Non-current assets</b>			
Investments	522,784	-	522,784
Receivables from non-exchange transactions	637	-	637
Prepayments and other non-current assets	470	-	470
Property, plant and equipment	19,258	7,707	26,965
Intangible assets	4,905	320	5,225
	548,054	8,027	556,081
<b>Total assets</b>	<b>986,621</b>	<b>1,141,623</b>	<b>2,128,244</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	23,666	-	23,666
Accrued expenses	38,089	112,308	150,397
Payment received in advance	45,520	303,279	348,799
Derivative financial instruments	-	-	-
Employee benefits obligations	17,630	-	17,630
Provisions	777	-	777
Other current liabilities	382	(1)	381
	126,064	415,586	541,650
<b>Non-current liabilities</b>			
Employee benefit obligations	1,527,419	-	1,527,419
Other non-current liabilities	45,429	-	45,429
	1,572,848	-	1,572,848
<b>Total liabilities</b>	<b>1,698,912</b>	<b>415,586</b>	<b>2,114,498</b>
<b>Net assets</b>	<b>(712,291)</b>	<b>726,037</b>	<b>13,746</b>
<b>Equity</b>			
Accumulated surplus / (deficit)	(613,283)	726,037	112,753
Reserves	(99,007)	-	(99,007)
<b>Total equity / (deficit)</b>	<b>(712,291)</b>	<b>726,037</b>	<b>13,746</b>

<i>(thousands of US dollars)</i>	31-Dec-16 (Restated)		
	General and Related	Trust and UNDP	Total
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	179,843	504,870	684,713
Investments and derivative financial instruments	(2,991)	527,792	524,801
Receivables from non-exchange transactions	58,084	116,197	174,281
Receivables from exchange transactions	8,076	-	8,076
Prepayments and other current assets	33,388	4,783	38,171
Inventories	1,788	7,559	9,347
	278,188	1,161,201	1,439,389
<b>Non-current assets</b>			
Investments	442,950	-	442,950
Receivables from non-exchange transactions	890	-	890
Prepayments and other non-current assets	995	-	995
Property, plant and equipment	16,266	8,260	24,526
Intangible assets	4,668	102	4,770
	465,769	8,362	474,131
<b>Total assets</b>	<b>743,957</b>	<b>1,169,563</b>	<b>1,913,520</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable	25,960	-	25,960
Accrued expenses	25,580	80,650	106,230
Payment received in advance	29,969	457,466	487,435
Derivative financial instruments	-	-	-
Employee benefits obligations	17,883	-	17,883
Provisions	1,407	-	1,407
Other current liabilities	422	(1)	421
	101,221	538,115	639,336
<b>Non-current liabilities</b>			
Employee benefit obligations	1,319,199	-	1,319,199
Other non-current liabilities	45,782	6,147	51,929
	1,364,981	6,147	1,371,128
<b>Total liabilities</b>	<b>1,466,202</b>	<b>544,262</b>	<b>2,010,464</b>
<b>Net assets</b>	<b>(722,245)</b>	<b>625,301</b>	<b>(96,944)</b>
<b>Equity</b>			
Accumulated surplus/(deficit)	(764,178)	625,301	(138,878)
Reserves	41,934	-	41,934
<b>Total equity / (deficit)</b>	<b>(722,245)</b>	<b>625,301</b>	<b>(96,944)</b>

23.9 The Statement of Financial Performance for the year ended 31 December 2017 and 31 December 2016, on a segment basis, are as follows:

<i>(thousands of US dollars)</i>	<b>31-Dec-17</b>		
	<b>General and Related</b>	<b>Trust and UNDP</b>	<b>Total</b>
<b>Revenue</b>			
<b>Revenue from non-exchange transactions</b>			
Assessments of Member Nations under Regular Programme	478,200	-	478,200
Voluntary contributions	70,484	986,369	1,056,853
Other non-exchange revenue	66,401	2,674	69,075
	615,085	989,043	1,604,128
<b>Revenue from exchange transactions</b>			
Exchange revenue	7,854	183	8,037
	7,854	183	8,037
<b>Total revenue</b>	<b>622,939</b>	<b>989,226</b>	<b>1,612,165</b>
<b>Expenses</b>			
Staff related costs	304,129	95,261	399,390
Consultants	106,045	154,119	260,164
Travel costs	45,446	68,832	114,278
Depreciation, amortization and impairment of long-lived assets	6,011	3,021	9,032
Training expenses	12,464	30,016	42,480
Contracted services	112,990	234,349	347,339
Grants and other transfer payments	5,365	26,586	31,951
Supplies and consumables used	26,096	143,044	169,140
Other expenses	6,950	22,681	29,631
<b>Total expenses</b>	<b>625,496</b>	<b>777,909</b>	<b>1,403,405</b>
<b>Non-operating income and expenses</b>			
Investment income / (expenses)	63,433	6,521	69,954
Foreign exchange gains / (losses)	15,113	(777)	14,336
Finance income / (expenses)	(34,897)	(6,522)	(41,419)
<b>Total non-operating income and expenses</b>	<b>43,649</b>	<b>(778)</b>	<b>42,871</b>
<b>Surplus</b>	<b>41,092</b>	<b>210,539</b>	<b>251,631</b>



<i>(thousands of US dollars)</i>	31-Dec-16 (Restated)		Total
	General and Related	Trust and UNDP	
<b>Revenue</b>			
<b>Revenue from non-exchange transactions</b>			
Assessments of Member Nations under Regular Programme	487,424	-	487,424
Voluntary contributions	77,274	820,476	897,750
Other non-exchange revenue	60,116	3,607	63,723
	624,814	824,083	1,448,897
<b>Revenue from exchange transactions</b>			
Exchange revenue	6,228	178	6,406
	6,228	178	6,406
<b>Total revenue</b>	<b>631,044</b>	<b>824,259</b>	<b>1,455,303</b>
<b>Expenses</b>			
Staff related costs	288,514	94,482	382,996
Consultants	90,599	139,947	230,546
Travel costs	33,018	61,143	94,161
Depreciation, amortization and impairment of long-lived assets	5,417	2,572	7,989
Training expenses	8,086	26,280	34,366
Contracted services	99,690	171,596	271,286
Grants and other transfer payments	2,718	21,582	24,300
Supplies and consumables used	24,441	138,539	162,980
Other expenses	6,482	18,894	25,376
<b>Total expenses</b>	<b>558,965</b>	<b>675,035</b>	<b>1,234,000</b>
<b>Non-operating income and expenses</b>			
Investment income	11,037	1,371	12,408
Foreign exchange gains / (losses)	2,707	583	3,290
Finance income / (expenses)	(36,169)	(1,373)	(37,542)
<b>Total non-operating income and expenses</b>	<b>(22,426)</b>	<b>582</b>	<b>(21,844)</b>
<b>Surplus</b>	<b>49,653</b>	<b>149,806</b>	<b>199,459</b>

#### Note 24. Statement of Comparison of Budget and Actual Amounts (Statement V)

24.1 The budget is prepared and approved on a modified cash basis. Under the modified cash basis of accounting, income and expenditures are recognized when a commitment to purchase the goods or services has been raised. The expenditures are classified by chapter as designated and approved in the Programme of Work. The budget level was approved in Conference Resolution 6/2015 and the budget distribution by chapter was approved by Council in Adjustments to PWB 2016-17 in December 2015. The approved budget represents the “net appropriation” for the fiscal biennial period from 1 January 2016 to 31 December 2017 and provides funding for the Regular Programme activities of the Organization. The expenditures recorded on the Trust Fund and UNDP accounts are included in Statement II of this document. As the approved budget covers a fiscal biennial period, the budgets presented in Statement V are based upon “calendarised” budget<sup>1</sup> at 50% of the biennial budget. The actual expenditures, prepared on the same basis as the budget,

<sup>1</sup> The breakdown of the approved budget between 2016 and 2017 takes account of the one-time costs associated with consolidation of transformational change, which were incurred in 2017, and assumes that all other programmes incur expenditures evenly throughout the biennium.

represent actual expenditures for the year ended 31 December 2017 on the modified cash basis of accounting.

### Reconciliation between the actual amounts on a comparable basis and the cash flow statement

24.2 The financial statements have been presented on an accrual basis. Under the accrual basis of accounting, income and expenses are recognized when the underlying transactions occur. Additionally, the financial statements are classified based upon the nature of the transactions. As a result, the budget and the accounting bases differ. For the year ended 31 December 2017 and 31 December 2016, the actual amounts prepared on the same basis as the revised budget have been reconciled to the actual amounts presented in the Cash Flow Statement. The 2016 data has been restated due to the revised IPSAS on *Joint Arrangements* and correction of the prior period error presented in note 2.59. The reconciliations are presented here:

<i>(thousands of US dollars)</i>	31-Dec-17			Total
	Operating	Investing	Financing	
Actual amount on comparable basis	636,074	-	-	<b>636,074</b>
Basis differences	(6,789)	-	-	<b>(6,789)</b>
Presentation differences	(1,369,836)	16,450	-	<b>(1,353,386)</b>
Entity differences	730,017	-	-	<b>730,017</b>
<b>Actual amount on the Cash Flow Statement</b>	<b>(10,534)</b>	<b>16,450</b>	<b>-</b>	<b>5,916</b>

<i>(thousands of US dollars)</i>	31-Dec-16 (Restated)			Total
	Operating	Investing	Financing	
Actual amount on comparable basis	525,026	-	-	<b>525,026</b>
Basis differences	48,072	-	-	<b>48,072</b>
Presentation differences	(1,110,187)	(20,879)	-	<b>(1,131,066)</b>
Entity differences	675,216	-	-	<b>675,216</b>
<b>Actual amount on the Cash Flow Statement</b>	<b>138,126</b>	<b>(20,879)</b>	<b>-</b>	<b>117,247</b>

24.3 Basis differences occurred due to differences between the modified cash basis supporting the actual amounts on a comparable basis to the budget and the accrual basis supporting the financial statements.

24.4 Timing differences have arisen as the current year cash flows include expenditures budgeted for in the prior period.

24.5 Presentation differences occurred due to differences in the format and classification methods adopted for presentation of the Cash Flow Statement and the Statement of Comparison of Budget and Actual Amounts, including the use of the budget rate of exchange in the Statement of Comparison of Budget and Actual Amounts. Presentation differences also include those resulting for classes of transactions not included within the budget. The most significant component of presentation differences arise from the fact that revenues are not included in the budget. Additionally, few investing activities and no financing activities are budgeted for by the Organization.

24.6 The entity differences arise due to the fact that all funds are required to be reported for financial reporting purposes, but are not included in the approved final budget. For example, the Trust Funds and UNDP are not included in the approved final budget, however they are presented in these financial statements.

### Budget to actuals variance analysis

24.7 Material differences between the approved budget and the revised budget represent the amounts brought forward from the previous year and the amounts carried forward to 2018, as well as chapter transfers effected in 2017. Budget utilization levels in 2017 were driven by a combination of the following factors:

(a) approved budget levels; (b) overall cash flow and liquidity requirements; and (c) implementation of the FAO Programme of Work and Budget 2016-17 (FC 166/7, FC 169/7, FC 170/5).

24.8 In 2017 there was an excess of expenditure of USD 47.5 million compared with the revised “calendarised” budget, which implies an overall expenditure of 109.4%. Spending in the second year of the biennium is habitually higher than in the first year. This is partly due to the management of budget on biennial basis on account of actions such as carry-over of divisional under-spending, through the allotments, into the second year of the biennium. The over-expenditure is also influenced by shifts in implementation. For the biennial view please refer to Statement VA – Statement of Comparison of Budget and Actual Amounts for the Biennium Ended 31 December 2017 above.

24.9 The spending by budgetary chapter in 2017 follows the biennial forecasted trends reported to the Finance Committee (FC 166/6, FC 166/7, FC 169/7, FC 170/5). These spending patterns when compared to the revised “calendarised” budget are due to the realignment of detailed work plans to address implementation realities in 2017.

Accordingly, the budget utilization level in 2017 for all chapters is the difference between the revised budget and budget rate net expenditure, as follows:

- i) Chapter 1 “Contribute to the eradication of hunger, food insecurity and malnutrition” budget rate net expenditure amounted to USD 47.3 million, representing 111.4% of the revised budget of USD 42.5 million;
- ii) Chapter 2 “Increase and improve provision of goods and services from agriculture, forestry and fisheries in a sustainable manner” budget rate net expenditure amounted to USD 109.2 million, representing 108.1% of the revised budget of USD 101 million;
- iii) Chapter 3 “Reduce rural poverty” budget rate net expenditure amounted to USD 39.7 million, representing 110.1% of the revised budget of USD 36.1 million;
- iv) Chapter 4 “Enable more inclusive and efficient agricultural and food systems” budget rate net expenditure amounted to USD 59.6 million, representing 110.1% of the revised budget of USD 54.2 million;
- v) Chapter 5 “Increase the resilience of livelihoods to threats and crises” budget rate net expenditure amounted to USD 30.0 million, representing 106.7% of the revised budget of USD 28.1 million;
- vi) Chapter 6 “Technical Quality, Knowledge and Services” budget rate net expenditure amounted to USD 36.0 million, representing 114.4% of the revised budget of USD 31.5 million;
- vii) Chapter 8 “Outreach” budget rate net expenditure amounted to USD 45.3 million, representing 111.1% of the revised budget of USD 40.8 million;
- viii) Chapter 9 “Information Technology” budget rate net expenditure amounted to USD 21.0 million, representing 118.3% of the revised budget of USD 17.8 million;
- ix) Chapter 10 “FAO governance, oversight and direction” budget rate net expenditure amounted to USD 39.2 million, representing 125.2% of the revised budget of USD 31.2 million; and
- x) Chapter 11 “Efficient and effective administration” budget rate net expenditure amounted to USD 36.8 million, representing 109.9% of the revised budget of USD 33.5 million.

24.10 The unspent balances on Chapter 7 Technical Cooperation Programme, Chapter 13 Capital Expenditure, and Chapter 14 Security Expenditure are fully carried forward for use in the subsequent financial period in line with the Financial Regulations, and therefore do not result in a variance against budget. Additional information pertaining to the comparison of budget and actual expenditures can be sought

in the Annual Report on Budgetary Performance and Programme and Budgetary Transfers in the 2016-17 Biennium (FC 170/5).

**Note 25. Related parties**

25.1 Total compensation and remuneration to key management personnel and other senior management for the year ended 31 December 2017 and 31 December 2016 were as follows:

<i>(thousands of US dollars)</i>							
Employee Group	Number of Individuals	Number of Positions	Compensation	Entitlements	Pension and Health Plans	Total Compensation	Outstanding Loans
2017	4	4	968	252	154	1,374	-
2016	3	4	814	198	152	1,164	18

25.2 Key management personnel include the Director-General and the Deputy Director-Generals, as they have the authority and responsibility for planning, directing and controlling the activities of the Organization. The Conference consists of 194 Member Nations without personal appointment.

25.3 Compensation includes net salaries and post adjustment. Entitlements include allowances such as assignment and other grants, rental subsidies, education grants and personal effect shipment costs. Pension and health plans include the Organization's contribution with respect to the pension plan and health plan.

25.4 Each of the key management personnel, their close family members and other senior management are also qualified for other post-employment benefits at the same level as other employees. These personnel are also ordinary members of the UNJSPF. As these benefits cannot be reliably quantified on an individual or sub-group level, they have not been included in the above disclosure.

25.5 Advances are those made against entitlements, such as education grants, in accordance with staff rules and regulations and none have been made to the key management personnel. Such advances are widely available to the Organization's staff.

**Note 26. Interests in other entities**

**Joint FAO / IAEA Division**

26.1 The Joint Division of Nuclear Techniques in Food and Agriculture was established to operate in areas of common interest between the Organization and the International Atomic Energy Agency (IAEA), to avoid duplication of activities and promote synergy. As such, the Joint Division implements a Programme drawn up biennially in consultation between the two organizations. The operations and governance of the Joint Division are established by the Revised Arrangements between the Directors General of FAO and IAEA for the Joint FAO/IAEA Division of Nuclear Techniques in Food and Agriculture (the Arrangements). The Arrangements establish a binding arrangement whereby the two organizations are committed to undertake an activity that is subject to joint control. The Joint Division is not considered to be structured as a separate vehicle for the purposes of IPSAS 37 and is consequently accounted for as a Joint Operation.

**Codex Alimentarius Commission**

26.2 The Codex Alimentarius, or "Food Code" is a collection of standards, guidelines and codes of practice adopted by the Codex Alimentarius Commission. The Commission, also known as CAC, is the central part of the Joint FAO/WHO Food Standards Programme and was established by FAO and the World Health Organization (WHO) to protect consumer health and promote fair practices in food trade. Membership of the Commission is open to all Member Nations and Associate Members of FAO and WHO which are interested in international food standards. The Commission is a binding arrangement whereby the two

organizations are committed to undertake an activity that is subject to joint control. The Commission is not considered to be structured as a separate vehicle for the purposes of IPSAS 37 and is consequently accounted for as a Joint Operation.

<http://www.fao.org/fao-who-codexalimentarius/en/>

**Note 27. *Events after the reporting date***

27.1 The Organization's reporting date is 31 December for the 2017 IPSAS Financial Statements. The financial statements were authorized for issue on 31 March 2018, the date at which they were submitted to the External Auditor by the Director General. On the date of approval and signing of these accounts, there have been no material events, favorable or unfavorable, incurred between the reporting date and the date when the financial statements were authorized for issuance that would have impacted these statements.