

NORTH ATLANTIC COUNCIL

CONSEIL DE L'ATLANTIQUE NORD

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20 December 2022

DOCUMENT PO(2022)0512-AS1 (INV)

IBAN AUDIT REPORT ON THE AUDIT OF 2021 FINANCIAL STATEMENTS OF NAGSMO, NAHEMO, NAMMO, NAPMA, NETMA AND NAMEADSMO IN LIQUIDATION

ACTION SHEET

On 19 December 2022, under the silence procedure, the Council noted the RPPB report at annex to PO(2022)0512 (INV), approved its conclusions and recommendations, noted the IBAN Audit Reports, agreed to the public disclosure of this report, the IBAN Audit Reports and associated 2021 financial statements of the NAGSMO, NAMMO, NAPMA, NETMA, NAMEADSMOiL and the financial statements for the NAHEMO (excluding pages 1 and 2 of Annex 1 of the NAHEMO financial statements).

(Signed) Jens Stoltenberg Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2022)0512 (INV).





PRIVATE OFFICE OF THE SECRETARY GENERAL

CABINET DU SECRÉTAIRE GÉNÉRAL

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13 December 2022

PO(2022)0512 (INV)
Silence Procedure Ends:
19 Dec 2022 – 17:30

To: Permanent Representatives (Council)

From: Secretary General

IBAN AUDIT REPORT ON THE AUDIT OF 2021 FINANCIAL STATEMENTS OF NAGSMO, NAHEMO, NAMMO, NAPMA, NETMA AND NAMEADSMO IN LIQUIDATION

- 1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the audit of the 2021 financial statements of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO), NATO Helicopter Management Organisation (NAHEMO), NATO Multi-Role Combat Aircraft Development, Production and In-Service Support Management Organisation (NAMMO), NATO Airborne Early Warning & Control Programme Management Agency (NAPMA), NATO EF2000 and Tornado Development Production & Logistics Management Agency (NETMA), and NATO Medium Extended Air Defence System Management Organisation in Liquidation (NAMEADSMOiL). These IBAN Audit Reports set out an unqualified audit opinion on the financial statements and on compliance for the NAGSMO, NAHEMO, NAMMO, NAPMA, NETMA and NAMEADSMOiL for the 2021 financial year.
- 2. I do not believe this issue requires further discussion in the Council. Therefore, unless I hear to the contrary by 17:30 hours on Monday, 19 December 2022, I shall assume the Council noted the RPPB report, approved its conclusions and recommendations, noted the IBAN Audit Reports and agreed to the public disclosure of this report, the IBAN Audit Reports and associated 2021 financial statements of the NAGSMO, NAPMA, NETMA, NAMEADSMOiL and the financial statements for the NAHEMO (excluding pages 1 and 2 of Annex 1 of the NAHEMO financial statements).

(Signed) Jens Stoltenberg

1 Annex Original: English

12 Enclosures



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ANNEX 1 PO(2022)0512 (INV)

IBAN AUDIT REPORT ON THE AUDIT OF 2021 FINANCIAL STATEMENTS OF NAGSMO, NAHEMO, NAMMO, NAPMA, NETMA AND NAMEADSMOIL

Report by the Resource Policy and Planning Board (RPPB)

IBAN Audit Report on the audit of 2021 financial statements of the NATO

R	ef	er	er	1C	es:

IBA-AR(2022)0016-REV1

Α.

Λ.	IBA-AR(2022)0010-REV1	Alliance Ground Surveillance Management Organisation (NAGSMO)
B.	IBA-AR(2022)0019	IBAN Audit Report on the audit of 2021 financial statements of the NATO
_		Helicopter Management Organisation (NAHEMO)
C.	IBA-AR(2022)0013	IBAN Audit Report on the audit of 2021 financial statements of the NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO)
D.	IBA-AR(2022)0002	IBAN Audit Report on the audit of 2021 financial statements of the NATO Airbone Early Warning & Control Programme Management Agency (NAPMA)
E.	IBA-AR(2022)0012	IBAN Audit Report on the audit of 2021 financial statements of the NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA)
F.	IBA-AR(2022)0005	NATO Medium Extended Air Defense System Management in Liquidation (NAMEADSMOiL)
G.	C-M(2022)0004-AS1	Action Sheet on the IBAN Audit Report on the audit of 2020 consolidated Financial Statements of NATO Helicopter Management Organisation (NAHEMO)
Н.	AC/335-D(2022)0055 (INV)	Handling arrangements for 2021 Financial Statements Audit Reports
I.	AC/335-D(2022)0067(INV)	Action plans for IBAN observations older than 3 years
J.	C-M(2015)0025	NATO Financial Regulations (NFR)
K.	C-M(2016)0023	NATO Accounting Framework (NAF)
L.	PO(2017)0355	NAHEMO Financial Regulations (NAHEMO FRs)
M.	PO(2015)0052	Wales Summit tasker on transparency and accountability

INTRODUCTION

1. This report by the Resource Policy and Planning Board (RPPB) addresses the IBAN Audit Reports on the audit of 2021 financial statements of NAGSMO, NAHEMO, NAMMO, NAPMA, NETMA and NAMEADSMOiL. The IBAN Audit Reports set out unqualified opinions on both the financial statements and compliance for NAGSMO, NAHEMO, NAMMO, NAPMA, NETMA and NAMEADSMOiL in 2021 (references A to F).

AIM

2. This report highlights key issues in the IBAN Audit Reports (references A to F) to enable the RPPB to reflect on strategic challenges emanating from the audit of financial statements of NATO entities and to recommend courses of action to Council as applicable, which has the potential to improve transparency, accountability and consistency.

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- 3. The RPPB acknowledges the observations highlighted in the Audit Reports that have been discussed and dealt with by the participating Nations represented on the appropriate governing bodies. The RPPB is mandated under Article 15 of the NFR (reference J) to examine the Audit Reports and to provide comments and recommendations as required.
- 4. To help NATO Nations distinguish between the six different NATO reporting entities, the main highlights for the NAGSMO, NAHEMO, NAMMO, NAPMA, NETMA and NAMEADSMOiL are covered in their respective Chapters.

DISCUSSION

CHAPTER 1 NAGSMO

5. During the 2021 audit, the IBAN made no observations and recommendations for the NAGSMO. The IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed and one remains in-progress. In 2021, the IBAN closed the observation on the improvements in the presentation and disclosure of commitments in the note to the Budget Execution Statement (BES) of NAGSMO's operational budgets. Observations are detailed in the document at reference A.

CHAPTER 2 NAHEMO

- 6. In 2021, the IBAN made four observations with recommendations for the NAHEMO, none of these observations impacted the audit opinion on the financial statements or on compliance. Three new observations covered the need for improvements in the preparation of the financial statements and strengthening internal control over financial closing procedure, improvements in the financial policy and disclosure of the BES of the operational budget and improvements in the process of evaluating asset control and capitalization of costs related to the move to the new premises. The fourth observation was related to the need to review and update NAHEMO's financial regulatory framework.
- 7. In addition, the IBAN followed up on the status of observations and recommendations from the previous years' audits and noted that five were closed (one superseded with a current year observation) and one remains in-progress. In 2021, the IBAN closed the observations on the presentation of commitments in the BES in respect of special carry forwards, adjustment of call of funds procedure and restriction of the level of cash holdings as well as on the correct presentation of comparative information under IPSAS 3 and correct recording of value added tax in the financial statements. The IBAN's observation for the 2018 financial year on the need for improvements in the operational budgeting process was superseded by current year observation 3 in 2021 IBAN audit report. Observations are detailed in the document at reference B.
- 7.1. Observation 1: The RPPB supports IBAN's recommendation that the NAHEMO strengthen internal controls over the preparation of the financial statements in order to

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ensure that they are free of material error and comply with the NAF (reference K) and NAHEMO FRs (reference L).

- 7.2. Observation 2: Due to the fact that NAHEMO acts as a principal for its Administrative Budget and as an agent for its Operational Budget, the RPPB supports IBAN's recommendation that the NAHEMO review the provisions of its FRs for the purpose of compliance and clarification of its financial statements disclosure requirements in the BES. The RPPB considers that the most appropriate solution to implement this recommendation would be to review the NAHEMO FRs in order to adequately take into account the specificities of NAHEMO's activities and seek to clarify any differences with the NFR, possibly in coordination with the other NATO entities having the same position.
- 7.3. Observations 3: The RPPB supports IBAN's recommendation that the NAHEMO strengthen the disclosure requirements for the multi-annual and multi-national programmes of the Operational Budget in the BES by clarifying these in the NAHEMO FRPs. The NAHEMO agrees on the improvements recommended, but deems it necessary to complete the ongoing full review of the Oracle E-Business Suite database, before proceeding with the budgetary disclosure requirements for multi-annual and multi-national programmes. In this regard, the concerned improvements in the BES are not considered achievable before 2023.
- 7.4. Observation 4: The RPPB supports IBAN's recommendation that the NAHEMO assess the control of items paid for in connection with the move to the new premises in accordance with the control criteria of the NAF, assess the amount of fixed assets to be capitalised and assets under construction to be recognised in the financial statements and update the asset register accordingly.
- 7.5. Observations in-progress or open for more than three years for the financial year 2020: In the document at reference G, the Council invited the NAHEMO to provide an action plan with deadlines on the implementation as regards 2016 financial year recommendation. As no action plan has been received by the NAHEMO for the 2016 financial year pending recommendation, in the document at reference H, the RPPB invited the NAHEMO management to provide a remedial action plan by 15 October 2022 and the NAHEMO Financial Controller to update the RPPB concerning the action plan. NAHEMO's action plan (reference I) was presented to the RPPB at the meeting held on 17 November 2022. The RPPB supports NAHEMO's efforts to continue applying remedial actions with an aim to address IBAN recommendation outstanding for more than three years within deadlines set out in the action plan.

CHAPTER 3 NAMMO

8. In 2021, the IBAN made no observations and recommendations for the NAMMO. The IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed and two remain in-progress. During 2021, the IBAN closed the observation on the management of cash holdings. Observations are detailed in the document at reference C.

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CHAPTER 4 NAPMA

- 9. For the financial year 2021, IBAN made two observations and recommendations for the NAPMA, neither observation impacted the audit opinion on the financial statements or on compliance. One of the two new observations was related to the need to strengthen internal controls over the preparation of the financial statements and the other one to seek clarification and approval from Council with respect to the compliance of the contractual recoupment clauses with the NAPMO Charter. Also, the IBAN followed up on the status of observations and recommendations from the previous years' audits and found that all were closed, out of which one was superseded by current year's observation. In 2021, the IBAN closed the observations on the use of the dedicated funds reserve and on the recognition of Contractor Acquired Property (CAP assets) as Property, Plant and Equipment. The Observation 1 of the 2021 IBAN audit report supersedes financial year 2017 observation as regards inaccuracies and non-material errors identified in the NAPMA financial statements. Observations are detailed in the document at reference D.
- 9.1. <u>Observation 1</u>: The RPPB supports IBAN's recommendation that the NAPMA strengthen internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the NAF and NFR.
- 9.2. Observation 2: The RPPB supports IBAN's recommendation that the NAPMO seek clarification and approval from the NAC on whether Article 10 of the NAPMO Charter provides for recoupment clauses that grant the right to the NAPMO Contractor, to act as an agent with non-NATO Member States, in the benefit of NAPMO and in the name of NATO. The NAPMA will ask guidance from the Policy and Finance Committee and the NAPMO Board of Directors during the fall cycle of 2022 on how to address the IBAN recommendation to seek clarification whether Article 10 of the NAPMO Charter applies to recoupment clauses.

CHAPTER 5 NETMA

10. In 2021, the IBAN made no new observations and recommendations for the NETMA. The IBAN followed up on the status of observations and recommendations from the previous years' audits and found that all were closed. During 2021, the IBAN closed the observation on the improvements in the presentation of BES. Observations are detailed in the document at reference E.

CHAPTER 6 NAMEADSMOIL

11. In 2021, the IBAN made no new observations and recommendations for the NAMEADSMOiL. The IBAN followed up on the status of observations and recommendations from the previous years' audits and found that all were closed. During 2021, the IBAN closed the observation on the need to strengthen internal controls over the preparation of the financial statements as an agent. The Observations are detailed in the document at reference F.

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CONCLUSIONS

NAGSMO

12. The IBAN Audit Report set out unqualified opinions on the financial statements and on compliance of the NAGSMO. No new observations impacted the audit opinion for the NAGSMO in 2021. The IBAN made no observations for the NAGSMO in 2021. As of the date of the IBAN Audit Report on the 2021 financial statements, one prior year observation for the NAGSMO was in-progress and one was closed.

NAHEMO

- 13. The IBAN Audit Report set out unqualified opinions on the financial statements and on compliance of the NAHEMO. No new observations impacted the audit opinion for the NAHEMO in 2021. Four new observations were made for the NAHEMO. As of the date of the IBAN Audit Report on the 2021 financial statements, five prior year observations for the NAHEMO were closed (one superseded with current year observation) and one remains inprogress.
- 14. The RPPB supports IBAN's recommendation that the NAHEMO make improvements in the preparation of financial statements and strengthen its internal control over financial closing procedure. It also supports IBAN's recommendation that the NAHEMO improve its disclosure of the BES as well as its process of evaluating asset control and capitalization of costs related to the move to the new premises. In addition, the RPPB supports IBAN's recommendation that the NAHEMO review and update its financial regulatory framework.
- 15. The NAHEMO provided an action plan regarding IBAN 2016 financial year recommendations and updated the RPPB at the meeting held on 17 November 2022. The RPPB welcomes NAHEMO's commitment to continue with its progress in addressing IBAN recommendation outstanding for more than three years within deadlines set out in the action plan.

NAMMO

16. The IBAN Audit Report set out unqualified opinions on the financial statements and on compliance of the NAMMO. No new observations impacted the audit opinion for the NAMMO in 2021. One new observation was raised for the NAMMO. As of the date of the respective IBAN Audit Report on the 2021 financial statements two prior year observation for the NAMMO remain in-progress and one was closed.

NAPMA

17. The IBAN Audit Report set out unqualified opinions on the financial statements and on compliance of the NAPMA. No new observations impacted the audit opinion for the

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NAPMA in 2021. The IBAN made two new observations for NAPMA. As of the date of the IBAN Audit Report on the 2021 financial statements, all prior year observations were closed.

18. The RPPB supports IBAN's recommendation that the NAPMA strengthen internal controls over the preparation of the financial statements and seek clarification and approval from the NAC concerning the compliance with the NAPMO Charter.

NETMA

19. The IBAN Audit Report set out unqualified opinions on the financial statements and on compliance of the NETMA. No new observations impacted the audit opinion for the NAGSMO in 2021. The IBAN made no observations for the NETMA in 2021. As of the date of the IBAN Audit Report on the 2021 financial statements, all prior year observations were closed.

NAMEADSMOIL

- 20. The IBAN Audit Report set out unqualified opinions on the financial statements and on compliance of the NAMEADSMOiL. No new observations impacted the audit opinion for the NAMEADSMOiL in 2021. The IBAN made no observations for the NAMEADSMOiL in 2021. As of the date of the IBAN Audit Report on the 2021 financial statements, all prior year observations were closed.
- 21. In respect to prior year observations, the RPPB welcomes the progress made by the corresponding entities and welcomes their management's commitment to continue its corrective actions with an aim to promptly implement pending recommendations. Prior years' in-progress and closed observations are detailed in documents at references A, B, C, D, E and F.

RECOMMENDATIONS

- 22. The Resource Policy and Planning Board recommends that the Council;
- 22.1. note this report and the IBAN Audit Reports at references A to F;
- 22.2. approve the conclusions at paragraphs 12 to 21;
- 22.3. agree to the public disclosure of the 2021 financial statements for NAGSMO, NAHEMO (excluding pages 1 and 2 of Annex 1), NAMMO, NAPMA, NETMA and NAMEADSMOIL, its associated IBAN Audit Reports and this report in line with agreed policy at reference M.



International Board of Auditors for NATO Collège international des auditeurs externes de l'OTAN



Brussels - Belgium

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IBA-A(2022)0098-REV1 31 August 2022

To: Secretary General

(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives

Chair, NATO Alliance Ground Surveillance Management Organisation in

Liquidation (NAGSMO in Liquidation), Board of Directors

Liquidator, NATO Alliance Ground Surveillance Management Organisation in

Liquidation (NAGSMO in Liquidation)

Acting Fiscal and Accounting Officer, NATO Alliance Ground Surveillance

Management Organisation in Liquidation (NAGSMO in Liquidation)

Chair, Resource Policy & Planning Board

Branch Head, Resource Management Branch, NATO Office of Resources

Private Office Registry

Subject: International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Alliance Ground Surveillance Management Organisation's (NAGSMO) Financial Statements for the year ended 31 December 2021 – IBA-AR(2022)0016-REV1

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

IBAN's report sets out an unqualified opinion on the Financial Statements of the NAGSMO and on compliance for financial year 2021.

Yours sincerely,

Daniela Morgante

Chair

Attachments: As stated above.

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Summary Note for Council by the International Board of Auditors for NATO (IBAN) on the audit of the Financial Statements of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO) for the year ended 31 December 2021

The NATO Alliance Ground Surveillance Management Organisation (NAGSMO) was created within NATO for the acquisition of the Alliance Ground Surveillance (AGS) Core System. NAGSMO is responsible for the overall management of the AGS program. It comprises a Board of Directors (BoD) and Working Groups with representatives from the participating Nations. It also comprises a NATO Management Agency led by a General Manager.

On 25 January 2022, The North Atlantic Council agreed to put NAGSMO into liquidation commencing 1 April 2022.

The budgetary expenditure for the administrative budget in 2021 was EUR 6.7 million. The budgetary expenditure for the operational budget in 2021 was EUR 43.3 million and USD 49 million.

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2021.

During the audit, IBAN made no observations.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed and one remains in progress.

The Audit Report was issued to NAGSMO whose comments have been included, with the IBAN's position on those comments where necessary.

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24 August 2022

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION

(NAGSMO)

FOR THE YEAR ENDED 31 DECEMBER 2021

IBA-AR(2022)0016-REV1

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NATO Alliance Ground Surveillance Management Organisation (NAGSMO), for the 12 month period ended 31 December 2021, issued under document reference NAGSMA/FC/L/(2022)00 5659 and submitted to IBAN on 21 March 2022. These Financial Statements comprise the Statement of Financial Position as at 31 December 2021, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2021, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2021.

In our opinion, the Financial Statements give a true and fair view of the financial position of NATO Alliance Ground Surveillance Management Organisation as at 31 December 2021, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2021, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

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Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NATO Alliance Ground Surveillance Management Organisation are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity'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 there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs 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 economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. 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.

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- 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 entity'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 the 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 entity'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. However, future events or conditions may cause the entity to cease to continue as a going concern.
- 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 are required to communicate with the bodies charged with governance, 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. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

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Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Head of the NATO reporting entity is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 24 August 2022

Daniela Morgante

Chair

IBA-AR(2022)0016-REV1

OBSERVATIONS AND RECOMMENDATIONS

IBAN made no observations and recommendations.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed and one remains in progress.

The Audit Report was issued to NAGSMO whose comments have been included, with the IBAN's position on those comments where necessary.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) NAGSMO FY 2019 IBA-AR(2020)0014, paragraph 1		
NAGSMO'S TRANSFER OF THE AGS CORE SYSTEM ASSETS TO NSPO		Observation In-Progress
IBAN's Recommendation IBAN recommends that NAGSMO:		
- Ensure that, before the official handover of the AGS system to NSPO, financial data is made available by the prime contractor, at the level of granularity defined by the Transition Plan and required by NSPO accounting policies;	The handover from NAGSMO to the NSPO started in December 2020 with the transfer of Operational Component #1 of the Mission Operations Support (MOS) and one NATO unmanned aerial vehicle (UAV). The handover was based on the financial data available as per the contractual Schedule of Supplies and Services. The assessment of the completeness, accuracy and reliability of this financial	

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	data is ongoing as additional parts of the AGS system were handed-over after the financial year-end and the transfer of assets continued in 2021. NAGSMO transferred, during 2021, the bulk of the AGS core system assets to NSPO, however, a number of spare parts are yet to be delivered. Observation In-Progress.	
- Join a formal Working Group established with NSPO's AGS technical experts and Finance teams in a collaborative effort to reach an agreed cost valuation at the official handover of the AGS assets to the NSPO AGS Support Partnership. This Working Group should have clearly defined Terms of Reference and agreed responsibilities for both parties. This will ensure that complete, accurate and reliable data is used for the analysis and calculation of the AGS assets and inventory to be recognised by NSPO;	No formal Working Group was established with NSPO's AGS technical experts and Finance teams. However, informal discussions were held to reach an agreed cost valuation at the official handover of the AGS assets to the NSPO AGS Support Partnership. The valuation of the spare parts to be transferred to NSPO has still to be finalised Observation In-Progress.	
- Implement the additional internal controls, including reviews and reconciliations to ensure the consistency and accuracy of the information presented in the notes to the Financial Statements regarding the transition phase.	No discrepancies were found in the information presented in the notes to the Financial Statements regarding the transition phase. Observation Closed.	
(2) NAGSMO FY 2018 IBA-AR(2019)0024, paragraph 2		
IMPROVEMENTS NEEDED IN THE PRESENTATION AND DISCLOSURE OF COMMITMENTS IN THE NOTE TO THE BUDGET EXECUTION STATEMENT OF THE OPERATIONAL BUDGETS FOR NAGSMO		Observation Closed
IBAN's Recommendation In order to facilitate the understanding of the readers and users of financial statements, especially in light of the NAGSMO programme completion, IBAN recommends to disclose in the note to the Budget Execution Statement information on legal obligations committed in the current financial year for the provision of goods and services for contracts in future financial years. In addition, IBAN recommends to use the word "expenditure" instead of	In the Annex F Notes to the Operational Budget Execution Statement of the 2021 Financial Statements, NAGSMO disclosed the carry forward of legal obligations committed in the current financial year for the provision of goods and services for contracts in future financial years. All the carry forwards of	

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
"expenses" when referring to the execution of the budget.	committed and not committed obligations originally planned in 2021 and shifted to 2022 were explained, describing each budget line. In the 2021 Financial Statements, NAGSMO uses the word "expenditure" when referring to the execution of the budget in the related disclosure notes and in the budget execution statements.	

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NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION (NAGSMO) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) NAGSMO FY 2019
IBA-AR(2020)0014, paragraph 1
NAGSMO'S TRANSFER OF THE AGS CORE SYSTEM ASSETS TO NSPO

NAGSMO's Formal Comments

Agreed.

In-progress at year-end 2021, finalized with the closure of NAGSMA on 31/MAR/2022. NSPA has agreed to support Office for Liquidation NAGSMOiL for the acceptance of NAGSMA pending and incoming spare parts on behalf of Office for Liquidation – NAGSMOiL. Valuation of spares to be performed by NSPA, relevant data has been provided.

IBA-AR(2022)0016-REV1

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the
 presentation of the financial statements, but that some key elements of the
 statements were not fairly stated or affected by a scope limitation, or specific
 issues have come to our attention that causes us to believe that funds have not
 been properly used for the settlement of authorised expenditure or are not in
 compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so
 pervasive and material to the financial statements that IBAN concludes that a
 qualification of the report is not adequate to disclose the misleading or
 incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a
 matter other than those that are presented or disclosed in the financial
 statements that, in our judgement, is relevant to users' understanding of the
 audit, the auditor's responsibilities or the auditor's report.



International Board of Auditors for NATO Collège international des auditeurs externes de l'OTAN



Brussels - Belgium

NATO UNCLASSIFIED

IBA-A(2022)0096 24 August 2022

To: Secretary General

(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives

Chair, NATO Helicopter Management Organization (NAHEMO) Steering

Committee

General Manager, NATO Helicopter Management Agency (NAHEMA)

Division Leader, Administrative Division, NATO Helicopter Management

Organization (NAHEMA)

Chair, Resource Policy & Planning Board

Branch Head, Resource Management Branch, NATO Office of Resources

Private Office Registry

Subject: International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Helicopter Management Organization's (NAHEMO) Financial Statements for the year ended 31 December 2021 – IBA-AR(2022)0019

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

IBAN's report sets out an unqualified opinion on the Financial Statements of NAHEMO and on compliance for financial year 2021.

Yours sincerely,

Daniela Morgante

Chair

Attachments: As stated above.

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Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Helicopter Management Organisation
(NAHEMO)
for the year ended 31 December 2021

The International Board of Auditors for NATO (IBAN) audited the NATO Helicopter Management Organization (NAHEMO) Financial Statements for the year ended 31 December 2021. NAHEMO is a NATO subsidiary body established with a view to meet the NH90 Helicopters requirements of France, Germany, Italy, The Netherlands and Belgium. NAHEMO consists of a Steering Committee (SC) composed of representatives of the Participants with the responsibility of the overall management of the programme and of the Agency called NAHEMA. The Agency is located in Aixen-Provence (France).

For 2021 the NAHEMO operational and administrative budgets' expenditures were EUR 1,034.7 million and EUR 12.8 million, respectively.

IBAN issued an unqualified opinion on the NAHEMO 2021 Financial Statements resubmitted to IBAN on 07 July 2022 and on compliance for the year ended 31 December 2021.

IBAN made four observations and recommendations. These findings listed below do not impact the audit opinion on the Financial Statements and on compliance:

- 1. Improvements needed in the preparation of the financial statements and strengthening internal control over financial closing procedure.
- 2. Need to review and update NAHEMO's financial regulatory framework.
- 3. Improvement needed in the financial policy and disclosure of the statement of budget execution of the operational budget.
- 4. Improvements needed in the process of evaluating asset control and capitalisation of costs related to the move to the new premises.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that five were closed and one remains in progress.

The Audit Report was issued to NAHEMO whose comments have been included, with the IBAN's position on those comments where necessary.

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24 August 2022

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE NATO HELICOPTER MANGEMENT ORGANISATION (NAHEMO)

FOR THE YEAR ENDED 31 DECEMBER 2021

IBA-AR(2022)0019

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NATO Helicopter Management Organisation, for the 12 month period ended 31 December 2021, issued under document reference NH/ADM/DMA/02828, and resubmitted to IBAN on 07 July 2022. These Financial Statements comprise the Statement of Financial Position as at 31 December 2021, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 20121, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2021.

In our opinion, the Financial Statements give a true and fair view of the financial position of NATO Helicopter Management Organisation as at 31 December 2021, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2021, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

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Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NATO helicopter Management Organisation are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity'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 there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs 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 economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. 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.

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- 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 entity'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 the 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 entity'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. However, future events or conditions may cause the entity to cease to continue as a going concern.
- 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 are required to communicate with the bodies charged with governance, 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. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

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Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The General Manager is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 24 August 2022

Daniela Morgante

Chair

IBA-AR(2022)0019

OBSERVATIONS AND RECOMMENDATIONS

IBAN made four observations and recommendations. These observations do not impact the audit opinion on the financial statements and on compliance:

- 1. Improvements needed in the preparation of the financial statements and strengthening internal control over financial closing procedure.
- 2. Need to review and update NAHEMO's financial regulatory framework.
- 3. Improvement needed in the financial policy and disclosure of the statement of budget execution of the operational budget.
- 4. Improvements needed in the process of evaluating asset control and capitalisation of costs related to the move to the new premises.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that five were closed and one remains in progress.

The Audit Report was issued to NAHEMO whose comments have been included, with the IBAN's position on those comments where necessary.

1. IMPROVEMENTS NEEDED IN THE PREPARATION OF THE FINANCIAL STATEMENTS AND STRENGTHENING INTERNAL CONTROL OVER FINANCIAL CLOSING PROCEDURES

Reasoning

- 1.1 According to the NATO Accounting Framework (IPSAS 1), "the financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS.3."
- 1.2 Article 6 of the NAHEMO Financial Regulations (FRs) requires the Financial Controller to exercise the responsibility of budgeting, accounting and reporting activities of the NATO entity. This includes being responsible for the financial internal control system established and the preparation of the financial statements in accordance with NATO accounting Framework.
- 1.3 In addition, Article 12.3 of the NAHEMO FRs states that "Internal control activities shall include,[...] adequate audit trails and data confidentiality, integrity and availability in information systems;"
- 1.4 Financial Statements shall be free of misstatements, mathematical errors, non-reconciling items, or any other errors or omissions caused by lack of control during

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preparation. Entities should have proper internal controls, including reviews and reconciliations in place to ensure the consistency and the accuracy of information presented in the Financial Statements.

Observations

- 1.5 We found several material errors and misstatements in the financial statements submitted to IBAN on 31 March 2022. These audit findings led NAHEMO to resubmit corrected financial statements twice, first on 22 June 2022 and then on 7 July 2022. The errors affected the execution of the administrative budget (AB) and operational budget (OB) and were as follows:
 - a) AB Overstatement of expenses in 2021 of EUR 96 thousand due to lack of reversal of accrued expenses of the previous year.
 - b) AB Misclassification of a correction entry recorded in the net equity balance instead of as a current liability for an amount of EUR 78 thousand.
 - c) AB Lack of capitalisation (as asset under construction) of the costs related to the move to the new building (windows, security system, space planning costs). Expenses are therefore overstated by at least EUR 111 thousand.
 - d) AB Misstatement in the disclosure table of the total of future minimum lease payments at the reporting date amounting EUR 250 thousand.
 - e) AB Incorrect disclosure regarding a bank guarantee.
 - f) OB Unearned revenue for one Nation understated by EUR 1.8 million.
 - g) OB Missing reclassification of EUR 0.5 million unearned revenue between one Nation's accounts.
 - h) OB Understatement of supplier liabilities for an amount of EUR 23 million.
 - i) OB Missing asset reclassification entry to offset negative supplier liabilities for EUR 6 million.
- 1.6 These errors had a cascading effect on the Statement of Financial Performance, the Statement of Financial Position, the Statement of Cash Flow, and all related information notes on the face of the financial statement accordingly, as well as the trial balance.
- 1.7 NAHEMO also took the opportunity of the resubmission to add relevant information:
 - a note about events after the reporting date regarding the withdrawal of two Nations from the programme; and

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a table reconciling the OB expenditures in the Statements of Budget Execution
with the flows of OB expenditures recorded in the trial balance to clarify the
discrepancy between the presentation of the budget execution on a cash basis
and the accounting on an accrual basis.

Recommendations

1.8 IBAN recommends that NAHEMO strengthen internal controls over the preparation of the financial statements in order to ensure that they are free of material error and comply with the NATO Accounting Framework and NAHEMO FRs.

2. NEED TO REVIEW AND UPDATE NAHEMO'S FINANCIAL REGULATORY FRAMEWORK

Reasoning

- 2.1 The NAHEMO Financial Regulations (FRs) approved by Council govern the financial administration of NAHEMO. According to Article 4.4 of the NAHEMO FRs, the Steering Committee of NAHEMO "shall, as applicable, approves a set of Financial Rules and Procedures that provide additional guidance to ensure the effective implementation of these Financial Regulations." As is the case for all NATO reporting entities, the Financial Rules and Procedures (FRPs) are to be read in conjunction with the Financial Regulations approved by Council, and shall in no way be construed as superseding any provision of the Financial Regulations.
- 2.2 According to Article 34.2 of the NAHEMO FRs: "The financial statements of NAHEMO shall be prepared on an accrual basis of accounting." In addition, the NAHEMO FRs provide budgetary rules that clearly stipulate that the Statement of Budget Execution should be drawn up on an accrual basis, as follows:
 - a) Article 25.2 provides that "Appropriated funds which have been committed and for which goods and services have been rendered but the invoice has not been received by the end of the financial year, shall be recorded as an accrued liability and the commitment shall be reduced."
 - b) Article 25.3 states that "appropriated funds which have been committed, supported by a legal obligation, and for which goods and services have not yet been rendered by the end of the financial year shall be automatically carried forward to be used as soon as possible within the next two following financial years. Appropriated funds committed and carried forward shall be used only for the requirement, supported by a legal obligation, for which they were originally approved."
 - c) According to Article 25.5 "At the close of the third financial year, balances of unused appropriations that have been carried forward in accordance with sub-

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Article 3 above shall be finally cancelled, unless exceptionally approved for further carry forward by the SC or relevant committees."

- 2.3 Article 1 of the NAHEMO FRPs states "In the management of the NH90 program NAHEMO acts as an agent for its member States and therefore it is not exposed to risks or rewards of the program. Operational assets are controlled by Nations or Industry." The NAHEMO FRPs include provisions that distinguish the Operational Budget from the Administrative Budget, based on NAHEMO's role as agent for the Operational Budget.
- 2.4 According to Article 7.1 of the NAHEMO FRs, [...], "the Financial Controller shall have recourse, in the first instance, to the relevant committee, next to the SC, and then to the Resource Policy and Planning Board (RPPB) when required for resolution of any persistent doubt or disagreement regarding the compliance of any proposed measure or decision with the provisions found in the NAHEMO Financial Regulations."

Observations

- 2.5 This year, we did additional analysis on the structure and presentation of the Statements of Budget Execution for NAHEMO. Based on this review, we found a number of inconsistencies, that needs to be clarified and decisions taken.
- 2.6 The NAHEMO Statement of Budget Execution for the Administrative Budget (AB) and the Operational Budget (OB) are not fully reported in accordance with the provisions of the NAHEMO FRs. The rules applied to the Statements of Budget Execution for both the AB and OB appear to be drawn from the NAHEMO FRPs, although this is not always explicitly clear.
- 2.7 Regarding the Administrative Budget, Article 7.2 of the NAHEMO FRPs on the Structure of the Administrative Budget states that "The Administrative Budget shall include a comparative statement containing, for each chapter, and each item/sub-item within each chapter: credits approved for the previous year; actual expenditure for the previous year; credits committed but not spent at the end of previous year; credits approved for the current year; estimated credits necessary for the following year." The Administrative Budget rules therefore does not mention accrued liabilities, as required by Article 25.2 of the NAHEMO FRs. From a financial reporting perspective, accrual based information is available as NAHEMO includes in its financial statements a reconciliation table between the Statement of Budget Execution for the AB presented on a modified cash basis and the Statement of Financial Performance, which is presented on an accrual basis.
- 2.8 Regarding the Operational Budget, according to Article 15 of the NAHEMO FRPs on the Structure of the Operational Budget, the Operational Budget is composed of 3 chapters. Each chapter indicates the total amount of expenditure to be authorised by the Steering Committee and the Community Steering Committee for the next financial year, based on an informed estimation of the payments which will actually

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become due (i.e. achievement based budgeting), and the estimated contribution by each Nation. From an accounting and financial reporting perspective, the NAHEMO Operational Budget and therefore its budget execution are drawn on a modified cash basis, which differs from the accrual basis required by the Council-approved NAHEMO FRs. Given that NAHEMO is an agent for this activity, there may be valid reasons why NAHEMO participating nations prefer the modified cash basis rather than the accrual basis for its budgetary information if this suits their reporting needs, but this is not clearly reflected in the NAHEMO FRs.

- 2.9 Furthermore, according to Article 19.2 of the NAHEMO FRPs related to the availability of credits for the Operational Budget: "At the closure of the financial year, credits needed to pay for work/services not completed in the financial year and for which no payment have been made, will automatically be added to the corresponding line in the next year budget of the relevant Nation. [...]" Therefore, according to the NAHEMO FRPs, unfulfilled operational commitments can be carried forward to any future budget, in theory without any time limit, which also differs from the carry-forward rules in the NAHEMO FRs.
- 2.10 IBAN acknowledges that NAHEMO acts as an agent for the operational programme and that the specific multi-annual management of the Operational Budget is by design not compatible with several provisions of the Financial Regulations approved by Council, which are suitable for an entity acting as a principal with an annual budgeting basis. As a result, NAHEMO appears to find itself in a de facto non-compliance or in a persistent doubt regarding its compliance with the NAHEMO FRs.

Recommendations

- 2.11 Taking into account the fact that NAHEMO acts as a principal for its Administrative Budget and as an agent for its Operational Budget, IBAN recommends NAHEMO to:
 - a) review the provisions of its Financial Regulations for the purpose of avoiding de facto non-compliance or a persistent doubt regarding its compliance, and obtain resolution by the appropriate governing body in accordance with Article 7.1 of the NAHEMO FRs, and if required by a Council-approved deviation of the NAHEMO FRs;
 - b) clarify in the NAHEMO FRPs the financial statements disclosure requirements for the Statement of Budget Execution of the Administrative Budget where NAHEMO is principal and of the Operational Budget where NAHEMO is an agent.

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3. IMPROVEMENT NEEDED IN THE FINANCIAL POLICY AND DISCLOSURE OF THE STATEMENT OF BUDGET EXECUTION OF THE OPERATIONAL BUDGET

Reasoning

- 3.1 The Basis of preparation section of the Financial Statement provides a description of the accounting policy applied by NAHEMO regarding its role as an agent. This section states that since 2012, "NAHEMO considers that it is acting as an agent for its member states in relation to managing the NH-90 programme. It considers [...] that it should show the net consideration received from member states for running the programme and match this to expenditures; this revenue and expenditure is equivalent to NAHEMO's AB." NAHEMO acts therefore as principal for the implementation of the Administrative Budget (AB) and as an agent for the implementation of the Operational Budget (OB).
- 3.2 The NAHEMO FRs do not provide a common framework that takes into account the specificities of entities acting as agents and those acting as principals. The NAHEMO FRPs provide however some guidance on the operational budget execution of NAHEMO although not fully compatible with the provision and framework of the NAHEMO FRs. In addition, NAHEMO FRPs are silent on the format and relevant information that should be disclosed in the financial statements with respect to operational budget.
- 3.3 Budgetary disclosure requirements for multi-annual and multi-national programmes should provide the Nations with relevant financial information to assist in the governance of the programme budgeting and funding. It should allow Nations to understand the overall status of past, actual and future programme commitments, to identify delays in contractual milestones and therefore adjust budget and appropriation according to the available unused funds keeping cash holdings of NAHEMO to the minimum.

Observation

- 3.4 IBAN considers that the NAHEMO Statement of Budget Execution for the OB and related notes in the annex of the financial statements could be improved in order to provide a complete and accurate view of the programme status, available credits, open commitments carried over and multiannual budget forecast for the completion of milestones. We found a number of areas of improvement, as follows:
 - a) The Statement of Budget Execution does not present the overall amount of existing contractual commitments, of which EUR 2.7 billion represent milestones not completed, in addition to the annual budget of EUR 1.8 billion for the year 2021.
 - b) The notes to the Statement of Budget Execution do not mention the backlog of uncompleted and deferred contractual commitments. In fact, about

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- EUR 1,1 billion of the EUR 2.7 billion relates to commitments recognised in a previous budget but their execution was delayed to a later budget year. We understand that projected completion of the dormant milestones sometimes extends several years into the future. For example, EUR 202 million correspond to commitments going back more than 6 years.
- c) A note in the Statement of Budget Execution discloses the amount of milestones achieved during the year but not invoiced at the closing date. The relevance of this information needs to be reassessed, depending on whether participating Nations require accrual based information as part of its financial disclosure requirements.
- d) The notes in the Statement of Budget Execution do not provide any information about the nature of the adjustments made to the initial commitment from the previous year carried over to the 2021 budget. According to our analysis, around EUR 205 million of carry-over from 2020 was removed from the final 2021 budget. EUR 86 million is the result of an outright cancellation of the carry over, for example due to a final cancelation of outstanding penalties. EUR 119 EUR correspond to the carry-over of milestones which are deferred beyond 2021 and therefore become "dormant" commitments. EUR 12 million net correspond to various anomalies, including typo in the milestone amounts.
- 3.5 IBAN recognises the improvement and simplification made to the presentation of the operational budget execution compared to last year. It especially consisted in the adoption of FRP's terminology applicable to NAHEMO's operational activity when acting as an agent.

Recommendations

- 3.6 Given the fact that NAHEMO is an agent for its Operational Budget, IBAN recommends NAHEMO to strengthen the disclosure requirements for the Statement of Budget Execution of the Operational Budget by clarifying these in the NAHEMO FRPs. The budgetary disclosure requirements for multi-annual and multi-national programmes should provide the Nations with relevant financial information to assist in the governance of the programme budgeting and funding.
- 4. IMPROVEMENTS NEEDED IN THE PROCESS OF EVALUATING ASSET CONTROL AND CAPITALISATION OF COSTS RELATED TO THE MOVE TO THE NEW PREMISES

Reasoning

4.1 The NATO Accounting Framework (NAF) is an adapted version of International Public Sector Accounting Standards (IPSAS). IPSAS 1 requires an entity to present information in a manner that meets a number of qualitative characteristics

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one of which is the standard assessment of "substance of form". It implies that transactions and events "are accounted for and presented in accordance with their substance and economic reality and not merely their legal form. The substance of transactions or other events is not always consistent with their legal form."

- 4.2 Paragraph 6.4 of the NAF, adapted from IPSAS 17 Property, Plant and Equipment (PP&E) prescribes "that in addition to the standard assessment of "substance over form", [...] criteria should be used to assist in assessing the level of control that any NATO Reporting Entity has for reporting assets in its financial statements."
- 4.3 Criteria that evidence the control of PP&E is not limited to legal ownership but include whether the NATO reporting entity is the principal operator of the property and recipient of the economic benefits.
- 4.4 "If the NATO Reporting Entity responds positively to six" out of ten "criteria, it is likely that the asset is controlled by the NATO Reporting Entity. In this case, the reporting entity will need to capitalise the assets in its Financial Statements (if it is also above the capitalisation threshold)."
- 4.5 According to Paragraph 3.1 "Recognition criteria" of the NATO's Accounting Policy for Property, Plant and Equipment (PP&E) (AC/335-N(2016)0088-REV3), "the cost of an item of PP&E is first recognised as an asset in the Financial Statements of a NATO entity if:
 - a) it is probable that future economic benefits or service potential associated with the item will flow to the NATO entity:
 - b) the cost or fair value can be measured reliably (estimates are also permitted):
 - c) the NATO entity has control over it; and
 - d) it is expected to be used during more than one 12 month reporting period."

Observation

- 4.6 NAHEMO will move to its new premises in August 2022 which will be rented under a 10-year lease agreement. The budget for this move, in preparation since 2020, is approximately EUR 2 million, most of which will be executed and paid for in 2022. It includes, among others, specific costs for the fitting out of the premises and the implementation of security infrastructure meeting NATO requirements. Some of this equipment, such as bulletproof windows, will remain in place at the end of the lease, at which time it will be transferred to the lessor.
- 4.7 IBAN found that NAHEMO did not assess the control criteria for the items acquired in connection with the move to the new premises. Therefore, NAHEMO did not consider the capitalisation and valuation as assets of the costs incurred in 2021

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for the security systems for an amount of EUR 111,554 and the bulletproof windows for EUR 25,000. These costs are currently recognised as an expense and are not capitalised. In our view, NAHEMO controls at least a portion of these items in accordance with the NAF control criteria and IPSAS principle of "substance over form". Therefore they should be accounted for as assets under construction and PP&E.

Recommendations

- 4.8 IBAN recommends NAHEMO to:
 - a) assess the control of items paid for in connection with the move to the new premises in accordance with the control criteria of the NATO Accounting Framework.
 - b) assess the amount of fixed assets to be capitalised and assets under construction to be recognised in the financial statements if they meet the control criteria.
 - c) update the asset register accordingly.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) NAHEMO FY 2020 IBA-AR(2021)0031, paragraph 1		
MATERIAL MISSTATEMENT IN THE PRESENTATION OF COMMITMENTS IN THE ADMINISTRATIVE BUDGET EXECUTION STATEMENT IN RESPECT OF SPECIAL CARRY FORWARD		Observation Closed.

	ACTION TAKEN	
OBSERVATION / RECOMMENDATION	BY AUDITEE	STATUS
a) Exclude the amount of the special carry forward (SCFW) from the accumulated commitments column in the Budget Execution Statement (BES), as there is no legal obligation of payment or contract related to it. b) Distinguish the SCFW from the rest of the carry forwards in the BES in a dedicated column.	a) b) A column on "uncommitted amounts authorised as SCFW" has been added in the administrative BES. An additional detailed table showing the breakdown by chapter of the execution of carry forward and special carry forward from previous years completes the Administrative BES. Observation Closed.	
c) Provide relevant information in the disclosure notes on the amount, status and objectives of the SCFW in the financial statements and the BES	c) Footnotes on the special carry forward procedure were added to provide comprehensive information to the reader of the financial statements. Observation Closed.	
d) Update NAHEMO's FRPs by introducing a provision for the treatment of SCFW.	d). Observation Closed as superseded by current year observations.	
(2) NAHEMO FY 2020 IBA-AR(2021)0031, paragraph 2		
NON-COMPLIANCE WITH RETROSPECTIVE COMPARATIVE INFORMATION REQUIREMENTS UNDER IPSAS 3 AND MATERIAL INCONSISTENCIES IN COMPARATIVE INFORMATION		Observation Closed.
IBAN's Recommendation a) Ensure, as part of its internal control system for the preparation of the financial statements, the correct presentation of comparative information under IPSAS 3 in the event of a change in accounting policy or correction of an error.	In its Restated Financial Statements 2020, NAHEMO provided the correct presentation of comparative information. This issue did not reoccur in 2021.	
(3) NAHEMO FY 2020 IBA-AR(2021)0031, paragraph 3		
INCORRECT ACCOUNTING OF VALUE ADDED TAX (VAT) IN THE STATEMENT OF FINANCIAL PERFORMANCE		Observation Closed.
IBAN's Recommendation IBAN recommends that NAHEMO change its VAT accounting policy by recording the corresponding flows only in the Statement	As explained in the "Change in accounting policy" paragraph of the NAHEMO Financial	

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
of Financial Position.	Statements 2021: "A change in the accounting policy related to the presentation of VAT flows was applied to the 2021 Financial Statements and has been retroactively reflected in the 2020 comparative figures" []"As of 2021 VAT flows are only reflected in the Statement of Financial Position rather than the Statement of Financial Performance".	
(4) NAHEMO FY 2018 IBA-AR(2019)0011, paragraph 1		
IMPROVEMENTS NEEDED IN THE ADJUSTMENT OF CALLS FOR FUNDS PROCESS AND RESTRICTION OF THE LEVEL OF CASH HOLD		Observation Closed.
IBAN's Recommendation IBAN recommends that NAHEMA ensure that calls for contributions are only made to meet the payments of the financial year in accordance with the NAHEMO FRPs. Accordingly, NAHEMA should also restrict total currency holdings to the minimum required to meet forecast payments prior to receipt of the following contribution instalment and clear unused contributions to the same extent.	Currency holdings have been considerably restricted, also with the aim to minimise the negative interests applied by banks. Additional funds are directly called by NAHEMA only when the available currency holdings are not sufficient to meet the forecasted payments. In this regard, NAHEMA implemented a new call for funds procedure that improves the overall process.	
(5) NAHEMO FY 2018 IBA-AR(2019)0011, paragraph 2		
IMPROVEMENTS NEEDED IN THE OPERATIONAL BUDGETING PROCESS		Observation Closed.
IBAN's Recommendation IBAN recommends that NAHEMA makes the necessary budgetary adjustments during the mid-year review in order to correct the overestimated operational budget and align it to the planned commitments and payments in the year.	Observation Closed as superseded by current year observations.	
Review and document the justification of all commitments carried forward every year		

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
and ensure that lapses are deducted from future calls for the operational budget.		
In addition, IBAN reiterates the prior year's observation that no analysis has been done to identify if credits committed should be carried forward or lapsed.		
All relevant information on commitments carried forward shall be shared with the Steering Committee so that Nations are aware of the availability of budgetary credits for the following year.		
(6) NAHEMO FY 2016 IBA-AR(2017)29, paragraph 2		
LACK OF RELIABLE AND COORDINATED PROCESSES FOR CAPITALISING ASSETS AND UPDATING ASSET REGISTERS		Observation In-Progress.
IBAN's Recommendation IBAN recommends NAHEMA to update and maintain complete and accurate asset registers, in line with Article 12 of the NFRs. These registers need to be properly controlled at the appropriate level and regular property counts should be performed to keep the registers accurate and reliable. IBAN also recommends NAHEMA to put in place reliable and coordinated processes to ensure that new assets acquired are capitalized as PP&E or Intangible Assets.	A fixed asset register was setup in 2020 and it is maintained since the fourth quarter 2020. The creation of a module in the accounting Information Technology system for automatic asset capitalisation is currently planned to be implemented.	

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NATO HELICOPTER MANAGEMENT ORGANISATION (NAHEMO) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

OBSERVATION 1:

IMPROVEMENTS NEEDED IN THE PREPARATION OF THE FINANCIAL STATEMENTS AND STRENGTHENING INTERNAL CONTROL OVER FINANCIAL CLOSING PROCEDURES

NAHEMO's Formal Comments

Agreed.

NAHEMO acknowledges the remark and will take into account the recommendation.

OBSERVATION 2:

NEED TO REVIEW AND UPDATE NAHEMO'S FINANCIAL REGULATORY FRAMEWORK

NAHEMO's Formal Comments

Agreed.

NAHEMO agrees with the above observations and recommendations, even if it believes that in order to ensure adequate consistency with the other NATO entities acting as an agent, the most appropriate solution would be to review directly the NATO Financial Regulations. In fact, this activity has already started within the NATO Account Working Group.

Having regard to the foregoing, NAHEMA ensures to work on the review of the NAHEMO FRs and FRPs, possibly in coordination with the other NATO entities having the same position.

OBSERVATION 3:

IMPROVEMENT NEEDED IN THE FINANCIAL POLICY AND DISCLOSURE OF THE STATEMENT OF BUDGET EXECUTION OF THE OPERATIONAL BUDGET

NAHEMO's Formal Comments

Agreed.

NAHEMO agrees on the improvements recommended, but deems it necessary to complete the ongoing full review of the OEBS database, before proceeding with the budgetary disclosure requirements for multi-annual and

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multi-national programmes. At this regard, considering that several challenging digitalization processes where ADMIN staff are currently heavily engaged are ongoing (electronic registration of invoices, electronic execution of payments, contractual milestone database, digital signature of mail correspondence, etc.), the concerned improvements in the "Statement of Budget execution" for the O.B. are considered achievable not before 2023.

OBSERVATION 4:

IMPROVEMENTS NEEDED IN THE PROCESS OF EVALUATING ASSET CONTROL AND CAPITALISATION OF COSTS RELATED TO THE MOVE TO THE NEW PREMISES

NAHEMO's Formal Comments

Agreed.

NAHEMO acknowledges the finding and recommendation and will make sure that in the future further improvements will be taken to improve the evaluating asset control and capitalisation of costs related to the move to the new premises.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(6) NAHEMO FY 2016
IBA-AR(2017)29, paragraph 2
LACK OF RELIABLE AND COORDINATED PROCESSES FOR CAPITALISING ASSETS AND UPDATING ASSET REGISTERS

NAHEMO's Formal Comments

Agreed.

NAHEMA will take into account the IBAN recommendation.

As an additional improvement to the registers consistency, NAHEMA is implementing the use of a dedicated OEBS module for capitalising assets.

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GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the
 presentation of the financial statements, but that some key elements of the
 statements were not fairly stated or affected by a scope limitation, or specific
 issues have come to our attention that causes us to believe that funds have not
 been properly used for the settlement of authorised expenditure or are not in
 compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so
 pervasive and material to the financial statements that IBAN concludes that a
 qualification of the report is not adequate to disclose the misleading or
 incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a
 matter other than those that are presented or disclosed in the financial
 statements that, in our judgement, is relevant to users' understanding of the
 audit, the auditor's responsibilities or the auditor's report.



International Board of Auditors for NATO Collège international des auditeurs externes de l'OTAN



Brussels - Belgium

NATO UNCLASSIFIED

IBA-A(2022)0106 24 August 2022

To: Secretary General

(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives

Chair, NATO Multi-Role Combat Aircraft Development Production and In-Service

Support Management Organisation (NAMMO), Board of Directors

General Manager, NATO EF 2000 and Tornado Development, Production and

Logistics Management Agency (NETMA)

Financial Controller, NATO EF 2000 and Tornado Development, Production and

Logistics Management Agency (NETMA) Chair, Resource Policy & Planning Board

Branch Head, Resource Management Branch, NATO Office of Resources

Private Office Registry

Subject: International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO) Financial Statements for the year ended 31 December 2021 – IBA-AR(2022)0013

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO) and on compliance for financial year 2021.

Yours sincerely,

Daniela Morgante

Chair

Attachments: As stated above.

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Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Multi-Role Combat Aircraft Development Production and
In Service Support Management Organisation (NAMMO)
for the year ended 31 December 2021

NAMMO is the NATO reporting entity for the Tornado Programme. The participating Nations for NAMMO are Germany, Italy and the United Kingdom. The NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) manages this Programme and its Operational Budget.

NETMA also manages the procurement and the administration of the EF2000 Programme, for which the NATO European Fighter Aircraft Development Production and Logistic Management Organisation (NEFMO) is the NATO reporting entity.

NETMA considers NETMA, NAMMO and NEFMO to be separate NATO reporting entities and annually issues a separate set of general purpose financial statements for each of the three budgets under its management and administration.

IBAN audited the NAMMO Financial Statements for the year ended 31 December 2021. The total expenditure in 2021 for the NAMMO Operational Budget amounts to EUR 585 million.

In 2022, NETMA requested a deviation from Articles 24 and 25 of the NATO Financial Regulations (NFRs) for NAMMO in relation to prior approval of commitments for purchases of spare parts, carry-forward of commitments and lapses. The North Atlantic Council approved these deviations from the NFRs on 24 June 2022, which retroactively apply from 1 January 2021 onwards.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2021.

IBAN made no observations and recommendations.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed and two remain in progress.

The Audit Report was issued to NETMA whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NETMA management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NETMA executive responsibility.

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24 August 2022

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

NATO MULTI-ROLE COMBAT AIRCRAFT DEVELOPMENT PRODUCTION AND IN SERVICE SUPPORT MANAGEMENT ORGANISATION

(NAMMO)

FOR THE YEAR ENDED 31 DECEMBER 2021

IBA-AR(2022)0013

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NAMMO, for the 12 month period ended 31 December 2021, issued under document reference N/28412090/213597/22/NU, and submitted to IBAN on 30 March 2022. These Financial Statements comprise the Statement of Financial Position as at 31 December 2021, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2021, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2021.

In our opinion, the Financial Statements give a true and fair view of the financial position of NAMMO as at 31 December 2021, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2021, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

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Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NAMMO are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity'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 there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs 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 economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. 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.

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- 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 entity'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 the 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 entity'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. However, future events or conditions may cause the entity to cease to continue as a going concern.
- 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 are required to communicate with the bodies charged with governance, 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. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

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Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Head of the NATO reporting entity is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 24 August 2022

Daniela Morgante

Chair

IBA-AR(2022)0013

OBSERVATIONS AND RECOMMENDATIONS

IBAN made no observations and recommendations.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed and two remain in progress.

The Audit Report was issued to NETMA whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NETMA management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NETMA executive responsibility.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) NAMMO FY 2020 IBA-AR(2021)0027, paragraph 1.23		
MISSING APPROVAL OF COMMITMENTS, AND ESTIMATES OF CARRY-FORWARD OF COMMITMENTS AND ACCRUALS FOR SPARE PARTS		Observation In-Progress
IBAN's Recommendation IBAN recommends that NAMMO:		
a) Prevent third parties from entering into a commitment of funds for spare parts on behalf of NAMMO;	This sub-recommendation is lapsed as the North Atlantic Council approved NETMA's request for a deviation from Article 25 of the NFRs with	

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	regard to prior approval of commitments for purchases of spare parts. Closed.	
b) Introduce internal controls or procedures that ensure prior approval of commitment by the NETMA Financial Controller, or other relevant NETMA staff with delegated authority, for spare parts purchases;	This sub-recommendation is lapsed as the North Atlantic Council approved NETMA's request for a deviation from Article 25 of the NFRs with regard to prior-approval of commitments for purchases of spare parts. Closed.	
c) Revise the FRRs on the role, the responsibilities and the authority of the NETMA Financial Controller where necessary, in order to ensure conformity with the NFRs;	In 2021, NETMA was not in a position to issue revised FRRs on this topic given that NETMA's request for deviation from Article 25 of the NFRs was not approved prior to 31 December 2021 by the North Atlantic Council. NETMA drafted a revised version of the FRRs in 2021, which will be presented for approval to the NAMMO Board of Directors in 2022. In-progress.	
d) Ensure compliance with Article 25.3 of the NFRs by quantifying the commitments to be carried-forward to the next two financial years for all purchases of spare parts;	This sub-recommendation is lapsed as the North Atlantic Council approved NETMA's request for a deviation from Article 25 of the NFRs with regard to carry-forward of commitments. Closed.	
e) Ensure completeness of accruals for all purchases of spare parts.	In 2021, NETMA ensured completeness of NAMMO accruals for spare parts by estimating accruals on the basis of catalogue prices or historical price information for those spare parts orders that did not contain any price information. Closed.	
(2) NAMMO FY 2020 IBA-AR(2021)0027, paragraph 2.24		
IMPROVEMENTS NEEDED IN THE PRESENTATION OF THE STATEMENT OF BUDGET EXECUTION		Observation In-Progress
IBAN's Recommendation IBAN recommends that NAMMO:		

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
a) Amend its current procurement and budget processes in order to comply with Article 24 and 25 of the NFRs, or request Council to approve a deviation from the NFRs which better reflects the specific NAMMO procurement and budget needs;	This sub-recommendation is lapsed as the North Atlantic Council approved NETMA's requests for a deviation from Article 24 of the NFRs with regard to lapses and Article 25 of the NFRs with regard to carry-forward and lapses. Closed.	
b) Assess whether NAMMO's multiannual programme could hinder compliance with other relevant articles of the NFRs that start from the principle of annual budgets, and take appropriate action where necessary by amending internal processes or by requesting Council to approve a deviation from the NFRs which better reflects the specific NAMMO needs;	In 2021, NETMA identified all relevant articles of the NFRs that start from the principle of annual budgets, and requested the North Atlantic Council to approve a deviation from those Articles for which NAMMO could not ensure compliance with the NFRs due to the nature of its multiannual programme. Closed.	
c) Revise the FRRs where necessary in order to ensure compliance with the Articles of the NFRs concerned, or to ensure compliance with approved deviations from the NFRs.	In 2021, NETMA was not in a position to issue revised FRRs on this topic given that NETMA's request for a deviation from Article 24 and 25 of the NFRs was not approved prior to 31 December 2021 by the North Atlantic Council. NETMA drafted a revised version of the FRRs in 2021, which will be presented for approval to the NAMMO Board of Directors in 2022. In-Progress.	
(3) NAMMO FY 2019 IBA-AR(2020)0013, paragraph 1.13		
MANAGEMENT OF CASH HOLDINGS IN THE CONTEXT OF INCREASED FINANCIAL COSTS		Observation Closed
IBAN's Recommendation IBAN recommends that NETMA complement existing procedures regarding the sound financial management of the significant cash holdings of NAMMO, by developing a policy and implementing further procedures to avoid additional unforeseen costs to Nations and to mitigate potential liquidity risks. This can be achieved by:		

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
a) Clearly communicating with NAMMO's Board of directors about all issues related to cash holdings and seeking their approval on solutions presented;	In 2021, the NAMMO Board of Directors approved the NETMA Cash Holdings Policy. This policy describes the challenges and risk that NETMA faces with regard to its cash holdings, and contains specific procedures to address these. Closed.	
b) Ensuring that an analysis is made covering all bank accounts and possible new bank accounts, and scenarios regarding forecast economic conditions;	This sub-recommendation was closed in IBA-AR(2021)0027. Closed.	
c) Developing a policy on exchange rates that addresses the impact of high exchange rate volatility during the year;	This sub-recommendation was closed in IBA-AR(2021)0027. Closed.	
d) Taking steps to reduce cash holdings per Nation, while mitigating the liquidity risk by ensuring that sufficient funds are available to pay commitments.	In 2021, NETMA implemented its Cash Holding Policy which was approved by the NAMMO Board of Directors in 2021. This policy is aimed at reducing cash holdings, while ensuring the availability of sufficient funds in order to mitigate any liquidity risks. Closed.	

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NATO MULTI-ROLE COMBAT AIRCRAFT DEVELOPMENT PRODUCTION AND IN SERVICE SUPPORT MANAGEMENT ORGANISATION (NAMMO) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

NETMA made no formal comments on the report and previous year observations.

IBA-AR(2022)0013

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

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- A qualified opinion means that IBAN was generally satisfied with the
 presentation of the financial statements, but that some key elements of the
 statements were not fairly stated or affected by a scope limitation, or specific
 issues have come to our attention that causes us to believe that funds have not
 been properly used for the settlement of authorised expenditure or are not in
 compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so
 pervasive and material to the financial statements that IBAN concludes that a
 qualification of the report is not adequate to disclose the misleading or
 incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a
 matter other than those that are presented or disclosed in the financial
 statements that, in our judgement, is relevant to users' understanding of the
 audit, the auditor's responsibilities or the auditor's report.



International Board of Auditors for NATO Collège international des auditeurs externes de l'OTAN



Brussels - Belgium

NATO UNCLASSIFIED

IBA-A(2022)0101 24 August 2022

To: Secretary General

(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives

Chair, NATO Airborne Early Warning & Control Programme Management

Organisation (NAPMO) Board of Directors

General Manager, NATO Airborne Early Warning & Control Programme

Management Agency (NAPMA)

Financial Controller, NATO Airborne Early Warning & Control Programme

Management Agency (NAPMA)

Chair, Resource Policy & Planning Board

Branch Head, Resource Management Branch, NATO Office of Resources

Private Office Registry

Subject: International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Airborne Early Warning & Control Programme Management Agency's (NAPMA) Financial Statements for the year ended 31 December 2021 – IBA-AR(2022)0024

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Airborne Early Warning & Control Programme Management Agency and on compliance for financial year 2021.

Yours sincerely,

Daniela Morgante

Chair

Attachments: As stated above.

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Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Airborne Early Warning and Control
Programme Management Agency (NAPMA)
for the year ended 31 December 2021

The NATO Airborne Early Warning & Control Programme Management Organisation (NAPMO), including the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA) was established to assume the direction, the coordination, and the execution of the NATO Airborne Early Warning and Control (NAEW&C) system. The management of the Programme consists of overseeing the acquisition of the operating assets needed to establish NAEW&C capability and subsequent acquisitions of enhancements thereof. Total NAPMA expenses in 2021 amounted to USD 22.8 million and additions to modernisation assets amounted to USD 129.5 million.

IBAN issued an unqualified opinion on the Financial Statements resubmitted to IBAN on 8 July 2022 and on compliance for the year ended 31 December 2021.

IBAN made two observations and recommendations. These observations do not impact the audit opinion on the financial statements and on compliance:

- 1. Need to strengthen internal controls over the preparation of the financial statements.
- 2. Clarification and approval from the North Atlantic Council with respect to the compliance of the contractual recoupment clauses with the NAPMO Charter.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that all were closed, out of which one was superseded by current year's observation.

The Audit Report was issued to NAPMA whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NAPMA management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NAPMA executive responsibility.

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24 August 2022

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

NATO AIRBORNE EARLY WARNING AND CONTROL PROGRAMME MANAGEMENT AGENCY

(NAPMA)

FOR THE YEAR ENDED 31 DECEMBER 2021

IBA-AR(2022)0024

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NAPMA, for the 12 month period ended 31 December 2021, issued under document reference NAPMA/FC(22)50-00/016, and resubmitted to IBAN on 8 July 2022. These Financial Statements comprise the Statement of Financial Position as at 31 December 2021, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12-month period ended 31 December 2021, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12-month period ended 31 December 2021.

In our opinion, the Financial Statements give a true and fair view of the financial position of NAPMA as at 31 December 2021, and of its financial performance, its cash flows and budget execution for the 12-month period ended 31 December 2021, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

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Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NAPMA are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity'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 there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs 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 economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. 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.

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- 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 entity'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 the 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 entity'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. However, future events or conditions may cause the entity to cease to continue as a going concern.
- 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 are required to communicate with the bodies charged with governance, 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. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NAPMO Financial Regulations and the NATO Civilian Personnel Regulations.

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Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NAPMO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Head of the NATO reporting entity is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 24 August 2022

Daniela Morgante

Chair

IBA-AR(2022)0024

OBSERVATIONS AND RECOMMENDATIONS

IBAN made two observations and recommendations. These observations do not impact the audit opinion on the financial statements and on compliance:

- 1. Need to strengthen internal controls over the preparation of the financial statements.
- 2. Clarification and approval from the North Atlantic Council with respect to the compliance of the contractual recoupment clauses with the NAPMO Charter.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that all were closed, out of which one was superseded by current year's observation.

The Audit Report was issued to NAPMA whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NAPMA management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NAPMA executive responsibility.

1. NEED TO STRENGHTEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS

Reasoning

- 1.1 According to the NATO Accounting Framework (NAF) "Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation."
- 1.2 According to the NAF, IPSAS 1: "All items of revenue and expense recognized in a period shall be included in surplus or deficit".
- 1.3 According to the NAPMO Financial Regulations (NFRs): "The General Manager is authorised to make short-term low risk investments of funds not immediately required according to the basic principles of sound financial management. The General Manager shall declare to the PFC [Policy and Finance Committee] the income on such investments as miscellaneous income in the annual financial statements."

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1.4 A key part of any system of internal control is to ensure adequate processes are in place for the preparation, review and reporting of the Financial Statements. Adequate review procedures are necessary to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the applicable financial reporting framework.

Observations

- 1.5 IBAN found that NAPMA financial revenue and expenses generated from 2014 were accounted and reported in the Statement of Financial Position rather than in the Statement of Financial Performance in accordance with the NATO Accounting Framework and the NAPMO Financial Regulations. As a result, the accumulated financial income that should have been accounted and reported as a surplus in the NAPMA Statement of Financial Performance is amounting to approximately USD 24 million.
- 1.6 NAPMA corrected the 2021 Statement of Financial Performance and restated the comparative amounts in the Resubmitted Financial Statements submitted to IBAN on 8 July 2022. This led to an increase of the NAPMA surplus of approximately USD 1 million in 2021 and USD 3 million in 2020 and to additional disclosure related to the cumulative effect of the error on the prior periods amounting to approximately USD 20 million.
- 1.7 The above corrected misstatements demonstrate the need to ensure adequate processes are in place for the preparation, review and reporting of the Financial Statements to avoid material misstatements or errors in disclosures.

Recommendations

- 1.8 IBAN recommends that NAPMA strengthen internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the NATO Accounting Framework and NATO Financial Regulations.
- 2. CLARIFICATION AND APPROVAL FROM THE NORTH ATLANTIC COUNCIL WITH RESPECT TO THE COMPLIANCE OF THE CONTRACTUAL RECOUPMENT CLAUSES WITH THE NAPMO CHARTER

Reasoning

- 2.1 According to the NATO Airborne Early Warning and Control Programme Management Organisation (NAPMO) Charter, Section I General Provisions :
 - "2. Modification and Dissolution Procedures

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- (a) Only the North Atlantic Council can dissolve NAPMO, amend or revoke the present Charter;
- (b) any request for such action shall be submitted jointly by the member States of NAPMO to the North Atlantic Council through the Secretary General of NATO."
- 2.2 According to the NAPMO Charter, Section IV Agreements and Contracts:

"9. Authority

Within the scope of its functions and in the name of NATO, NAPMO shall have the authority to:

- (a) Conclude agreements and contracts;
- (b) Conclude administrative agreements with other NATO bodies;
- (c) Acquire and dispose movable property.
- 10. Approval of the North Atlantic Council

Before the conclusion by NAPMO of any agreement or contract with a country not a member of NATO or with an international organization or any international agreement requiring Parliamentary approval by a member State, the Board of Directors shall submit any such agreement or contract to the North Atlantic Council for advance approval in principle.

11. Delegation of Authority

The authority defined in Article 9 above shall normally be exercised, with due observance of the requirement stated in Article 10 above, by the Board of Directors who may delegate this authority to the General Manager. However, the Board of Directors shall not:

- (a) Delegate its authority to General Manager to conclude agreements or contracts beyond the purview of routine management and business intercourse, except on case-by-case basis;
- (b) Authorise the General Manager to conclude international agreements."
- 2.3 According to the NATO AWACS Final Lifetime Extension Programme (FLEP) contract, Appendix C, Article "1.Recoupment:
 - "1.1. In the event the Contractor or its Subcontractors, intends to enter into future sales or license agreements for the items and data specifically developed under this contract (including Deliverables pursuant to clause 23.1 of Appendix A, Contract Terms and Conditions entitled "Rights in Data") and

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unencumbered by pre-existing or essentially similar items (essentially similar is characterized as 75% identical to the items delivered on technological and system parts/components), it shall promptly notify the Contracting Officer. The Contractor agrees that it will collect from the customer of a future sale an amount or amounts determined by the NAPMO Board of Directors for the non-recurring costs paid by the Purchaser. [...] The Purchaser will receive recoupment of any amount or amounts due from the Contractor through electronic transfer of funds payment between the Purchaser and the Contractor."

- "1.3. For each future sale or license agreement the amount to be reimbursed to the NAPMO for the NAPMO non-recurring costs shall be determined by dividing the total NATO portion of the non-recurring contract price by the total production quantity of the item, past and projected, including the production quantity for the NAPMO and multiplying the results by the quantity involved in each such sale or license agreement. That item costs will be multiplied by new sale quantity to obtain the reimbursement amount to NAPMA. There is no cap to the recoupment NAPMA may recover under this provision." [...]
- "1.4. The Contractor agrees that his rights to enter into production for future sales of the items or essentially similar items are expressly contingent upon compliance with the provisions of this clause."
- "1.5. The Contractor further agrees to flow-down this clause, substantially as written, in all Subcontracts with the Purchaser as beneficiary. The recoupment requirement shall also be applicable for future sales by Subcontractors for their component part design contributions. The Contractor's obligations will be limited to reporting to the NAPMO such foreign commercial sales or license agreements that applicable Subcontractors enter into. The NAPMO will be responsible for recoupment of any amount or amounts due directly from such Subcontractors."
- 2.4 The above contractual recoupment clause is a condition for the Contractor and its subcontractors to enter into production for future sales of the items or essentially similar items specifically developed and funded by NAPMO. The Contractor and Subcontractors are required to include this clause, substantially as written, in all Subcontracts with the NAPMO as beneficiary for any future sales or license agreements for the items and data specifically developed for the E-3A modernisation.
- 2.5 According to the NATO AWACS FLEP contract, Appendix A, Article "23. Rights in data:
 - 23.1 All data and deliverables exclusively developed and funded under TRN 001 of this Contract shall be the legal and absolute property of the Contractor without prejudice to NAPMO rights to receive recoupment pursuant to Annex C Special Provisions Clause 1 of TRN 001 of this Contract.

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- 23.2 The NAPMO shall have the right to use, duplicate, and disclose all Data and Deliverables, provided under this Contract, in whole or in part, for NATO purposes, pursuant to export restrictions and respective of valid proprietary markings, throughout the lifetime of the NAEW&C fleet. Such rights shall remain in effect until the aircraft are disposed of and shall survive the termination, or close-out of this contract."
- 2.6 The Contractor has the legal property of all data and deliverables exclusively developed for and funded by NAPMO. While this is legally possible, there is no contractual provision restricting the Contractor to sell the NAPMO development to non-NATO Member States.
- 2.7 The E-3A modernisation contracts were endorsed by the NAPMO Board of Directors (BoD) composed by 16 Nations participating as full member, and signed by the NATO Airborne Early Warning and Control Programme Management Agency (NAPMA) on behalf of NAPMO. These contracts included similar recoupment clauses.

Observations

- 2.8 IBAN found that these recoupment clauses provide the Contractor and its subcontractors with the rights to act as an agent in the benefit of NAPMO for the recoupment of the NAPMO non-recurring development costs from third party customers, including non-NATO Member States. In substance, this recoupment clause must be included in all future contractor's and its subcontractors' third party sales contracts. In addition NAPMO should be mentioned as the beneficiary, and the Contractor should collect on behalf of NAPMO from its customer an "amount or amounts" determined by the NAPMO BoD.
- 2.9 For instance, IBAN found that NAPMA received as from 2012 more than USD 40 million of recoupments from the Contractor's sales of NAPMO E-3A modernisation developments to three Nations, out of which USD 27 million from non-NATO Member States.
- 2.10 NAPMA considers that these recoupment clauses only address the applicability and method of recoupment and do not address any kind of export control or sales authorisation. IBAN does not question the Contractor rights to enter into future sales of the NAPMO funded development.
- 2.11 Nevertheless, Article 10 of the NAPMO Charter states that NAPMO may not conclude any agreement or contract with non-NATO Member States, without advance approval in principle by the North Atlantic Council. IBAN considers that the NAPMO Contractor's rights to act as an agent in the benefit of NAPMO, and in the name of NATO, with non-NATO Member States, could be construed as NAPMO having a third-party benefit agreement with non-NATO Member States.
- 2.12 As a result, IBAN considers that it is unclear whether these contractual recoupment clauses are in full compliance with the provisions of Section IV of the

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NAPMO Charter, and more specifically with Article 10 of the NAPMO Councilapproved Charter.

Recommendations

2.13 IBAN recommends NAPMO to seek clarification and approval in principle from the North Atlantic Council on whether Article 10 of the NAPMO Charter provides for recoupment clauses that grant the right to the NAPMO Contractor, to act as an agent with non-NATO Member States, in the benefit of NAPMO and in the name of NATO.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) NAPMA FY 2020 IBA-AR(2021)0022, paragraph 1		
USE OF THE DEDICATED FUNDS RESERVE		Observation Closed.
IBAN's Recommendation IBAN recommends NAPMA to seek an approval from the NAPMO Board of Directors on the further use of the Dedicated Funds Reserve and classify the balance accordingly.	reclassified the Dedicated	
(2) NAPMA FY 2019 IBA-AR(2020)0018, paragraph 1 RECOGNITION OF CONTRACTOR ACQUIRED PROPERTY (CAP ASSETS) AS PROPERTY, PLANT AND EQUIPMENT		Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
IBAN's Recommendation IBAN recommends that NAPMA:	ST NOSITEE	
a) Reclassify FLEP Contractor Acquired Property (CAP Assets) from Work in Progress amounting to USD 26 million, and CAP Assets amounting to approximately USD 2 million from expenses to a newly created Property, Plant and Equipment (PP&E) asset category.	a) Observation closed in IBA-AR(2021)0022.	
b) Account and disclose in the Financial Statements all future CAP Assets as PP&E in accordance with the NATO Accounting Framework and NAPMO Financial Regulations.	b) IBAN notes that NAPMA developed and implemented specific asset management and accounting policies on CAP assets to account for and disclose CAP assets in accordance with the NATO Accounting Framework and NAPMO Financial Regulations. Observation closed.	
c) Allocate the annual depreciation charge for CAP Assets to the Work in Progress account, which is transferable to Allied Command Operations.	c) Observation closed in IBA-AR(2021)0022.	
d) Disclose the information regarding CAP Assets disposed, sold, or transferred in the Financial Statements.	d) Observation closed in IBA-AR(2021)0022.	
e) Change its accounting policy for the FLEP programme, taking into account the above changes.	e) Observation closed in IBA-AR(2021)0022.	
(3) NAPMA FY 2017 IBA-AR(2018)0013, paragraph 1		
INNACURACIES AND NON-MATERIAL ERRORS IDENTIFIED IN THE FINANCIAL STATEMENTS		Observation Closed.
IBAN's Recommendation The Board recommends NAPMA to improve the financial reporting review process. Specifically, the Board recommends NAPMA to Ensure consistency between the face of the Statements and the Notes.	NAPMA Financial Statements	

IBA-AR(2022)0024

NATO AIRBORNE EARLY WARNING AND CONTROL PROGRAMME MANAGEMENT AGENCY (NAPMA) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

OBSERVATION 1:

NEED TO STRENGHTEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS

NAPMA's Formal Comments

Agreed.

NAPMA agrees with the IBAN observations that according to the NATO Accounting Framework (NAF), IPSAS 1: "All items of revenue and expense recognized in a period shall be included in surplus or deficit" and that NAPMO's Financial Regulations require interest on term deposits to be reported as miscellaneous income in NAPMA's financial statements.

NAPMA has resubmitted its 2021 Financial Statements and restated its 2020 Financial Statements to comply with these requirements.

NAPMA agrees with the IBAN observation that after resubmitting the NAPMA 2021 Financial Statements and restating the NAPMA 2020 Financial Statements, approximately 20 million USD equivalent dating back to the years before 2020, was not reported as a surplus in Statement of Financial Performance of the NAPMA Financial Statements.

NAPMA emphasizes however that this amount was presented on the face of the Statement of Financial Position as the Risk Mitigation Fund balance.

NAPMA agrees with the IBAN recommendation that as a consequence of the IBAN observation, NAPMA's internal controls over the preparation of the financial statements should be strengthened.

OBSERVATION 2:

CLARIFICATION AND APPROVAL FROM THE NORTH ATLANTIC COUNCIL WITH RESPECT TO THE COMPLIANCE OF THE CONTRACTUAL RECOUPMENT CLAUSES WITH THE NAPMO CHARTER

NAPMA's Formal Comments

Agreed.

NAPMA agrees with the IBAN observation that, Article 10 of the NAPMO Charter states that NAPMO may not conclude any agreement or contract with non-NATO Member States, without advance approval in principle by the North

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Atlantic Council (NAC).

NAPMA notes the IBAN interpretation of the recoupment clause of the NATO AWACS Final Lifetime Extension Programme (FLEP) contract number 41-222 (in case of recoupment from non-NATO Member States), as NAPMO having a third-party benefit agreement with these non-NATO Member States.

NAPMA notes that the IBAN does not question the Contractor rights to enter into future sales of the NAPMO funded development (not acting as an agent for NAPMA).

NAPMA considers the recoupment of non-recurring costs paid by NAPMA, in case of future sales by the NAPMO Contractor, as sound financial management.

NAPMA notes the IBAN observation that it is unclear whether these contractual recoupment clauses are in full compliance with the provisions of the Section IV of the NAPMO Charter, and more specifically with Article 10 of the NAPMO Council-approved Charter.

NAPMA notes that the IBAN recommendation is addressed to NAPMO (and not NAPMA).

NAPMA will ask guidance from the PF Committee and the NAPMO BOD during the fall cycle of 2022 on how to address the IBAN recommendation to seek clarification whether Article 10 of the NAPMO Charter applies to recoupment clauses.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) NAPMA 2020 FY IBA-AR(2021)2021, paragraph 1 USE OF THE DEDICATED FUNDS RESERVE

NAPMA's Formal Comments

Agreed.

(2) NAPMA 2019 FY IBA-AR(2020)0018, paragraph 1 RECOGNITION OF CONTRACTOR ACQUIRED PROPERTY (CAP ASSETS) AS PROPERTY, PLANT AND EQUIPMENT

NAPMA's Formal Comments

Agreed.

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(3) NAPMA 2017 FY IBA-AR(2018)0013, paragraph 1 INNACURACIES AND NON-MATERIAL ERRORS IDENTIFIED IN THE FINANCIAL STATEMENTS

NAPMA's Formal Comments

Agreed.

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GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, gualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the
 presentation of the financial statements, but that some key elements of the
 statements were not fairly stated or affected by a scope limitation, or specific
 issues have come to our attention that causes us to believe that funds have not
 been properly used for the settlement of authorised expenditure or are not in
 compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so
 pervasive and material to the financial statements that IBAN concludes that a
 qualification of the report is not adequate to disclose the misleading or
 incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a
 matter other than those that are presented or disclosed in the financial
 statements that, in our judgement, is relevant to users' understanding of the
 audit, the auditor's responsibilities or the auditor's report.



International Board of Auditors for NATO Collège international des auditeurs externes de l'OTAN



Brussels - Belgium

NATO UNCLASSIFIED

IBA-A(2022)0107 24 August 2022

To: Secretary General

(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives

Chair, NATO European Fighter Aircraft Development Production and Logistic

Management Organisation (NEFMO), Board of Directors

Chair, NATO Multi-Role Combat Aircraft Development Production and In-Service

Support Management Organisation (NAMMO), Board of Directors

General Manager, NATO EF 2000 and Tornado Development, Production and

Logistics Management Agency (NETMA)

Financial Controller, NATO EF 2000 and Tornado Development, Production and

Logistics Management Agency (NETMA) Chair, Resource Policy & Planning Board

Branch Head, Resource Management Branch, NATO Office of Resources

Private Office Registry

Subject: International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO EF2000 and Tornado Development Production and Logistics Management Agency (NETMA) Financial Statements for the year ended 31 December 2021 – IBA-AR(2022)0012

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) and on compliance for financial year 2021.

Yours sincerely,

Daniela Morgante Chair

Attachments: As stated above.

IBA-AR(2022)0012

Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO EF2000 and Tornado Development
Production and Logistics Management Agency (NETMA)
for the year ended 31 December 2021

The NATO reporting entity NETMA is the agency that manages the procurement and the administration of two operational programmes on behalf of its member nations: the Tornado Programme and the EF2000 Programme.

The NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO) is the NATO reporting entity for the Tornado Programme, and the NATO European Fighter Aircraft Development Production and Logistic Management Organisation (NEFMO) for the EF2000 Programme.

NETMA considers NETMA, NAMMO and NEFMO to be separate NATO reporting entities and annually issues a separate set of general purpose financial statements for each of the three budgets under its management and administration.

IBAN audited the Financial Statements of NETMA for the year ended 31 December 2021. The total expenditure in 2021 for the Administrative Budget amounts to EUR 46.2 million.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2021.

IBAN made no observations and recommendations. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that all were closed.

The Audit Report was issued to NETMA whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NETMA management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NETMA executive responsibility.

IBA-AR(2022)0012

24 August 2022

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

NATO EF 2000 AND TORNADO DEVELOPMENT PRODUCTION AND LOGISTICS MANAGEMENT AGENCY

(NETMA)

FOR THE YEAR ENDED 31 DECEMBER 2021

IBA-AR(2022)0012

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NETMA, for the 12 month period ended 31 December 2021, issued under document reference N/38111207/213595/22/NU, and submitted to IBAN on 30 March 2022. These Financial Statements comprise the Statement of Financial Position as at 31 December 2021, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 20121, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2021.

In our opinion, the Financial Statements give a true and fair view of the financial position of NETMA as at 31 December 2021, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2021, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

IBA-AR(2022)0012

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NETMA are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity'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 there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs 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 economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. 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.

IBA-AR(2022)0012

- 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 entity'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 the 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 entity'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. However, future events or conditions may cause the entity to cease to continue as a going concern.
- 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 are required to communicate with the bodies charged with governance, 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. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

IBA-AR(2022)0012

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Head of the NATO reporting entity is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 24 August 2022

Daniela Morgante

Chair

IBA-AR(2022)0012

OBSERVATIONS AND RECOMMENDATIONS

IBAN made no observations and recommendations.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that all were closed.

The Audit Report was issued to NETMA whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NETMA management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NETMA executive responsibility.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) NETMA FY 2020 IBA-AR(2021)0028, paragraph 1.8		
IMPROVEMENTS NEEDED IN THE PRESENTATION OF THE STATEMENT OF BUDGET EXECUTION		Observation Closed
IBAN's Recommendation IBAN recommends that NETMA:		
a) Ensure that the information in the Statement of Budget Execution is complete, either by including accrued expenses in the expenditure incurred during the financial year or by presenting the accrued expenses separately in the Statement of Budget	NETMA ensured the completeness of its 2021 Statement of Budget Execution by presenting the accrued expenses separately in its Statement of Budget	

IBA-AR(2022)0012

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
Execution;	Execution. Closed.	
b) Ensure consistency between information disclosed in the Statement of Budget Execution and in the notes to the Statement of Budget Execution.	NETMA improved the presentation of its Statement of Budget Execution and its note to the Statement of Budget Execution. As a result, we no longer identified any inconsistencies. Closed.	

IBA-AR(2022)0012

NATO EF 2000 AND TORNADO DEVELOPMENT PRODUCTION AND LOGISTICS MANAGEMENT AGENCY (NETMA) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

NETMA made no formal comments on the report and previous year observations.

IBA-AR(2022)0012

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the
 presentation of the financial statements, but that some key elements of the
 statements were not fairly stated or affected by a scope limitation, or specific
 issues have come to our attention that causes us to believe that funds have not
 been properly used for the settlement of authorised expenditure or are not in
 compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so
 pervasive and material to the financial statements that IBAN concludes that a
 qualification of the report is not adequate to disclose the misleading or
 incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a
 matter other than those that are presented or disclosed in the financial
 statements that, in our judgement, is relevant to users' understanding of the
 audit, the auditor's responsibilities or the auditor's report.



International Board of Auditors for NATO Collège international des auditeurs externes de l'OTAN



Brussels - Belgium

NATO UNCLASSIFIED

IBA-A(2022)0060 22 June 2022

To: Secretary General

(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives

Chair of Board of Directors, NAMEADSMO in Liquidation

Head of the Office of the Liquidator, NAMEADSMO in Liquidation

Financial Controller, NAMEADSMO in Liquidation

Chair, Resource Policy & Planning Board

Branch Head, Resource Management Branch, NATO Office of Resources

Private Office Registry

Subject: International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO in Liquidation) Financial Statements for the year ended 31 December 2021 – IBA-AR(2022)0005

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO in Liquidation) and on compliance for financial year 2021.

Yours sincerely,

Daniela Morgante

Chair

Attachments: As stated above.

IBA-AR(2022)0005

Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Medium Extended Air Defense System Management Organization
in Liquidation (NAMEADSMO in Liquidation)
for the year ended 31 December 2021

The NATO Medium Extended Air Defense System Management Organization in Liquidation (NAMEADSMO in Liquidation) is responsible for the planning, execution and overall management of the liquidation of the Medium Extended Air Defense System program with the goal to complete the ongoing effort, safeguard the development results and accomplish a successful closeout on behalf of its members.

The total expenses of NAMEADSMO in Liquidation in 2021 amounted to USD 592,251.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2021.

IBAN made no new observations and recommendations.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that all were closed.

The Audit Report was issued to NAMEADSMO in Liquidation whose comments have been included, with the IBAN's position on those comments where necessary.

IBA-AR(2022)0005

22 June 2022

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

NATO MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT ORGANIZATION IN LIQUIDATION

(NAMEADSMO in Liquidation)

FOR THE YEAR ENDED 31 DECEMBER 2021

IBA-AR(2022)0005

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NAMEADSMO in Liquidation, for the 12 month period ended 31 December 2021, issued under document reference GM-5006-38056-OL, and submitted to IBAN on 30 March 2022. These Financial Statements comprise the Statement of Financial Position as at 31 December 2021, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12-month period ended 31 December 2021, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12-month period ended 31 December 2021.

In our opinion, the Financial Statements give a true and fair view of the financial position of NAMEADSMO in Liquidation as at 31 December 2021, and of its financial performance, its cash flows and budget execution for the 12-month period ended 31 December 2021, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

IBA-AR(2022)0005

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NAMEADSMO in Liquidation are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity'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 there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs 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 economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. 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.

IBA-AR(2022)0005

- 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 entity'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 the 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 entity'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. However, future events or conditions may cause the entity to cease to continue as a going concern.
- 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 are required to communicate with the bodies charged with governance, 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. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

IBA-AR(2022)0005

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Head of the NATO reporting entity is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 22 June 2022

Daniela Morgante

Chair

IBA-AR(2022)0005

OBSERVATIONS AND RECOMMENDATIONS

IBAN made no new observations and recommendations.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that all were closed.

The Audit Report was issued to NAMEADSMO in Liquidation whose comments have been included, with the IBAN's position on those comments where necessary.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations and recommendations, the actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) NAMEADSMO in Liquidation FY 2020 IBA-AR(2021)0040, paragraph 1		
NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS AS AN AGENT		Observation Closed.
IBAN's Recommendation IBAN recommends that NAMEADSMO in Liquidation strengthen internal controls over the preparation of the financial statements in order to correctly reflect its role as an agent for operational costs and revenue	NAMEADSMO in Liquidation fully implemented IBAN's recommendation by correctly reflecting its role as an agent for operational costs and revenue.	

IBA-AR(2022)0005

NATO MEDIUM EXTENDED AIR DEFENSE SYSTEM MANAGEMENT ORGANIZATION IN LIQUIDATION (NAMEADSMO IN LIQUIDATION) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

NAMEADSMO in Liquidation's Formal Comments

I would like to inform you that I have no factual or formal comments on the International Board of Auditors for NATO draft Audit Report on the audit of the NATO Medium Extended Air Defense System Management Organisation in Liquidation Financial Statements for the year ended 31 December 2021 – IBA-AR(2022)0005.

IBA-AR(2022)0005

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the
 presentation of the financial statements, but that some key elements of the
 statements were not fairly stated or affected by a scope limitation, or specific
 issues have come to our attention that causes us to believe that funds have not
 been properly used for the settlement of authorised expenditure or are not in
 compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so
 pervasive and material to the financial statements that IBAN concludes that a
 qualification of the report is not adequate to disclose the misleading or
 incomplete nature of the financial statements.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

NAGSMO 2021 FINANCIAL STATEMENTS





NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY NAGSMA



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NATO UNCLASSIFIED

NAGSMA NATO HQ Boulevard Léopold III B-1110 Brussels - Belgium

Tel: +32 2 707 1801 Email: nagsma@nagsma.nato.int



NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY NAGSMA



NAGSMA/FC/L/(2022)00 5659 21 March 2022

International Board of Auditors for NATO

Attention: NAGSMO Board of Directors - Chairman and National Representatives

Subject: NAGSMO Financial Statements - Year ending 31 December 2021

Enclosed are the NAGSMO 2021 Financial Statements. Please note that the enclosed statements are subject to audit by the International Board of Auditors for NATO.

For the General Manager

Lina Mazeikiene NAGSMA Financial Controller

Encl.: NAGSMO Financial Statements for the year ending 31 December 2021.

NATO UNCLASSIFIED

NAGSMA NATO HQ Boulevard Léopold III B-1110 Brussels - Belgium

Tel: +32 2 707 1801 Email: nagsma@nagsma.nato.int



NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY NAGSMA



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NATO UNCLASSIFIED

NAGSMA NATO HQ Boulevard Léopold III B-1110 Brussels - Belgium

Tel: +32 2 707 1801 Email: nagsma@nagsma.nato.int

These Financial Statements represent the consolidated activities of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO) and its executive body NATO Alliance Ground Surveillance Management Agency (NAGSMA).

THE NATO ALLIANCE GROUND SURVEILLANCE PROGRAMME

NAGSMO is acquiring as an agent a NATO owned and operated Alliance Ground Surveillance (AGS) system that will give commanders an up-to-date picture of the situation on the ground throughout a wide area of interest. The AGS Core will be compliant with NATO Standardization Agreements (STANAGs) in order to ensure interoperability with interoperable national and NATO systems.

The AGS Core capability will enable the Alliance to perform persistent surveillance over wide areas from high-altitude, long-endurance (HALE), unmanned air platforms operating at considerable stand-off distances and in any weather or light condition. Using advanced radar sensors, the AGS Core will continuously detect and track moving objects throughout the observed areas, as well as providing radar imagery of areas and stationary objects.

The NAGSMO and its executive body NAGSMA are responsible for the procurement of the NATO AGS Core capability. NAGSMA was established in September 2009, after all Participating Nations signed the AGS Programme Memorandum of Understanding.

In late 2011, NAGSMA completed negotiations of the AGS Core procurement contract which was subsequently approved by the Participating Nations. The AGS Programme contract award was signed on 20 May 2012 in the margins of the NATO Summit in Chicago. In parallel, all 28 NATO nations negotiated the AGS Programme's practical funding solution for the related Capability Package for the future operations and support of the system.

THE AGS CORE

The AGS Core will be an integrated system consisting of an air segment, a ground segment and a support segment.

The air segment will be based on the Block 40 version of the US RQ-4B Global Hawk high-altitude, long-endurance (HALE) unmanned aerial vehicle (UAV). The UAV will be equipped with the state-of-the-art Multi-Platform Radar Technology Insertion Program (MP-RTIP) ground surveillance sensor, and also with an extensive suite of communications and data links. The air segment will also include the ground-based UAV control stations, which will be located at the AGS Main Operating Base (MOB) at Sigonella Air Base, Italy.

The ground segment will consist of deployable ground stations in mobile and transportable configurations, and dedicated mission operations support facilities at the MOB. The ground segment entities will provide data link connectivity, data processing and exploitation

capabilities, and interoperable interfaces between the AGS Core System and a wide range of NATO and national Command, Control, Intelligence, Surveillance and Reconnaissance systems. This will enable the AGS Core to interconnect with and provide data to multiple deployed and non-deployed operational users in a flexible, timely and effective manner.

The AGS support segment provides items needed to train the air and ground segment operators and maintainers, to support the AGS System at its main operating base, and to enable maintenance and repair during deployed operations.

The AGS Core System will be supplemented by Core Extension capabilities from participating NATO Nations, as part of NATO's broader Joint Intelligence, Surveillance and Reconnaissance (JISR) capability.

NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION

The NATO Alliance Ground Surveillance Management Organisation (NAGSMO) is a NATO body

- created within the framework of NATO for the acquisition of the AGS Core System and established by the North Atlantic Council pursuant to Article IX of the North Atlantic Treaty and within the meaning of the Agreement on the Status of the North Atlantic Treaty Organisation, National Representatives and International Staff, signed in Ottawa 20 September 1951;
- to which the North Atlantic Council grants, within the framework of the NATO, a clearly defined organisational, administrative and financial status as specified below;
- established with a view to meeting the NATO requirement, by Bulgaria, Czech Republic, Denmark, Estonia, Germany, Italy, Latvia, Lithuania, Luxembourg, Norway, Poland, Romania, Slovakia, Slovenia, and the United States of America in the field of implementation of the NATO AGS Programme described in the AGS Programme Memorandum of Understanding (PMOU).

In June 2010, Denmark announced their intent to withdraw from the AGS Programme, a process that under the terms of the PMOU came into effect on 31 March 2011. Subsequently, in July 2011, Canada also announced their intent to withdraw, effective as of 30 April 2012. Later in 2012 Denmark announced their interest and intent to re-join the AGS Programme. Denmark re-joined the AGS Programme in December 2012. Poland announced to the NAGSMO Board of Directors their interest in joining the AGS Programme in August 2012. An amendment to the PMOU was sent to Participating Nations for signature in August 2013. Poland signed the Amendment 1 to the AGS PMOU in April 2014. With the signature of all of the Participating Nations, the Amendment 1 to the AGS PMOU came into effect on the 19th of June 2014.

The principal task of the NAGSMO is to ensure the planning and implementation of a harmonised AGS Programme, which satisfies the operational requirements, in accordance with the provisions of the PMOU, and with due regard to the NAGSMO Member States' views on political, economic, industrial and technological factors. NAGSMO shall assume the functions of overall management of the AGS Programme, including:

- overall governance of the AGS Programme;
- general administration of the NAGSMA and procurement of the AGS Core and Core Extension Systems;
- examination of all issues that might impact the AGS Programme;
- coordination, as necessary, of the policy and working methods of the NAGSMO Member States' services, such as quality assurance and auditing; and
- support integration of the AGS System with the NATO Joint Intelligence, Surveillance and Reconnaissance (JISR) architecture.

NAGSMO comprises a Board of Directors (BoD) with Representatives from the Participating Nations, a Finance Committee, and NAGSMA as the Executive Body, led by a General Manager (GM).

NAGSMA and Service Support/Level Agreement

NAGSMA has signed service support agreements with the NATO IS, NSPA, and the NCI Agency in a number of areas necessary for the day-to-day operations of the Agency. In all respects of NAGSMA related activities, the GM and his staff remain fully accountable for the responsibilities assigned to them and make the final decisions on all matters related to the execution of NAGSMA's mandate.

NAGSMO Financial Management Procedures Document and Financial Rules and Procedures (FMPD-FRP)

The NAGSMO FMPD-FRP conforms to the provisions of the NATO Financial Regulations. The NAGSMO FMPD-FRP recognises the withdrawal of Canada and the re-entry of Denmark, the conversion parameters from Then-Year to Base-Year, the call for contribution structure, the proposed structure of the Administrative and Operational Budgets, as well as the Voluntary National Financial Contributions.

NAGSMA 2021 Administrative Budget

In September 2020 the NAGSMO BoD approved the 2021 NAGSMA Administrative Budget. Following the subsequent extensions of the Agency, the 2021 NAGSMA Administrative Budget was revised in April 2021 and August 2021 to cover the period from 1 January to 31 December, 2021.

Due to the postponed closure of the Agency to 31 December 2021, the corresponding NAGSMA staff contract extensions as well as the departures and transfers of some NAGSMA staff members to other NATO entities, the estimates for possible Loss of Job Indemnity (LOJI), installation and removal allowances, were all revised. As a result, in December 2021 the NAGSMO BoD approved a decrease of the 2021 Administrative budget by 585k EUR.

In 2021 NAGSMA's administrative expenditures were considerably lower than what had been anticipated. 38% of the total savings were due to the Loss of Job indemnities (LOJI) shift from NAGSMA 2021 Administrative budget to NAGSMA 2022 Administrative budget caused by a decision to extend the Agency till 31 March 2022, taken by the BoD in December 2021.

32% of the total savings were in Chapter I. The majority of savings were generated in basic salary and payroll related costs, removal allowances, and consultancy. Savings in basic salary resulted from early departures of staff and subsequently unfilled positions foreseen in the Staffing table.

In Chapter II, Operations and Maintenance, the Agency successfully negotiated the Service Support Agreement and an annual Service Support Package with the NCI Agency for external administrative and IT support. It also received administrative support from the NATO IS under the Memorandum of Agreement. 29% of the total savings were identified in Chapter II and primarily related to a lower scope of support from the NCI Agency as well as less travel on duty mainly due to the Covid19 related travel restrictions.

NAGSMA 2021 Operational Budget

The initial 2021 NAGSMA Operational Budget was approved by the NAGSMO BoD in September 2020. The budget primarily covers the Initial In-Service Support (I-ISS) as well as contracts in place with Terma (Denmark), Leonardo (Italy), Airbus (Germany), Kongsberg (Norway), and EXENCE, ITWL, and PIT-RADWAR (Poland).

Following the subsequent extensions of the Agency, the 2021 NAGSMA Operational Budget was revised during the year to cover the period from 1 January to 31 December, 2021.

Furthermore, due to delays in the program and NAGSMA's extension until 31 March 2022, the 2021 Operational Budget was further decreased by 3.5M USD and 1.8M EUR, carrying forward the uncommitted funds to the Operational budget 2022. The NAGSMO BoD approved the carry forward of uncommitted funds to the 2022 Operational Budget in December 2021.

Major Achievements FY 2021:

In 2021, the AGS Programme achieved the following important milestones:

Core Contract:

- Site Acceptance and Handover of:
 - o NA-04, NA-05 and NA-02;
 - DUCE #1 and #2;
 - Mission Operations Support (MOS) #2;
 - MGGS R1, R2, P1, P2, P3, P4, P5, P6 and the MGGS Remote Administration Facility (RAF);
 - o TGGS R1 and R2;
 - Spare WBDL GDTs and ADTs;
 - Spare Vehicle Text Controllers (VTCs);
 - AGS Logistics Information System (ALIS);
 - Additional Remote Workstation (RWS) 25 Units;
 - Link-16 A-Kits and B-Kits;
 - o AVCM2 #1 and #2.
- NAGS1.6DOC03048 R C approved: new document used to track Engine Configuration and Rolls Royce Service Bulletins;
- Multiple Engineering Change Proposals and Service Bulletins, noteworthy to include:
 - NAGS-SB-2021-001 Rev A Service Bulletin that introduces alternative Engine Configuration for AGS, including engine installed in NA-05;
 - NAGS-SB-2020-004 Rev. B Multi-UAV Limitation Removal;
 - NAGS-SB-2020-006 Rev. A, NAGS-SB-2020-018, and NAGS-SB-2020-031 Rev. A
 INMARSAT Provider changes to NATO Provider;
 - NAGS-SB-2020-041 Rev. A Structural Service Life Limit Change to 92 Flights;
 - NAGS-SB-2020-023 Rev. B WBDL AVMC2 Integration.
- I-ISS Contracts. Completion on 31 August 2021 of the I-ISS Contracts and transition to ISS under NSPA:
 - o Air-Segment with NGISSII (Part 6 of the AGS Core Contract);
 - o MGGS with Airbus;
 - TGGS/MOS with Leonardo (pending accomplishment of TO #7);
 - SMARF with Kongsberg;
 - Delivery and acceptance of over 30,000 Spare Parts;
 - Handover of Common and Peculiar Support Equipment (CSE / PSE).

Core Extension Contracts:

- ATR/ATID by Terma, DK
 - Phase 2+ installs ATR/ATID Capability with the reduced MOS platform into the NAGSF PED (Processing, Exploitation, and Dissemination) Cell.
 - o Stand-Alone PED Cell installation completed @ Sigonella;

- System Hand over to SPC completed in November 2021;
- Amendment #2 & #3 signed to provide On-Call support to NAGSF;
- Support to TO#7 with Leonardo to integrate ATR/ATID into TGGS/MOS;
- o Amendment #4 to reconstitute PED Cell install with new hardware.
- TSEC by Exence, POL
 - Vulnerability Assessment conducted @ MOB with positive report;
 - TSEC integration into MGGS and MOS/TGGS under AB TO #10 & LDO #7;
 - o Amendment #3 & #4 signed to provide On-Call support till the end of Dec 2021;
 - TSEC Site Acceptance and Handover to SPC completed in November 2021.
- Battle Lab by ITWL, POL
 - Contract Management Review (CMR) #5 completed;
 - FCA/PCA completion;
 - o AGS BL shipped from POL in June for Installation at MOB;
 - Amendment #2 signed to provide On-Call support to the end of Dec 2021;
 - o AGS Battle Lab Site Accepted and Handover to SPC in November, 2021.
- CSOP / Back-Up SMARF by PIT-RADWAR, POL
 - CSOP equipment integration (CSOP Server and Backup SMARF) with Kongsberg support @ PIT-RADWAR facilities to support testing completed;
 - Amendment #2 signed to allow Enabling Projects for JFTC Site modifications;
 - Functional Tests #1 completed at PIT-RADWAR premises.
- ALIS by Leonardo, IT
 - Final System Acceptance (FSA) completed;
 - o ALIS Handover to SPC in May, 2021;
 - o Activities after handover:
 - Data loading will continue after ALIS Handover to align the ALIS database to AGS Core System Functional Configuration Audit (S-FCA) and As Built baselines;
 - Support NAGSF and NSPA use and operation, as necessary;
 - Close Out ALIS Procurement Contract with Leonardo Rome.
- SMARF Support by Kongsberg, NOR
 - Amendment 2 to SMARF Reuse, Support and Sustainment Extension for April 2021 – August 2021 (Support to PIT/RADWAR Activities).

2022 Outlook

The main activities foreseen in 2022 are the execution/completion of the following:

- Core Contract:
 - Completion of Site Acceptance and Handover of Support Segment Trainer entity;
 - o Completion of the System Functional Configuration Audit (FCA) which leads to System Design Development Qualification (SDDQ) completion.

- Execution, delivery, acceptance, and Handover the Core Extension (IP) Capabilities:
 - POL PITRADWAR for CSOP: Installation and acceptance @ JFTC.

NAGSMA Assets

Office space, including furniture is provided by NATO IS via MoU. IT and other equipment is provided by the NCI Agency via the SSA.

NAGSMO & NAGSMA Acting as a Procurement Agent

The North Atlantic Council (NAC) established NAGSMO by approving its Charter. The Charter clearly establishes that NAGSMO is a subsidiary body of NATO and states that the objective is to procure the AGS Core system which will be owned, controlled and operated by NATO. NAGSMA is an entity acting as an agent with no control over the assets procured. The AGS Participating Nations reiterated the specific nature of the AGS Programme: temporary existence of the Agency with the goal to procure, deliver, and hand over the AGS Core system to NATO and, as such, the Agency will not own any assets.

As per AGS Transition Plan, NSPA, as the executive body of the AGS Support Partnership, will exercise ownership and will be responsible for the registration of ownership and accountability for each asset on behalf of NATO at the granularity level defined by the Transition Plan as well as the financial accounting, depreciation and financial reporting in their own financial statements of the AGS Core System Assets in accordance with Council-approved regulations, including those related to NATO Accounting Framework and International Public Sector Accounting Standards (IPSAS). NAGSMA is responsible for the submission of the initial asset accounting list in accordance with the minimum data requirements specified in LW-A/2016/088/IS/II Asset Accounting Minimum Data Requirements.

In 2021 NAGSMO the following assets were handed over to the AGS Support Partnership:

- Unmanned Aerial Vehicle (UAV) NA-02,
- Unmanned Aerial Vehicle (UAV) NA-04,
- Unmanned Aerial Vehicle (UAV) NA-05,
- Air Vehicle Mission Command and Control (AVMC2) Ground Control Stations 1 & 2,
- Collaborative Environment,
- Deployable UAV Control Element 1 (DUCE-1),
- Deployable UAV Control Element 2 (DUCE-2),
- Link-16 Kits,
- Mission Operations Support (MOS) Operational Element #2,
- Mobile General Ground Station (MGGS) Unit P1,
- Mobile General Ground Station (MGGS) Unit P2,
- Mobile General Ground Station (MGGS) Unit P3,
- Mobile General Ground Station (MGGS) Unit P4,
- Mobile General Ground Station (MGGS) Unit P5,
- Mobile General Ground Station (MGGS) Unit P6,

- Mobile General Ground Station Remote Administration Facility (RAF),
- NATO AGS Automatic Target Recognition/Automatic Target Identification Capability Development & Integration (ATR/ATID) (Phase I/Phase II/Phase II+),
- NATO AGS Battle Lab,
- NATO AGS Logistic Information System (ALIS),
- NATO AGS Test System Environment Capability (TSEC),
- Common Support Equipment,
- Peculiar Support Equipment,
- Additional Remote Workstations (RWS),
- Transfer of Custodianship of COMSEC,
- Transportable General Ground Station (TGGS) Unit R1,
- Transportable General Ground Station (TGGS) Unit P2,
- WBDL GDT Spare Trailers,
- WBDDL ADT Spares;
- SLPV and I-ISS Spare Parts, over 30,000

Furthermore, the following additional assets have been handed over to the AGS Support Partnership in 2022 as of the day of the Financial Statements authorisation for publishing:

TRAINER Entity (Pilot Trainer, Mission Trainer, and the Training Management System)

More than 30,000 parts were turned over to NAGSF in 2021. NAGSMA has provided data for all transferred assets and inventory to NSPA.

CERTIFICATION

- 1. The NAGSMO 2021 Financial Statements are submitted to the International Board of Auditors for NATO.
- 2. The Financial Statements will be audited in accordance with the following reference documents:
 - a. The NAGSMO FMPD-FRP conform to the NFRs, Part II as approved by the North Atlantic Council (NAC) in C-M(2015)0025.
 - b. PO(2002)109, dated 23 July 2002: the document from the NAC adopting IPSAS, including the accrual and going concern assumptions, as the applicable accounting standards for all NATO entities effective for the financial year of 2006.
 - c. The NATO Accounting Framework has been developed to provide minimum requirements for financial reporting for all NATO Reporting Entities following approval of C-M(2016)0023 by the North Atlantic Council on 29 April 2016 of an IPSAS-adapted accounting framework for the Alliance.
- 3. The NAGSMO Financial Statements are certified by the NAGSMA Financial Controller to the best of her knowledge and according to the applicable accounting standards to give a true and fair view of the assets, liabilities, financial position and financial performance of NAGSMO and to be in accordance with the books and records maintained by the NCI Agency and NAGSMA.
- 4. The NAGSMO Financial Statements may be disclosed to the general public.

Paul F. Linnell

NAGSMA General Manager

Lina Mazeikiene

NAGSMA Financial Controller

STATEMENT ON INTERNAL CONTROL

This statement of internal control applies to the Financial Statements of NAGSMA, as the executive body of NAGSMO, for the year ended 31 December 2021.

Scope of responsibility

- The General Manager acknowledges responsibility to maintain a sound system of internal control that supports the achievement of NAGSMA's mandate under its NATO Charter.
- The Financial Controller acknowledges responsibility for the correct use of funds made available to NAGSMA and for maintaining a sound system of internal control that supports the achievement of NAGSMA's goals and objectives, whilst safeguarding the public funds and assets.
- Funds received are recorded, accounted and managed through the NCI Agency core financial system.

The NAGSMO Board of Directors approved the NAGSMO Financial Management Procedures Document-Financial Rules and Procedures (FMPD-FRP) to provide guidance on the proper handling and reporting of public funds. The FMPD-FRP sets out the relevant financial rules and procedures in accordance with the NATO Financial Regulations, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

Purpose of the System of Internal Control

The system of internal control is designed to ensure that NATO assets are used for the purposes intended and that the transactions relating to their usage reflect the highest standards of integrity to justify continued confidence of the AGS Programme Participating Nations.

The process within NAGSMA accords with the NAGSMO FMPD-FRP and has been in place for the year ending 31 December 2021 and up to the date of approval of the Financial Statements.

Risk and Control Framework

The NAGSMA system of internal control is based on an ongoing process designed to identify the key risks to the achievement of NAGSMA goals and objectives, to evaluate the nature and extent of those risks and to manage them efficiently and effectively.

NAGSMA is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area.

Since the NCI Agency carries out transactions on behalf of NAGSMA under the Service Support Agreement, NAGSMA's processes need to be compatible to the NCI Agency financial management system.

Review of Effectiveness

The Financial Controller has responsibility for reviewing the effectiveness of the system of internal control. The review is informed by:

- The executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework;
- Periodic Internal Audits performed on selected areas of activity within the FC/RM division; and
- Comments made by the external auditors in their management letters and other reports.

Appropriate action is in place to address any weaknesses identified and to ensure the continuous improvement of the system. During 2021, no material instances of failure to the internal control system were reported that should be brought to your attention.

Paul F. Linnell

NAGSMA General Manager

Lina Mazeikiene

NAGSMA Financial Controller

NAGSMO – Statement of Financial Position as at 31 December 2021 (all amounts in Euro)

		Notes	Current Year	Prior Year
		ANNEX B	31-Dec-21	31-Dec-20
ASSETS				
	Cash and cash equivalents	B01	73,313,239	167,949,792
	Short-term investments	B02	0	0
	Receivables	B03	0	1,392,436
	Other current assets and prepayments	B04	89,814	233,814
	Current assets		73,403,053	169,576,042
TOTAL ASSETS			73,403,053	169,576,042
LIABILITIES				
	Payables	B05	1,543,236	9,770,266
	Advances and deferred revenue	B06	66,331,895	154,290,918
	Short term provisions	B07	89,814	233,814
	Other current liabilities	B08	3,747,424	5,281,044
	Current liabilities		71,712,369	169,576,042
	Long-term payables	B08	1,690,684	0
	Non-current liabilities		1,690,684	0
NET ASSETS/EQU	ITY			
	Accumulated surpluses/(deficits)		0	0
	Net Assets/Equity		0	0
TOTAL LIABILITIES			73,403,053	169,576,042

NAGSMO – Statement of Financial Performance for the year ended 31 December 2021 (all amounts in Euro)

	Notes	Current Year	Prior Year
	ANNEX C	2021	2020
REVENUE			
REVENUE			
Revenue from non-exchange transactions	C01	6,573,004	7,274,196
Revenue		6,573,004	7,274,196
EXPENSES			
Personnel	C02	5,866,454	6,223,345
Contractual supplies and services	C03	706,550	1,050,851
Expenses		6,573,004	7,274,196
NET SURPLUS/(DEFICIT)		0	0
NET SURPLUS/(DEFICIT) ALLOCATION			
Reserves		0	0
Accumulated surpluses/(deficits)		0	0
Net surplus/(deficit) allocation		0	0

NAGSMO – Cash Flow Statement (Indirect Method) for the year ended 31 December 2021 (all amounts in Euro)

	Notes	Current Year	Prior Yea
	ANNEX D	2021	2020
ASH FLOW FROM OPERATING ACTIVITIES			
Cash flow from operating and other activities			
Net surplus/(deficit)		0	(
Total cash flow from operating and other activities		0	
Decrease/(increase) Current assets			
Decr./(incr.) Other current assets and prepayments		144,000	(75,909
Decr./(incr.) Receivables		1,392,436	20,001,91
Total decrease/(increase) Current assets		1,536,436	19,926,00
Increase/(decrease) Current liabilities			
Incr./(decr.) Short term provisions		(144,000)	83,60
Incr./(decr.) Other current liabilities		(1,533,620)	(15,638,494
Incr./(decr.) Payables		(8,227,031)	9,127,57
Incr./(decr.) Advances and deferred revenue		(87,959,022)	(99,344,455
Total increase/(decrease) Current liabilities		(97,863,673)	(105,771,764
ET CASH FLOW FROM OPERATING ACTIVITIES		(96,372,237)	(85,845,755
ET CASH FLOW FROM INVESTING ACTIVITIES		0	(
Incr./(decr.) Long-term payables		1,690,684	
ET CASH FLOW FROM FINANCING ACTIVITIES		0	
ET INCREASE/(DECREASE) CASH AND CASH EQUIVALEN	TS	(94,636,553)	(85,845,755
ASH AND CASH EQUIVALENTS AT BEGINNING OF PERIO	D	167,949,792	253,795,54
ASH AND CASH EQUIVALENTS AT END OF PERIOD		73,313,239	167,949,79

NAGSMO – Statement of Changes in Net Assets/Equity for the year ended 31 December 2021 (all amounts in Euro)

BALANCE AT 31-DECEMBER-2020	0
Net surplus for the period	0
BALANCE AT 31-DECEMBER-2021	0
NET CHANGE IN ASSETS/EQUITY (OPERATING FUND) FOR THE YEAR ENDED 31-DECEMBER-2021	0

NAGSMO Budget Execution Statement - Administrative Budget for the year ended 31 December 2021 (All amounts in Euro)

	ANNEX E	- Initial Authorisa- tion¹	Revision 1 ²	Revision 2 ³	Transfers and Budget Decrease ⁴	Final Authorisation	Net Commitment	Expenditure ⁵	Total	Carry Forward	Lapsed
Personnel											
2019 - Personnel	E01	0	0	0	0	0	0	-2,300	-2,300	0	2,300
2020 - Personnel	E02	0	0	0	0	0	0	-3,204	-3,204	0	3,204
2021 - Personnel	E03	3,898,000	5,095,606	6,497,795	200,000	6,997,795	0	6,015,958	6,015,958	0	981,837
Total Personnel		3,898,000	5,095,606	6,497,795	200,000	6,997,795	0	6,010,454	6,010,454	0	987,341
Contractual supplies and services											
2019 - Contractual supplies and services	E04			0	0	0	0	-38,513	-38,513	0	38,513
2020 - Contractual supplies and services	E05			0	0	0	0	-88,748	-88,748	0	88,748
2021 - Contractual supplies and services	E06	1,326,000	1,830,200	2,129,529	-484,647	1,644,882	0	785,620	785,620	0	859,262
Total Contractual supplies and services		1,326,000	1,830,200	2,129,529	-484,647	1,644,882	0	628,329	628,329	0	986,523
Capital and investment budgeting											
2021 - Capital and investment budgeting	E07	3,000	3,000	3,000	0	3,000	0	0	0	0	3,000
Total Capital and investment budgeting		3,000	3,000	3,000	0	3,000	0	0	0	0	3,000
Budget contingencies											
2021 - Budget contingencies	E08	1,700,000	1,700,000	1,850,000	-600,000	1,250,000	0	48,191	48,191	0	1,201,809
Total Budget contingencies		1,700,000	1,700,000	1,850,000	-600,000	1,250,000	0	48,191	48,191	0	1,201,809
TOTAL BUDGET EXECUTION		6,927,000	8,628,806	10,480,324	-584,647	9,895,677	0	6,717,004	6,717,004	0	3,178,673

NAGSMO/BOD/D/2020/0008-AS1, dated 30 September 2020, "2021 NAGSMA Administrative and Operational Budget Book";

² NAGSMO/BOD/D/2021/0016-ASI, dated 23 April 2021, "Revised 2021 NAGSMA Administrative Budget";

³ NAGSMO/BOD/D/2021/0035-ASI, dated 13 August 2021, "Revised 2021 NAGSMA Administrative Budget - Revision 2";

⁴ NAGSMO/BOD/D/2021/0055-ASI, dated 3 December 2021, "Revised 2021 NAGSMA Administrative Budget - Revision 3"; Transfers effected within the authority of the NAGSMA Financial Controller;

⁵ Negative amounts in Expenditure include the impact of reversal of unspent accruals for previous periods.

NAGSMO Budget Execution Statement - Operational Budget Total for the year ended 31 December 2021

(All amounts in Euro equivalent)

Notes	Initial Authorisation ¹ Transfers Effected ² Final Authorisation	ransfers Effected ² Fi	nal Authorisation	Net Commitment	Expenditure	Total Spend	Carry Forward	Lapsed
Annex F	1							
			FA					
AGS Core System Procurement								
2015 - AGS Core System Procurement	478	0	478	478	0	478	478	0
2016 - AGS Core System Procurement	13,000	0	13,000	0	13,000	13,000	0	0
2017 - AGS Core System Procurement	85,635	0	85,635	0	85,635	85,635	0	0
2018 - AGS Core System Procurement	60'068'6	0	9,890,093	4,373,988	5,516,106	9,890,093	4,373,988	0
2019 - AGS Core System Procurement	77,310,092	0	77,310,091	26,316,349	50,723,688	77,040,037	26,316,349	270,055
2020 - AGS Core System Procurement	9,928,787	0	9,928,787	5,402,019	4,526,768	9,928,787	5,402,019	0
2021 - AGS Core System Procurement	27,351,814	7,766,068	35,117,882	11,408,160	23,709,723	35,117,882	11,408,160	0
TOTAL AGS Core System Procurement	124,579,900	7,766,068	132,345,967	47,500,993	84,574,919	132,075,913	47,500,993	270,055

¹ 2021 NAGSMA Operational Budget approved by the NAGSMO Board of Directors - NAGSMO/BOD/D/2020/0008-AS1, dated 30 September 2020, "2021 NAGSMA Administrative and Operational Budget Book";

NAGSMO/BOD/D/2020/0017-AS1, dated 8 January 2021, "Special Carry Forwards of Uncommitted Appropriations", ² Transfers Effected approved by the NAGSMO Board of Directors or NAGSMO Finance Committee:

NAGSMO/BOD/D/2021/0017-AS1, dated 30 April 2021, "Revised 2021 NAGSMA Operational Budget", NAGSMO/FC/D/2021/0004-AS1, dated 19 April 2021, "Transfer of Budget Credits",

NAGSMO/FC/D/2021/0013-AS1, dated 23 July 2021, "Transfer of Budget Credits",

NAGSMO/BOD/D/2021/0038-AS1, dated 03 September 2021, "Revised 2021 NAGSMA Operational Budget – Revision 2",

NAGSMO/BOD/D/2021/0060-AS1, dated 17 December 2021, "Special Carry Forward of Uncommitted Appropriations and Formation of 2022 Operational Budget".

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NAGSMO Budget Execution Statement - Operational Budget (EUR part) for the year ended 31 December 2021 All amounts in Euro

Notes	es Initial Authorisation ¹	Transfers Effected ²	Final Authorisation	Net Commitment	Expenditure	Total Spend	Carry Forward	Lapsed*
Annex F	Г							
System Design, Development and Qualification								
2019 - System Design, Development and Qualification	8,498,822	0	8,498,822	2,527,000	5,971,822	8,498,822	2,527,000	0
Total System Design, Development and Qualification	8,498,822	0	8,498,822	2,527,000	5,971,822	8,498,822	2,527,000	0
Production								
2018 - Production	1,324,166	0	1,324,166	1,274,166	20,000	1,324,166	1,274,166	0
2019 - Production	13,135,438	0	13,135,438	2,234,914	10,900,525	13,135,438	2,234,914	0
Total Production	14,459,604	0	14,459,604	3,509,080	10,950,525	14,459,604	3,509,080	0
Management Reserve								
2016 - Management Reserve	13,000	0	13,000	0	13,000	13,000	0	0
2017 - Management Reserve	27,189	0	27,189	0	27,189	27,189	0	0
2018 - Management Reserve	254,564	0	254,564	0	254,564	254,564	0	0
2019 - Management Reserve	334,031	0	334,031	0	327,660	327,660	0	6,372
2021 - Management Reserve	459,105	-459,105	0	0	0	0	0	0
Total Management Reserve	1,087,889	-459,105	628,784	0	622,413	622,412	0	6,372
CAFX								
2019 - CAFX	421,242	0	421,242	77,365	80,193	157,559	77,365	263,683
	597,342	144,620	741,962	0	741,962	741,962	0	0
Total CAFX	1,018,584	144,620	1,163,204	77,365	822,155	899,520	77,365	263,683
SSII								
2018 - IISS	4,563,143	0	4,563,143	148,741	4,414,402	4,563,143	148,741	0
2019 - IISS	245,037	0	245,037	0	245,038	245,037	0	0
2020 - IISS	53,969	0	53,969	6,399	47,570	53,969	6,399	0
2021 - IISS	3,522,500	2,140,316	5,662,816	380,899	5,281,917	5,662,816	380,899	0
Total IISS	8,384,650	2,140,316	10,524,966	536,038	9,988,927	10,524,966	536,038	0
ATR/ATID								
2021 - ATR/ ATID	000,066	1,464,500	2,454,500	15,000	2,439,500	2,454,500	15,000	0
Total ATR / ATID	000'066	1,464,500	2,454,500	15,000	2,439,500	2,454,500	15,000	0
TCB								
2017 - TSEC, CSOP & Battle Lab. Capability	58,446	0	58,446	0	58,446	58,446	0	0
2018 - TSEC, CSOP & Battle Lab. Capability	39,372	0	39,372	0	39,372	39,372	0	0
2019 - TSEC, CSOP & Battle Lab. Capability	8,199,537	0	8,199,537	613,187	7,586,350	8,199,537	613,187	0
2020 - TSEC, CSOP & Battle Lab. Capability	7,578,426	0	7,578,426	3,099,228	4,479,198	7,578,426	3,099,228	0
2021 - TSEC, CSOP & Battle Lab. Capability	0	471,600	471,600	167,500	304,100	471,600	167,500	0
Total TCB	15,875,782	471,600	16,347,382	3,879,915	12,467,467	16,347,382	3,879,915	0
	50,315,330	3,761,931	54,077,261	10,544,399	43,262,808	53,807,206	10,544,399	270,055

2021 NAGSIMA Operational Budget approved by the NAGSMO Board of Directors - NAGSIMO/BOD/D/2020/0008-AS1, dated 30 September 2020, "2021 NAGSIMA Administrative and Operational

² Transfers Effected approved by the NAGSMO Board of Directors or NAGSMO Finance Committee:

NAGSMO/BOD/D/2020/0017-AS1, dated 8 January 2021, "Special Carry Forwards of Uncommitted Appropriations",

NAGSMO/BOD/D/2021/0017-AS1, dated 30 April 2021, "Revised 2021 NAGSMA Operational Budget", NAGSMO/FC/D/2021/0004-AS1, dated 19 April 2021, "Transfer of Budget Credits",

NAGSMO/FC/D/2021/0013-AS1, dated 23 July 2021, "Transfer of Budget Credits",

NAGSMO/BOD/D/2021/0038-A51, dated 03 September 2021, "Revised 2021 NAGSMA Operational Budget – Revision 2", NAGSMO/BOD/D/2021/0060-A51, dated 17 December 2021, "Special Carry Forward of Uncommitted Appropriations and Formation of 2022 Operational Budget".

NAGSMO Budget Execution Statement - Operational Budget (USD part)

for the year ended 31 December 2021 All amounts in USD

		Notes	Initial Authorisation ¹	Transfers Effected ²	Final Authoris ation	Net Commitment	Expenditure	Total Spend	Carry Forward	Lapsed
		Annex F								
System Desig	System Design, Development and Qualification									
2019 -	2019 - System Design, Development and Qualification		27,007,601	0	27,007,601	20,323,616	6,683,985	27,007,601	20,323,616	0
Total S	Total System Design, Development and Qualification		27,007,601	0	27,007,601	20,323,616	6,683,985	27,007,601	20,323,616	0
Production										
2018 -	2018 - Production		4,401,083	0	4,401,083	3,501,883	899,200	4,401,083	3,501,883	0
2019 -	2019 - Production		27,044,905	0	27,044,905	4,434,391	22,610,514	27,044,905	4,434,391	0
Total P	Total Production		31,445,988	0	31,445,988	7,936,274	23,509,714	31,445,988	7,936,274	0
Management Reserve	Reserve									
2021 -	2021 - Management Reserve		2,248,514	-2,248,514	0	0	0	0	0	0
Total Iv	Total Management Reserve		2,248,514	-2,248,514	0	0	0	0	0	0
CAFX										
2015 - CAFX	· CAFX		268	0	568	568	0	568	268	0
Total CAFX	CAFX		268	0	568	268	0	268	268	0
IISS										
2019 - IISS	SSII:		1,097,952	0	1,097,952	0	1,097,952	1,097,952	0	0
2020 - IISS	SSII:		2,725,000	0	2,725,000	2,725,000	0	2,725,000	2,725,000	0
2021 - IISS	SSII·		23,600,000	7,000,000	30,600,000	12,868,873	17,731,127	30,600,000	12,868,873	0
Total IISS	SSI		27,422,952	7,000,000	34,422,952	15,593,873	18,829,079	34,422,952	15,593,873	0
TOTA	TOTAL BUDGET EXECUTION		88,125,622	4,751,486	92,877,108	43,854,330	49,022,779	92,877,109	43,854,330	0

Notes:

² Transfers Effected approved by the NAGSMO Board of Directors:

¹ 2021 NAGSMA Operational Budget approved by the NAGSMO Board of Directors - NAGSMO/BOD/D/2020/0008-AS1, dated 30 September 2020, "2021 NAGSMA Administrative and Operational Budget Book";

NAGSMO/BOD/D/2021/0038-A51, dated 03 September 2021, "Revised 2021 NAGSMA Operational Budget – Revision 2", NAGSMO/BOD/D/2021/0060-A51, dated 17 December 2021, "Special Carry Forward of Uncommitted Appropriations and Formation of 2022 Operational Budget". NAGSMO/BOD/D/2020/0017-AS1, dated 8 January 2021, "Special Carry Forwards of Uncommitted Appropriations",

Notes to the Financial Statements for the year ending 31 December 2021

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- A. Basis of Preparation and Accounting Policies
- B. Notes to the Statement of Financial Position
- C. Notes to the Statement of Financial Performance
- D. Notes to the Cash Flow Statement
- E. Notes to the Budget Execution Statement Administrative Budget
- F. Notes to the Budget Execution Statement Operational Budget
- G. General Notes to the Financial Statements

ANNEX A Basis of Preparation and Accounting Policies

A01 Basis of preparation

The financial statements of the NAGSMO, including NAGSMA being the executive body of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO), have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) and based on International Financial Reporting Standards (IFRS/IAS), as adopted by the North Atlantic Council (NAC) in 2002. In 2013 and in 2016, the NAC approved an adaptation to IPSAS to better suit the specific requirements of the Alliance and an associated NATO Accounting Framework.

The financial statements have been prepared in accordance with the NATO Accounting Framework, the NATO Financial Regulations (NFRs) and the Financial Rules and Procedures (FRPs) and the relevant entity directives and policies.

In accordance with Article 2.1 of the NFRs, the financial year at NAGSMA begins on 1 January and ends on 31 December of the year.

These financial statements represent the consolidated activities of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO) and its executive body NAGSMA.

In January 2021 the NAGSMO BoD approved a plan to initiate the liquidation of the entity starting on 1 July 2021. Subsequently, the entry into liquidation date was revised by the BoD to 1 January 2022 and the formal request to the Secretary General for the required NAC decision on liquidation, in compliance with NATO C-M(66)9 Rules governing the dissolution of NATO Production Organisations and the NAGSMO Charter, has been sent by the NAGSMO BoD in October 2021. On 25 January 2022, under the silence procedure, the Council agreed to the request from the NAGSMO Board of Directors to put the Organisation into liquidation commencing 1 April 2022. At that date NAGSMA will cease to exist and will be taken over by NAGSMO in Liquidation - Office of the Liquidator, as NAGSMO's Executive Agent.

NAGSMA's significant accounting policies are set out below. The accounting policies have been applied consistently to all periods presented.

A02 Use of estimates

In accordance with IPSAS and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions by management, based on historical experience as well as the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. The majority of goods and services are provided by third parties and other NATO entities; therefore, accrued expenses and the related revenue recognition are based on estimates. By

nature, these estimates are subject to measurement uncertainty. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

A03 Significant Accounting Policies

Accounting as a Procurement Agent

IPSAS draw a distinction between transactions that an entity undertakes on its own behalf (principal) and those on behalf of others (agent). The distinction is whether the economic benefits arising from the procurement effort accrue to the entity or to the extent that a fee may be levied for providing an agency service.

Agency activities are those activities carried out by the reporting entity, but which are not its own activities. Where an entity undertakes agency activities, it is identified as the agent in relation to those activities.

NAGSMA is considered as a procurement agent in respect of its operations since:

- It was created for the sole purpose of procuring the AGS Core System on behalf of the AGS Participating Nations;
- It does not bear any inventory risk before or after the customer order;
- It does not bear the credit risk for the amounts receivable from the customer;
- It does carry out acceptance of goods and services on behalf of Nations/NATO;
- It does not receive a fixed fee per transaction or a stated percentage of the amount billed, as it is reimbursed for the running costs of the Agency via the Administrative Budget.

NAGSMA provides for a contract administration function to NAGSMO. NAGSMA acts as an agent in accordance with a mandate set by the NAGSMO Participating Nations in the PMOU, which defines the role of the Agency in the procurement of a NATO owned and operated core AGS capability. NAGSMO is as well considered an Agent in respect of its operations, as a subsidiary body of NATO, with the sole objective to procure the AGS Core which will be owned, controlled and operated by the 30 Nations of NATO. NAGSMO and its executive body NAGSMA do not have and will not have control in the future of the assets procured as per the criteria in the NATO Accounting Framework. Transactions are treated accordingly in the NAGSMO Financial Statements.

Foreign Currency Translation

The functional and reporting currency of NAGSMA is the EUR. Transactions in currencies other than EUR are translated into EUR at the prevailing NATO rates of exchange at the time of transaction. Monetary assets and liabilities denominated in currencies other than EUR are translated into EUR at the prevailing NATO year-end closing rate. Resulting foreign exchange unrealised gains and losses are recognised as Advances from Nations. Realised exchange differences are recognised as Payables to Nations in the Statement of Financial Position.

Financial Instruments

Financial instruments are recognised at the contract date and initially measured at fair value. Their subsequent measurement depends on their classification. Loans and receivables and other liabilities are not re-valued (except for changes in exchange rates). Financial instruments are not recognised on expiry or when all contractual rights and obligations are transferred.

Management is aware of the risks associated with financial instruments and is bound by NAGSMO's Financial Rules and Procedures to keep these risks very low. NAGSMA uses only non-derivative financial instruments as part of its normal operations, such as bank accounts, deposit accounts.

Currency risk: To limit the exposure to foreign currency exchange risk, NAGSMA is forecasting the yearly expected expenditures in foreign currencies. In order to have the required funding, NAGSMA asks the Participating Nations to provide their contributions in the necessary currencies.

Liquidity risk: The liquidity risk is based on the assessment of whether the organisation will encounter difficulties in meeting its obligation associated with financial liabilities. There is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions for the total approved budget. The accuracy of forecasts that result in the calls for contributions as well as the delay in payment represents the main liquidity risks. There is a clause in the NAGSMO FMPD-FRP art. 28 Contributions, that deals with unpaid contributions giving the Agency the authority to determine the appropriate course of action in case of a delay or a non-payment and the financial consequences of such, borne by the Participating Nation.

Credit Risk: There is a very limited credit risk as the contributing Nations generally have a high credit rating. NAGSMA uses three banks to deposit its cash holdings. The credit ratings of the banks used by NAGSMA are as follows:

DNB Bank ASA: AA- (S&P)

Banque et Caisse d'Épargne de l'État: AA+ (S&P)

UniCredit S.p.A.: BBB (S&P)

Cash and Cash Equivalents

Cash and cash equivalents includes cash held with the bank in current and savings accounts.

Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. No allowance for loss is recorded with respect to Member States' assessed contributions receivable except for exceptional and agreed technical reasons.

Other Current Assets and Prepayments

Other current assets include prepayments which are payments in advance of the period to which it pertains as well as bank interest receivable at year-end.

Payables

Payables are amounts due to third parties based on goods received or services provided that remain unpaid. This includes an estimate of accrued obligations to third parties for goods and services received but not yet invoiced.

Advances and Deferred Revenue

Advances are contributions called or received related to future years' budgets. Advances include future budget funding.

Deferred revenue represents contributions from Nations and/or third parties that have been called for current or prior years' budgets but that have not yet been recognised as revenue. Funds are called in advance of their need because the entity has no capital that would allow it to pre-finance any of its activities.

Provisions and Contingent Liabilities

Provisions are recognised when NAGSMA has a present obligation as a result of a past event, and it is probable that NAGSMA will be required to settle that obligation. Provisions are measured at the General Manager's best estimate of the expenditure required to settle the obligation at the date of the statement of financial position, and are discounted to present value where the effect is material.

Other commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of NAGSMA.

Budget Execution Statement

The Board of Directors approves the annual budgets which include budgeted amounts for the administration of the Agency and Programme costs. Budgets may be subsequently amended by the Board of Directors or through the exercise of delegated authority. The budget execution statement provides a comparison of budgeted and actual amounts calculated on accrual basis.

Revenue and Expense Recognition

Revenue comprises contributions from Participating Nations to fund the entity's budgets. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, NAGSMA recognises a liability until the condition is fulfilled.

Revenue for the Administrative Budget

Contributions to the budget are initially recorded as advances from nations. They are recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in its approved budget.

Interest

Interest receivable is credited as payables to Participating Nations in the statement of financial position.

Representation Allowance

As from 1 June 2013, a summary of the operations related to the Representation Allowance is included in the Financial Statements. Transactions occurring in respect of Representation Allowance are expensed in the period to which they relate, and are paid back directly from payroll or reimbursed.

Post-employment benefits

Defined Contribution Plans

NAGSMA employees are members of the NATO-wide Defined Contribution Pension Scheme (DCPS). The assets of the plans are held separately from those of NAGSMA in funds under the control of trustees. NAGSMA is required to contribute a specified percentage of payroll costs to the DCPS to fund the benefits. Payments to the DCPS are recognised as an expense when employees have rendered service entitling them to the contributions. The only obligation of NAGSMA with respect to the DCPS is to make the specified contributions.

Defined Benefit Plans

NAGSMA employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme which is a funded defined benefit plan. Under the plans and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 65. No other post-retirement benefits are provided to these employees. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance. The assets and liability for NATO's Defined Benefit Plan are accounted for centrally at NATO Headquarters and therefore are not recognised in these financial statements.

ANNEX B Notes to the Statement of Financial Position

Notes Reference	Current Year	Prior Year
	31-Dec-21	31-Dec-20

The Statement of Financial Position details the assets and liabilities of NAGSMA as of 31 December.

B01	Cash and cash equivalents	73,313,239	167,949,792
	Administrative budget	6,529,641	8,237,512
	Operational budget	61,149,736	152,211,530
	Administrative budget NAGSMOIL	5.633.862	7.500.750

Cash and Cash equivalents are short-term liquid assets.

NAGSMA operates highly reliable and interest bearing bank accounts in EUR and USD currencies.

B02 Short-term investments 0 0

Short-term investments are bank deposits maturing in less than 3 months.

B03	Receivables	0	1,392,436
·	Calls receivable Administrative budget	0	9,494
	Calls receivable Operational budget	0	1,382,942

Accounts receivable are kept in separate sub-ledgers that provide detailed insight into the outstanding calls for contribution and provide accurate and up-to-date cash forecast information.

B04 Other current assets and prepayments 89,814 233,814

Other current assets match provision for annual leave entitlements accrued but untaken at year-end.

B05	Payables	1,543,236	9,770,266
	Payables	7,533	6,571,270
	Accruals	1,535,703	3,198,996

These short-term payables comprise payables and accruals for milestones accomplished as well as services rendered in 2021, including consulting, communication, travel and personnel related expenses.

B06	Advances and deferred revenue	66,331,895	154,290,918
	Advances from NATO entities	0	365,624
	Advances from Nations	11,078,227	50,425,500
	Advance towards NAGSMOiL Administrative budget	5,633,862	7,500,500
	Deferred revenue	49.619.806	95.999.044

Advances from Nations are funds received from Nations in respect of NAGSMA 2022 Administrative and Operational Budgets and unrealised exchange rate gains and losses. Advances include future budget funding as well as the cumulative effect of unrealised foreign exchange impact over the periods.

Advances for Liquidation include funds received in respect of NAGSMOiL Administrative Budget.

Deferred revenue comprises unspent commitments carry forward from prior periods.

B07 Short-term provisions

89,814

233.814

The provision includes annual leave entitlements accrued matched with Other current assets and prepayments.

Balance at 1 January 2021233,814Provision decrease(144,000)Balance at 31 December 202189,814

B08 Other current liabilities

3,747,424

5,281,044

Other payables mainly include lapsed credits comprising 3,448,727 EUR (2020: 3,316,193 EUR), financial results and other liabilities due to the Nations.

B09 Other non-current liabilities

1,690,684

0

Other non-current liabilities include liabilities to the Nations that were authorized to keep, as an emergency reserve fund, for any unexpected needs that might arise during NAGSMO liquidation process. Any unused Emergency reserve funds remaining upon the completion of liquidation will be returned to the Participant Nations.

B10 Contingent Liabilities

On 18 January 2021, NAGSMA was handed the decision by the NATO Administrative Tribunal on two appeal cases against NAGSMA, i.e., (1) against suspension of a staff member and (2) subsequent termination as an outcome of a disciplinary proceedings. The Tribunal ordered to pay 5,000 EUR for moral damages and as up to 4,000 EUR reimbursement for retaining legal counsel, as well as material damages sustained. The two former amounts were accrued accordingly in the NAGSMO 2020 Financial Statements and paid on 7 April & 25 May 2021. However, due to the lack of knowledge of material damages, the Tribunal deferred to the parties to agree on the amount of material damages, which is still ongoing and subject to another appeal in front of the Tribunal. NAGSMA agreed to pay 48,191 EUR in damages, however, the amount was contested by the adverse party. The amount of 48,191 EUR was accrued in the NAGSMO 2021 Financial Statements.

In addition, NAGSMA received a new appeal from its former employee on 29 October 2021. While NAGSMA disagrees with the appeals and defends its position accordingly, it is not in a position to predict the potential rulings at this stage.

In case the NATO Administrative Tribunal rules in favour of former staff members, these costs will be borne by the NAGSMO Nations.

ANNEX C Notes to the Statement of Financial Performance

Notes Reference	Current Year	Prior Year		
	2021	2020		
The Statement of Financial Performance details the revenue and expenses the 31 December.	nt NAGSMA incurred during	the year ending		
CO1 Revenue from non-exchange transactions	6,573,004	7,274,196		
Revenue represents funding from Nations for expenses incurred during the final	incial year.			
CO2 Personnel	5,866,454	6,223,345		
Personnel costs are for staff members hired under the NATO Civilian Personnel Regulations as well as for consultants and contractors.				
The figures represent the costs of personnel including basic salary, allowances,	insurance and pension plan	contributions.		
At the year-end 2021 NAGSMA had 13 staff members (2020: 27 staff members) and one former Staff Member whose employment contract has expired, but who remains on Sick Leave. This Staff Member continues to receive full salary and emoluments until the sick leave status is resolved and the individual is separated from the organization as per NATO				

Civilian Personnel Regulations (NCPRs).

The breakdown of wages calaries and ampleyed benefits is as follows:

The breakdown of wages, salaries and employee benefits is as follows:		
	Year ended	Year ended
	21/12/2021	21/12/2020
-	31/12/2021	31/12/2020
_	EUR	EUR
Employee benefits expense, consultants and contractors	5,173,484	5,865,692
Post-employment benefits		
for defined contribution pension scheme	303,426	274,045
for defined benefit pension scheme	0	0
Termination benefits	533,544	0
Provision for annual leave entitlements accrued	(144,000)	83,608
Total employee benefits expense	5,866,454	6,223,345

CO3 Contractual supplies and services 706,550 1,050,851

Supplies and consumables are costs of goods and services used by NAGSMA associated with the general management and administrative activities under the SSA and SLA, such as information management, finance, human resources, building and facilities, security, travel expenses, etc. These costs are linked to the approved NAGSMA Staffing Plan. It also includes hospitality funds, communications services (i.e. telephones), and NATO Headquarters support (MOA).

ANNEX D Notes to the Cash Flow Statement

The Cash Flow Statement is prepared using the indirect method.

The Cash Flow Statement summarises the cash movements in and out of the Agency during the financial year.

ANNEX E Notes to the Budget Execution Statement – Administrative Budget

The Administrative Budget is prepared and presented using the accrual basis.

The classification basis adopted for the Administrative Budget is to show expenditure in three chapters for Personnel costs, Contractual supplies and services costs as well as Capital and Investment expenditure.

The actual expenses presented in the budget execution statement include accruals (expenses for goods and services delivered before the year-end but not yet invoiced) and therefore reconcile to the expenses in the statement of financial performance after excluding the reversal for the provision for annual leave entitlement (decrease of 144,000 EUR). The net commitments are those commitments for which a contractual obligation has been created before the year-end without the goods and services delivered before the year-end.

Personnel, E01 – E03

The expenses with regard to Personnel mainly covered basic salary, allowances, contributions to the employees' pension scheme and consultancy. Lapses are due to savings that were generated in basic salary and education allowance, following the lower personnel strength than what was approved in the NAGSMA staffing plan 2021.

Contractual supplies and services, E04 – E06

The commitments and expenditures as regards Contractual Supplies and Services were mainly related to travel for duty and CIS services. Lapses are due to savings that were generated due to lower volume of travel as a result of ongoing travel restrictions related to COVID19 outbreak throughout major part of 2021 as well as lower support costs from NCI Agency.

Capital and investment budgeting, E07

Lapses are mainly due to no expenditures incurred with regard to budgeted Capital and investment costs included to fund for business equipment and software not provided by NCI Agency via the Service Support Agreement.

Budget contingencies, E08

Lapses are mainly due to unused budget contingencies and the shift of LOJI from NAGSMA 2021 Administrative budget to the NAGSMA 2022 Administrative budget caused by the decision by the NAGSMO BoD decision to extend the Agency till 31 March 2022.

ANNEX F Notes to the Budget Execution Statement – Operational Budget

The accounting basis used in preparation and presentation of the Operational Budget is the same as the one used in the financial statements, the accrual basis for recording of the actual expenditures. Due to the Agency's role as an agent acting with no control over the assets being procured, it is not accounting for the operational budget expenditures as an asset under construction. Rather, it is expected that NSPA will account for the AGS Core System once the system will be transitioned to them.

The classification basis adopted for the Operational Budget is to show expenditure for AGS Core System Procurement.

The exchange rate used to translate the USD portion of expenditure to the presentation currency EUR in the Operational Budget Total table is the official NATO rate applicable as at 31 December 2021 of 1.1223.

The Operational Budget is presented to Participating Nations in two currencies, EUR and USD. The Budget Execution Statements by currency show the Budget's net commitments, expenditures and lapses by sub-categories, as presented to and approved by Participating Nations.

System Design, Development and Qualification

The AGS Core System Design, Development and Qualification covers the design and development for the AGS Core System. The Budget includes provisions for milestones which cover: Programme Design Review of the AGS Core System in accordance with the mandatory TRD requirements; Technical Interchange Meetings; the beginning of Critical Design Review and Working Group meetings and Programme design reviews.

Production

Contractual milestones under the production sub-category are related to production progress payments and advance procurement authority to meet the contract timeline for production of deliverable SSS items and related placement of purchase orders for long-lead-time items. Long lead items include parts, components, equipment and sub-assemblies that must be ordered by the Contractor well in advance of actual final assembly such as the structural carbon fibre and metal components, nacelles, communication equipment, navigation equipment.

IISS

IISS includes NGISSII's effort for Initial In-Service Support as Part 6 of the AGS Core Contract as well as the supporting Airbus and Leonardo contracts and comprises sustaining services for a period of 15 months starting at SLPV of the AGS Core Contract. The task order Nr.1 with NGISSII was signed in May 2020 enabling to start IISS in June 2020. Due to a delay in

commencement of IISS activities some of the milestones related to IISS Engineering were shifted into 2021.

The actual I-ISS related costs in 2021 were lower compared to the expenses presented in the NAGSMO Budget Execution Statement - Operational Budget (EUR) due to one of the milestones budgeted in Operational Budget 2021, however, completed by Leonardo earlier than planned and invoiced in 2020. The invoiced amount comprising 168kEUR was duly accrued as at 31 December 2020 and settled in January 2021 from the Operational Budget 2021.

Management Reserve

The Management Reserve was used to provide financial coverage for CAFX related expenses, increased authorized budgetary ceiling for additional spares and services provided by Airbus and Leonardo to support I-ISS procurement contracts, the new milestones and Post-Handover I-ISS Support as per TSEC, CSOP & Battle Laboratory Capabilities contracts as well as ATR/ATID Capability.

In December 2021 the NAGSMO BoD approved the transfer of unused Management reserve funds from the 2021 Operational Budget to the 2022 Operational Budget Management Reserve. These funds will be used to fund the requirements that might arise in the process of completing the AGS program.

CAFX

Funds to provide items for the Prime Contractor in accordance with Contracting Authority Furnished Property. CAFX funds were mainly used to pay for SMARF Re-use, Support and Sustainment Security services provided by Kongsberg based on NAGSMA-CON-0025. Commitments and expenditures for the NCI Agency and NSPA were for the NATO CIS support to the AGS programme and Crypto Materials support respectively.

In December 2021 the NAGSMO BoD approved the transfer of uncommitted CAFX funds from the 2021 Operational Budget to the 2022 Operational Budget ATR/ATID and CAFX Budget lines. These funds will be used to fund the requirements to complete ATR/ATID integration and installation with TGGS/MOS as well as to fund the reimbursement of electricity provided to CSOP and other CAFX related expenses, respectively.

ATR/ ATID

Danish funds committed and expensed for contractual milestones for the acquisition of the NATO AGS Automatic Target Recognition/ Automatic Target Identification Capability Development & Integration Phase 2+ as well as Initial In-service Support.

TCB

Expenditures comprised milestones for TSEC SFR Extensions, Installation of new TSEC software version as well as On-call Support Services related to TSEC and Battle Laboratory capabilities provided by Exence, ITWL and PIT-RADWAR.

In December 2021 the NAGSMO BoD approved the transfer of uncommitted TSEC, CSOP & Battle Lab. Capabilities funds from the 2021 Operational Budget to the 2022 Operational Budget TSEC, CSOP & Battle Lab. Capabilities Budget line for possible extension of On-call Support Services for AGS Battle Laboratory Capabilities installed at Sigonella.

Carry Forwards

In December 2021 the NAGSMO Finance Committee provided an exceptional extension of the carry forward of 2015, 2018 and 2019 commitments to be expensed in 2022. The exceptional carry forward of funds was requested for commitments mainly related to the Foreign Military sales, I-ISS support to be provided by Leonardo and Airbus, as well as milestones related to Factory Acceptance of AVMC2s, and completion of Mission Crew Trainer, UAV Pilot Trainer, and the Training Management System (TMS).

Carry forwards from 2019 are primarily related to remaining outstanding AGS Core Contract SDDQ and Production milestones.

Carry forwards from 2020 are primarily related to remaining outstanding AGS Core Contract milestones related to delivery of Spares as well as remaining CSOP milestones.

Carry forwards from 2021 comprise outstanding AGS Core Contract Category C funds related to I-ISS, remaining outstanding Airbus and Leonardo Task Orders milestones related to delivery of Spares as well as remaining ATR/ATID and CSOP milestones.

The Table below represents the cumulative NAGSMA Operational budget per year from 2012 to 2021 expended, carried forward and lapsed in two currencies EUR and USD.

The Budgets are presented below by currency showing the actual expenditures, carry forwards and lapses as of the 31.12.2021.

NAGSMA Operational Budget EUR

BL6604011	Budget	Expenditure	Carry Forward	Lapsed
2012	107,086,412	107,086,412	0	0
2013	137,794,865	137,794,865	0	0
2014	122,977,865	117,257,630	0	5,720,235
2015	109,014,294	91,671,063	0	17,343,231
2016	63,924,048	12,760,990	0	51,163,058
2017	34,822,414	9,456,966	0	25,365,448
2018	42,137,943	31,978,738	1,422,907	8,736,298
2019	82,086,583	75,945,881	5,452,466	688,236
2020	15,273,047	11,933,907	3,105,627	233,514
2021	9,330,878	8,767,479	563,399	0
Total	724,448,349	604,653,930	10,544,399	109,250,020

NAGSMA Operational Budget USD

BL6604010	Budget	Expenditure	Carry Forward	Lapsed
2012	204,865,340	204,865,340	0	0
2013	238,445,262	238,445,262	0	0
2014	373,468,465	365,689,392	0	7,779,073
2015	169,456,878	104,644,827	568	64,811,483
2016	193,990,813	51,246,428	0	142,744,385
2017	103,520,795	86,303,846	0	17,216,949
2018	157,284,201	137,880,943	3,501,883	15,901,375
2019	139,142,932	112,594,926	24,758,007	1,790,000
2020	7,125,000	4,400,000	2,725,000	0
2021	30,600,000	17,731,127	12,868,873	0
Total	1,617,899,686	1,323,802,090	43,854,330	250,243,266

The Carry Forwards from the Financial Statements 2016-2020 which have been expended in 2021 have been added to the Actual Expenses of 2016-2020 respectively.

The AGS program is expected to be completed by 31 March 2022. The Operational Budget for the period from 1 January to 31 March 2022 is presented below.

2022 NAGSMA Operational Budget

Description	• •	111		Transfer from 2021 Operational Budget		erational after the sfer
	USD	EUR	USD	EUR	USD	EUR
Management Reserve	0	0	3,500,000	1,687,278	3,500,000	1,687,278
CAFX	0	0	0	13,380	0	13,380
Initial In Service Support	0	0	0	0	0	0
ATR/ATID	0	0	0	45,000	0	45,000
TSEC, CSOP & Battle Lab. Capabilities	0	0	0	9,400	0	9,400
Total	0	0	3,500,000	1,755,058	3,500,000	1,755,058

ANNEX G General Notes to the Financial Statements

G01 Related Party Disclosures

NAGSMO and NAGSMA have related party relationships with the Members of the NAGSMO Board of Directors and a number of other NATO bodies.

Transactions with NATO bodies

	Current Year 2021	Prior Year 2020
	EUR	EUR
NATO Communications and Information Agency	554,311	571,782
NATO Support and Procurement Agency	137,839	71,681
NATO International Staff	217,061	218,017
NATO International Military Staff	280	0
NATO School Oberammergau	450	0
SHAPE	0	3,623
	909,940	865,103

In 2021, the NCI Agency provided administrative services for NAGSMA under the Support Services and Service Level Agreements.

NSPA provided Technical Engineering Services support in 2021 as well as logistics support services.

NATO IS provided operating, Human Resources, administrative, training and telephone services for NAGSMA.

NATO School Oberammergau and NATO IMS provided training.

Compensation of key management personnel

The remuneration of Directors and other members of key management personnel (NATO civilian grade A5 and above) is determined by the NATO salary scales and was as follows during the year:

	Current Year	Prior Year
	2021_	2020
	EUR	EUR
Basic salaries	549,570	690,216
Allowances	114,815	137,574
Post-employment benefits	77,418	83,760
Employer's contribution to Insurance	62,305	72,982
	804,107	984,532

The compensation of key management personnel in 2021 is lower than the previous year due to departures during the year that were not replaced, e.g., the Programme Manager/Deputy General Manager. On 1 September 2021, the BoD appointed Liquidator-Select joined the organization.

Number of individuals at year-end on a full time equivalent basis	Current Year 2021	Prior Year 2020
General Manager	1	1
Programme Manager	1	1
Key management personnel	1	3
Liquidator	1	0
	4	5

G02 Representation Allowance

The purpose of the Representation Allowance is to help meet the reasonable representational expenses of certain designated high level officials of the Agency whose positions entail responsibility for establishing and maintaining relationships of value with individuals or groups external to NATO.

As from 1 June 2013, a new procedure is in place in respect of Representation Allowance; as all recipients are now reimbursed permitted expenses within the limits of their individual Representation Allowance allocation. All representation allowance disbursements for the 2021 reporting period were administered by the Agency in line with the guidelines applicable to the use of the representation allowance as of 1 January 2021.

Expenditure	EUR
Rental Supplement	668
Functions	533
Total	1,201
Entitlements	EUR
Representation Allowance annual entitlement	10,692
of which: Rental Supplement annual entitlement	2,673
Transactions	EUR
Rental Supplement January-December	668
Dinners and Luncheons	533
Total	1,201

G03 Approval of Financial Statements

The financial statements were approved by the Financial Controller and authorised to be issued on 21 March 2022.

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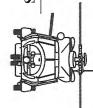


NATO Alliance Ground Surveillance Management Organisation (NAGSMO) NAGSMO NATO Headquarters 1110 Brussels Belgium



NAHEMA





NH/ADM/DLA/0288 /2022
Originator: A. VAN DE GEIJN
Ext.: 0430
E-mail: adrianus.vandegeijn@nahema.nato.int

Aix-en-Provence,

7 JUL 2022

등: IBAN - Board of Auditors

Copy: IBAN (Franz Wascotte)

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NAHEMO JEC FPs

NAHEMO FAC Members

Subject: Resubmission NAHEMO Financial Statements for Financial Year 2021

Reference: 1] Letter IBA-A(2021)0138 dated 25 October 2021

2] IBAN Exit Meeting dated 06 July 2022

Dear Mr. Wascotte,

During the field audit work, IBAN found a material mistake (typo) in NAHEMO's 2021 Financial Statements.

Considering that the mistake can be immediately corrected, I kindly request you to allow NAHEMA to issue a resubmission of the Financial Statements.

In case of authorizing, please find attached the resubmitted NAHEMO's Statements. 2021 Financial

They may be made available to the public with the exception of page 1 and 2 of the Annex 1.

Best regards

Adrianus van de GEIJN **Financial Controller**

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NAHEMA

"UNITE TO SUCCEED"



NATO HELICOPTER D&D PRODUCTION AND LOGISTICS MANAGEMENT AGENCY

NAHEMO FINANCIAL STATEMENTS FOR RESUBMITTED

FINANCIAL YEAR 2021

NATO UNCLASSIFIED

NAHEMO Financial Statements 2021

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ANNEX 1

Statement of Budget Execution

GENERAL INFORMATION

Italy and the Kingdom of The Netherlands for the Design and Development, Production and In-Service Support of a NATO Helicopter for the 1990s (NH-90). The NATO Council approved the Management Organisation" (NAHEMO) is a NATO NAHEMO Charter on 7th February 1992. meet the requirements of the French Republic, the Federal Republic of Germany, the Republic of The "NATO Helicopter for the 1990s Design and Development, subsidiary body established with a view to Production and Logistics

NAHEMO consists of the Steering Comm Participants, and the Agency called NAHEMA. Committee (SC), composed of representatives the

On 8th June 2000 the Memorandum of Understanding (MOU) for the Production (P) Phase of the NH-90 including Production Investment (PI) and Initial In-Service Support (IISS) was signed.

With the signature of the Addendum No. 1 to the MOU on $21^{\rm st}$ June 2001 Portugal joined the

with the aim that NAHEMA provides support in standardisation, qualification and interoperability to the Nordics. Australia and Belgium were admitted to the CMOU in 2008/2009. Standard Helicopter Programme (NSHP) Nations (Finland, Norway and Sweden) has been signed On 17th July 2004 the NH90 Community MOU (CMOU) between NAHEMO Nations and Nordics

Programme. With the signature of the NH-90 Belgian Production MOU on 12th June 2007 Belgium joined the

On 23^{rd} December 2004 the NH-90 ISS (In-Service Support) MOU between NAHEMO Nations has been signed to set out the framework for the In-Service Support Phase of the NH-90. With the signature of the amendment No. 1 Belgium on 25^{th} October 2006 was admitted to the ISS MOU.

On 29th May 2013 the amendment No. 4 to the CMOU has been signed concerning the admission of the Kingdom of Spain and New Zealand.

in force on 16th January 2015. The modification to the General MoU dealing with the same issue was brought in force on October 2017. The withdrawal of PRT from the CMOU is under the NAHEMO Charter dealing with Portugal withdrawal from the NH-90 programme was brought In the year 2014 Portugal decided to withdraw from the NH-90 programme. The Addendum 6 to

The NATO Financial Regulations are the basis of NAHEMO financial and administrative processes and procedures. The NAHEMO Financial Regulations were approved on July 27^{th} , 2017.

The NAHEMO main goals for years 2021 and after are listed below

- Ensure the delivery of serviceable and sustainable NH-90 helicopters (production
- Ensure the fleet homogeneity in terms of software through the Software Release contracts
- Put into service the contracted capacities and to develop new operational capabilities
- Put in place an effective and efficient in-service support.
- Develop the affordability and cost efficiency of the Programme
- Develop the efficiency of the NH-90 Programme Organization.

above-mentioned goals. In 2021, the following main operational activities were performed in order to support the

(MoU,...) amongst Nations. Preparation and signature of. international agreements and relevant amendments

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- Preparation of budgets.
- Preparation of Statements of Work, negotiation and awarding of contracts.
- Assessment of the achievement of the technical Milestones of the awarded contracts.
- Assessment of invoices and execution of payments.
- variants, configuration management and quality assurance. Management of the NH90 Programme duties including qualification of the NH-90
- The delivery of 26 production helicopters to Community Nations
- joining as tenth participant. Signature of Software Release 2 (SWR2) Step 1 contracts, including New Zealand late
- Signature of the GITA Reshuffle contract for the Italian TTH.
- Signature of the major contracts for the internal lay-out of the new NAHEMA premises.
- Nations, Industry and fleet operators. The launch of the Aircraft Data Integration (ADI) project, to collect data coming from
- The adoption of an electronic invoicing system, for a faster and improved payment process with NHI.

On a financial point of view, NAHEMA is maintaining two different budget types:

- The Administrative Budget (AB) for the administrative costs of NAHEMA;
- The Operational Budget (OB), composed of the following three chapters:
- Chapter 1: ITA, and NLD, under the legal framework of the D&D MOU; expenditures related to Design and Development activities for FRA, DEU,
- framework of the PI/P MOU and for BEL under the BEL Prod MOU; Chapter 2: expenditures related to Production Investment, Production, Integ Logistics Support and Initial In-Service Support for FRA, DEU, ITA, NLD under the Integrated
- Community Nations (NAHEMO and non-NAHEMO) Chapter 3: expenditures related to In-Service under the legal framework of the Support activities for NH90

International Board of Auditors for NATO on 7 July 2022. The Financial Statements on pages 1 to 29 and the Annex hereto were issued to the

General Manager gio Gomma

Financial Controller

Adrianus

van de Geijn

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NAHEMO Statement of Financial Position

For the year ended 31 December 2021

(in € '000)

Technical Corrections (78)	Net assets 346 434 Accumulated Surplus/(Deficit) (71) (88) Surplus/(Deficit) for the Period (71) (88) Total net assets / equity 275 346	855,06	Non-current liabilities Payables Long term provisions Deferred revenue Other pro-current liabilities	Short term provisions 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0	38,738 10 respect of AB 2,466 3,7 10 respect of OB 686,400 848,8 2,979 1,20 1,901 9	Non-current assets 0 0 Receivables 0 0 Property, plant & equipment 217 256 Intangible assets 58 90 Other non-current assets 0 0 Total assets 732,943 855,407	Recoverable VAT(512200) 239 212 Prepayments 0 0 Other current assets 0 0 Inventories 0 0 732,668 855,061	Current assets 600,416 684,094 Cash and cash equivalents 600,416 684,094 Short term investments (over 3 month) 0 0 Receivables 132,013 170,755	2021 2020 Restated
0	434 (88) 346	855,061	0000	212 0 855,061	105 3,773 848,816 1,208 947	0 256 90 0 346	212 0 0 0 855,061	684,094 0 170,755	2020 Restated
0	434 (88) 346	854,849	000	0 - 0 854,849	105 3,773 848,816 1,208 947	0 256 90 0 346 855,195	0 0 0 854,849	684,094 0 170,755	2020 Initial
7	11 8			7	77000	Δ	ယ	2 4	Note

For the year ended 31 December 2021 (in € '000) 2021 2020 Restated Initial Other revenue 12,696 11,822 12,034
2021 2020 I Restated I
2021 2020 I Restated I 12,696 11,822
enue 12,696 11,822
12,696 11,822
Financial revenue
Total revenue 12,696 11,822 12,034
Expenses
Personnel (11,212) (10,444)
Operating (1,451) (1,151)
Capital not capitalized (92) (131)
Capital capitalized (new account 711005) 99 98
Depreciation PP&E (100) (93)
Amortisation Intangible Assets (71) (93)
Provisions 0 0
Value Added Tax 0 0 (212)
Finance costs/Bank Charges 0 0
Changes in Accrued Expenses 78 0
Accrued expenses (18) (96)
Total expenses (12,767) (11,910)
Surplus (Deficit) for the period (71) (88)

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Statement of Changes in Net Assets/Equity NAHEMO

Balance at the end of the period 2021	year ended 2021	Surplus /(deficit) for the period	Gain / (losses) on property revaluation	Exchange difference on translating foreign operations	Restated balance	Changes in accounting policy	Balance at the end of the period 2020	Change in net assets/equity for the year ended 2020	Surplus /(deficit) for the period	Exchange difference on translating foreign operations	Changes in accounting policy	Balance at the beginning of the period 2020		For the year ended 31 December 2021 (in € '000)
275	(71)	(71)					346	(88)	(88)			434	Accumulated surplus / (deficit)	
275	(71)	(71)	dan dan danisanasanan or a				346	(88)	(88)			434	Total	

Statement of Cash Flow NAHEMO

For the year ended 31 December 2021 (in ϵ '000)

	Cash and cash equivalent at the beginning 684,094	Net increase / (decrease) in cash and cash (83,678)	Net cash flow from financing activities	Cash flow from financing activities	Net cash flow from investing activities (99)	Proceeds from sale of property plant and equipment	Purchase of property plant and equipment / (99)	Cash flow from investing activities	Net cash flow from operating activities (83,579)	Increase / (decrease) in other current liabilities 50	Increase / (decrease) in advances 954	Decrease / (Increase) in receivables 38,715	Decrease / (Increase) in net assets 0	(Gains) / losses on sale of property, plant and equipment	Increase / (decrease) in provisions 0	Increase / (decrease) in unearned revenue 1,771	Increase / (decrease) in payables to Nations (163,723)	Increase / (decrease) in payables to suppliers 38,633	Impairment	Depreciation/amortisation 170	Non cash movements	Technical Corrections (78)	Surplus / (Deficit) (71)	Cash flow from operating activities	2021 20 Res
men to	709,816	(25,721)			(98)		(98)		(25,623)	0	(3,599)	13,017	0	0	0	784	(35,564)	(359)		186		0	(88)		2020 Restated
	709,816	(25,721)			(98)		(98)	Jan	(25,623)	0	(3,811)	13,229	0	0	0	784	(35,564)	(359)		186		0	(88)		2020 Initial
Whates																									Comments

A. Accounting Policies

Accounting Period

These 2021 Financial Statements are based on the accounting records of NAHEMO as of 31 December 2021. In accordance with Article 2 of the NFR, the financial year at NAHEMO begins on 1 January and ends on 31 December of the year.

Reporting Currency

The functional and reporting currency used throughout these Financial Statements is the Euro (\mathcal{E}) . All call for funds and contributions are made in Euro.

Basis of preparation

(IPSAS). In addition, where certain financial reporting requirements are required by the NATO Financial Regulations (NFR), these were also met. The financial statements are prepared on a going-concern basis, which means that those in charge with governance The financial statements have been prepared in accordance with NATO Accounting Framework (NAF) which is based upon International Public Sector Accounting Standards the financial statements are issued. of NAHEMA believe NAHEMA will continue in existence for at least a year from the date

the qualitative characteristics of financial reporting as well as of the principle of the The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based providing it. right balance between the benefits derived from the information and the costs relevant to the decision-making and reliable, comparable, and understandable in light of reporting period to ensure that the financial statements provide information that is accounting using historical costs have been applied consistently throughout the

executing agency NAHEMA. These financial statements represent the consolidated activities of NAHEMO and its

In December 2012 NAHEMO changed its accounting policy for the treatment of accounting for revenues and expenditures in relation to operational programme revenues and expenditures. Therefore, these revenues and expenditures are excluded from the Statement of Financial Performance. The subject of knowing the stage-of-completion of operational programme assets from an accounting perspective is not relevant due to the change in accounting policy.

the programme and is paying Industry on behalf of NAHEMO member states it considers that it should show the net consideration received from member states for running the NAMEMO considers that it is acting as an agent for its member states in relation to Exchange Transactions. change in accounting policy reliable and transparent financial reporting to users of the financial statements. to NAHEMO's AB. NAHEMA's management considers that this information provides more programme and match this to expenditures; this revenue and expenditure is equivalent managing the NH-90 programme. As NAHEMO is not exposed to the risks or rewards of is in accordance with IPSAS 9: Revenue

NAHEMO considers that Industry controls the assets like helicopters, training media, AGE and spares until they are delivered to Nations. Liabilities for accrued expenses for the OBs are excluded from the Statement of Financial Performance and these assets are excluded from the Statement of Financial Position.

NAHEMO makes prepayments on behalf of member nations to Industry. However, these prepayments are not considered assets of NAHEMO (they are assets of the member nations) and as such are not shown as assets in the Statement of Financial Position.

The cash flow Statement is prepared using the indirect method and the format follows the layout provided by IPSAS 2 (Cash Flow Statements).

Statement. Expenditure, on a cash basis, in respect of the OB can be found in the Budget Execution

Changes in accounting policy

A change in the accounting policy related to the presentation of VAT flows was applied to the 2021 Financial Statements and has been retroactively reflected in the 2020 comparative figures. The purpose of the change is to enhance the quality of the financial reporting by applying uniform, internationally accepted accounting principles.

than the Statement of Financial Performance. The change meets the criteria of IPSAS 1, 9 and 23 and seeks to improve the true and fair presentation of VAT flows. The 2020 comparative figures were impacted by a reclassification from 'Other revenue' to comparative figures 'Payables VAT' and respectively EUR 211,724.71. As of 2021, VAT flows are only reflected in the Statement of Financial Position rather and were impacted from 'Value Ao Added Tax (expense)' to `Recoverable VAT' for

Assets - Current Assets

The entity holds the following types of current assets:

a. Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash on hand, petty cash, current bank accounts and deposits held with banks.

b. Receivables

uncollectible debts. Receivables are stated at net realizable value, after provision for doubtful and

user charges, taxes, receivables from related parties, etc. In accordance with IPSAS, receivables are broken down into amounts receivable from

the member nations Contribution receivables are recognized when a call for contribution has been issued to

c. Inventories

NAHEMO does not hold inventory. In this respect, purchases which might be considered inventory consist entirely of administrative operating material and regularly consumed supplies. All such supplies are expensed when purchased. The total of all such items in stock at any one date is deemed to be immaterial to these financial statements.

d. Prepayments

Financial Position. assets of the member nations) and as such are not shown as assets in the Statement of Industry. However, these prepayments are not considered assets of NAHEMO (they are behalf of in respect of advance payments made to third parties. A prepayment is a payment in advance of the period to which it pertains and is mainly member states. It makes prepayments on behalf of member nations to NAHEMO acts as an agent on

Assets - Non - Current Assets

In this category, NAHEMO is reporting all assets invested for more than 12 months receivable beyond 12 months from the closing date of the financial statements. 9

a. Property, Plant and Equipment

Basic Principles

- internal valuations at each reporting date. NAHEMO has rented the building. Buildings are shown at their re-valued amounts, being the fair value based on
- accumulated depreciation and any recognised impairment loss. All other property, plant and equipment are stated at historical cost less
- No external evaluator to set values for assets.
- Best available information from procurement sources, industry estimates or any relevant source of information as a basis for valuation.

PP&E categorizations for purposes of determining the appropriate depreciable life of the assets is listed in the table below. The categories for both tangible and intangible assets complete with the years in which the asset is to be depreciated.

Straight-line depreciation method is used for all categories; however, the depreciable life of an asset is dependent on the particular category it is in.

			systems
	years		information
Straight line	3 to 5	€1,000	Automated
	years		systems
Straight line	3 to 5	€1,000	Communication
Straight line	10 years	€30,000	Furniture
			assets)
			deployable
			equipment (e.g.
Straight line	3 years	€50,000	Mission
	on type		
Straight line	Dependent	€200,000	Vessels
	on type		
Straight line	Dependent	€200,000	Aircraft
Straight line	5 years	€10,000	Vehicles
Straight line	10 years	€30,000	Machinery
			equipment
Straight line	10 years	€30,000	Installed
			infrastructure
Straight line	40 years	€200,000	Other
Straight line	40 years	€200,000	Buildings
N/A	N/A	€200,000	Land
method			
Depreciation	Useful life	Capitalisation Threshold	Category

Impairment of tangible assets

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate that they may be not recoverable. In 2021 no indication existed to review the values of fixed assets for impairment.

b. Intangible assets

According to IPSAS 31: Intangible Assets; NAHEMO recognized the set-up costs for the implementation of ORACLE modules as intangible assets. In the financial statements these set-up costs have been expensed. NCIA Microsoft Licence Software Assurance was not capitalised in accordance with IPSAS 31 no. 93 and NATO Policy for Intangible Assets no. 4.1 and 5. Amortisation is calculated using the straight line method to allocate the cost to the residual values over the estimated useful lives.

Current liabilities

Payables

Payables are amounts due to third parties for goods received or services provided that remain unpaid as of reporting date. Accruals are estimates of the cost for goods and services received at year-end but not yet invoiced.

Unearned revenue, advances and amounts owing to nations

activities of their need because the agency has no capital that would allow it to pre-finance any of its prior year ABs but that have not yet been recognised as revenue. Funds are called in advance <u>Unearned revenue</u> represents contributions from Nations that have been called for current or

Advances are contributions received related to future years' ABs.

Amounts owing to nations are amounts held by or owed to NAHEMO in respect of the AB or OB. Until these amounts are expensed they are considered as owing to the member nations.

Ö Employee benefits

IPSAS 25 prescribes the accounting treatment of the following employee benefits:

- Short term benefits which fall due wholly within twelve months after the end of the accounting period in which employees render the related service; Post-employment benefits and
- $\tilde{\alpha}$ $\dot{\nu}$ Termination benefits.

Employees participate in the New Defined Contribution Pension Scheme administered by NATO. Contributions to these Plans are limited to matching the employees' contributions for current service.

employer's contribution made to the New Defined Contribution Pension Plan are expensed Headquarters and therefore are not recognized in these financial statements, during the reporting period. The assets and liability for NATO's Defined Benefit Plan are accounted for centrally at NATO whilst the

Non-Current liabilities

Provisions

past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made. In 2021 NAHEMO has no provisions. Provisions are recognised when the entity has a legal or constructive obligation as a result of

Net Assets

liabilities. Net assets represent the residual interest in the assets of the entity after deducting

Revenue and expense recognition

a. Revenue

called are booked as unearned revenue and subsequently recognized as revenue Revenue is recognized to the extent that it is probable that the economic benefits will flow to NAHEMO and the revenue can be measured reliably. Contributions to the NAHEMO AB when when it

that it is probable that the economic benefits will flow to NAHEMO and the revenue recognized as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned by the AB. Revenue is recognized to the extent future periods are deferred accordingly. measured reliably. comprises The balance of unspent contributions and other revenues that relate to contributions from Member Nations to fund the NAHEMO be

transferred resources, NAHEMO recognizes a liability until the condition is fulfilled а transfer is subject to conditions that, if unfulfilled, require the return of. the

b. Expenses

concept of accruing when goods and services are received NAHEMO AB expenses are recognized when occurred. Accruing of expenses is based on the

Surplus or Deficit for the Period

amount of the matching AB expenses In accordance with NAHEMO accounting policies NAHEMO AB revenue is recognized up to the

Cash Flow Statement

The Cash Flow Statement is prepared using the indirect method and the format follows the layout provide by IPSAS 2 (Cash Flow Statement).

B. Significant Accounting Judgements and Estimates

In accordance with generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or exercising the judgements to make the estimates a degree of caution was included in light of understate liabilities or expenses.

estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The The estimates the financial statements. effect of changes to such estimates and assumptions in future periods could be significant to and underlying assumptions are reviewed on an on-going basis.

Notes to Statement of Financial Position

Assets - Current Assets

1. Cash and cash equivalents

684,094	600,416	Total Cash and cash equivalents
1 438,391 245,702	1 390,070 210,345	Petty Cash Current Bank Accounts Cash equivalents
€ '000	€ '000	
December 31, 2020	December 31, 2021	

Petty cash is cash on hand locked in a safe at NAHEMA.

Deposits are partly held in interest-bearing current bank accounts in immediately available funds. Current bank accounts are held in EURO.

Cash equivalents are funds invested on short-term deposit bank accounts held in EURO

Cash and cash equivalents included in the Cash Flow Statement equal the above figures in the Statement of Financial Position.

Accounts receivable

170,755	132,013	Total Receivables
6,205	6,003	Receivable by Suppliers
26	0	Receivable accrued interest
0	241	Receivables VAT reimbursement 2021
209	44	Receivables VAT reimbursement 2020
45	0	Receivables VAT reimbursement 2019
		Other receivables
164,253	124,700	Receivable from Nations related to OB
16	1,025	Receivable from Nations related to AB
		Contributions from Member Nations
€ '000	€ '000	
2020	2021	
December 31,	December 31,	

Contributions from Member Nations

Contributions receivables from Member Nations are recognised when called

Receivables from Nations related to the AB funding

Programme Contributing Participants Finland, Norway and Sweden (the so called NORDIC Nations) and Australia, Spain and New Zealand.

The total veerly Administration of the solutions of the solutions. The accounts receivable from Nations related to the NAHEMO AB are related to the NAHEMO Nations (France, Germany, Italy, The Netherlands and Belgium), and the Non-NH-90-

The total yearly Administrative Costs of NAHEMA have been fixed by the Production MOU for the NAHEMO community to a ceiling amount of EUR 6.6 Million based on economic conditions of 01/01/1999. The ceiling has been increased to EUR 7.85 Million since the Addendum No. 5 to the Production MOU has been signed in September 2009. The ceiling is annually escalated using the annual NATO salaries increase and the index "Indice mensuel des prix à la consommation" published in the Bulletin mensuel de l'INSEE.

activities in favour of the NORDIC Nations depending on the agreed scope of work. The NORDIC Nations contribute to the AB starting from the financial year 2005. With Programme Arrangement No. 1 to the NH-90 Community MOU an additional ceiling amount of EUR 750,000 on economic conditions of 01/01/1999 has been fixed for the NAHEMA

Since the financial year 2007 Australia is contributing to the AB.

In June 2007 the NH-90 Belgian Production MOU was signed and Belgium became the 6th NAHEMO Nation. The yearly administrative ceiling amount of EUR 110,000 for an A3 post or an amount of EUR 124,000 for an A4 post on economic conditions 01/1999 has been agreed as Belgian participation.

In May 2013 with Programme Arrangement No.1 amendment 2 to the Community MOU an additional ceiling amount of EUR 140,000 each of the Spanish and the New Zealand Contributing Participant on economic conditions 01/1999 has been agreed as annual administrative participation.

as administrative expenses. All expenses including salaries and associated costs within the scope of the AB are considered

In 2021, the NAHEMO Nations were invited to pay EUR 10,591,038.64 the NORDIC Nations share was EUR 2,685,708.24 and the share for Australia, New Zealand and the Kingdom of Spain was EUR 1,342,854.12.00.

At the end of 2021, one ADM Call for Funds (CFF) out of 2021 was partly paid. The outstanding amount of EUR 149,958.61 for this CFF was paid in February 2022.

Lapsed funds 2019 in the amount of EUR 1,474,230.65 were to be offset from call for funds in 2021. Respective credit memos were created and credited against the 2^{nd} call for funds 2021.

the remaining PRT funds will be used. PRT shares will not be returned to PRT. The funds will remain in NAHEMA until the MOU related to the PRT withdrawal has been signed. After signature of this MOU it will be determined how

Receivables from Nations related to OB funding

At the end of Budget Year 2021, a total OB receivables of EUR 124,700,000.02 was recorded.

At the end of 2021 three OB Call for Funds (CFF) out of 2021 for Chapter 1 were still unpaid. These CFF with the outstanding amounts of EUR 10,000,000.00, EUR 20,000,000.00 and of EUR

85,700,000.00 were paid in January 2021. One OB CFF out of 2021 for Chapter 3 were partly paid at the end of 2021. The outstanding amount of EUR 9,000,000.00 was paid in February 2022.

Receivables VAT reimbursement

These are receivables for outstanding VAT reimbursements from 2020 in the amount of EUR 43,715.80 and from 2021 in the amount of EUR 240,674.49 from the French Minister of Finance for a total of EUR 284,390.29.

According to the MOUs, VAT is payable by the country levying it, which is France in the case of the NH-90 Programme. The Finance and Administrative Committee (FAC) decided that the AB is to be submitted exclusive of VAT. VAT payments are kept in a specific expense account and will be reimbursed by the French Ministry of Finance (MoF).

VAT payments not reimbursed by MoF due to French internal regulations will be compensated by the French Ministry of Defence (MoD). This practise was confirmed per decision 35th Financial Administrative Committee Meeting 16-18 October 2018.

Receivables by Suppliers

6,002,485.72 is connected to credits notes on the PIP Contract Amendment 23 (CA23) signed Negative payables to suppliers were reclassed to receivables. on 10 June 2015. The main amount of EUR

Prepayments

member nations to industry. However, these prepayments are not considered assets of NAHEMO (they are assets of the member nations) and as such are no longer shown as assets in the Statement of Financial Position. acts as an agent on behalf of member states. It makes prepayments on behalf of nations to industry. However, these prepayments are not considered assets of

Assets - Non-current Assets

4. Property, plant and equipment

Changes in Property, Plant and Equipment and related depreciation for the year were as follows:

	Vehicle	Automated Information Systems EUR	Total EUR
Cost			
Net book value Balance at 31 December 2020	17,214.45	239,040.39	256,254.84
Additions Disposals Payaltation	1 1 1	60,451.09	60,451.09
Balance at 31 December 2021	17,214.45	17,214.45 299,491.48	316,705.93
Accumulated depreciation Depreciation expense	6,131.40	93,391.00	99,522.40
Balance at 31 December 2021	6,131.40	93,391.00	99,522.40
Net book value Balance at 31 December 2021	11,083.05	206,100.48	217,183.53
2021			

In 2021 NAHEMA replaced and purchased automated information systems for EUR 60,451.09 that are capitalized on NAHEMO's Statement of Financial Position. The total depreciation charge for the year 2021 was EUR 99,522.40 and results in a total net book value of EUR 217,183.53 for property, plant and equipment.

Due to the planed relocation to La Pomone in September 2022 NAHEMA made an advance payment for a security system for an amount of EUR 111,554.06 (VAT excluded). In Financial Year (FY) 2022 the security system will be installed and the ownership will be transferred. Therefore the security system, respectively a portion of this item, will be capitalized FY 2022.

5. Intangible assets

Changes in Intangible assets and related amortisation for the year were as follows:

	Computer Software (off the shelf)	Computer Software bespoke)	Total
Cost	EUR	JR EUR	EUR
Net book value Balance at 31 December 2020	86,580.36	3,000.56	89,580.92
Additions Disposals	38,592.47	1 1	38,592.47
Balance at 31 December 2021	125,172.83	3,000.56	128,173.39
Accumulated amortisation Amortisation expense	67,750.20	3,000.56	70,750.76
Balance at 31 December 2021	67,750,20	3,000.56	70,750.76
Net book value Balance at 31 December 2021	57,422.63	0.00	57,422.63

In 2021 NAHEMA purchased computer software for EUR 38,592.47 that are capitalized on NAHEMO's Statement of Financial Position. The total amortisation charge for the year 2021 was EUR 70,750.76 and results in a total net book value of EUR 57,422.63 intangible assets.

Liabilities – Current Liabilities

6. Payables

852,694	727,603	Total Payables
0	0	Other Payables
852,589	688,865	Payables to Nations
848,816	686,400	Payables to Nations in respect of OB
3,773	2,465	Payables to Nations in respect of AB
105	38,738	Payables to suppliers
0	38,720	Payables OB suppliers
105	18	Payables AB suppliers
€ '000	€ '000	
2020	2021	
December 31,	December 31,	

Payables to AB Suppliers

In 2021 there are payables to AB suppliers for the purchase of goods and services of EUR 604.87 Payables also contain liabilities for accrued expenses in the amount of EUR 17,716.68.

Payables to OB Suppliers

For 2021 there are payables to OB suppliers for the purchase of goods and services of 38,719,496.06. This includes Invoices in the amount of EUR 23,676,491.96 received registered at the end of 2021 and being approved in 2022. and EUR

Payables to AB funding nations in respect of AB

This represents the net revenue containing interest, bank charges, lapses, and over/under call in 2021. The net result in the amount of EUR 2,465,595.84has to be reimbursed to the nations following the MOU cost sharing agreement and NAHEMO SC decisions towards the NAHEMO AB funding.

Lapsed funds 2020 in the amount of EUR 2,183,239.45 will be offset from call for funds in 2022. Respective credit memos will be created and credited against the 2^{nd} call for funds 2022.

Respective credit memos will be created and credited against the 2nd call for funds 2023 Lapsed funds 2021 in the amount of EUR 117,174.61 will be offset from call for funds in 2023.

Payables to OB funding nations in respect of OB

contributions. This represents the net revenue containing interest, bank charges, lapses, contributions from other Nations for compensation, unallocated contributions, miscellaneous receipts and unused

The amount of EUR 686,400,064.40 represents balances held by NAHEMO or owed from member Nations which are in turn owed to nations until they are expensed on the OB. Due to a change in accounting policy in 2013, contributions for next year's OB are shown as payables to

In the table below, the details of the total payables to Nations of EUR 2,465,595.84 (AB) and EUR 686,400,064.40 (OB) are explained.

Interest held on operational bank accounts have accumulated since 2007 to EUR 1,250,848.28.

686,400	Total OB Related
679,183 (<mark>39)</mark>	Unused Contributions Misc. Payables
5,900	Unallocated Contributions
1,251 105	Interest Lapsed Funds NSPA related to Budget Year 2011
€ '000	
EURO	
	Payables to Nations in respect of OB
2,466	
117	Lapsed Funds related to Budget Year 2021
2,184	Lapsed Funds related to Budget Year 2020
€'000	Misc. Payables
EURO	
	Payables to Nations in respect of AB
	Payables to Nations at the end of 2021

Other Payables

In 2021 there are no other payables.

7. Unearned Revenue and Advances

2,155	4,880	Total
947	1,901	Advances AB
1,208	2,979	Unearned Revenue AB
€ '000	€ '000	
December 31, 2020	December 31, 2021	

Unearned Revenue AB

for which corresponding charges will be incurred after the reporting date. The unearned revenue liability as of 31 December 2021 was EUR 2,979,052.05. Unearned revenue AB consists of contributions and other transfers received or receivable, but

recognition in 2021 result in the unearned revenue 2021. 9, it is explained how the unearned revenue 2020, contributions and revenue

Advances AB

Advances related to the AB are contributions called in advance relating to the 2022 Budget. EUR 990,140.18 was an advanced contribution from Germany. EUR 911,038.08 was an advanced contribution from Italy.

Technical Corrections

Technical correction of EUR 77,789.47 were done to correct wrong journals from FY 2020 an FY

Net Assets

8. PP&E and Intangible Asset Reserve

Net assets of EUR 274,518.54 are represented by accumulated surplus/(defict) of EUR 345,748.14 related to PP&E and intangible asset additions and depreciation/amortisation previous periods, plus fixed assets acquisition of 99,043.56 EUR for 2021, minus the depreciation/amortisation of EUR 170,273.16 for 2021.

track the cost of acquisition and to avoid an overstatement of the expenses in the year the asset is purchased. Additions to asset are not to be recorded directly into the Net Assets/Equity, unless the asset will be donated by its owner as a contribution in kind (IPSAS 17). In 2020 a separate cost account (711005 "capital capitalized") was created in ORACLE to easily

D **Notes to Statement of Financial Performance**

9. Revenue

The revenue recognition is matched with the recognition of expenses against the NAHEMO

recognised as revenue when it is earned. Contributions when called are booked as an advance under unearned revenue and subsequently

The table below shows the revenue from exchange transactions for the AB 2020 and 2021.

11,822	12,674	Revenue
11,822	12,674	Contributions
€ '000	€ '000	Revenue AB
December 31, 2020	December 31, 2021	

The revenue recognition is matched with the recognition of expenses.

Reconciliation between Revenue and Unearned Revenue

The table below explains to what extent the unearned revenue from previous years and the net calls in the current year for the AB is recognized as revenue in the current year. The remaining balance is unearned revenue for the funds that are carried forward to future years and payables for the AB credits that are lapsed.

invoice counted twice on VAT recognition. The total amount called in 2021 is 468,635.17 EUR. 15,578,408.72. The total amount of VAT reimbursement recognized in 2021 is 468,635.17 EUR. an amount of EUR 135,970.51. This results in unearned revenue of EUR 4,880,230.31. The revenue recognized in 2021 is EUR 12,773,268.72 for expenses, 237.71 EUR for bank charges and EUR 508,267.56 for VAT expenses; lapsed funds to be returned to Nations are for The starting balance of the unearned revenue at the beginning of 2021 is EUR 2,155,120.18. The reversal for accrued expenses is EUR 95,810.74 including EUR 31.54 for a correction on an called Ð.

4,880	Total unearned revenue 31 December 2021
(83) (40) 0	VAT 2020 reimbursed in 2022 VAT 2019 Reimbursement VAT 2018 Reimbursement
0 (218) (136) (167)	Bank Charges Revenue earned in 2021 for VAT 2021 Payable to Governments 31 December 2021 VAT 2020 reimbursed in 2021
(18) (12,756)	Accrued Expenses 2021 Revenue earned 2021
1,901 248 220	Call for Funds 2022 VAT paid 2020 to be reimbursed in 2022 VAT paid 2021 to be reimbursed in 2022
96 13,677	Reversal accruals 2020 Call for Funds 2021
2,155	Unearned Revenue 31 December 2020
EURO € '000	
venue AB 2020 with 2021	Reconciliation of Unearned Revenue AB 2020 with 2021

10.Expenses

Expense recognition for the 2021 AB and previous years carried forward budgets activities are based upon actual payments made together with accrued expenses which are based on value of work completed by contractors or duty trips performed where invoices are not yet received. Depreciation for PP&E and Intangible Assets for 2020 is reflected as expense.

AB Expenses are recognized by nature within the following groups.

Personnel

All civilian Personnel expenses as well as other non-salary related expenses, in support of common funded activities. The amounts include expenses for salaries, temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation, and removal and for contracted consultants and training.

Contractual Supplies and Services

systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses. These expenses were mainly needed to meet NAHEMOs' requirements in order to fulfil NAHEMAs' management tasks. Contractual Supplies and Services expenses include expenses for general administrative overheads, and the maintenance costs of buildings/grounds, communication and information

Operating Leases

NAHEMA rents premises on an operating lease. The annual rent for the premises is EUR 488,000.51 inclusive accessory charges. The lease for building A was extended for an unlimited duration. The lease for building B will terminate in 2022.

operating leases: The table below shows the total future minimum lease payments under non-cancellable

		COSt IN € 000		
Rental Contracts	<1 year (2022)	1-5 years (2023-2027)	>5 years (2028–2032)	Total
Bâtiment A & B Route de Galice 1 w/o land & utility charges	361	0	0	361
La POMONE w/o land & utility charges 295 (6months) and w/o escalation		591 x 5	591 x 4.5	5910

Capital & Investment

Capital investments are still reported as expenses against the AB. Acquired assets of PP&E, which exceed the materiality thresholds would be in principle capitalized and depreciated over their useful life.

The table below shows the breakdown of the expense from AB exchange transactions:

12,122	11,910	12,767	Total Expenses AB
96	96	18	Accrued Expenses
0	0	(78)	Changes Accrued Expenses
0	0	0	Finance Costs
212	0	0	VAT
93	93	71	Depreciation Intangible Assets
93	93	100	Depreciation PP&E
(98)	(98)	(99)	Capital capitalized
131	131	92	Capital
1,151	1,151	1,451	Operating
10,444	10,444	11,212	Personnel
€ '000	€ '000	€ '000	
December 31, 2020 Initial	December 31, 2020 Restated	December 31, 2021	

accruing when goods and services are received. The accrued expenses are composed as follows: AB expenses are recognized when occurred. Accruing of expenses is based on the concept of

17,716.68 EUR	Total
0.00 EUR	Capital
14,716.39 EUR	Operating
3,000.29 EUR	Personnel

Reconciliation between Revenue and Expenses

The Revenue related to the AB that has been recognized in 2021 relates directly to the expenses that can be attributed to the AB. For the AB the total revenue incurred is matched with the total expenses recognized in 2021 for a total of EUR 12,844,736.03.

Surplus or Deficit for the Period

annual depreciation expense for P&E and the annual amortisation expense for intangible assets, plus PP&E additions of the period ("capital capitalized"). represent the difference between total revenue and total expenses, which is composed of the In the Statement of Financial Performance the surplus/deficit of the period of EUR 71,229.60

12. Bank Charges / Negative Interest

In 2021 bank charges exceeded the interest earned.

Steering Committee decision. For the AB, charges were expensed and recognized as revenue in accordance with 76th NH-90

recognized as revenue in accordance with respective Nations' requests For the OB, charges were either offset from payable interest of previous years or expensed and

accounts. In 2021 four NAHEMO Nations were charged with negative interest on their operational bank

230,470.82 were offset from payable interest of previous years in accordance with respective Nations' request. For the other Nation negative interest in the amount of EUR 53,352.03 was For three Nations, negative interest in the amount of EUR 176,187.50, EUR 127,457.96 and EUR recognized as expenses in accordance with respective Nation's request.

E. Events after Reporting Date

when the financial statements are authorized for issue. event, both favourable and unfavourable, which occurs between the reporting date and the date Under IPSAS 14 (Events after the reporting date) reporting entities are required to disclose any

details. Currently NAHEMA is looking at possible financial and legal impacts, waiting for relevant facts given by Norway and Australia. Norway and Australia announced their withdrawal from the program without given

F. Related Parties Disclosure

Under IPSAS 20 Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 requires the disclosure of the existence of related party relationships, where control parties. This information is required for accountability purposes and to faunderstanding of the financial position and performance of the reporting entity. exists, and the disclosure of information about transactions between the entity and its related to facilitate a better

no related party relationships that could affect the operation of this reporting entity. Also National Heads of Delegations as well as Joint Executive Committee Me The key management personnel of NAHEMA have completed a declaration stating that they have

completed a declaration stating that they have no related party relationships that could the operation of this reporting entity. Members affect

does not receive loans that are not available to all staff. NAHEMA senior management is remunerated in accordance with published NATO pay scales and

Key Management Personnel

GENERAL MANAGER, grade A7
DEPUTY GENERAL MANAGER, grade A6
ADM DIVISION LEADER, grade A6
SYS DIVISION LEADER, grade A6
LOG DIVISION LEADER, grade A6

The aggregate remuneration of key management personnel was as follows during the year:

1.039	1.133	TOTAL
76	80	Employer's contribution to Insurance
90	98	Post-employment benefits
120	142	Allowances
. 753	813	Basic salaries
€ '000	€ '000	
December 31, 2020	December 31, 2021	

The Salary adjustment was +3.4% in 2021.

Number of individuals on a full time equivalent basis	December 31, 2021	December 31, 2020
General Manager	Ľ	L ¹
Deputy General Manager	₽	۲
Other key management personnel (Division Leaders)	ω	ω
TOTAL	U	ъ

Employee Disclosure

Employees in NAHEMA are compensated for the service they provide in accordance with rules and amounts established by NATO.

The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each Host Nation and the Protocols of NATO. Cash compensations are exempt from income tax in accordance with NATO Nations agreement. NAHEMA is not reliable for retirement benefits.

The costs in Chapter 1 are for staff members hired under the NATO Civilian Personnel Regulations as well as for consultants and contractors. The figures represent the costs of personnel including basic salary, allowances, insurance and pension plan contributions.

10,763	11,553	Total employee benefits expense
0 829	0 890	Post-employment benefits for defined benefit pension scheme for defined contribution pension scheme
9,934	10,663	Employee benefits expense
€ '000	€ '000	
December 31, 2020	December 31, 2021	

occurred. Different pension plans are applicable to employees in NAHEMA; defined benefit plan, and defined contribution plan. All pension plans are managed by NATO HQ and are therefore not included in the entity Financial Statements. Contributions to the plans are expensed when

Financial Instruments Disclosure/Presentation

financial instruments include, cash, bank accounts, deposit accounts, and accounts receivable. All the financial instruments are recognised in the statement of financial position at their fair NAHEMA uses only non-derivative financial instruments as part of its normal operations. These

have considered the following types of risks related to its financial assets and liabilities: NAHEMA is restricted from entering into borrowings and investments. NAHEMA's management

- <u>Foreign currency exchange risk:</u> NAHEMA is not exposed to foreign currency exchange risk because all contributions and payments are made in EURO
- a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions in relation to approved budgets. The limited risks are primarily encounter difficulties in meeting its obligation associated with financial liabilities. There is Liquidity risk: The liquidity risk is based on the assessment whether the organisation will the validity of forecasts that result in the calls for contributions.
- <u>Credit Risk:</u> There is a low credit risk as the contributing nations have high or sufficient credit ratings. NAHEMA's management does not believe that its customers' credit positions will directly impact on their ability to meet NAHEMA's funding commitments.
- <u>Price Risk:</u> There is a low price risk to NAHEMA due to programme price increases because Nations are contractually bound to meet such price changes and NAHEMA itself is not exposed to this price risk.

I. Bank Guarantees

In 2021 NAHEMAs paid EUR 141.82 "cautionnement bancaire" for the old building (Le Quatuor B) and EUR 11,106.65 "garantie autonome" for the new building (La Pomone) for bank guarantees to Credit Agricole in favour to société ATLANTIQUE MUR REGIONS S.C.P.I., the owner of both the old and the new building.



Notes to the Statement of Budget Execution

Comparison of Budget Execution and Statement of Financial Performance

Budget Execution

Statement of Financial Performance: Reconciliation between the NAHEMO Budget Execution Statements and the NAHEMO

The difference between the Budget Execution Statement for the AB and the accrual based inputs in the Statement of Financial Performance is based on the depreciation & amortisation amount of EUR 170,273.16, the amount for capital capitalised of EUR (99,043.56), the bank charges amount of EUR 237.71, the payables accrued expenses amount of EUR 17,716.68 and the changes in accrued expenses amount of EUR (78,082.62).

The following table represents this reconciliation.

12,767	(78)	18	0	(99)	170	12,756	TOTAL
	(78)	18	0	(99)	170	12,756	ADM Budget 2021
	€′000	€′000	€′000	€′000	€′000	€′000	
	Adjust- ments for Changes Accrued Expenses	Adjust- ments for Accrued Expenses	Adjust- ments for Bank Charges	Adjust- ments for Capital Capitalized	Adjust- ments for Deprecia- tion & Amorti- sation	Expenses in Budget Execution Statement	Budget

IPSAS 24 - Presentation of budget information in Financial Statements is applicable from the 2009 financial reporting period onwards.

Reconciliation between the NAHEMO Budget Execution Statements and the NAHEMO Trial Balance:

The difference between the Budget Execution Statement for the OB and the Trial Balance is based on the Payables Previous Year amount of EUR 6,205,021.07 and on the Payables Current Year amount of EUR 32,716,972.04, which leads to a total change in payables amount of EUR 38,921,933.11.

The following table represents this reconciliation.

1,073,608	38,922	1,034,686	TOTAL
1,073,608	38,922	1,034,686	OB Budget 2021
€′000	€′000	€′000	
Expenses in Trial Balance	Adjustments for Changes in Payables	Expenses in Budget Execution Statement	Budget

ANNEX 1

Financial Statements are on the accruals basis please find below the reconciliation. Due to the fact that the NAHEMO Budget Execution Statement is cash based and the NAHEMO

The AB is based on estimates and was approved by the NAHEMO Steering Committee during the 36 CSC meeting held on the $1^{\rm st}$ of December 2020.

carried forward for two years. At the end of the third year, they will be finally cancelled. The column "Expenses" shows the total amount expensed during the year. The column "Lapsed" shows the difference between the total amount of credits minus the total amount committed and purchase and service contracts signed in order to run the agency. In the "Statement of Budget Execution", the column "Carry forward" shows the remaining commitments at year end to be carried forward to the next year. Committed credits carried forward are allowed to be The AB COMMITMENTS 2021 are mainly based on personal cost for the NAHEMA employees

lapsed at year end and to be given back to Nations.

At the end of 2021, EUR 135,970.51 were lapsed, and will be given back to Nations. Hence, payable lapses to Nations add up as follows: Coming from Budget 2020: EUR 18,795.90, coming from Budget 2021: EUR 117,174.61.

RECONCILIATION OF ADM BUDGET EXECUTION TO CASH FLOW STATEMENT

Difference Net cash flow as per cash flow statement Net inflow on AB Cash received on AB Expenditure (modified cash based) on AB (13,055,936.52) 34,922,983.81 21,867,047.29 21,586,406.10 (280,641.19)

Represented by:

(237.71)

Bank Charges

(21,793,467.60) Misc. Payments

207,299.21 VAT reimbursed

In accordance with the new NAHEMO Financial Rules and Procedures, replacing the 5th issue of the NAHEMO Financial Rules and Regulations, the OB is composed of three Chapters, Chapter 1 (formerly known as D&D), Chapter 2 (formerly known as PIP) and Chapter 3 (formerly known as ISS and NAMSA).

amount includes amounts for planned contracts to be signed during the actual Budget year and planned amendments of contracts as well. For the new frame contracts like the repair & based on their assumptions. The OB for each Chapter indicates the total estimated amount of expected cash payments. This contracts for the engine and the helicopter, Nations provided the budget

ANNEX 1

The INI OB 2021 was approved during the 36 CSC meeting held on the $1^{\rm st}$ of December 2020, except for Belgium, Germany, France, Italy and Sweden, which approved ex-committee. The MYR OB 2021 was approved ex-committee by all Nations, except for the Netherlands, which approved during the 37 CSC meeting held on the $16^{\rm th}$ of June 2021.

RECONCILIATION OF OP BUDGET EXECUTION TO CASH FLOW STATEMENT

Net outflow on OB Cash received on OB Expenditure (cash based) on OB (1,034,686,352.22) 951,327,187.75 (83,359,164.47)

Net cash flow as per cash flow statement 83,956,864.35

597,699.88

Difference

Represented by:

24,641.03 Interest paid to Treasuries

12,353.70 Bank Charges

597,561.32 Negative Interest

(36,856.17) Interest earned

Statement of Credits carried forward

The following table shows credits carried forward with a brief explanation of the unexpended balances at year end for which there is a legal liability.

(EUR) ST/	ATEMENT OF CREE	NAHEMA AB 2021 STATEMENT OF CREDITS CARRIED FORWARD TO 2022
CHAPTER		REMARKS
01 PERSONNEL	29,185.14	Education allowances, overtime, removal, recruitment, home leave, medical examinations CEPMA costs to be finalized
02 SUPPLIES	2,889,543.96	Moved to new premise, maintenance, travel missions, computerization, technical assistance, leasing costs to be finalized
03 CAPITAL	14,520.55	Furniture, IT, security costs to be finalized
TOTAL	2.933.249.65	

In accordance with the Section I art. 12 of the NAHEMO FINANCIAL RULES AND PROCEDURES (approved on 20/10/2017), a statement of budgetary transfers recorded in 2021 is presented in the following table:

NAHEMA ADMINISTRATIVE BUDGET 2021 TRANSFERS AUTHORISED IN ACCORDANCE WITH ARTICLE 12 OF NAHEMO FINANCIAL RULES AND PROCEDURES

ORIGIN OF THE CREDITS

CREDITS NEEDED

GRAND TOTAL

0.00€	545.00 €	545.00 €	1215ADM	545.00 €	545.00€	1712ADM
0.00€	4,200.00€	4,200.00€	1116ADM	4,200.00€	4,200.00€	1712ADM
0.00€	4,000.00€	4,000.00 €	1215ADM	4,000.00€	4,000.00€	1611ADM
0.00 €	955.00 €	955.00 €	1215ADM	955.00 €	955.00€	1610ADM
0.00 €	2,045.00 €	2,045.00 €	1110ADM	2,045.00 €	2,045.00€	1610ADM
0.00€	98.04 €	98.04 €	1214ADM	98.04 €	98.04€	1513ADM
0.00€	302.00€	302.00€	1119ADM	302.00€	302.00€	1513ADM
0.00€	750.00€	750.00€	1710ADM	750.00 €	750.00€	1511ADM
0.00€	11,700.00€	11,700.00€	1119ADM	11,700.00€	11,700.00€	1410ADM
0.00 €	10,900.00€	10,900.00€	1119ADM	10,900.00€	10,900.00€	1211ADM
0.00€	10,200.00€	10,200.00€	1119ADM	10,200.00€	10,200.00€	1210ADM
0.00€	11,700.00€	. 11,700.00€	1119ADM	11,700.00€	11,700.00€	1115ADM
0.00€	4,100.00€	4,100.00€	1119ADM	4,100.00€	4,100.00€	1112ADM
0.00 €	1,000.00€	1,000.00€	1110ADM	1,000.00€	1,000.00€	1112ADM
0.00€	1,555.00€	1,555.00€	1110ADM	1,555.00€	1,555.00€	1111ADM
0.00 €	25,000.00€	25,000.00€	1215ADM	25,000.00€	25,000.00€	1110ADM
	TOTAL	AMOUNT	BUDGET ITEM LINE	TOTAL	AMOUNT	BUDGET ITEM LINE

ANNEX 1

		NATO UNCLASSIFIED	ATO UNCI	Z		
0.00	34,500.00€	34,500.00€	2111ADM	34,500.00€	34,500.00€	2811ADM
0.00 f	22,800.00 €	22,800.00€	2111ADM	22,800.00€	22,800.00€	2810ADM
0.00 \$	2,700.00 €	2,700.00 €	2810ADM	2,700.00€	2,700.00€	2610ADM
0.00 €	191.00€	191.00€	2114ADM	191.00€	191.00€	2610ADM
0.00 €	700.00€	700.00 €	2113ADM	700.00€	700.00€	2610ADM
0.00 €	8,000.00€	8,000.00€	2111ADM	8,000.00€	8,000.00€	2610ADM
0.00 €	8,200.00€	8,200.00€	2111ADM	8,200.00€	8,200.00€	2516ADM
0.00€	10,000.00 €	10,000.00€	2111ADM	10,000.00€	10,000.00€	2515ADM
0.00 €	105,000.00 €	105,000.00€	2111ADM	105,000.00€	105,000.00€	2510ADM
0.00 €	2,200.00€	2,200.00€	2111ADM	2,200.00€	2,200.00€	2410ADM
0.00 €	2,300.00 €	2,300.00€	2111ADM	2,300.00€	2,300.00 €	2313ADM
0.00 €	2,900.00 €	2,900.00€	2111ADM	2,900.00€	2,900.00 €	2311ADM
0.00 €	10,600.00 €	10,600.00€	2111ADM	10,600.00€	10,600.00€	2310ADM
0.00 €	800.00 €	800.00 €	2812ADM	800.00€	800.00 €	2212ADM
0.00 €	3,900.00€	3,900.00€	2111ADM	3,900.00€	3,900.00€	2211ADM
0.00 €	9,700.00€	9,700.00€	2111ADM	9,700.00€	9,700.00€	2210ADM
0.00€	23,400.00 €	23,400.00€	2111ADM	23,400.00 €	23,400.00€	2117ADM
0.00€	4,600.00€	4,600.00 €	2111ADM	4,600.00€	4,600.00€	2116ADM
0.00€	9,400.00€	9,400.00€	2812ADM	9,400.00€	9,400.00€	2114ADM
0.00€	5,000.00€	5,000.00€	2111ADM	5,000.00€	5,000.00€	2113ADM
0.00€	36.44 €	36.44 €	2913ADM	36.44 €	36.44 €	2112ADM
0.00€	24,000.00€	24,000.00€	2111ADM	24,000.00 €	24,000.00€	2112ADM
0.00€	128,800.00€	128,800.00€	2812ADM	128,800.00€	128,800.00€	2110ADM
0.00€	2,440.92€	2,440.92€	2412ADM	2,440.92 €	2,440.92€	2110ADM
0.00€	255.00 €	255.00€	1710ADM	255.00 €	255.00€	1712ADM

00

ANNEX 1

0.00 €	1,109,973.40 €			1,109,973.40 €	ГAL	GRAND TOTAL
0.00€	10,000.00€	10,000.00€	2812ADM	10,000.00€	10,000.00€	3214ADM
0.00€	108,500.00€	108,500.00€	2812ADM	108,500.00€	108,500.00€	3211ADM
0.00€	17,900.00€	17,900.00€	2812ADM	17,900.00€	17,900.00€	3111ADM
0.00€	16,100.00€	16,100.00€	2812ADM	16,100.00€	16,100.00€	1711ADM
0.00€	7,000.00 €	7,000.00€	2812ADM	7,000.00€	7,000.00€	1414ADM
0.00€	10,000.00€	10,000.00€	2812ADM	10,000.00€	10,000.00€	1412ADM
0.00 €	30,000.00€	30,000.00€	2812ADM	30,000.00€	30,000.00€	1411ADM
0.00€	103,000.00€	103,000.00€	2812ADM	103,000.00€	103,000.00€	1410ADM
0.00€	3,000.00€	3,000.00€	2812ADM	3,000.00€	3,000.00 €	1214ADM
0.00 €	125,000.00€	125,000.00€	2812ADM	125,000.00€	125,000.00€	1119ADM
0.00 €	4,500.00 €	4,500.00 €	2812ADM	4,500.00€	4,500.00€	1118ADM
0.00€	10,500.00 €	10,500.00€	2812ADM	10,500.00€	10,500.00 €	1116ADM
0.00 €	14,000.00 €	14,000.00€	2812ADM	14,000.00€	14,000.00€	1115ADM
0.00€	32,500.00 €	32,500.00€	2812ADM	32,500.00€	32,500.00€	1113ADM
0.00€	20,000.00€	20,000.00€	2812ADM	20,000.00€	20,000.00€	1112ADM
0.00€	45,000.00€	45,000.00€	2812ADM	45,000.00€	45,000.00 €	1111ADM
0.00€	3,000.00€	3,000.00€	2812ADM	3,000.00€	3,000.00€	1110ADM
0.00€	700.00€	700.00€	3211ADM	700.00€	700.00€	3214ADM
0.00€	7,300.00€	7,300.00€	2111ADM	7,300.00€	7,300.00€	2910ADM
0.00€	3,600.00€	3,600.00€	2111ADM	3,600.00€	3,600.00€	2812ADM
0.00 €	26,900.00€	26,900.00€	2812ADM	26,900.00€	26,900.00€	2811ADM

OB Milestones achieved 2021

As of 31 December 2021 milestones in the amount of EUR 31,516,720.39 had been declared achieved but were not invoiced before closing of F.Y. 2021. Hence, they were not recognized as payables in F.Y. 2021.

Representation allowance

The NAHEMA General Manager is entitled to representation allowance to cover expenses associated with establishing and maintaining business relationships of value to NATO (e.g. hosting of functions such as dinners, luncheons and receptions). As per EM-HR(PSC)(2014)0008 dated 5 March 2014, including PO(2013)0154, the total entitlement to representation allowance for 2021 was EUR 0.00 There were no expenses in 2021.

0.00	0.00	Total
0.00	0.00 0.00	Rental supplement expenses Hospitality expenses
Ö	Ó	
December 31, 2020	December 31, 2021	

NAMO



ANNUAL FINANCIAL STATEMENTS 2021

For the period ended 31 December 2021



Section **Page Overview Introduction to the 2021 Financial Statements** 4-7 **NAMMO Statement of Internal Control** 8 **2021 Financial Statements Statement of Financial Position** 10 **Statement of Financial Performance** 11 Statement of Cash Flow 12 Statement of Changes in Net Assets / Equity 13 **Statement of Budget Execution** 14 **Notes to the NAMMO Accounts A. Significant Accounting Policies** 16-19 **B. Notes to Statement of Financial Position** 20-21 C. Notes to Statement of Financial Performance 21 D. Notes to Statement of Cash Flow 22-23 E. Notes to Statement of Budget Execution 23 F. Contingent Liabilities / Provisions 23 **G. Related Parties Disclosure** 23 H. Write-Off and Donations 23

These statements are produced in Thousands of Euros. For example: 34,632 = Thirty Four Million Six Hundred and Thirty Two Thousand Euros 132 = One Hundred and Thirty Two Thousand Euros

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Introduction to the 2021 Financial Statements



The Foundation of NAMMO

The NATO Multi-Role Combat Aircraft Development, Production and In Service Support Management Organisation (NAMMO) is a subsidiary body created within the framework of NATO. NAMMO is based at Hallbergmoos, Germany and is a NATO Production and Logistics Organisation (NPLO) formed by the nations of Germany, Italy and the United Kingdom to develop, produce and support the Tornado aircraft.

A NAMMO Board of Directors (BoD), comprising of representatives from the three NAMMO nations, provides strategic direction and

governance to the Tornado Programme. NETMA provides support in the delivery of this direction.

NAMMO is funded wholly through contributions made by the three NATO member Nations. As a NATO organisation two of the NAMMO Nations are exempt from taxation relating to operating revenue and expenses, however in the case of the Federal Republic of Germany VAT is levied.

Key Achievements 2021

Germany drove major upgrade engineering tasks in 2020 and has continued these into 2021.

In order to make improvements toward weapon system sustainment, the Supply Chain Management of Tornado was reviewed and a roadmap was created for an End-to-End Supply Chain Management Task approach that consolidates the statement of works for several tasks into one. This was agreed between NETMA and the partner Nations.

Step 1 introduced the merger of the existing Order Administration, Obsolescence Management, Process Improvement and Supplier Sustainment tasks into a single reconfigured task. This step did not produce any major changes to individual statements of work but did incorporate some lessons learned from the individual tasks where possible. Step 1 was completed on 1 Jan 2021.

Step 2 was implemented through a series of Stakeholder workshops in Q1 2021, in order to reconfigure the statement of work for the E2E Supply Chain task to focus on the integrated supply chain approach. The BOD directed the programme to tailor and harmonise common requirements into a single affordable task, being flexible to allow National requirements on top of the common part and incorporating lessons learned wherever possible. The period of performance extension of the reconfigured task set up as part of step 1 remains the backup solution in case of delays of negotiations.

NETMA is also implementing a NAMMO Assets Strategic Disposal Plan and a NAMMO Assets Disposal Management Plan in order to accelerate the process for disposal of the larger or strategic nations' assets which are no longer required.

During the year, in order to reduce the impact of the COVID-19 pandemic, NETMA and the industrial partners have adapted their working practices in order to ensure the health and security of personnel. NETMA liaises closely with its NAMMO prime contractors regarding the entire supply chain, ensuring risks to the programme are identified and facilitating early intervention on emerging issues. The measures have helped to reduce the impact experienced on the Tornado programme to only slight delays due to COVID-19. Aside from the pandemic, NAMMO experiences strains to the supply chain due to ever-decreasing order quantities for spares, obsolescence issues and economic issues such as bankruptcy to our smaller suppliers.

The Tornado fleets for both Italy and Germany remain in active service and all three NAMMO partner Nations continue to support the programme. NAMMO's financial statements have therefore been prepared on a going concern basis, in line with the assumption that NAMMO will operate as an active management agency for the foreseeable future.

Key points from the Annual Financial Statements

Basis of Preparation

Following a review during 2021, we have concluded that NAMMO does not meet the requirements laid out in IPSAS 9 and IFRS 15 to report on the basis of NAMMO acting as a Principal, as has been presented in previous annual financial statement submissions.

INTRODUCTION

NAMMO has therefore been presented as an Agent throughout the 2021 Annual Financial Statements. Previous years figures have been restated to reflect this change for comparison purposes.

Addressing Previous Audit Observations

The IBAN audit report for the 2020 NAMMO Financial Statements included recommendations for improvements to the production and presentation of the 2021 Financial Statements.

Missing approval of commitments, and estimates of carry-forward of commitments and accruals for spare parts

NAMMO has applied for a deviation from the relevant NATO Financial Rules, Article 24 & 25, to be replaced by one that is more appropriate to NAMMO's multi year contract Activity. Since we are awaiting a decision on this application, NAMMO remains non compliant with regard to the approval of commitments for spare parts and no there is no carry forward undertaken as part of the operational budget process and presentation.

Improvements have been made in the estimation of prices used for the calculation of the spare parts accrual contained in the Statement of Budget Execution.

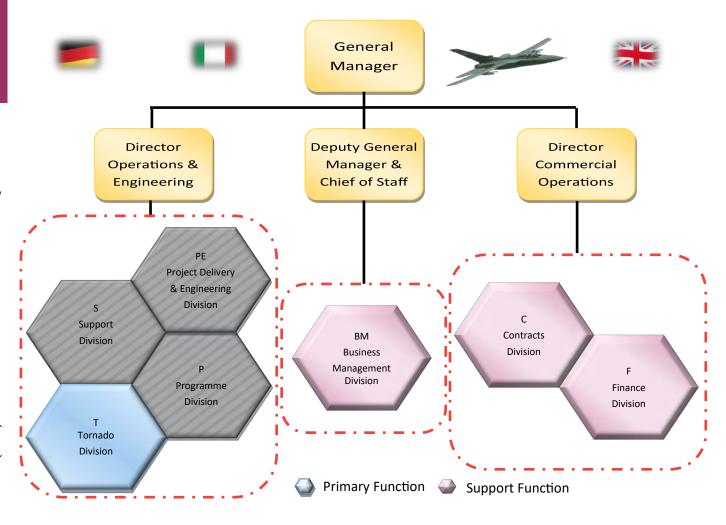
Improvements needed in the presentation of the Statement of Budget Execution

As part of the deviation application outlined above, NAMMO does not carry forward budget from one year to the next. This would mean that NAMMO does not provide carry forward figures. Since we are awaiting a decision on this application, NAMMO remains non compliant with regard to the provision of a carry forward figure.

We have prepared the Statement of Budget Execution on an accruals basis in line with the NATO Financial Rules and as recommended by IBAN.

NAMMO at a glance

NETMA operates using a functional organisational structure, grouping its staff into agency divisions based on their specific skills and knowledge across the agency. The NETMA organisational structure has been provided below to illustrate this:



In support of the NAMMO BoD and the Tornado Weapon System, with the last batch of aircraft produced in 1998, the NAMMO structure is organised to deliver the In-Service Support (ISS) requirements. T (Tornado) Division is responsible for the engineering operations and management of the sustainment of the aircraft with our Tornado industry partners (PANAVIA Aircraft GmbH and Turbo-Union GmbH), acting as the focal point for primary NAMMO activities.

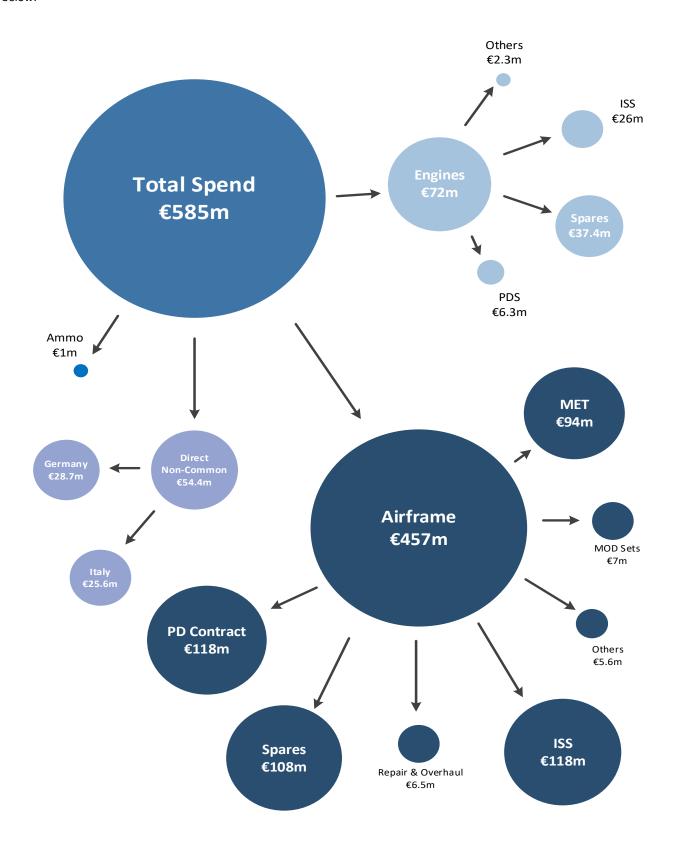
In support of these primary activities, the Contracts and Finance Divisions drive value through Contract and Financial management between nations and industry. The Business Management Division, made up of Human Resources, IT Management and Business Improvement and Performance, supports the entire NETMA agency. The IT Management department supports the IT Applications which enable Tornado Programme management. These include (but are not limited to) the Agency Integrated Management System (AIMS) for Milestone/Task and Invoice Management, the Enhanced Procurement System-Central Automatic Data Processing System (EPS-CADPS) for Procurement and Logistics Support Activities, and the Personnel & Accruals Reporting Management Information System (PARMIS) for Invoice to Payment & Banking processes.

NAMMO Expenditure Breakdown 2021

The total expenditure on the Tornado programme through NETMA in 2021 was €585m. This has increased slightly from last year due to the major engineering tasks requested by Germany, as well as an increased requirement of spare parts, as is to be expected in the future due to the ageing nature of the programme and aircraft.

INTRODUCTION

Spend on Tornado is largely focused on the airframe, totalling 78% of all costs, with a further 12% relating to the engine, as illustrated below:



NAMMO Statement of Internal Control



As General Manager of NETMA, I have the responsibility for maintaining an effective system of internal control that supports the achievement of my Agency's policies, aims and objectives, set by NETMA's Four Nations and the Board of Directors. I am also personally responsible for safeguarding the funds and assets.

The system of internal control is designed to manage the risk of failure to achieve the organisation's policies, aims and objectives and provides reasonable assurance of effectiveness.

The system of internal control is based on an ongoing evidence based process designed to identify the principle risks to the achievement of my Agency's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently and effectively on a continual basis. The Board has established appropriate structures, reporting lines and responsibilities to support the delivery of objectives.

I have responsibility for reviewing the effectiveness of the system of internal control. The processes in place to achieve this are summarised below:

- NETMA has an annual Management Plan which identifies NETMA's strategic priorities, objectives & the
 associated performance metrics. The Management Plan focuses on agency planning and improvements,
 including identification of key business risks which are mitigated and owners appointed to monitor and
 report on these on a regular basis.
- Management checks are undertaken and the internal audit function performs a range of audit activities, based on an annual audit plan. This plan is agreed by the Audit Advisory Panel and approved by the Audit Committee. NETMA Audit Team also conduct audits on our Industry Partners, which involve the checking of property held in industry, and Self-Certified Milestones to ensure appropriate internal controls are in place and adhered to. The Internal Audit process complies with the International Standards for the Professional Practice of Internal Auditing in accordance with previous IBAN recommendations.

NETMA performed 23 of the 41 planned property audits during 2021, due to the ongoing pandemic. Processes are well established within Industry and NETMA expects that Companies will have continued to have followed them.

The Agency operates the integrated framework for internal control developed by the Committee of Sponsoring Organisations of the Treadway commission (COSO Framework) as a mechanism for formally documenting the internal control system and providing assurance that it is functioning effectively. It is well established and part of our normal internal control system. The annual COSO review was undertaken as scheduled for the year 2021, with the Directors confirming we meet those requirements.

My review of the effectiveness of the system of internal control is informed by the work of the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, comments made by the Internal Audit Reports, and external auditors in their management letters together with the results of the annual COSO review.

I am content that the processes in place within the organisation provide reasonable assurance of the effectiveness and efficiency of the organisation's operations, the reliability of its financial information and its integrity with regards to application and compliance to applicable rules and regulations. Whilst we always seek to improve our processes each year there were no material internal control weaknesses currently identified that need specific intervention from Senior Management in 2021. The continuing pandemic has not had any major adverse effect on these controls.

LT GEN MIGUEL ÁNGEL MARTIN PÉREZ General Manager

WENDY BRADBURY
Financial Controller



STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

(in thousands of Euros)	Note	2021	2020 Restated	2020
Assets				
Current assets				
Cash and cash equivalents	B1	128,407	204,295	204,295
Short term investments		0	0	0
Receivables	B1	19,101	28	2,863
Prepayments		0	0	0
Inventories		0	0	0
		147,508	204,323	207,158
Non-current assets				
Property, plant & equipment		0	0	0
Intangible assets		0	0	0
	_	0	0	0
Total assets		147,508	204,323	207,158
Liabilities				
Current liabilities				
Payables	B2	17,696	7,583	55,013
Unearned revenue	В3	104,811	196,740	152,144
Advances	В4	25,000	0	0
	<u> </u>	147,508	204,323	207,158
Non-current liabilities				
Provisions		0	0	0
	_	0	0	0
Total liabilities	_	147,508	204,323	207,158
Surplus / (deficit)		0	0	0
Reserves	_	0	0	0
Total net assets		0	0	0

The financial statements on pages 10 to 14 and their associated notes were issued to the International Board of Auditors for NATO on 30th

March 2022.

LT GEN MIGUEL ÁNGEL MARTIN PÉREZ

General Manager

WENDY BRADBURY

Financial Controller

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousands of Euros)	Note	2021	2020 Restated	2020
Revenue	C1			
Revenue		0	0	575,121
Financial revenue		0	0	0
Other revenue		0	0	0
Total revenue		0	0	575,121
Expenses	C1			
Personnel		0	0	0
Contractual supplies and services		0	0	(573,452)
Depreciation and amortisation		0	0	0
Impairment		0	0	0
Provisions		0	0	0
Other expenses		0	0	0
Finance costs		0	0	(1,669)
Total expenses		0	0	(575,121)
Surplus / (deficit) for the period		0	0	0

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousands of Euros)	Note	2021	2020 Restated	2020
Cash flow from operating activities				
Surplus / (deficit)	D1	0	0	0
Non-cash movements				
Depreciation / amortisation		0	0	0
Impairment		0	0	0
Increase / (decrease) in payables	D2	10,113	(1,947)	6,523
Increase / (decrease) in unearned revenue	D3	(91,928)	27,486	21,852
Increase / (decrease) in advances	D4	25,000	0	0
Increase / (decrease) in provisions		0	0	0
(Gains) / losses on sale of property, plant and equipment		0	0	0
(Increase) / decrease in receivables	D5	(19,073)	130	(2,705)
Net cash flow from operating activities		(75,888)	25,670	25,670
Cash flow from investing activities Purchase of property plant and equipment / intangible assets Proceeds from sale of property plant and equipment Net cash flow from investing activities		0 0 0	0 0 0	0 0 0
Cash flow from financing activities		0	0	0
Net cash flow from financing activities		0	0	0
Net increase / (decrease) in cash and cash equivalents		(75,888)	25,670	25,670
Cash and cash equivalents at the beginning of the period		204,295	178,625	178,625
Cash and cash equivalents at the end of the period		128,407	204,295	204,295

STATEMENT OF CHANGE IN NET ASSETS/EQUITY

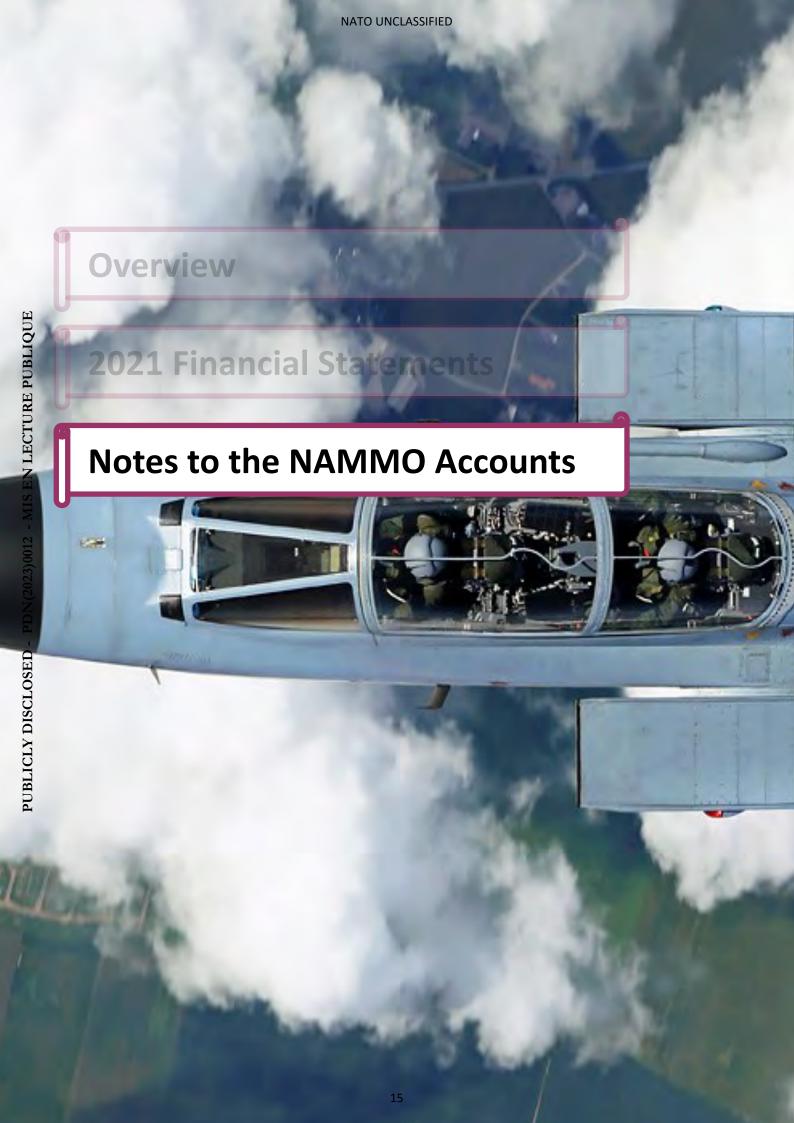
FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousands of Euros)	Note PP&E Asset Reserve	Revaluation (e Reserves	Accumulated Surplus / (Deficit)	Total
Balance at the beginning of the period 2020		0 0	0	0
Changes in accounting policy		0 0	0	0
Restated balance		0 0	0	0
Transfer from accumulated surplus / (deficit)		0 0	0	0
Surplus / (deficit) for the period		0 0	0	0
Balance at the end of the period 2020		0 0	0	0
Changes in accounting policy		0 0	0	0
Restated balance		0 0	0	0
Transfer from accumulated surplus / (deficit)		0 0	0	0
Surplus / (deficit) for the period		0 0	0	0
Balance for the period ended 2021		0 0	0	0

STATEMENT OF BUDGET EXECUTION

FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousands of Euros)	Note	Initial Budget	Transfers and Budget Adjustments	Final Budget	Expenditure	Accrued expenditure 2020	Accrued expenditure 2021	Total Expenditure 2021	Unused Budget
Budget 2021									
Chapter 3	E1	625,087	46,159	671,246	590,071	(44,331)	39,326	585,065	86,180
Total FY 2021	· '	625,087	46,159	671,246	590,071	(44,331)	39,326	585,065	86,180



A. Significant Accounting Policies

Basis of preparation

The 2021 Annual Financial Statements have been prepared for the first time on the basis that NAMMO is an Agent. The figures presented in 2020 have been restated to ensure that the 2021 Annual Financial Statements are comparable. NETMA considers that it is acting as an Agent for the NAMMO member states in relation to managing the TORNADO programme. NETMA is not exposed to the risks or rewards of the programme and is paying industry on behalf of NAMMO member states with funding received from member states.

The financial statements of NAMMO have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and based on International Financial Reporting Standards (IFRS/IAS), as adopted by the North Atlantic Council (NAC) in 2002. In 2013, the NAC adopted an adaptation to IPSAS to better suit the specific requirements of the Alliance and an associated NATO accounting framework, applicable for financial reporting periods beginning on 1 January 2013.

The financial statements comply with the accounting requirements of the NATO Financial Regulations (NFRs) and the relevant NAMMO directives and policies. In instances where there is a conflict between IPSAS and the NFRs this has been noted.

The financial statements have been prepared on a going-concern basis and it is considered that there are no impediments to continuing with this assumption for the foreseeable future.

The financial statements have been prepared on a historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The accounting principles are recognised as appropriate for the recognition, measurement and reporting of the financial position, financial performance and cash flow on the basis of the entity being an Agent and have been applied consistently throughout the reporting period. The Budget Execution Statement has been prepared on an accruals basis in accordance with the NFRs.

In accordance with Article 2.1 of the NFRs, the financial year of NAMMO is 1 January to 31 December.

Accounting estimates and judgments

In accordance with IPSAS and generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgements to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS.

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue and expenses reported. By their nature, these estimates are subject to measurement uncertainty. Where the change in presentation of NAMMO to an Agent has affected some estimates and assumptions, these changes have been highlighted throughout the notes to the accounts (Notes B-E). Further changes to such estimates and assumptions in future periods could be significant to the financial statements.

Changes in accounting policy and standards

As already highlighted in this document, in 2021 NAMMO conducted a review on the basis of preparation for the Annual Financial Statements, as to whether the organisation acts as a Principal or an Agent. All previous Annual Financial Statements were prepared on the basis that NAMMO was a Principal. This review was conducted using the principles laid out in IPSAS 9 and IFRS 15. The main thrust of the guidance is whether the entity has responsibility to deliver its promise and bears the risk of said promise. The conclusion of this review is that NAMMO does not bear these risks and therefore operates as an Agent.

Changes in pronouncements

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards. The following IPSAS are not relevant for the NAMMO Financial Statements 2021: IPSAS 26 (Impairment of Cash-Generating Assets), IPSAS 27 (Agriculture). The following IPSAS have no material effect on the financial statements: IPSAS 5, IPSAS 10, IPSAS 11, IPSAS 16, IPSAS 18, IPSAS 32, IPSAS 39 and IPSAS 40. No revisions to IPSAS were introduced in 2021. However, since NAMMO is now defined as an Agent, the presentation of the Financial Statements has changed.

Restatements

For the 2021 Financial Statements, NAMMO is presented as an Agent. Whilst this affects all financial statements presented in 2020, there is a fundamental change to the Statement of Financial Performance. As an Agent, NAMMO does not earn any revenue of its own through levies or commission, nor does it bear the risk of any operational expenditure. The Statement of Financial Position has been prepared on a transaction-based basis, since for an Agent revenue is only recognised when it is received.

ACCOUNTING POLICY

Changes in financial rules and regulations

During 2015 NATO adopted new financial rules and regulations and there were no additional changes in 2021. These financial statements have been produced in line with these financial rules and regulations. NETMA updated its Financial Rules and Regulations in 2019, to ensure that they were in line with NATO NFRs. Only minor adjustments were made in the NETMA FRRs, and none of these changes affected the process in the preparation of the NAMMO Financial Statements.

Foreign currency

These financial statements are presented in Euros, which is the NAMMO functional and reporting currency. Foreign currency transactions are translated into Euros at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Euros using the NATO exchange rates applicable at 31 December 2021, with the resulting realised and unrealised gains and losses are recognised in the general ledger.

NAMMO used the following NATO-promulgated exchange rates as at 31st Dec 2021:

EUR - GBP = 1:0.8567

EUR - USD = 1:1.1223

EUR - SEK = 1:10.3035

Consolidation

The NAMMO financial statements are not consolidated, with the administration elements of the programme presented in the NETMA financial statements.

Financial Instruments disclosure / presentation

NAMMO uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, accounts receivable, liabilities and loans between NATO entities. Financial instruments are recognised in the statement of financial position at fair value.

Financial risk factors

Credit risk

There is very limited credit risk as the contributing nations generally have a high credit rating. The risk of financial loss due to a participating nations' failure to raise funds is still assessed as very low. In the event that there is a shortage of funds by one or more nations to meet financial obligations, other nations will be consulted with a view to covering any shortages.

Liquidity risk

The liquidity risk is based on the assessment of whether the organisation will encounter difficulties in meeting its obligations associated with financial liabilities. There is limited exposure to liquidity risk because of the budget mechanism that seeks to guarantee contributions for the total approved budget. The accuracy of forecasts that result in the calls for contributions as well as the delay in receiving payments represent the main liquidity risks.

Currency risk

As an Agent NAMMO does not bear the currency risk of the programme, however processes are implemented to reduce the currency risk for the Nations. To limit the exposure to foreign currency risk, NAMMO forecasts yearly expected expenditures in foreign currencies where it is material (i.e. Great British Pound - GBP). In order to have the required funding, NAMMO asks the nations to provide their contributions in either Euros or GBP.

Interest rate risk

NAMMO is restricted from entering into borrowings and investments, and therefore there is no significant interest rate risk identified. There is a risk that Nations will have to pay negative interest on monies held in its bank accounts.

Assets

NAMMO holds the following types of current assets:

Cash and cash equivalents

Cash and cash equivalents represents cash held on NAMMO current bank accounts.

Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. It can also include amounts due by other NATO entities.

Contributions receivable are recognised when a call for contribution has been issued to the member nations. No allowance for impairment loss is recorded with respect to member nations' assessed contributions receivable.

Inventories

NAMMO does not hold any inventory assets. Any inventories held in industry to be consumed in the production process are expensed and any inventory assets held in the ordinary course of operations to support Tornado are owned by the benefiting nations.

Property, plant and equipment

NETMA considers that industry controls the assets in production until they are delivered to Nations and therefore does not recognise these assets in the NAMMO accounts. The subject of knowing the stage of completion of programme assets from an accounting perspective is not relevant due to the change in accounting policy. Nations assets held in industry are still maintained and recorded, and NETMA continues to conduct audits to ensure these records are accurate.

Leases

The costs for operating the Agency's headquarters are accounted for in the NETMA Financial Statements and this includes leases and rental payments.

Intangible assets

Similarly to property, plant and equipment, NAMMO does not own any intangible assets.

Impairment of tangible and intangible assets

As there are no assets owned by NAMMO there has been no need to conduct an impairment review.

Liabilities

Payables

Payables (including amounts due to other NATO entities) are amounts due to third parties for goods and services received that remain unpaid as of the reporting date. They are recognised at their fair value.

ACCOUNTING POLICY

For the 2021 Financial statements estimates of accrued obligations for goods and services received at year-end but not yet invoiced are recognised only in the Statement of Budget Execution in line with the NATO Financial Regulations. Acting as an Agent of the programme, NAMMO recognises payables only if the invoice has been received and so these accrued estimates are not included in the Statements of Financial Position and Cash Flow.

Unearned revenue

Unearned revenue represents contributions from member nations for current or prior years' budgets, for services that have not yet been delivered.

Advances

Advances are contributions from member nations called for or received related to future years' budgets.

Employee benefits

The personnel costs for operating the Agency's headquarters are accounted for in the NETMA Financial Statements.

Provisions

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As an Agent NAMMO does not have any provisions.

Net assets

Net assets represent the residual interest in the assets of NAMMO after deducting its liabilities.

NATO entities perform their activities on a no-profit / no-loss basis globally over the reporting period. However, this does not prohibit the realisation of operating surplus or deficit in the financial reporting period.

Revenue and expenses recognition

Revenue and Expenses

From 2021, when NAMMO transitioned to an Agent, NETMA changed its accounting policy for the treatment of accounting for revenues and expenditure. Therefore, these revenues and expenditures are excluded from the Statement of Financial Performance. Liabilities for accrued expenses are excluded from the Annual Financial Statements but are included in the Budget Execution Statement.

Cash flow statement

The cash flow statement is prepared using the indirect method and the format follows the layout provided by IPSAS 2 (Cash Flow Statement).

B. Notes to Statement of Financial Position

(in thousands of Euros)

Assets

1. Current Assets

	2021	2020 Restated	2020
Cash accounts	0	0	0
Clearing cash accounts	0	0	0
Petty cash and advances	0	0	0
Current bank accounts	128,407	204,295	204,295
Receivables	19,101	28	2,863
Bank accounts interest	0	0	0
Total	147,508	204,323	207,158

Current bank accounts

The Tornado Programme has a number of bank accounts relating to the various funding offices from which payments are made and contributions are received. These include accounts for payments to be made in CAD, GBP, USD, SEK and EUR. The accounting system (PARMIS) functionality necessitates that each cash and bank account separately identified has an associated clearing account to enable the sub-ledger to interface with the general ledger. The carrying balance on all these clearing accounts is zero at the end of the reporting period.

The overall levels of cash holdings has decreased in 2021 due to a focus on the level of cash holdings across all NAMMO, NEFMO and NETMA accounts in order to mitigate the risk of charges of negative interest due to liquidity in the current financial conditions defined by all banks in Europe.

Receivables

At 31st December 2021 receivables are made up of credit notes sent into the agency that are unpaid (\in 9.101M), as well as amounts called for the 2022 Operational Budget but not yet received (\in 10.000M).

The 2020 presentation has been restated to remove the amounts previously accrued for commercial exploitation levies earned but not received by 31st December 2020.

Liabilities

2. Payables

	2021	2020 Restated	2020
Payables to suppliers	17,370	7,581	52,176
Payables to non-consolidated entities	0	0	0
Payables to staff members	0	0	0
Payables to governments	0	0	0
Other payables	326	2	2,837
Total	17,696	7,583	55,013

Payables to suppliers

Payables to suppliers include invoices received from commercial vendors not settled by the reporting date. This account is reconciled to the payables sub-ledger within the financial system operated by NAMMO on a monthly basis. Any outstanding currency liabilities have been translated at the respective closing exchange rates as promulgated by NATO. The payable as at 31^{st} December 2021 is ϵ 17.370M compared with the 2020 amount of ϵ 7.581M. This increase is largely due to an unpaid funding key adjustment for a major task, which is offset by the increase in unpaid credit notes outlined above in note B1 (receivables).

The restatement of the NAMMO 2020 Financial Statements to present the accounts from the basis of a Principal to an Agent has resulted in the removal of accrued expenditure from the presented liabilities. The 2020 estimated accrual was €44.595M.

Other payables

Other payables represents the income received by NAMMO which is yet to be transferred to another operational account or to national treasuries. In 2020 NAMMO presented income generated from levies (€2.835M) but as this income had not been realised by 31st December 2020 it has been removed in order to present NAMMO as an Agent.

3. Unearned Revenue

The movement on unearned revenue can be reconciled as follows:

	2021	2020 Restated	2020
Unearned revenue b/f	196,740	169,253	130,292
National contributions	499,824	596,839	596,839
Miscellaneous Revenue (excl. bank interest)	888	4,005	4,005
Bank Interest received	10	12	12
Operational Expenditure	(590,071)	(567,818)	(573,452)
Miscellaneous Expenditure	(888)	(3,871)	(3,871)
Bank interest returned to Nations	(10)	(10)	(10)
Miscellaneous financial income / (charges)	(10)	(3)	(3)
Foreign exchange gains / (losses)	(1,672)	(1,668)	(1,668)
Unearned revenue c/f	104,811	196,740	152,144

Unearned revenue represents the excess of national contributions and miscellaneous revenue over expenditure on the NAMMO programme to date. It is similarly reflected in the level of cash holdings within the NAMMO bank accounts.

The restatements made to the 2020 presented figures increase the unearned revenue based on estimated accruals which previously were entered into the accounts, increasing the recorded 2020 revenue.

4. Advances

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	2021	2020 Restated	2020
Advances	25,000	0	0
Total	25,000	0	0

Advance contributions represent funds received for future year's operational budgets. In December 2021 two Calls For Funds were sent to nations in order to meet cash requirements at the start of 2022, one of which was still receivable at 31st December.

C. Notes to Statement of Financial Performance

1. Revenue and Expenditure

As outlined in notes A, Significant Accounting Policies, NAMMO has been presented on the basis of being an Agent of the operational Multi-Role Combat Aircraft programme. On this basis, it is recognised that NAMMO as an entity does not generate revenue from its activities in managing the programme on behalf of the member nations and so nil values have been presented against revenue and expenditure for the current and prior years.

D. Notes to Statement of Cash Flow

(in thousands of Euros)

Cash flow from operating activities

1. Surplus / (deficit)

	2020
0	0
0	0
	0

This represents the surplus or deficit from normal operating activities before interest, depreciation and financial charges such as exchange differences arising from transactions. As an Agent NAMMO does not have ownership of any assets and does not generate revenue from its activities and so it does not recognise any surplus / deficit.

Non-cash movements

2. Increase / (decrease) in payables

	2021	2020 Restated	2020
Payables to suppliers	9,789	4,409	10,043
Other payables	324	(6,356)	(3,521)
Total	10,113	(1,947)	6,523

Payables to suppliers represent invoices presented but not yet paid. As stated in the Notes to Statement of Financial Position, the increase in payables between 2021 and 2020 is due to the greater value of unpaid invoices at 31st December 2021 (€9.789M). The 2020 statement has been adjusted to remove the accrued levies generated from defence programmes payable (€2.835M) which had not been received by NAMMO bank accounts.

3. Increase / (decrease) in unearned revenue

	2021	2020 Restated	2020
Unearned revenue	(91,928)	27,486	21,852
Total	(91,928)	27,486	21,852

The movement on unearned revenue represents the accumulated surplus / (deficit) of contributions over expenditure for 2021. In 2021 the unearned revenue has decreased due to the reduced closing balance on NETMA bank accounts. The unearned revenue in 2020 included recognition of accrued expenditure and revenue and this has been adjusted.

4. Increase / (decrease) in advances

	2021	2020 Restated	2020
Advance contributions	25,000	0	0
Total	25,000	0	0

As stated in note B4, two Calls For Funds were raised in December 2021 relating to the 2022 NAMMO Operational Budget.

5. (Increase) / decrease in receivables

	2021	2020 Restated	2020
National contributions	(10,000)	0	0
Other receivables	(9,073)	130	(2,705)
Total	(19,073)	130	(2,705)

The movement on National Contributions receivable represents the change in the nations' debt to the programme from the previous financial year, which was nil at the end of 2020. However, €10M was called for the 2022 Operational Budget in December 2021 and was not received by 31st December.

Receivables include credit invoices received on PARMIS from industry which will be paid when offset against payables in 2022. Levies to the programme previously recognised as due to the NAMMO bank accounts have been adjusted from the presentation of the 2020 Financial Statements (£2.835M).

E. Notes to Statement of Budget Execution

(in thousands of Euros)

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1. Budget analysis - 2021

	2021 Budget	2021 Expenditure
All nations initial approved budget	625,087	585,065
In-year budget adjustments	46,159	
Total	671,246	585,065

The budget and actual expenditure figures in the budget execution statement are presented on an accrual basis and are therefore different to the amounts entered in the general ledger. The budget is compiled based on the advice and assistance of a number of sources including nations, commercial and technical staff within NETMA and industry. It has been based on the best information available and takes into account known payment plans and estimates of new work in line with advice on technical progress. During 2021 the NAMMO nations chose to uplift their budget from the original values by €46.159M to reflect additional Air Force operational requirements.

For its Operational budget, NAMMO does not formally lapse budget called for but unspent in the following year. The excess of funds is viewed as "unused budget". In order to apply consistency to the 2021 Statement of Budget execution, the 2020 accrual calculation has been adjusted slightly in line with 2021 accrual assumptions from €44.595M to €44.331M. The unused budget is caused largely by various milestone slippages into 2022 which, as budget is not lapsed, will be reflected in the Operational Budget 2022 for Tornado.

F. Contingent Liabilities / Provisions

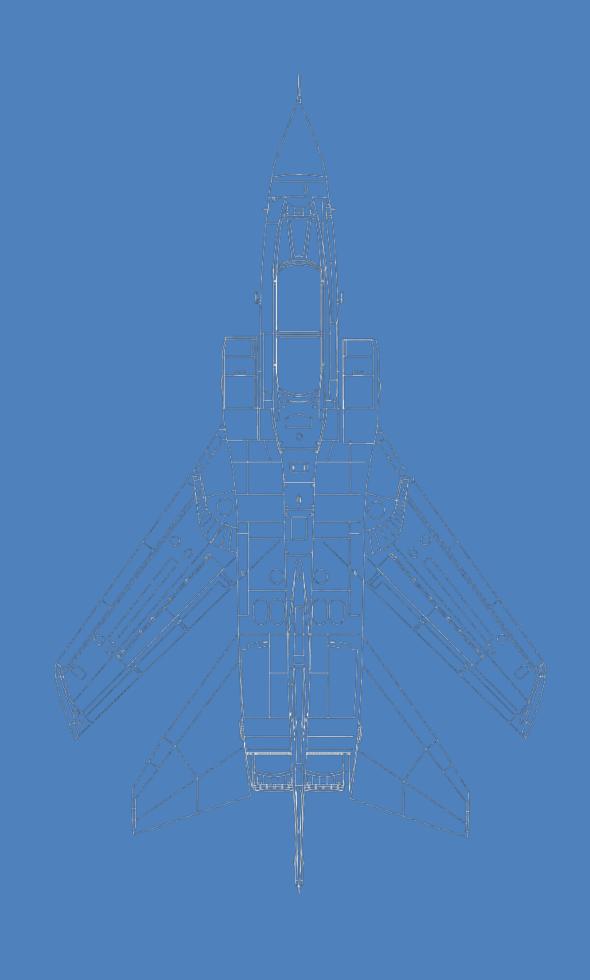
NAMMO has no contingent liabilities or provisions.

G. Related Parties Disclosure

The key management personnel of NAMMO have no significant related party relationships that could affect the operation of NAMMO. Board members receive no remuneration and senior management is remunerated in accordance with the published NATO pay scales. Both do not receive loans that are not available to all staff.

H. Write-Off and Donations

In accordance with the NATO Financial Regulations, where a global statement of write-offs and donations shall be reported in the Annual Financial Statements, NAMMO as an Agent has nothing to disclose for 2021. Write-offs/strike-offs are administered by the NETMA Tornado Sustainment Section when items are deemed surplus to requirements, obsolete, damaged beyond economic repair or lost.





NAPMA FINANCIAL STATEMENTS 2021

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OVERVIEW

Overview of the NAEW&C Programme Management Organisation's Operations and Environment (NAPMO)

In 1975, the NATO Military Authorities established a "priority one" requirement for an Airborne Early Warning and Control (AEW&C) system to operate over both land and sea. The system was designed to provide an airborne warning and detection capability and to improve the Alliance's maritime surface surveillance capability. It would also contribute to the direction and control of tactical air forces and to the gathering of information on hostile ship and aircraft movements.

In December 1978, a number of NATO Nations joined together to establish and implement the NATO AEW&C Programme. As a result of the international agreements formally ratified at that time, the NAEW&C Force Programme Management Organisation (NAPMO) was created as a NATO Production and Logistics Organisation and established as a NATO civil organization, under the provisions of the 1951 Ottawa Agreement i.a.w. its charter.

Nations agreed at the time to operate and support the NAEW&C Force under a single Force Commander, subordinate to the Strategic Commanders (SCs). The Supreme Allied Commander Europe (SACEUR) acts as the executive agent for the SCs in NAEW&C Force matters. However, with regard to the maintenance and supply concept, the NAPMO retained responsibility to represent the NAPMO Nations' interest, in particular the NAPMO Board of Directors (BOD) is responsible for the Depot Level Maintenance (DLM) policy and its implementation as well as establishing goals how Industrial Benefits (IB) shall be achieved through a prime (main) contractor selected by them.

Currently, the NATO AEW&C Programme is comprised of 16 Nations participating as full members – Belgium, Czech Republic, Denmark, Germany, Greece, Hungary, Italy, Luxembourg, The Netherlands, Norway, Poland, Portugal, Romania, Spain, Turkey, and the United States.

The United Kingdom (UK) exercises limited participation as a NAPMO member, but its fleet of Airborne Warning & Control System aircraft (AWACS) is an integral part of the NAEW&C Force. The UK E-3 Sentry airborne early warning aircraft fleet was retired in September 2021 with their replacement, the E-7 Wedgetail, not due until 2023.

France has an observer role and maintains continual coordination to ensure its four E-3F aircraft remain interoperable with the other E-3 fleets. France also often assists in coordinated operations with the NAEW&C Force.

Role of the NAEW&C Programme Management Agency (NAPMA)

As NAPMO executive agent, the NAEW&C Progamme Management Agency (NAPMA) is accountable to the Board of Directors (BOD) for planning and coordinating the acquisition strategy, managing projects associated with modernisation of the E-3A fleet, providing sustainment support services and overseeing the technical aspects of the NAEW&C airworthiness programme.

NAPMA is a programme management organization, mainly funded through contributions made by the Member Nations.

NAPMA's 2019 implemented Final Lifetime Extension Programme (FLEP) Peacetime Establishment (PE) is 113 posts plus a few remaining posts closing the FUP projects, manned by seconded military officers and civilian personnel, drawn from all of the Nations participating in the Programme (A-Grades) and from all NATO Nations (B-Grades). While most are located in Brunssum (The Netherlands), a small number perform their duties in Geilenkirchen (Germany), Tessera (Italy) and in Mons (Belgium). The legal status of NAPMA, as an integral part of the North Atlantic Treaty Organisation, is laid down in the Ottawa Agreement as of 20 September 1951. Based on this agreement, NAPMA is, inter alia, exempt from all taxes and customs duties. The NAPMA General Manager (GM) is responsible for the Technical Airworthiness of the NAEW&C Force Fleet.

How NAPMA's operating environment affects its Financial Statements

NAPMA's financial management is "separate and distinct from the International Staff, other NPLSOs or other NATO Organs¹". The overall activities of NAPMA are funded by Member Nations, the income generated by NAPMA's authorised activities and funds otherwise made available to NAPMA. The budgets are approved annually by the NAPMO BOD. The Nations' Contributions are to remain within the overall Programme ceiling, as agreed in the respective MMoU addendum amendment. The Administrative Budget covers all expenditures for the internal functioning of the Agency. The Project Budgets contain the appropriations for the modification of the NAEW&C Force fleet. Aside from its own budgeted activities, NAPMA also supports other NATO entities, such as the HQ NAEW&C Force GK, and relies on the support of NATO Support Procurement Agency (NSPA) and NATO Communication and Information Agency (NCIA).

NAPMO has an agreement with the US Government (USG) that they can act as an exclusive general agent which has responsibility and authority to procure and manage aircraft modernisation efforts. This gives NAPMO a special arrangement in the Foreign Military Sales (FMS) process, more specifically, the USG can act as the Agent for NAPMO, resulting in Agent Contracts between NAPMO and US industry. System Programme Office (SPO) support at Hanscom Air Force Base (Massachusetts) performs the day-to-day support functions for US Agent contracts. Since 2017, NAPMO also uses regular agreements under the FMS with the United States.

Compliance with Financial Regulations

The NAPMA Financial Statements have been prepared on the accrual basis of accounting in accordance with the NATO Accounting Framework (NAF), as adopted by the North Atlantic Council (NAC). The NAF is based upon the International Public Sector Accounting Standards (IPSAS), issued by the IPSAS Board (IPSASB), and relevant to NAPMA, as decided by the NAC in 2002, and revised again in 2013 and 2016, to adapt IPSAS 12 – Inventories, IPSAS 17 – Property Plant and Equipment, IPSAS 31 – Intangible Assets and IPSAS 1 – Presentation of Financial Statements.

NAPMA Financial Statements have been prepared in accordance with the accounting requirements of the NAPMO Financial Regulations (NFRs), Version 2.0, approved by the NAC on 07 December 2017, and the NAPMO Financial Rules and Procedures (FRPs).

¹ NAPMO Charter paragraph 37 (a)

How NAPMA's mission and strategies relate to its financial position, financial performance and cash flows

NAPMA's mission is to plan and coordinate acquisition strategy, manage projects associated with modernization of the NE-3A fleet, provide sustainment support services, and oversee the technical aspects of the NAEW&C airworthiness programme.

Programme schedule risks and national budgetary cycles require NAPMA to maintain substantial annual cash levels.

Basis for the preparation of NAPMA's Financial Statements

NAPMA has prepared the Financial Statements for the financial year ended 31 December 2021 on a going concern bases, which assumes continuity of current business activities, the realization of assets and the settlement of liabilities in the ordinary course of business.

NAPMA's functional and reporting currency, used throughout these Financial Statements, is stated in USD (\$) equivalent.

Risks and Uncertainties that affect NAPMA's Financial Position and Performance

The effects of the COVID-pandemic have been receding in the beginning of 2022 and NAPMA returned to normal operations by ending its work-from-home-policy on 1 March 2022. Until the reporting date (31 March 2022), the COVID-19 pandemic did not have a major impact on NAPMA's Programme of Work and Programme costs. Although the COVID-pandemic continues in 2022, NAPMA's management does not expect any significant consequences of the pandemic for its current operations.

Final Lifetime Extension Programme (FLEP)

At the Wales Summit in 2014, the NATO Council stated: "NATO's Airborne Early Warning and Control Force will continue to be modernized to maintain its full operational capability."

Accordingly, at the Warsaw summit it was stated that "NATO's Airborne Early Warning and Control Force (AWACS) continues to prove itself instrumental not only to monitor our airspace, but also as a critical part of NATO's command and control capabilities and that NATO AWACS will continue to be modernised and extended in service until 2035. By 2035, the Alliance needs to have a follow-on capability to the E-3 AWACS".

Upon receipt of the last signature of a financially contributing NAPMO Nation, the 6th Amendment to the Addendum to the Multilateral Memorandum of Understanding (MMOU) entered into effect the 23 September 2019, committing the Nations to the USD 1,000,000.00 at Base-Year 2016 ceiling amount for the FLEP. This allowed for the necessary Contract Authority to enter into the main contract for this modernization programme and secured the related Administrative budgets for the Agency. The main contract with Boeing was formally awarded on 27 November 2019.

NAPMA Statement of Financial Position

as at 31 December 2021 (in USD equivalent)

	Note	2021	2020
ASSETS			
Current assets			
Cash and cash equivalents	1	103,193,487	113,931,585
Receivables	2	80,647,192	6,973,527
Prepayments	3	5,290,297	4,156,051
Investments	4	291,000,000	300,000,000
		480,130,976	425,061,163
Non-current assets			
Prepayments >12 Months	5	15,851	0
Property, Plant & Equipment	6	31,868,013	32,843,487
Other non-current assets *	7	223,953,029	108,176,480
		255,836,892	141,019,967
TOTAL ASSETS	5	735,967,868	566,081,130
LIABILITIES			
Current liabilities			
Payables	8	1,874,092	1,410,909
Accruals	9	597,677	1,244,479
Deferred Revenue	10	303,103,898	213,778,739
Advances	11	99,013,935	61,647,975
Risk Mitigation Fund Nations	12	24,043,659	22,988,935
	Sout	428,633,262	301,071,037
Non-current liabilities			
Deferred Revenue	13	81,232,498	137,274,641
Advances > 12 Months	14	1,372,633	872,544
Other non-current liabilities	15	223,953,029	108,176,480
	-	306,558,160	246,323,665
TOTAL LIABILITIES		735,191,422	547,394,702
Net assets/equity	16	776,448	18,686,428
TOTAL LIABILITIES AND NET ASSETS	-	735,967,868	566,081,130

^{*} The figures given in respect of FMS and indirect contracting via the U.S. System Program Office (SPO) are presented on a modified cash basis.

We hereby certify that to the best of our knowledge the attached financial statements and notes present a true and fair-view of the financial performance and position of NAPMA as at 31 December 2021.

BrigGen Michael Gschossmann

General Manager NAPMA,

Date 08 July 2022

Kees Schulten

Financial Controller NAPMA,

Date 08 July 2022

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NAPMA Statement of Financial Performance

for the year ended 31 December 2021

(in USD equivalent)

			Restated **	Original ***
	Note	2021	2020	2020
2 Revenue				
Revenue from Contributions	17	22,313,715	33,953,324	33,953,324
Financial Revenue	17	1,331,789	3,890,447	88,746
Revenue from received grants	17	4,071,103	0	0
Other Revenue	17	73,659	9,087,544	9,087,544
Total Revenue		27,790,266	46,931,315	43,129,615
Expenses				
Projects - direct	18	980,131	24,362,944	24,362,944
Projects - indirect *	18	269,465	0	0
Administrative	18	20,884,829	18,402,888	18,402,888
Depreciation	18	332,076	375,729	375,729
Disposal	18	2,618	0	0
Finance Costs	18	285,133	931,267	0
Total expenses		22,754,252	44,072,828	43,141,561
Surplus/(Deficit) for the period	19	5,036,014	2,858,487	(11,946)

^{*} The figures given in respect of FMS and indirect contracting via the U.S. System Program Office (SPO) are presented on a modified cash basis.

^{**} Restated column presents the new adjusted figures for 2020 after taking into account the corrections.

^{***} Original figures are those which were published in the NAPMA Financial Statements for 2020.

NAPMA Statement of Changes in Net Assets/Equity

for the year ended 31 December 2021 (in USD equivalent)

	Capital assets	Dedicated Funds Reserve	Accumulated surplus/deficit	Total
Balance at the beginning of the period 2020	958,885	3,665,466	14,074,023	18,698,376
Changes in accounting policy/prior period errors				
Restated balance	958,885	3,665,466	14,074,023	18,698,376
Net gains/(losses) recognised directly in net assets/equity	0	0	0	0
Use of dedicated funds reserve	0	0	0	0
Net increase-decrease capital assets	(100,693)	0	100,693	0
Exchange difference on translating foreign operations	0	0	0	0
Net unrealised foreign exchange gains and losses	0	72,024	(72,024)	0
Surplus/(Deficit) for the period (Restated)	0	0	2,858,487	2,858,487
Distribution to Nations/RMF (Restated)	0	0	(2,870,434)	(2,870,434)
Change in net assets/equity for the year ended 2020	(100,693)	72,024	16,722	(11,946)
Balance at the end of the period 2020	858,192	3,737,488	14,090,746	18,686,428
Changes in accounting policy/correction prior period errors	0	0	0	0
Restated balance at the end of the period 2020	0	0	0	0
Balance at the beginning of the period 2021	858,192	3,737,488	14,090,746	18,686,428
Net increase-decrease capital assets	(81,744)	0	81,744	0
Surplus/(Deficit) for the period	0	0	5,036,014	5,036,014
Distribution to Nations/RMF	0	(3,737,488)	(19,208,504)	(22,945,992)
Change in net assets/equity for the year ended 2021	(81,744)	(3,737,488)	(14,090,746)	(17,909,978)
Balance at the end of the period 2021	776,448	0	0	776,448

NAPMA Statement of Cash Flow

for the year ended 31 December 2021

(in USD equivalent)		Restated *	Original **	
	2021	2020	2020	
Cash Flow from Operating Activities				
Surplus/(Deficit) from Operating Activities	5,036,014	2,858,487	(11,946	
Add: Non-Cash Movements				
Depreciation	332,076	375,729	375,729	
Depreciation adjustment CAP	2,813,777	176,471	176,471	
Unrealised Foreign Exchange Rate Gains/Losses	8,068	(88,746)	C	
(Increase)/Decrease in Accounts Receivable	(73,673,665)	5,774,770	5,774,770	
(Increase)/Decrease in Prepayments	(1,150,097)	(729,434)	(729,434	
Increase/(Decrease) in Accounts Payables	463,182	(275,373)	(275,373	
Increase/(Decrease) in Deferred Revenue	33,283,016	67,366,587	67,366,587	
Increase/(Decrease) in Advances and Reimbursables NATO Entities	38,920,773	(23,831,847)	(23,831,847	
Change of Value in Deliverable to NAEW&C Force***	132,310,274	118,349,762	118,349,762	
Increase/(Decrease) in Goods Receipt	(646,802)	(12,514,988)	(12,514,988	
Net Cash Flow from Operating Activities	137,696,616	157,461,420	154,679,732	
Cash Flow from Investing Activities				
Additions to Other investments not included in cash and cash equivalent	9,000,000	(10,000,000)	(10,000,000	
(Purchase)/Disposal of Assets	(2,170,379)	(4,037,326)	(4,037,326	
Additions to Work in Progress (WIP)****	(132,310,274)	(118,349,762)	(118,349,762	
Net Cash Flow from Investing Activities	(125,480,654)	(132,387,088)	(132,387,088	
Cash Flow from Financing Activities				
Fund Transfer from Net Assets	(22,945,992)	(2,870,434)	O	
Effect of Currency Valuations				
-	(8,068)	88,746	C	
Currency Valuation Operating Activities Currency Valuation Financing Activities	, ,	00,740		
	(8.068)	88,746		
Total Currency Valuations	(8,068)	00,740	U	
Net Increase (Decrease) in Cash/Cash Equival.	(10,738,098)	22,292,644	22,292,644	
Cash and Cash Equiv. Beginning of Period	113,931,585	91,638,942	91,638,942	
Cash and Cash Equiv. End of Period	103,193,487	113,931,585	113,931,585	
* Restated column presents the new adjusted figures for 2020 after taking into account the con				
** Original figures are those which were published in the NAPMA Financial Statements for 2020).			

^{*} Restated column presents the new adjusted figures for 2020 after taking into account the corrections.

^{**} Original figures are those which were published in the NAPMA Financial Statements for 2020.

^{***}For further details see Note 15 on page 25.

^{****}For further details see Note 7 on page 21.

GENERAL INFORMATION

The NAPMA Financial Statements for the year ending 31 December 2021 were authorized for issuance, in accordance with NAPMO Financial Rules and Procedures, by the General Manager and the Financial Controller on 31 March 2022. Additionally, with approval from IBAN, the General Manager and the Financial Controller, on an exceptional basis and with the intent to correct a material misstatement or disclosure, can restate financial statements until 15 July 2022.

ACCOUNTING POLICIES

Basis of Preparation

NAPMA Financial Statements have been prepared on the accrual basis of accounting, in accordance with the NAF, which is based on the IPSAS issued by the IPSAS Board. NAPMA uses an Enterprise Resource Planning System, based on SAP, to record and report financial information. NAPMA Financial Statements are prepared in accordance with the accounting requirements of the NAPMO FRs and FRPs.

The accounting principles accepted as appropriate for the recognition, measurement and reporting of the financial position, performance, and cash flows are based on accrual accounting using historical costs, unless the NAF requires otherwise. The accounting principles have been applied consistently throughout the reporting period. This ensures that the Financial Statements provide information that is relevant to decision-making and that is reliable, comparable, and understandable in light of the qualitative characteristics of financial reporting.

For the accounting of the expenditures related to indirect contracts and FMS, in accordance with the NAF's adaptation of IPSAS 1 – Presentation of Financial Statements, NAPMA reports data on a cash basis where the agency is unable to satisfy that the data is presented on a reliable accrual basis. The modified cash basis reflects that FMS/indirect contracts goods and services delivered according to DD645 billing statements as provided by the US government and for which the US government has received cash payments.

Slight differences in summation may occur due to the fact that all the figures have been rounded to the nearest dollar.

The Financial Statements have been prepared on a going-concern basis which assumes that NAPMA will continue in operation for at least a year from the date the financial statements are issued.

In accordance with the NAF, the Financial Statements necessarily include amounts based on estimates and assumptions made by the management and based on historical knowledge as well as on the most reliable information available. In exercising the judgement to formulate the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

The estimates and underlying assumptions are reviewed on an on-going basis. These estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses reported. The estimates are subject to a measure of uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the Financial Statements.

The most significant estimate used in these Financial Statements is the estimation of goods/services received that are not yet supported by an invoice at year-end.

Accounting Period

The 2021 Financial Statements are based on the accounting records of NAPMA as of 31 December 2021. In accordance with the NAPMO FRs, the financial year at NAPMA begins on 1 January and ends on 31 December.

Functional and reporting Currency

The functional and reporting currency used throughout these Financial Statements is the USD (\$) equivalent. The Financial Statements are prepared using data based on the actual multi-currency execution of the approved budget appropriations.

Cash Flow Statement

IPSAS 2 – Cash Flow Statement allows the choice between presenting the cash flow based on the direct method or indirect method. NAPMA has selected the indirect method of presentation for these Financial Statements.

Revenue and Expense Recognition

According to the NAPMO charter, NAPMA has an administrative budget and an operational (project) budget for the annual programme objectives and operating plans of NAPMO. The operational budget covers the disbursements which are directly related to the modernization of the NE-3A aircraft. The administrative budget covers the expenses for the administration, acquisition, execution, support and other management activities related to the modernization programmes. The administrative and operational budget are mainly funded through contributions made by the Member Nations.

NAPMA will recognize revenue when the administrative budget is used for its intended purpose as authorized by the BOD. This includes the (moment of) acquisition of Property, Plant and Equipment (PP&E).

NAPMA will recognize revenue when the operational budget is used (expenses incurred) for its intended purpose as authorized by the BOD, except when the outflow results in (1) a non-current liability to deliver assets to the NAEW&C Force (deliverable to NAEW&C Force) or (2) the recognition of Assets under Construction or Property, Plant and Equipment (PP&E). Depreciation of PP&E funded from the operational budget is simultaneously recognized as contract work in progress and as a deliverable to the NAEW&C Force. Depreciation of PP&E funded from the operational budget will therefore not result in gains or losses and will not be recognized in the statement of Financial Performance.

NAPMA will recognize other non-exchange revenues when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, recognition of revenue is deferred. NAPMA will not defer revenue for performance obligations that are also part of a modernisation programme approved by the NAPMO Nations, and that NAPMA has no alternative but to perform.

Revenues and expenses are accrued when goods and services are received or when economic benefits or expenses are incurred.

Foreign Currency Transactions and Presentation

Foreign currency monetary items, like cash, trade creditors or debtors, will for reporting purposes be translated into US Dollar (USD) equivalents using the closing rate.

Foreign currency non-monetary items are assets and liabilities whose value depends on economic conditions. Non USD expenditures for non-monetary items are translated using the weekly posted NATO exchange rates that apply on the date of the transaction.

Changes in Accounting Policies and Corrections

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy is required by a standard, or if the change results in the financial statements providing more reliable and relevant information.

NAPMA has changed its accounting policy on contributions called for the following financial year. NAPMA's call for contributions is based on BOD-approved budgets, but may include nations advance payments to secure their financial obligations to the Programme. Until 2020, NAPMA accounted the gross amount of contributions called for the following financial year as Advances NAPMO Nations. In order to provide faithfully representative and more relevant information on the conditions on NAPMA's financial position, starting with the financial year 2021, NAPMA accounts called BOD approved next year budgets as deferred revenue. NAPMA's 2020 Financial Statements did not include contributions called for the following financial year. Therefore no restatement of NAPMA's 2020 Financial Statements is required.

For the 2021 Financial Statements there were no other changes in accounting policies or corrections.

Prior year adjustments

NAPMA will retrospectively restate the opening balances of assets, liabilities and net assets for changes in accounting policies, initial or voluntary application of an IPSAS and corrections of prior period errors, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the effects of an error on comparative information, NAPMA shall restate the opening balances for the earliest financial period when retrospective restatement is practicable, which may be the current financial period.

The NAPMA 2020 Financial Statements were restated. Original figures are those which were published in the NAPMA Financial Statements for 2020. The restated column presents the new adjusted figures for 2020 after taking into account corrections.

Since the establishment of the Risk Mitigation Fund (RMF) in 2017, only financial revenues and expenses originating from the translation of the functional currency into the presentation currency have been recognized in the Statement of Financial Performance. All other financial revenues and expenses were directly recognized in the RMF and not included in the surplus or deficit. The management of NAPMA, while reviewing the 2021 Financial Statements, recognized that in accordance with NAPMO Financial Regulation 31.2 and IPSAS 1 Presentation of Financial Statements, all financial revenues and expenses have to be included in the Statement of Financial Performance. This error has been corrected by restating the 2020 comparative figures for financial revenues and expenses in NAPMA's 2021 Financial Statements. Because the error does not affect the reported balances of the RMF, the management of NAPMA believes that detailed information on the financial revenues and

expenses over these years is inconsequential for future decision making. The accumulated net amount not reported as a surplus in Statement of Financial Performance of the NAPMA Financial Statements 2017 - 2019 is 19,720,364 USD equivalent.

Changes in Accounting Standards

NAPMA discloses when initial application of an IPSAS has or would have an effect on the current period of any prior period of the Financial Statements. For 2021 no new relevant standards had or would have had an effect on the Financial Statements.

Assets - Current Assets

The current assets of NAPMA are cash and cash equivalents, accounts receivables, prepayments and short term investments. They are measured at fair value. Changes in fair value are recognized in the Statement of Financial Performance.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at current and saving bank accounts and fixed-term deposits with an original maturity of three months or less.

Receivables

Receivables are reported at fair value in the Statement of Financial Position. No loss allowances and lifetime credit losses are recorded for the balance due as it is deemed to be collectable. Receivables are disaggregated into receivables from non-exchange transactions (contributions from NAPMO Nations) and receivables from exchange transactions (NATO and Non-NATO Entities, Staff Members, bank interest and other receivables). Contribution receivables are recognized when a call for contribution has been issued to the member nations.

Prepayments

Prepayments made to suppliers and to other NATO entities are reflected in the Statement of Financial Position.

Investments

NAPMA's current investments are held-to-maturity fixed term deposits with original maturities between three and six months. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method.

Assets - Non-Current Assets

In this category, NAPMA is reporting all assets which are not expected to realise within twelve months after the reporting period.

Property, Plant and Equipment

PP&E includes tangible items that support programme management activities and are expected to be used in more than one reporting cycle. PP&E is recognized if it is controlled by NAPMA in accordance with the criteria outlined in the NAF and if the acquisition cost exceed the NAPMA capitalisation thresholds. Where an asset is acquired in a non-exchange transaction the asset is initially measured at its fair value.

After recognition as an asset, an item of PP&E is carried at its historical cost less any accumulated depreciation and impairment losses. Cost includes all expenditure that is directly attributable to the acquisition of the items.

The building and the land that NAPMA occupies are provided by the Host Nation as a "right of use".

Contractor-held NATO Property

Contractor-held NATO Property concerns property that is NATO Furnished (NFP) or Contractor Acquired (CAP) for the performance of a contract and to which NAPMA has title.

Contract costs for CAP that is also a deliverable end-item pursuant to a contract, will be reported as contract work in progress until delivery of the asset to NATO.

Contract costs for CAP that is not a deliverable end-item pursuant to a contract, that it is acquired under a cost reimbursement contract and that is expected to meet the NAPMA criteria for PP&E, will be reported as assets under construction until it is serviceable.

Contract costs for CAP that is not a deliverable end-item pursuant to a contract and that it is acquired under a fixed price contract, will be reported as contract work in progress until the constructive delivery of the asset. At the time of constructive delivery to NATO, the fully burdened unit cost will be estimated and transferred to assets under construction.

Serviceable assets will be transferred from assets under construction to the appropriate PP&E categories (if the relevant capitalization criteria are met).

Development laboratories

For performing a modernization contract, the contractor acquires development laboratories to simulate, test and evaluate integrated technologies in an as realistic operating environment. NATO holds title of the development laboratories when it has fully paid for them. Development laboratories are considered to be a combination of hardware and integrated software (i.e. the hardware cannot operate without the software) and together recognized as PP&E. No development laboratory software is separately recognized as an intangible asset.

Serviceable development laboratories will be reported in the PP&E category integrated systems (if the relevant capitalization criteria are met).

Depreciation of Property, Plant and Equipment

Depreciation is charged at rates calculated to allocate the cost or valuation of the assets, less their residual values, over their estimated useful lives, using the straight-line method. Depreciation of an asset begins the first month after it is available for use. PP&E categorization for purposes of determining the appropriate depreciable life of the assets and the associated capitalization thresholds per item, is listed in the table below.

Disposal of Property, Plant and Equipment

An item of PP&E is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item is determined as the difference between the sales proceeds and the carrying amount of the asset and it is recognised in the statement of financial performance.

PP&E categories

Categories (classes) of PP&E is a grouping of assets of a similar nature or function in an entity's operation that is shown as a single item for the purpose of disclosure in the financial statements.

The following table provides details per PP&E category on the expected useful live and their associated capitalization thresholds per item:

PPE Category	Description	Threshold per item	Useful life
Buildings	Building	200,000	40
Installed Equipment	Equipment/building improvements as part of the building such as heating & cooling systems, security systems, renovation, replacements and fixtures	30,000	10
Vehicles	Transportation equipment	10,000	5
Furniture	Desks, Chairs, Cabinets, Safes, Conference, etc.	30,000	10
Automated Information Systems	NIMS, major Hardware and Software	50,000	3
Communication and IT Equipment	Equipment/Tools required for daily office operations such as PC's, Laptops, Software, etc.	50,000	3
Government Furnished Equipment	Miscellaneous Equipment provided to Contractors	50,000	7-10
Integrated Systems	Development laboratories to simulate, test and evaluate integrated technologies	50,000	5-10
Assets under Construction			No depreciation

Leases

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and benefits incidental to ownership to the lessee.

All other leases are classified as operating leases. NAPMA does not have any finance leases.

Work in Progress (other non-current assets)

Contract work in progress is the accumulated amount of expenses during the execution of a programme to modernize the NE-3A aircraft. Deliverable end-items pursuant to the contract, that are ready for their intended use and controlled by the NAEW&CF, will be de-recognized as contract work in progress in NAPMA's financial statements ("transferred to the NAEW&CF").

Contract work in progress is valued at its historical acquisition value at the exchange rate in effect on the date of the expenditure transactions. The expenditures for US FMS contracts and indirect agent contracts are presented on a cash basis provided by the US Government under the US Government Acquisition Agreement. Contract work in Progress is presented on a modified cash basis in the financial statements.

Acquisition programmes have a full cost recovery basis for NAPMA, so no surpluses or deficits are recognized in relation to the contract work in progress with the provision that the budget is used for its intended purpose. Impairment or depreciation of the accumulated costs only starts after the operational capability has been transferred to the NAEW&C Force and put into service.

Liabilities – Current Liabilities

Payables and Accruals

Payables are reported at fair value in the Statement of Financial Position. They represent amounts for which goods and services, supported by an invoice, have been received due to NATO and Non-NATO entities, commercial vendors and NAPMA Staff for goods received or services provided that remain unpaid as of the reporting date. Accruals are estimates of the cost for goods and services received but not yet supported by an invoice at year-end.

Deferred Revenue - current

Deferred revenue - current are unearned contributions from Nations that are expected to be consumed in the first year after the end of the reporting period and payments from third parties subject to specific conditions that are expected to become unconditional in the first year after the end of the reporting period.

Advance NAPMO Nations

Advances NAPMO Nations represent the amounts of funds held on behalf of the member nations, arising from a variety of sources including received advanced payments from some Nations, sales of residual assets and Research and Development (R&D) recoupment.

Advances NATO Entities

Advances received from NATO Entities to support Third Party Projects. Funds are received and expended on behalf of other NATO entities, predominantly the NAEW&C Force, for execution of projects and activities for Operations and Support.

Risk Mitigation Funds (RMF)

During BOD/96, the NAPMO BOD approved the creation of a fund comprised of revenue generated from gross interest earned and investments to mitigate currency and exchange risks. Upon dissolution of the fund, the fund will be redistributed to the Nations according to the then current MoU cost shares.

The RMF is comprised of income generated from interest earned on bank accounts, investments in term/time deposits or money market accounts and gains or losses from foreign currency exchanges. The liquidity held in the fund will have no denomination or link to a particular programme rate or inflation factor.

Employee Benefits

NAPMA employees participate in one of the two NATO pensions funds: the Coordinated Pension Scheme (CPS) which is a benefit plan, and the Defined Contribution Pension Scheme (DCPS) which is a contribution plan. NATO IS operates the CPS for all NATO staff. NATO appointed Previnet SPA as the pension scheme administrator for the DCPS. The assets and liabilities for these pension schemes are accounted for centrally at NATO Headquarters and therefore are not recognized in these Financial Statements. NAPMA only accounts for the contributions paid during the year.

Provisions and Contingent Liabilities

Provisions are recognized when the NAPMA has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Liabilities - Non-Current Liabilities

Deferred Revenue - non-current

Deferred revenue – non-current are unearned contributions from Nations that are not expected to be consumed in the first year after the end of the reporting period and payments from third parties subject to specific conditions that are not expected to become unconditional in the first year after the end of the reporting period.

Deliverables to NAEW&C Force (other non-current liabilities)

Deliverables to NAEW&C Force represent the obligation to transfer deliverable end-items to the NAEW&C Force pursuant to the contract. Deliverable end-items that are controlled by the NAEW&CF, will be de-recognized in NAPMA's financial statements ("transferred to the NAEW&CF").

Because work in progress is presented in the financial statements on a modified cash basis, deliverables to NAEW&C Force – being a derivative – is also presented on a modified cash basis.

Contingent Liabilities

NAPMA does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Net Assets

Net assets is the residual interest of the NAPMO nations in NAPMA's assets after deducting all its liabilities. Net assets are disaggregated into capital asset reserves, cash reserves and accumulated surpluses and deficits.

Nature and purpose of reserves

A capital assets reserve has been established for the depreciation and impairment of capitalized PP&E from the administrative budget. The capital assets reserve is increased with the expenditures for acquired PP&E and decreased with the depreciation and impairment of the PP&E. The capital assets reserve equals the carrying amount of the PP&E. The capital assets reserve is not available for redistribution to nations, programmes or budgets.

The Net Assets in NAPMA's 2020 Financial Statements included a reserve of 3.7 million USD equivalent non-contribution funds earmarked by the BOD for specific purposes (the dedicated funds reserve). The IBAN concluded during their audit of the NAPMA's 2020 Financial Statements that 2.3 million USD equivalent of this reserve was not (anymore) earmarked and should be returned to the NAPMO Nations unless decided otherwise. After a positive procedure, the BOD-Chair confirmed in a letter (NAPMA/FC(21)50-00/090 of 6 September 2021) that 2.3 million USD equivalent of the dedicated funds reserve is appropriated as a budget to the FUP Modernisation Programme (for CNSATM) and that 1.4 million USD equivalent will be returned to the NAPMO Nations. The dedicated funds reserve has ceased to exist per 6 September 2021.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

Assets – Current Assets

1. Cash and Cash Equivalents

Cash and cash equivalents	<u>2021</u>	<u>2020</u>
Current Accounts Saving Accounts	3,008,860 100,184,627	4,068,525 109,863,059
Total	103,193,487	113,931,585

Cash balances are held in current and deposit accounts spread between various reliable financial institutions. Multiple currencies are held in separate accounts. As of the 31st of December 2021 NAPMA invested a part of the cash holding in high rated short fixed-term deposits.

Details of cash and cash equivalents:

Bank	Currency		USD equivalent
	EUR	15,024,819	16,862,355
DNB Bank	NOK	50,607,118	5,673,226
	USD	11,400,546	11,400,546
WELLS FARGO	USD	69,257,360	69,257,360
	Grand Total		103,193,487

Savings are converted using the NATO weekly posted exchange rates applicable on 31 December 2021.

2. Accounts Receivable

Accounts receivable	<u>2021</u>	<u>2020</u>
Receivables from Nations	80,427,728	3,346,027
Receivables from NATO Entities	-1,090	0
Other Receivables/Recoverable	94,952	0
Receivables from Bank interest	125,601	174,722
Long outstanding Receivables	0	3,452,778
Total	80.647.192	6.973.527

NATO UNCLASSIFIED

Receivables are reported at fair value in the Statement of Financial Position. No loss allowances and lifetime credit losses are recorded for the balance due as it is deemed to be collectable. Receivables are disaggregated into receivables from non-exchange transactions (contributions from NAPMO Nations) and receivables from exchange transactions (NATO and

Non-NATO Entities, Staff Members, bank interest and other receivables). Receivables from Nations/Contribution receivables are recognized when calls for contribution have been issued to the member nations.

Contributions from Nations primarily represent the amount not yet received from member nations for the first call for contributions 2022 and open balances from prior year calls.

The increase in the Receivables is due to the fact that the 2022 first call for contributions was sent to Nations in December 2021.

Receivables from NATO Entities represent an amount due to the NAEW&C Force after reconciliation efforts at year-end.

3. Prepayments

<u>Prepayments</u>	<u>2021</u>	<u>2020</u>
NATO Entities DFAS	69,724 5,039,856	217,250 3,702,183
ADMIN NON-NATO Entities	180,716	236,618
Total	5,290,297	4,156,051

Advance payments were made to NSPA (NATO Entities) and DFAS against Taskings and Case Directive Amendments (CDAs).

Advance payments to Non-NATO entities are payments for which goods have not been received, or services have not been rendered. The advances relate, for the most part to prepaid education allowances which covered the school year 2022, maintenance contracts, insurances and software licenses for 2022.

4. Investments

<u>Investments</u>	<u>2021</u>	<u>2020</u>
Investments	291,000,000	300,000,000
Total	291.000.000	300.000.000

NAPMA's current investments are held-to-maturity fixed term deposits with original maturities between three and six months. The carrying amounts for these deposits are a reasonable approximation of their fair value due to their short term maturities.

Fixed-Term Deposits held

Bank	Duration	Currency	Total amount
BBVA Bank	Up to 6 Months	USD	120,000,000
DNB Bank	Up to 6 Months	USD	171,000,000
	Grand Total	USD	291,000,000

Assets - Non-Current Assets

5. Prepayments > 12 Months

<u>Prepayments</u>	<u>2021</u>	<u>2020</u>
ADMIN NON-NATO Entities >12Months	15,851	0
Total	15,851	0

Advance payments to Non-NATO entities > 12 months are prepayments to vendors for maintenance contracts and licenses beyond the following fiscal year.

6. Property, Plant and Equipment (PP&E)

PP&E includes tangible items that support programme management activities and are expected to be used in more than one reporting cycle.

Based on the best available information provided by the contractor when the financial statements were prepared, development laboratories are considered to be a combination of hardware and integrated software (i.e. the hardware cannot operate without the software) and together recognized as property, plant and equipment. Serviceable development laboratories are categorized as integrated systems. No development laboratory software is separately recognized as an intangible asset.

In 2021 the following amounts were capitalized as PP&E:

- Assets funded from the administrative budget totaling 252,950 USD equivalent (Communication and IT Equipment, Furniture and Installed Equipment);
- Additions to the development laboratory funded from the operational budget totaling 1,920,047 USD equivalent (Integrated Systems);
- Transfer from assets under construction to Integrated Systems totaling 26,500,000 USD equivalent.

	Automated Inf. System (NIMS)	Communication and IT Equipment	Furniture	Vehicles	Buildings	Installed Equipment	Gov. Furnished Equipment	Integrated Systems	Assets under Construction	Totals
Opening Balance (01 January 2021)	0	346,257	9,293	58,873	357,609	86,162	0	1,235,294	30,750,000	32,843,489
Additions	0	169,360	80,196	0	0	3,394	0	1,920,047	0	2,172,997
Transfer to PP&E	0	0	0	0	0	0	0	26,500,000	-26,500,000	0
Disposals/Corrections	0	0	2,618	0	0	0	0	0	0	2,618
Depreciation	0	277,617	6,439	23,144	15,097	9,778	0	2,813,777	0	3,145,853
Closing Balance (31 December 2021)	0	238,000	80,432	35,728	342,512	79,777	0	26,841,564	4,250,000	31,868,013
Gross Carrying Amount	7,500,612.30	1,288,009	632,269	115,722	603,899	101,689	0	29,920,047	4,250,000	44,412,246
Accumulated Depreciation	7,500,612.30	1,050,009	551,837	79,994	261,387	21,912	0	3,078,483	0	12,544,233
Net Carrying Amount	0	238,000	80,432	35,728	342,512	79,777	0	26,841,564	4,250,000	31,868,013

7. Work in Progress (WIP) (other non-current assets)

Total	223,953,029	108,176,480
Work in Progress (WIP)	223,953,029	108,176,480
Work in Progress	<u>2021</u>	<u>2020</u>

WIP – The value of work in progress for the acquisition projects will be transferred to the NAEW&C Force when the related asset is ready for its intended use and controlled by the NAEW&C Force.

The amount of 16,533,726 USD equivalent was transferred to the NAEW&C Force in 2021 in compliance with the control criteria of assets as outlined in the NAF see note 15 on Deliverables.

In accordance with the NAF, NAPMA records the expenditures related to indirect contracts in the Financial Statements based on data/billing reports as provided by the US Government. The amount of 464,323 USD equivalent is presented on a modified cash basis.

The below summary table shows additions and transfers occurred during the financial year 2021 as well as the accumulated amounts:

	Work in Progress (WIP)
Opening Balance (01 January 2021)	108,176,480
Additions	129,496,497
Transferred to NAEW&C	-16,533,726
Disposals/Corrections	0
Adjustment depreciation	2,813,777
Closing Balance (31 December 2021)	223,953,029
Gross Carrying Amount	2,605,123,105
Accumulated Transfers	2,381,170,076
Net Carrying Amount	223,953,029

Liabilities - Current Liabilities

8. Accounts Payable

Accounts Payable	<u>2021</u>	<u>2020</u>
Payables to NATO Entities	189,457	7,195
Payables to Non-NATO Entities	393,048	395,460
Payables to Suppliers	1,289,899	1,008,094
Payables to Staff	1,687	160
Total	1,874,092	1,410,909

NATO UNCLASSIFIED

Payables to NATO Entities

Payables to NATO Entities include primarily invoices received from JFC HQ Brunssum and NATO Communications and Information Agency (NCIA) that were not settled at year-end.

Payables to Non-NATO Entities

Payables to Non-NATO Entities include the DFAS US-Reimbursables that were not settled at year-end.

Payables to Suppliers

Payables to suppliers include invoices received from commercial vendors not settled at yearend. There is an increase in payables to suppliers because the majority of the invoices were received after the deadline for the last payment date in December 2021and therefore not paid at year-end.

Payables to staff members

Amounts due to staff members include travel expenses which were not submitted by staff members before the last payment date in December 2021 and therefore not settled at year-end.

9. Accruals

Accruals	<u>2021</u>	<u>2020</u>
Goods receipt – Invoices to be received	597,677	1,244,479
Total	597,677	1,244,479

Goods Receipt – Invoices to be received are the amounts based on estimates and assumptions made for goods/services that were delivered/performed during fiscal year 2021 and prior but not invoiced by 31 December 2021.

The variance between the comparative figures is explained by the receipt in invoicing from the prime contractor before the cut-off date.

10. Deferred Revenue - current

<u>Deferred Revenue</u>	<u>2021</u>	<u>2020</u>
Unearned Contribution - Current	298,567,358	208,339,666
Unearned Grant - SESAR	0	1,539,871
Unearned depreciation PP&E - Current	4,536,540	3,899,203
Total	303,103,898	213,778,739

Revenue from contributions and other non-exchange transactions is deferred until it is deemed to have been earned.

Unearned Contributions - current represents the balance of BOD approved but not yet consumed budgets of the financial year and prior periods that are expected to be consumed in the twelve months after the end of the reporting period. After a positive procedure, 2.3 million USD equivalent of the dedicated funds reserve is appropriated as a budget to the FUP Modernisation Programme (for CNS/ATM) and is therefore included, see more details on page 16. Contract work in progress and deliverables to the NAEW&C Force are recognized simultaneously with the depreciation of PP&E funded from the operational budget to correspond with the consumption of the assets. The unearned depreciation PP&E - current is the expected depreciation of operational budget funded PP&E in the twelve months after the end of the reporting period.

11. Advances NAPMO Nations and NATO entities

Advances	<u>2021</u>	<u>2020</u>
Advance Nation's Contributions Advances NAPMO Nations-Appropriated Advances NAPMO Nations-Unappropriated Advances NATO Entities	107,054 58,686,691 39,251,109 969,081	670,125 38,750,930 21,320,463 906,458
Total	99,013,935	61,647,975

Advances NAPMO Nations represent the amounts of funds held on behalf of the member nations, arising from a variety of sources including received advanced contributions from some nations on calls for the following financial year, sales of residual assets, Research and Development (R&D) recoupment for the Radar System Improvement Project (RSIP) and interest earned on bank accounts for the years 2010 to 2013. The Advances NAPMO Nations is split into appropriated and unappropriated.

Advances NAPMO Nations appropriated are refundable contributions, reimbursements or distributions payable allocated to NAPMO Nations including advance/discretionary payments from nations. This also includes 1.4 million USD equivalent, which was added as per BOD decision on the dissolution of the dedicated funds reserve, see more details on page 16 Net Assets.

Advances NAPMO Nations unappropriated are distributions not allocated to NAPMO Nations pending a NAPMO BOD decision on further use. In the Spring 2021 PFC/27 meeting it was agreed that NAPMA will transfer the SESAR funds from Net Assets to Nations advances.

As per BOD/96 decision, these funds are to remain in the programme and are not returnable to nations. The total amount transferred was 18,010,705 USD equivalent.

Advances NATO entities are funds received and expended in support of other NATO entities predominantly the NAEW&C Force for execution of projects and activities for Operations and Support.

12. Risk Mitigation Fund Nations

Risk Mitigation Fund Nations	<u>2021</u>	<u>2020</u>
Risk Mitigation Fund Nations	24,043,659	22,988,935
Total	24,043,659	22,988,935

During BOD/96, the NAPMO BOD approved the creation of a Risk Mitigation Fund (RMF) to mitigate currency and exchange risks. The RMF is comprised of income generated from interest earned on bank accounts, investments in term/time deposits or money market accounts and gains from foreign currency exchanges since 2014. The liquidity held in the fund will have no denomination or link to a particular programme rate or inflation factor. Risk management procedures are implemented specifically pertaining to measuring and managing liquidity risk in both normal and adverse conditions.

The RMF balance on the 31 December 2021 is mainly made of interest generated in bank accounts held in USD and currency exchanges executed throughout the year. Until 2021, interest paid, losses due to currency exchanges and bank charges were directly covered from the RMF without a budget and budget consumption. At the end of 2021 the net amount of 1,054,724 USD equivalent was distributed to the RMF. For 2020 the net amount of 2,870,434 USD equivalent was transferred to the RMF.

As per Policy and Finance Committee (PFC26) decision the PFC approved the transfer of CAN Nations'advances into the RMF. The amount transferred was 398,138 USD equivalent.

A break down of P&L items distributed to the RMF can be found below:

		Restated
	2021	2020
Interest received	724,072	2,642,534
Interest and bank charges paid	(144,880)	(181,571)
Accumulated exchange gains/losses	475,532	409,471
Total	1,054,724	2,870,434

Liabilities - Non-Current Liabilities

13. Deferred Revenue – non-current

<u>Deferred Revenue</u>	<u>2021</u>	<u>2020</u>
Unearned Contribution-Non-Current	56,157,160	110,731,218
Unearned depreciation PP&E-Non-Current	25,075,338	26,543,423
Total	81,232,498	137,274,641

Revenue from contributions and other non-exchange transactions is deferred until it is deemed to have been earned.

Unearned Contributions – non-current represents the balance of BOD approved but not yet consumed budgets of the financial year and prior periods that are not expected to be consumed in the first year after the end of the reporting period.

Revenue is recognized simultaneously with the depreciation of PP&E funded from the operational budget to correspond with the consumption of the assets. The unearned depreciation PP&E – non-current is the depreciation of operational budget funded PP&E not expected to be recognized in the first year after the end of the reporting period.

14. Advances on Nations' Contributions and NATO Entities > 12 Months

Advances on Nations' Contributions > 12 Months	<u>2021</u>	<u>2020</u>
Advance Nation accounts	1,372,633	872,544
Total	1,372,633	872,544

The advance nation account non-current is the depreciation of operational budget funded PP&E not expected to be recognized in the first year after the end of the reporting period.

15. Other non-current liabilities (Deliverables)

Deliverable to NAEW&C Force	<u>2021</u>	<u>2020</u>
Deliverables	223,953,029	108,176,480
Total	223,953,029	108,176,480

NATO UNCLASSIFIED

Deliverables to NAEW&C Force represent the cumulative amount that is still to be transferred to NAEW&C Force when the related asset is ready for its intended use and controlled by the NAEW&C Force.

The below summary table shows additions and transfers occurred during the financial year 2021 as well as the accumulated amounts.

	Deliverables
Opening Balance (01 January 2021)	108,176,480
Additions	129,496,497
Transferred to NAEW&C	-16,533,726
Disposals/Corrections	0
Adjustment depreciation	2,813,777
Closing Balance (31 December 2021)	223,953,029
Gross Carrying Amount	2,605,123,105
Accumulated Transfers	2,381,170,076
Net Carrying Amount	223,953,029

16. Net Assets

Net assets is the residual interest of the NAPMO nations in NAPMA's assets after deducting all its liabilities.

Net assets are disaggregated into capital asset reserves and accumulated surpluses and deficits. As stated on page 16 of the Financial Statements, the net assets at the year-end 2020 included a reserve of 3.7 million USD equivalent which was dissolved in September 2021.

Based on the instructions of the BOD (BOD/96), the recognized SESAR Grant in the total amount of 18,153,780 USD equivalent was transferred from net assets into Nations advances. This transfer was reported to the NAPMO nations in May 2021 (PFC/27) and in June 2021 (BOD/105).

Furthermore, the BOD (BOD/96) instructed to distribute the difference of financial revenue and finance costs (except unrealized gains/losses) from net assets to the RMF at year-end. In 2021 the amount transferred was 1,054,724 USD equivalent.

Further details can be found in the Statement of Changes in Net Assets/Equity (page 6).

NOTES TO THE STATEMENT OF FINANCIAL PERFORMANCE

17. Revenue

Revenue recognition is matched with the recognition of expenses against NAPMA budgets. Contributions when called are booked as unearned revenue and recognized when earned. The table below shows the breakdown of the operating revenue.

Revenue	<u>2021</u>	Restated 2020	Original <u>2020</u>
Revenue from Contributions	22,313,715	33,953,324	33,953,324
Financial Revenue	1,331,789	3,890,447	88,746
Revenue from received Grants	4,071,103	0	0
Other Revenue	73,659	9,087,544	9,087,544
Total	27,790,266	46,931,315	43,129,615

Revenue from Contributions has been recognized for project and administrative activities. In 2016, NAPMA was found to be eligible for an EU grant from the Single European Sky Air Traffic Management Research (SESAR) for the efforts in defining, developing and delivering new or improved technologies and procedures to increase the performance of Europe's Air Traffic Management (ATM) system. The grant addressed the activities Production and Retrofit (PAR), and Flight Simulator Training Device upgrade and Air Crew Training (FSTD). NAPMA will recognize revenue on the SESAR grant when the activity is published as completed in the reporting tool called STAR and the financing needs are certified by the SESAR Deployment Manager. The amount recognized in 2021 is 4,071,103 USD equivalent. Other revenue in the amount of 73,659 USD equivalent originates from 2018 and 2019 approved NAPMA budgets used to pay for Risk Reduction expenditures in 2021.

In 2020, financial revenue in the amount of 88,746 USD equivalent represented unrealized foreign exchange rate gains originating from the translation of the functional currency into the presentation currency. Other financial revenues such as interest and realized exchange rate gains were directly recognized in the RMF and not included in the surplus or deficit. The error has been corrected by restating each of the affected financial statement line items for prior periods. The error and total impact since the RMF was first reported in 2017, is explained in the note on the Restatement of the 2020 Financial Statements under Accounting Policies.

Restated

Further details see table below and note 12, page 24.

Financial Revenue in USD equivalent:

	Nestated
2021	2020
724,072	2,642,534
607,717	1,159,166
0	88,746
1,331,789	3,890,447
	724,072 607,717 0

18. Expenses

Expenses are recognized by nature within the following groups.

Project Expenses	<u>2021</u>	<u>2020</u>
Projects - direct Projects - indirect	980,131 269,465	24,362,944 0
Total	1,249,596	24,362,944

Project expenses are outlay costs in support the modernization programmes, funded from the operational budget but not directly related to deliverable assets to the NAEW&C Force or assets acquired by the contractor for the performance of a contract. Project expenses are not capitalized as WIP or PP&E.

Indirect project expenses are disbursements for indirect contracts made by the Defense Finance and Accounting Service (DFAS) for obligations incurred by the U.S. Government on behalf of NAPMA and that are not directly related to deliverable assets to the NAEW&C Force. Indirect project expenses are not capitalized as WIP or PP&E.

Any indirect expenses incurred are presented on a "modified cash" basis.

Administrative Expenses	<u>2021</u>	<u>2020</u>
Personnel	18,859,848	16,949,681
Operational	2,024,981	1,453,207
Total	20,884,829	18,402,888

The amounts for Personnel include expenses for salaries and emoluments for NATO civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation, removal and training.

The remaining part of the administrative expenses relate to operational activities such as maintenance costs, travel expenses, communication and information systems. These expenses are needed to meet NAPMA's operational requirements.

The lease for three staff cars and photocopiers have been qualified as operating leases and are therefore also included in the administrative costs.

NAPMA Personnel Costs (including key management personnel)

	2021	2020
Salaries	13,088,099	11,777,610
Allowances	2,593,393	2,400,340
Pension contributions	1,335,992	1,167,697
Health care contributions	1,538,493	1,362,158
Loss-of-Job Indemnities	0	0
Other	303,871	241,875
Total	18,859,848	16,949,681

Employee Disclosure

NAPMA personnel is enrolled in two NATO pension schemes. NAPMA contributes to the schemes for existing employees at amounts laid out in the NATO Civilian Personnel Regulations (NCPR's).

NAPMA does not control or manage any of the schemes or scheme assets and is not exposed to the risks and rewards of the schemes and hence does not record any assets or liabilities of the schemes on its statements of financial position. In 2021 NAPMA contributed 1,335,992 USD equivalent to the NATO pension schemes.

Depreciation Expenses	<u>2021</u>	<u>2020</u>
Depreciation and amortization	332,076	375,729
Total	332,076	375,729

Assets of PP&E are depreciated over their useful life (see also Note 6).

The depreciation expense in the amount of 332,076 USD equivalent relates to the depreciation funded out of the administrative budget.

The annual depreciation related to PP&E funded from the operational budget has been allocated to WIP in accordance with IPSAS 11, Construction Contracts, see note 7.

Disposal Expenses	<u>2021</u>	<u>2020</u>
Loss - Disposal of fixed Assets	2,618	0
Total	2,618	0

In 2021, NAPMA disposed assets with a net book value of 2,618 USD equivalent.

Finance Expenses	<u>2021</u>	Restated <u>2020</u>	Original <u>2020</u>
Finance Expenses	285,133	931,267	0
Total	285,133	931,267	0

Finance expenses in the amount of 285,133 USD equivalent represent unrealized foreign exchange rate losses originating from the translation of the functional currency into the presentation currency, interest paid, bank charges and realized exchange rate losses (all non budgetary).

In 2020, no financial expenses were initially reported. After restating the 2020 figures the amount is 931,267 USD equivalent.

Other financial expenses such as interest paid, bank charges and realized exchange rate losses (all non-budgetary) were directly recognized in the RMF and not included in the surplus or deficit. The error has been corrected by restating each of the affected financial statement line items for prior periods. The error and total impact since the RMF was first reported in 2017, is explained in the note on the Restatement of the 2020 Financial Statements under Accounting Policies.

Finance Expenses in USD equivalent:

	2021	2020
Interest paid	135,339	173,386
Bank charges	9,541	8,185
Realised exchange rate loss	132,186	749,696
Unrealised exchange rate loss	8,068	0
Total	285,133	931,267

19. Surplus for the Period

The 2021 surplus in the amount of 5,036,014 USD equivalent results from:

- The currency translation adjustments at the end of the year in accordance with IPSAS 4 presented under Finance expenses in the amount of (8,068) USD equivalent;
- The interest paid and bank charges paid in the amount of (144,879) USD equivalent;
- The depreciation expenses in the amount of (332,076) USD equivalent;
- The Loss Disposal of fixed asstes in the amount of (2,618) USD equivalent;
- The recognition of SESAR funds in the amount of 4,071,103 USD equivalent;
- The interest received in the amount of 724,072 USD equivalent;
- The realized exchange rate gains and losses in the amount of 475,526 USD equivalent;

• The purchase of PP&E funded out of the administrative budget in the amount of 252,950 USD equivalent.

EVENTS AFTER THE REPORTING DATE

NAPMA's reporting date is 31 December 2021 and the Financial Statements were authorized for issue by the General Manager on 31 March 2022.

No material events, favorable or unfavorable, which would have an impact on the statements have occurred between the reporting date and the date on which the Financial Statements were authorized for issue.

RELATED PARTY DISCLOSURE

Under IPSAS 20 parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 requires the disclosure of the existence of related party relationships, where control exists, and the disclosure of information about transactions between the entity and its related parties. This information is required for accountability purposes and to facilitate a better understanding of the Financial Position and Performance of the reporting entity.

The BOD members receive no remuneration and do not receive loans from the entity. Based on the BOD annual declarations for 2021, received from all the BOD Members, no significant related party relationships could be identified which could affect the operation of NAPMA.

Based on the annual declaration for 2021 received from the key management personnel of NAPMA, there were no significant related party relationships identified which could affect the operation of NAPMA.

Senior management is remunerated in accordance with the published NATO pay scales. They do not receive loans that are not available to all staff members.

The aggregate remuneration of key management personnel during the year was as follows:

Number of individuals at year- end on a full time equivalent basis

Grades	2021	2020
A7	1	1
A6/G23*	3	3
A5/G22*	4	4
A4/G20*	7	8
A3	1	1
Total	16	17

^{*}Reflects the Single Salary Spine (SSS) Scales for Staff members who joined after 01 April 2021

Salaries and benefits paid to key management personnel

Remuneration type	2021	2020
Basic salaries	2,462,730	2,692,826
Allowances	490,854	577,557
Employer's contribution to insurance	287,801	323,954
Employer's contribution to pension	253,995	300,038
Other	11,958	0
Total	3,507,336	3,894,375

The General Manager is entitled to receive a representation allowance as per DC(2016)0100. The amount spent in 2021 was 2,597 USD equivalent. Expenditures made against this allowance are supported by invoices.

BUDGET EXECUTION STATEMENT

The execution of the budget during financial year 2021 is shown in annex A.

The budget and accounting bases differ for NAPMA. The Financial Statements for NAPMA are prepared on an accrual basis, based on the nature of expenses in the Financial Statements whereas the Budgets are prepared on a commitment basis. Budgets are approved annually by programme/project, but cover multi-year requirements. All budgets are approved in US Dollar equivalent at an established programme rate at the beginning of each project. Execution of the approved budgets is in multi-currencies and is expressed in USD equivalent at the established programme rate.

The BOD approves the budgets based on programme/projects including administrative costs. Budgets may be subsequently amended by the Board. During PFC/28 and via positive procedure on 6 September 2021, the PFC approved additional transfers of appropriations between projects.

In the Clearing House process, actual expenditures are recognized when USD equivalent payments are made through DFAS or via a Direct USD contract with Boeing, while the Budgeted Expenditures are recognized when payments are made to subcontractors, in multi-currencies, by NAPMA.

In the Budget Execution Statement, actual expenditures are recorded on an accrual basis. Budgeted expenditures are recognized when the Service Entry (Good Receipt) is posted and the budget is consumed by an individual project.

The following table reconciles the differences between budget expenses (commitment basis) and actual expenses (accrual accounting basis) which are driven primarily by timing differences in Clearing House, accruals and capitalization. Exchange rate differences are generated because the BES expenditures are calculated at programme rate while the Financial Statement expenditures are calculated at market rate (NATO Parity Rate).

2021 Expenditure Reconciliation (USD EQ)									
	Expenditure	Comparison	Difference			Explanation	1		
	BES Expense at Program Rate	Fin Stmt Expense at Market Rate (Incl WIP)	BES Expense at Program Rate less Fin Stmt Expense at Market Rate	Exchange Difference Non-Budgetary Program Rate to Market Rate Non-Budgetary Capitalization Difference Difference Difference Difference Currency Clearing House Difference Difference					
PROJECTS	160,289,117.71	132,666,140.41	27,622,977.30	(222,150.55)		-	(26,709,571.61)	(691,255.14)	
ADMIN	19,331,052.21	20,884,828.65	(1,553,776.44)	1,783,415.64		(232,954.01)	-	3,314.81	
OTHER	-	619,827.00	(619,827.00)	-	619,827.00	-	-	-	
TOTAL	179,620,169.92	154,170,796.06	25,449,373.86	1,561,265.09	619,827.00	(232,954.01)	(26,709,571.61)	(687,940.33)	

The difference because of non-budgetary expenditures consists of depreciation (332,076 USD equivalent), disposal (2,618 USD equivalent) and finance costs (285,133 USD equivalent). Until 2021, finance costs were directly covered from the RMF without recognizing budget consumption. The omission was discovered in June 2022 and corrected in NAPMA's 2021 resubmitted Financial Statements (see Prior year adjustments under Accounting Policies on page 10). The expenses at programme rate in the NAPMA 2021 Budget Exection Statement have not been retrospectively adjusted.

WRITE OFF

Acquisition programmes have a full cost recovery basis for NAPMA. The NAEW&C Force is responsible for impairment (write off) after the operational capability has been transferred to the NAEW&C Force and put into service. NAPMA only reports write-offs of NAPMA fixed admin assets and inventory. This results from the implementation of the NAF.

In 2021, NAPMA wrote-off assets with a total historical value of 125,031 USD equivalent.

FINANCIAL INSTRUMENTS DISCLOSURE

NAPMA's financial requirements are set by its Member Nations. NAPMA does not borrow money to meet any financial obligation. Other than financial assets and liabilities which are generated by day-to-day operational activities, no long term financial instruments are held. The Risk Mitigation Fund's purpose is to mitigate currency and exchange risks.

Liquidity risk

NAPMA's financial requirements and capital expenditures are met by its Member Nations and are typically funded in advance. NAPMA is therefore not exposed to material liquidity risks.

Sovereign default risk

NAPMO Nations are member and partner Nations of NATO, hence NAPMA is not exposed to material sovereign default risks.

Credit risk

NAPMA's Investment strategy is limited to short-term and low risk investments with approved creditworthy counterparties and in accordance with approved limits. In this way, NAPMA has mitigated any material credit risks.

Foreign currency risk

NAPMA has limited exposure to foreign currency because some of its work is denominated in currencies other than the USD. Each NAPMO Nation will contribute and be credited for its share in the ratio of currencies required at the time of contribution. The risk related to foreign currency transactions is ultimately borne by NAPMO Nations.

	2021 Budget Execution Statement (USD EQ)								
	Appropriations Appropriations Between Projects Previous FY Uncommitted Appropriations Carried Forward From Previous FY Commitments Carried Forward From Previous FY Commitments Carried Forward From Previous FY Carried Forward From Previous FY Commitments Carried Forward From Previous FY Carried Forward From Previous FY Carried Forward From Previous FY Carried Forward From Previous FY						Commitments Carried Forward into Following FY	Lapses	
	Α	В	С	D	E=A+B+C+D	F	G	Н	1
FLEP	110,082,954.93	-	-	250,223,198.79	360,306,153.72	(142,330,960.53)	(11,895,075.72)	(206,080,117.47)	
NMT	-	-	3,114,460.20	925,978.53	4,040,438.73	(258,896.96)	(3,568,533.15)	(154,459.03)	(58,549.59)
LAIRCM	-	-		1,553,611.13	1,553,611.13	(134,890.00)		(1,418,681.68)	(39.45)
FUTUREMODII	-	-	2,941,542.64	12,367,008.64	15,308,551.28	(4,835,562.61)	(554,139.67)	(9,918,849.00)	
LPAII	-	-	94,690.97	289,046.22	383,737.19	(100,763.27)		(282,973.92)	
MODE5/S-EMD	-	(1,400,000.00)	3,301,930.08	2,781,881.45	4,683,811.53	(300,605.38)	(2,142,825.94)	(2,240,380.21)	
CNSATM-EMD	2,300,000.00	1,400,000.00	5,382,307.59	18,656,344.42	27,738,652.01	(12,327,438.96)	(4,348,672.40)	(11,062,540.65)	
ADMIN	21,162,416.00	-	-	360,598.60	21,523,014.60	(19,331,052.21)	9,352.33	(457,501.46)	(1,743,813.26)
TOTAL	133,545,370.93	-	14,834,931.48	287,157,667.78	435,537,970.19	(179,620,169.92)	(22,499,894.55)	(231,615,503.42)	(1,802,402.30)

(1)

Note (1): Appropriation transfer between projects per BOD approvals

Annex B to the Financial Statements
Statement of Internal Control

Statement of Internal Control

Scope of Responsibility

- As General Manager of NAPMA, I am responsible and accountable to the agency's Board of Directors (BOD) for designing, implementing and maintaining an efficient, effective and economical system of Internal Control that supports the achievement of NAPMA's objectives. To this end, I have established an effective, efficient and economical Internal Control System, in accordance with NAPMO Financial Regulations (NFRs) and NAPMO Financial Rules and Procedures (FRPs), based on the principles of COSO Enterprise Risk Management (ERM) and Internal Control System, as described below.
- 2. As the NAPMA Financial Controller I am responsible to the General Manager and accountable to the NAPMO Policy and Finance Committee (PFC) for establishing a system of internal financial and budgetary control, delegate authority to officials who may disburse and receive funds on my behalf, maintaining comprehensive accounting records of all assets and liabilities and the correct use of funds made available to the agency, in accordance with the NFR and FRP.

Purpose and Limitation of the System of Internal Control

- 3. The Internal Control System defines a process, carried out by NAPMA's management and staff, designed to provide reasonable assurance that the Agency will achieve its objectives while using the agency's resources in an efficient and effective manner.
- 4. NAPMA's system of internal control specifically addresses the efficiency and effectiveness of operations, accuracy and reliability of financial reporting and compliance with its legal framework and applicable laws and regulations.
- 5. Common limitations for an internal control system are collusion, human error and management override.
- 6. The cost of the internal controls should not outweigh the risks they are mitigating.

Oversight over NAPMA's Internal Control

- 7. Oversight on NAPMA's internal control is exercised by the NAPMO BOD and the PFC, pursuant to Articles 28 and 30 of the NAPMO Charter and paragraph 39 of the NAPMO Corporate Governance Policy (NCGP). The PFC's oversight role, as the Agency's Audit Advisory Panel, are pursuant to Article 16 of the NFR and paragraph 43 of the NCGP.
- The revised and updated NAPMO Corporate Governance Policy (NCGP) document was approved during the 105th meeting of the NAPMO Board of Directors, on 22 June 2021.

Annex B to the Financial Statements
Statement of Internal Control

- 9. In accordance with the NCGP, NAPMA has established an internal control process to provide reasonable assurance regarding the achievement of objectives, in accordance with COSO Risk Management and Internal Control principles.
- 10. In accordance with the NCGP, the NAPMA GM has implemented a risk management and internal control system that is consistent with the nature, complexity and risk inherent in the execution of the Agency's mission.

Risk Management

- 11. NAPMA manages risks at two distinct levels: the enterprise and the functional levels. NAPMA has established an Enterprise Risk Manager and an enterprise risk management plan to manage risks that can jeopardize NAPMA's abilities to successfully execute NAPMA Programme of Work and its Technical Airworthiness responsibilities.
- 12. Division Heads and Office Chiefs are responsible for managing risks within their functional areas and to evaluate, implement and maintain the necessary internal controls.
- 13. Division Heads and Office Chiefs shall record and maintain Key Internal Controls in the Key Internal Control Catalog (KICC) and annually, after the end-of-year, self-assess the effectiveness of the recorded internal controls, and update as necessary to ensure the appriopriateness of the Internal Controls for the following year.
- 14. Designated responsible managers within NAPMA shall annually confirm in a signed Statement of Assurance to the General Manager to the best of their knowledge compliance with applicable rules and regulations, knowedge or awareness of fraud, safeguarding of the assets within their respective areas of responsibility and evaluation of key controls for the functional area's of their responsibility through the self-assessment of the recorded Key Internal Controls in the KICC.

Internal Control System

- 15. Other key elements of the Agency's Internal Control System include, but are not limited to:
 - Commitment of NAPMA's senior leadership to integrity and ethical values;
 - Standards of Behaviour in line with the NATO Code of Conduct with an annual signed declaration of adherence by each staff member;
 - Annual signature by NAPMA key personnel of a statement on related party disclosure;
 - Signature on an annual basis by the General Manager and the Financial Controller
 of a NAPMA Management Representation Letter, that provides assurance
 regarding the integrity, reliability, accuracy, completeness and consistency of
 information contained in the Financial Statements;
 - The NAPMO FR and NAPMO FRP:
 - NAPMA Management Directives, Operating Standards, Business Process Procedures and Instructions;
 - The use of the NAPMA Integrated Management System (NIMS), which incorporates the standard SAP Enterprise Resource Planning system with a budgeting module especially designed to manage, monitor and safeguard the funds appropriated to NAPMA:

NATO UNCLASSIFIED

Annex B to the Financial Statements
Statement of Internal Control

- A Treasury Policy Group that periodically reviews cash management and issues regarding the financial institutions which are responsible for cash deposits;
- Signature on an annual basis by designated responsible managers within the NAPMA organization of a Statement of Assurance declaring their assessment of the execution of their internal controls;
- Annual confirmation of the responsibility and accountability for NAPMA's system of internal control by the General Manager and the Financial Controller signature of the Statement of Internal Control.

Internal Audit

16. NAPMA has established the position of an internal auditor within in the PE that independently evaluates the adequacy and effectiveness of the organization's governance, risk management, and internal controls to help the GM to protect assets, reputation and sustainability of the organization.

Important Developments that Influenced NAPMA's Internal Control in 2021

- 17. NAPMA staff continued to telework in 2021 because of the COVID-19 pandemic. The inefficiencies of working remotely may have had an effect on NAPMA's control activities, such as segregation of duties, physical controls and internal auditing.
- 18. Due to the departure of the Internal Auditor, NAPMA did not have an internal audit function for the last quarter of 2021.

Review of the Effectiveness of the System of Internal Control

- 19. The Financial Controller is responsible for evaluating the system of financial control.
- 20. The main basis for the assessment of the effectiveness of the system of internal control by the Financial Controller is direct observation. Other sources include, but are not limited to, reporting by internal and external auditors, self-assessment of identified key risks and key internal controls, as recorded in the KICC and the signed statements of assurance by designated responsible managers within NAPMA.
- 21. It is the Financial Controller's assessment that strong controls exist over accounting, budgeting, treasury and the non-expendable items controlled by NAPMA. Some items controlled by NAPMA are held at contractors' locations. The Financial Controller found that strong controls exist for the accounting and safeguarding of NAPMA furnished property, but that the accounting for the completeness of Contractor Acquired Property to which NATO has title is challenging.

Annex B to the Financial Statements
Statement of Internal Control

General Manager's Internal Control Priorities for the Year 2022

- 22. The General Manager's Internal Control Priorities for the Year 2022 are:
 - Continue the implementation of a tailored NAPMA Internal Control System, inspired by the principles of the COSO framework;
 - Implementing a structured framework of Directives, Standards, and Guidance's, clarifying the granular linking from strategy to processes, capturing those levels of responsibility, internal control artefacts and methods of reporting.

Confirmation of adherence to NAPMO Financial Regulations article 3.1

23. Based on the above, to the best of our knowledge and information available and within the scope of our respective responsibilities, we hereby confirm that the agency operated satisfactory systems of internal control for the year ended 31 December 2021 and up to the date of approval of the Financial Statements.

BrigGen Michael Gschossmann General Manager NAPMA

Date 08 July 2022

Kees Schulten

Financial Controller NAPMA

er Schile

Date 08 July 2022

NETMA



ANNUAL FINANCIAL STATEMENTS 2021

FOR THE PERIOD ENDED 31 DECEMBER 2021



NETMA

NATO EF2000 AND TORNADO DEVELOPMENT, PRODUCTION AND LOGISTICS MANAGEMENT AGENCY

For example:

34,632 = Thirty Four Million Six Hundred and Thirty Two Thousand Euros;

132 = One Hundred and Thirty Two Thousand Euros

The photographs in the following publication have been provided:

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Introduction to the 2021 Financial Statements



NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA) is an agency formed jointly by NAMMO (NATO Multi-Role Combat Aircraft Development, Production and In-Service Support Management Organisation) and NEFMO (NATO European Fighter Aircraft Development, Production and Logistics Support Management Organisation) in 1996 to manage the procurement and the administration of the two programmes within the framework of NATO. The operations of NETMA concerning NAMMO and NEFMO are each controlled by a Joint Steering Committee of the three NAMMO nations and the four NEFMO nations involved in the programmes.

NETMA is based in Hallbergmoos, Germany and is an Executive Body created by charter to administer the functions of two NATO Production and Logistic Organisations (NPLOs). The two NPLOs are NAMMO and NEFMO.

The budgetary organisation of NETMA is funded by the four member nations – Germany, Italy, Spain and United Kingdom. Budget approval is given jointly by the Boards of Directors (BoDs) of NAMMO and NEFMO. As a NATO agency, NETMA is exempt from taxation relating to operating revenue and expenses, where VAT is incurred this is recovered directly from the host nation's tax office.

Key points from the Annual Financial Statements

NETMA Liabilities

The Agency's office accommodation is the subject of an operating lease and is therefore not capitalised as PP&E. In accordance with IPSAS 13, it must be expensed on a straight-line basis over the lease term. IPSAS 13 mandates that operating leases are accounted for in this way irrespective of cash payments made. As NETMA were able to negotiate a rent free period at the start of the lease, these expenses are accrued as a long term liability which is unwound over the term of the lease. This only impacts on the Financial Statements and does not impact on either the budget or cash spent in 2021.



Vision

"To deliver In-service Support, Capability
Enhancements and New Eurofighter Aircraft
to Nations, through excellence in
Programme Management and Continuous
Improvement"

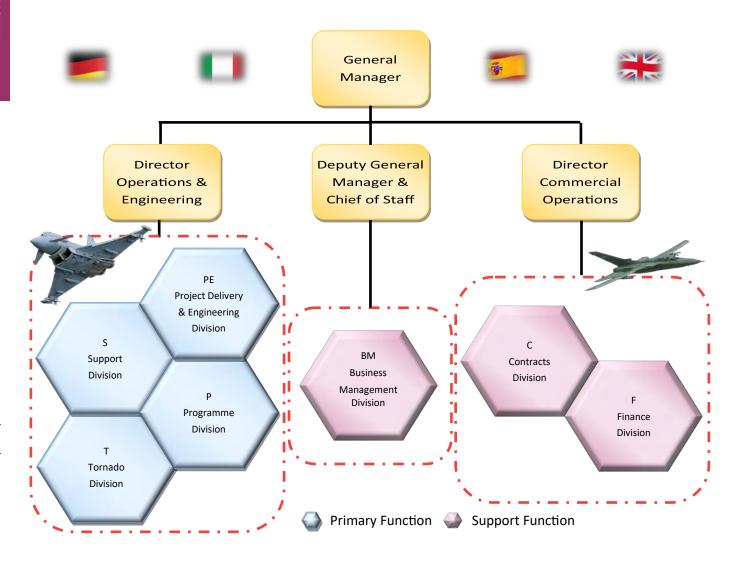


Mission

"Ensure Nations' requirements are satisfied in the delivery of New Eurofighter Aircraft, and the Enhancement & Sustainment of the existing Eurofighter & Tornado Capabilities"

NETMA AT A GLANCE

In order to deliver our operational programmes for the Nations, NETMA operates using a functional organisational structure, grouping its staff into agency divisions based on their specific skills and knowledge, as shown below:



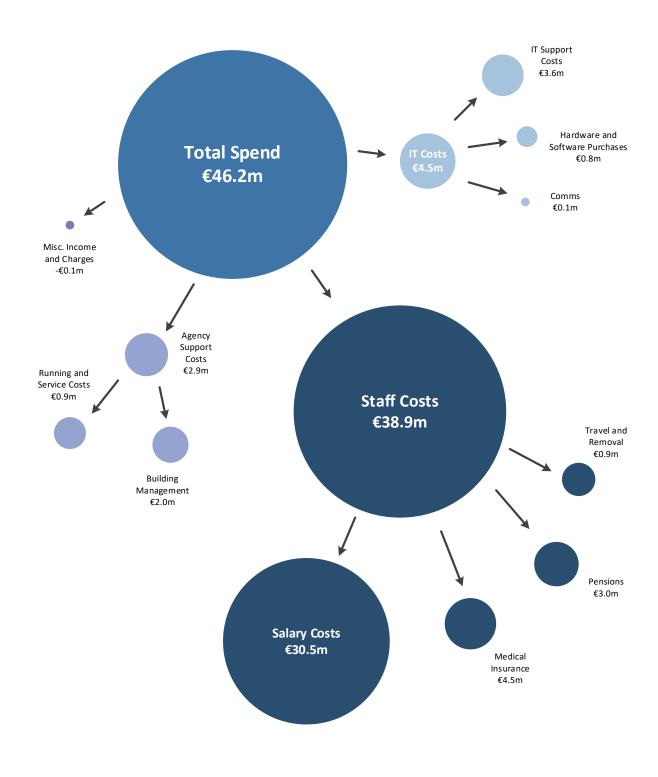
In support of the NEFMO and NAMMO BoDs and the Typhoon and Tornado Weapon Systems, the NETMA structure is organised to deliver the agency's requirements. PE, S, and P Divisions manage, on behalf of the contributing nations, the logistics and operations activities with our industry partners for Typhoon (Eurofighter Jagdflugzeug GmbH and Eurojet Turbo GmbH). T Division acts in the same manner for Tornado (PANAVIA Aircraft GmbH and Turbo-Union GmbH).

In support of these primary activities, the Contracts and Finance Divisions drive value through Contract and Financial management between Nations and industry. The Business Management Division, made up of Human Resources, IT Management and Business Improvement and Performance, supports the entire NETMA agency. The IT Management department supports the IT Applications which enable Tornado Programme management. These include (but are not limited to) the Agency Integrated Management System (AIMS) for Milestone/Task and Invoice Management, the Enhanced Procurement System-Central Automatic Data Processing System (EPS-CADPS) for Procurement and Logistics Support Activities, and the Personnel & Accruals Reporting Management Information System (PARMIS) for Invoice to Payment & Banking processes.

NETMA Expenditure Breakdown 2021

The total expenditure to deliver the Administration Budget, as reported in the NETMA financial statements, was €46.2m in 2021. The majority (84%) of this expenditure is related to the staffing costs of the agency, with the remainder spent on the rent and running costs of the NETMA headquarters at Hallbergmoos and the provision and support of IT and communications equipment and infrastructure.

In total, the costs of running the agency equate to circa 1.3% of all spend on the NETMA programmes, representing good value to our customer nations.



NETMA Statement of Internal Control



As General Manager of NETMA, I have responsibility for maintaining an effective system of internal control that supports the achievement of my Agency's policies, aims and objectives, set by NETMA's Four Nations and the Board of Directors, whilst safeguarding the funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

The system of internal control is designed to manage the risk of failure to achieve the organisation's policies, aims and objectives but it can only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing evidence based process designed to identify the principle risks to the achievement of my Agency's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently and effectively on a continual year round basis. The Board has established appropriate structures, reporting lines and responsibilities to support the delivery of objectives.

I have responsibility for reviewing the effectiveness of the system of internal control. The processes in place to achieve this are summarised below:

- NETMA has an annual Management Plan which identifies NETMA's strategic priorities, objectives & the
 associated performance metrics. The Management Plan focuses on agency planning and improvements,
 including identification of key business risks which are mitigated and owners appointed to monitor and
 report on these on a regular basis.
- Management checks are undertaken and the internal audit function performs a range of audit activities, based on an annual audit plan agreed by the Audit Advisory Panel and approved by the Audit Committee. Together with the detailed audit of property held in Industry is undertaken, these ensure appropriate internal controls are in place and adhered to. The Internal Audit process complies with the International Standards for the Professional Practice of Internal Auditing in accordance with previous IBAN recommendations.

NETMA performed 23 of the 41 planned property audits during 2021, due to the ongoing pandemic. Processes are well established within Industry and NETMA expects that Companies will have continued to have followed them.

The Agency operates the integrated framework for internal control developed by the Committee of Sponsoring Organisations of the Treadway commission (COSO Framework) as a mechanism for formally documenting the internal control system and providing assurance that it is functioning effectively. It is well established and part of our normal internal control system. The annual COSO review was undertaken as scheduled for the year 2021, with the Directors confirming we meet those requirements.

My review of the effectiveness of the system of internal control is informed by the work of the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, comments made by the Internal Audit Reports, and external auditors in their management letters together with the results of the annual COSO review.

I am content that the processes in place within the organisation provide reasonable assurance of the effectiveness and efficiency of the organisation's operations, the reliability of its financial information and its integrity with regards to application and compliance to applicable rules and regulations. Whilst we always seek to improve our processes each year there were no material internal control weaknesses currently identified that need specific intervention from Senior Management in 2021. The continuing pandemic has not had any major adverse effect on these controls.

LT GEN MIGUEL ÁNGEL MARTIN PÉREZ

General Manager

WENDY BRADBURY

Financial Controller

8



STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

(in thousands of Euros)	Note	2021	2020
Assets			
Current assets			
Cash and cash equivalents	B1	8,879	5,816
Short term investments		0	0
Receivables	B2	10,111	12,412
Prepayments	В3	1	0
Inventories		0	0
		18,990	18,228
Non-current assets			
Property, plant & equipment	В4	49	112
Intangible assets	В4	26	32
		75	144
Total assets		19,065	18,372
Liabilities			
Current liabilities			
Payables	B5	2,173	2,846
Deferred revenue	В6	3,940	2,796
Advances	В7	12,410	11,958
		18,523	17,600
Non-current liabilities			
Provisions		0	0
Other Long Term Liabilities	В8	467	628
		467	628
Total liabilities		18,990	18,228
Surplus / (deficit)	В9	(69)	(53)
Reserves	B10	144	197
Total net assets			144

The financial statements on pages 10 to 14 and their associated notes were issued to the International Board of Auditors for NATO on 30th March 2022.

LT GEN MIGUEL ÁNGEL MARTIN PÉREZ

General Manager

WENDY BRADBURY

Financial Controller

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousands of Euros)	Note	2021	2020
Revenue			
Revenue	C1	46,138	45,804
Financial revenue		0	0
Other revenue		0	0
Total revenue		46,138	45,804
Expenses			
Personnel	C2	38,854	38,252
Contractual supplies and services - Buildings & Maintenance	C3	2,759	2,899
Contractual supplies and services - IT Services	C4	4,488	4,595
Depreciation and amortisation	C5	95	119
Impairment		0	0
Provisions		0	0
Other expenses		0	0
Finance costs	C6	11	(8)
Total expenses		46,207	45,857
Surplus / (deficit) for the period		(69)	(53)

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousands of Euros)	Note	2021	2020
Cash flow from operating activities			
Surplus / (deficit)	D1	(69)	(53)
Non-cash movements			
Depreciation / amortisation	D2	95	119
Impairment		0	0
Increase / (decrease) in payables	D3	(673)	(204)
Increase / (decrease) in advances	D4	452	(7,367)
Increase / (decrease) in other liabilities	D5	(160)	(160)
(Increase) / decrease in prepayments		(1)	0
Increase / (decrease) in deferred revenue	D6	1,143	177
(Increase) / decrease in receivables	D7	2,301	(2,381)
Net cash flow from operating activities		3,089	(9,870)
Cash flow from investing activities Purchase of property plant and equipment / intangible assets Proceeds from sale of property plant and equipment Net cash flow from investing activities	D8	(27) 0 (27)	(66) 0 (66)
Cash flow from financing activities		0	0
Net cash flow from financing activities		0	0
Net increase / (decrease) in cash and cash equivalents	• •	3,063	(9,936)
Cash and cash equivalents at the beginning of the period		5,816	15,752
Cash and cash equivalents at the end of the period		8,879	5,816

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STATEMENT OF CHANGE IN NET ASSETS / EQUITY

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(in thousands of Euros)	Note	PP&E Asset Reserve	Revaluation Reserves	Accumulated Surplus / (Deficit)	Total
Balance at the beginning of the period 2020		136	0	09	197
Changes in accounting policy		0	0	0	0
Restated balance		136	0	09	197
Transfer from accumulated surplus / (deficit)		09	0	(09)	0
Surplus / (deficit) for the period		0	0	(53)	(53)
Balance at the end of the period 2020		197	0	(53)	144
Changes in accounting policy		0	0	0	0
Restated balance		197	0	(53)	144
Transfer from accumulated surplus / (deficit)		(53)	0	53	0
Surplus / (deficit) for the period		0	0	(69)	(69)
Balance for the period ended 2021		144	0	(69)	75

STATEMENT OF BUDGET EXECUTION

FOR THE YEAR ENDED 31 DECEMBER 2021

(in thousands of Euros)	Note	Initial Budget	Transfers	Final Budget	Accrued Expenses 2020		Accrued Expenses 2021	Total Expenditure	Carry Forward	Lapsed
Budget 2021	ı									
Chapter 1 Personnel costs	E1	39,522	0	39,522	38,906	0	(30)	38,877	111	535
Chapter 2 Agency support costs	E1	3,054	0	3,054	2,729	0	110	2,839	10	205
Chapter 3 Process and IT management	E1	5,257	0	5,257	4,136	0	280	4,416	487	354
Chapter 4 (Income) and Bank Charges	E1	(91)	0	(91)	(104)	0	0	(104)	0	12
Total FY 2021		47,743	0	47,743	45,668	0	360	46,028	209	1,107
Chapter 1 c/o from 2020	1	47	0	47	143	(26)	0	47	0	0
Chapter 2 c/o from 2020		20	0	20	113	(63)	0	20	0	0
Chapter 3 c/o from 2020		70	0	70	349 ((279)	0	70	0	0
Historical c/o		0	0		0	0	0	0	0	0
Total		47,879	0	47,879	46,274	(470)	360	46,165	209	1,107

A. Significant Accounting Policies

Basis of preparation

The financial statements of NETMA have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and based on International Financial Reporting Standards (IFRS/IAS), as adopted by the North Atlantic Council (NAC) in 2002. In 2013, the NAC adopted an adaptation to IPSAS to better suit the specific requirements of the Alliance and an associated NATO accounting framework, applicable for financial reporting periods beginning on 1 January 2013.

The financial statements comply with the accounting requirements of the NATO Financial Regulations (NFRs) and the relevant NETMA directives and policies. In instances where there is a conflict between IPSAS and the NFRs this will be noted.

The financial statements have been prepared on a going concern basis and it is considered that there are no impediments to continuing with this assumption for the foreseeable future.

The financial statements have been prepared on a historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The principal accounting policies are set out below and have been applied consistently to all periods presented. The accounting principles recognised as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting system using historical costs have been applied consistently throughout the reporting period.

In accordance with Article 2.1 of the NFRs, the financial year of NETMA is 1 January to 31 December.

Accounting estimates and judgements

In accordance with IPSAS and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgments to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements.

Changes in accounting policy and standards

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2021 Financial Statements the accounting policies have been applied consistently throughout the reporting period. There have been no changes to NETMA accounting policy for 2021.

Changes in pronouncements

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards. The following IPSAS are not relevant for the NETMA Financial Statements 2021: IPSAS 26 (Impairment of Cash-Generating Assets), IPSAS 27 (Agriculture). The following IPSAS have no material effect on the financial statements: IPSAS 5, IPSAS 10, IPSAS 11, IPSAS 16, IPSAS 18, IPSAS 32, IPSAS 34, IPSAS 35 and IPSAS 40.

Restatements and prior period adjustments

For the 2021 Financial Statements, NETMA has not revised any of the figures presented in the 2020 Financial Statements.

Changes in financial rules and regulations

During 2015 NATO adopted new financial rules and regulations and there were no additional changes during 2021. These financial statements have been produced in line with these financial rules and regulations. NETMA updated its Financial Rules and Regulations in 2020, to ensure that they were in line with NATO NFRs. Only minor adjustments were made in the NETMA FRRs, and none of these changes affected the process in the preparation of the NETMA Financial Statements.

Foreign currency

These financial statements are presented in Euros, which is the NETMA functional and reporting currency. Foreign currency transactions are translated into Euros at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Euros using the NATO exchange rates applicable at 31 December 2021, with the resulting realised and unrealised gains and losses are recognised in the Statement of Financial Performance.

ACCOUNTING POLICY

NETMA used the following NATO-promulgated exchange rates as at 31st Dec 2021:

EUR – GBP = 1 : 0.8567 EUR – USD = 1 : 1.1223

Consolidation

The NETMA financial statements are not consolidated.

IPSAS 6 has been adapted by NATO and in accordance with Council decision (PO(2018)0329) Financial Reporting of Morale and Welfare Activities (MWA), these activities have not been consolidated into the NETMA Annual Financial Statements.

Financial instruments disclosure / presentation

NETMA uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, accounts receivable, liabilities, provisions and loans between NATO entities. Financial instruments are recognised in the statement of financial position at fair value.

Financial risk factors

Credit risk

There is very limited credit risk as the contributing nations generally have a high credit rating. The risk of financial loss due to a participating nation's failure to raise funds is still assessed as very low. In the event that there is a shortage of funds by one or more nations to meet financial obligations, other nations will be expected to provide the necessary funding.

Liquidity risk

The liquidity risk is based on the assessment of whether the organisation will encounter difficulties in meeting its obligations associated with financial liabilities. There is limited exposure to liquidity risk because of the budget mechanism that guarantees contributions for the total approved budget. The accuracy of forecasts that result in the calls for contributions as well as the delay in receiving payments represent the main liquidity risks.

Currency risk

The majority of transactions associated with the administrative budget are contracted in Euros and in order to have the required funding, NETMA also asks nations to provide their contributions in Euros. Therefore the exposure of financial instruments to foreign currency exchange risk associated with the administrative budget is considered negligible.

Interest rate risk

NETMA is restricted from entering into borrowings and investments, and therefore there is no significant interest rate risk identified.

Assets

NETMA holds the following types of current assets:

Cash and cash equivalents

Cash and cash equivalents include cash on hand and current bank accounts.

Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. It can also include amounts due by other NATO entities. Contributions receivable are recognised when a call for contribution has been issued to the member nations. Other receivables include those from staff and external sources such as German MoD in relation to VAT receivable.

Property, plant and equipment

The categories of Property, Plant and Equipment (PP&E) relevant for NETMA are detailed below:

<u>Land and Buildings:</u> The agency's office accommodation is subject of a building lease and therefore not capitalised as PP&E. In accordance with IPSAS 13 - Leases, it is expensed on a straight-line basis over the lease term. In 2015 this resulted in the creation of a long term liability due to a rent free period at the start of the contract on the new premises in Hallbergmoos. This liability is unwound against rental payments on a straight-line basis over the 10 year duration of the lease.

Office Furniture and Equipment: This includes items of non-aggregated office furniture and other miscellaneous office items (i.e. lamps, fans, projectors, printing equipment). Items in this category are depreciated on a straight-line basis over a ten year period which equates to their useful life. It is assumed an item is fully depreciated with nil residual value at the end of its useful life.

<u>IT and Communications Equipment:</u> This consists of Commercial-Off-The-Shelf (COTS) purchase of computer systems (hardware only), and communications equipment (i.e. telephones, faxes and accessories). Items in this category are depreciated on a straight-line basis over a three year period. It is assumed an item is fully depreciated with nil residual value at the end of its useful life.

In accordance with IPSAS 17, PP&E are recognised as tangible assets when it is probable that future economic benefits or service potential associated with the item will flow to the entity and the cost or fair value can be measured reliably. All PP&E, with the exception of land, are stated at cost less accumulated depreciation and accumulated impairment losses. NETMA's capitalisation threshold is €15,000, items with a purchase cost or fair value on acquisition above this threshold are capitalised and items falling below this threshold are fully expensed in the year of procurement.

For new asset additions during the year, the gross value of an asset is capitalised as PP&E on the Statement of Financial Position. The revenue for the gross asset value is accounted for in the year of purchase on the Statement of Financial Performance with a surplus on the Statement of Financial Performance being generated in the first year of purchase and transferred to the PP&E asset reserve account to increase accumulated asset reserves. A full months depreciation is only charged if the item is purchased in the first half of the month (i.e.: before 15th Month), otherwise the first month of depreciation starts from the following period.

Depreciation is recognised so as to write off the cost of the assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation is accounted for as an expense which generates a deficit on the Statement of Financial Performance. This deficit is transferred to PP&E Asset Reserves at the end of each year to reduce the accumulated asset reserve.

An item of PP&E is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of PP&E is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Statement of Financial Performance. NETMA has no assets purchased prior to 2013 that would still have an economic life still in active use within the agency.

During 2021 there were no items approved for disposal through the NETMA Internal Audit section in accordance with NETMA delegated authorities.

Intangible assets

The only categories of Intangible Assets relevant to NETMA are computer software and software development costs, which entails costs for licences over a period longer than 1 year and consultancy costs incurred for IT system change requests which meet the recognition criteria outlined below. NETMA intangible assets are amortised on a straight-line basis over a three year period. It is assumed an item is fully amortised with nil residual value at the end of its useful life.

In accordance with IPSAS 31, intangible assets are recognised as an identifiable non-monetary asset without physical substance, where it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. In line with it's treatment of PP&E IT Equipment, the capitalisation threshold is €15,000 and all intangible assets are initially measured at cost less accumulated amortisation and accumulated impairment losses.

The estimated useful lives, residual values and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. NETMA has no assets purchased prior to 2013 that would still have an economic life still in active use within the agency.

Leases

As stated above, the office accommodation has been determined as an operating lease and, in accordance with IPSAS 13 - Leases, is expensed on a straight-line basis over the lease term.

ACCOUNTING POLICY

Liabilities

Payables

Payables (including amounts due to other NATO entities) are amounts due to third parties for goods and services received that remain unpaid as of the reporting date. They are recognised at their fair value. This includes estimates of accrued obligations for goods and services received at year-end but not yet invoiced.

Unearned revenue

Unearned revenue represents contributions from member nations and/or third parties that have been called for in current or prior years' budgets and that have not yet been recognised as revenue. Unearned revenue also includes miscellaneous income and double entry adjustments for lapsed credits which are now shown as a payable to nations.

Advances

Advances are contributions from member nations called for or received related to future years' budgets. Funds are called for in advance of the relating financial period as NETMA has no capital that would allow it to pre-finance any of its activities.

Revenue and expenses recognition

Revenue

Revenue comprises of contributions from the four contributing nations: Germany, Italy, Spain and United Kingdom and other revenue earned during the period. Contributions from the four nations are called for in advance on a quarterly basis, while other revenue earned during a financial period includes bank interest and miscellaneous recoveries from staff for car parking and telephone calls.

Revenue is recognised to the extent that it is probable that economic benefits will flow to NETMA and revenue can be measured reliably. Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, NETMA recognises a liability until the condition is filled.

National contributions to the administrative budget are recognised as revenue on the statement of financial performance when such contributions are used for their intended purpose as envisioned within the approved budget.

Expenses

The NETMA financial statements cover the running costs of the agency and of the NAMMO and NEFMO programmes. These costs cover pay and personnel, utilities, rental payments and those costs associated with information management support.

Cash flow statement

The cash flow statement is prepared using the indirect method and the format follows the layout provided by IPSAS 2 (Cash flow statement).

B. Notes to Statement of Financial Position

(in thousands of Euros)

Assets

1. Cash and cash equivalents

	2021		2020
Cash accounts	8,878		5,816
Clearing cash accounts	0		0
Petty cash and advances	1		1
Current bank accounts	0		0
Cash equivalents	0		0
Bank accounts interest	0		0
Total	8,879	•	5,816

NETMA operates two bank accounts into which all contributions are received and payments to suppliers are made. NETMA has now closed one of its bank accounts and now operates one main bank account. Interest earned is accumulated on an associated account and in the subsequent year is transferred to the main account to offset future Calls for Funds where permitted under national procedures. The petty cash accounts enable small, essential purchases to be made quickly and are reconciled on a monthly basis.

The reason for the variance between 2021 and 2020 on the main NETMA account balance is that one participating nation paid their first Call for Funds amount for 2022 in 2021.

2. Receivables

	2021	2020
Receivables from non-consolidated entities	447	429
Contributions receivable from nations following year	9,648	11,958
Receivables from staff members	15	21
Other receivables	1	3
Total	10,111	12,412

Receivables from non-consolidated entities

This value represents receivables recoverable from MoD Germany with regards to VAT charged in 2021.

Contributions receivable from nations following year

This represents receivables from nations that have been called for the following years budget within the current year but not yet received as at 31st December 2021.

Receivables from staff members

Receivables from staff members relate to the outstanding recoveries from advances of salaries made in the year. This account has been reconciled with payroll records at year end.

Other Receivables

Other receivables include accrued credits from third parties relating to the period but still outstanding at the period end.

3. Prepayments

	2021	2020
Suppliers	0	0
Staff	1	0
Total	1	0

NOTES ON FINANCIAL POSITION

No prepayments were made to suppliers in 2021 but there is a staff prepayment balance at year end that is being recovered through payroll.

4. Non-current assets

	2021	2020
PP&E	49	112
Intangible Assets	26	32
Total	75	144

As highlighted on page 18 under the Significant Accounting Policies: Property, Plant and Equipment section, the office accommodation in Hallbergmoos is treated as an operating lease arrangement and therefore is not capitalised. The Agency controls two types of PP&E and is responsible for replacement and maintenance of these assets: Office Furniture & Equipment, and IT & Communications Equipment. Additionally, NETMA controls intangible assets relating to computer software licences and capitalised consultancy support to an approved system change. The capitalisation threshold for all PP&E and intangible assets is €15,000. Upon moving to Hallbergmoos, the Agency took a view that integrated purchases (Cabling, Air Con Units, Security enhancements, etc.) were not to be capitalised due to no clear future ownership lines being in place and the ability to use such items if the Agency were to move premises in the future.

As at 31 December 2021 only items within IT and Communications met the criteria for capitalisation. This consists of Commercial Off The Shelf (COTS) computer systems (hardware and software), communications equipment (e.g. telephones, faxes and accessories) and capitalised IT consultancy costs for changes to NETMA IT applications. IT and Communications assets are measured at cost less depreciation or amortisation. Both depreciation and amortisation are calculated on a straight-line basis over the useful life of IT and Communications Equipment. During 2021 one new item of intangible IT capability, valued at €27K, was purchased that met the capitalisation criteria and has been added to the asset register.

In accordance with IPSAS 17, below is a reconciliation of the carrying amounts for NETMA non-current assets:

	2021	2020
Opening Balance	144	197
Additions	27	66
Disposals	0	0
Depreciation	(95)	(119)
Closing Balance	75	144
Gross Carrying Amount	1,653	1,626
Accumulated Depreciation	(1,577)	(1,482)
Net Carrying Amount	75	144

Liabilities

5. Payables

	2021	2020
Payables to suppliers	0	0
Payables to non-consolidated entities	0	0
Payables to staff members	0	0
Lapsed Credits to be offset from future CFFs	1,107	1,592
Other payables	1,066	1,253
Total	2,173	2,846

Payables to suppliers

Amounts payable to suppliers represents invoices for work undertaken but not yet paid. This account is reconciled to the payables sub-ledger within the financial system operated by NETMA on a monthly basis.

Lapsed Credits to be offset from future CFFs

These values align to the value reported in the Statement of Budget Execution, representing budget called for but not spent that will be offset from the following years call for funds.

Other payables

Other payables are made up of the manual accrual figure which is made up of two elements. The first element relates to goods and services provided during 2021, where an estimate is made by reviewing invoices paid/received in 2022 up to mid-February. The estimated accrual for goods and services as at 31 December 2021 is €416K. The other element is the estimated accrual relating to unpaid leave, this is based on the untaken leave carried forward as at 31 December 2021 multiplied by the average salary costs per day. This results in an accrual of €654K which is an decrease of €160K compared to 2020, and is still above the normal average accrual of circa €400k due to more leave being carried -over by staff as a consequence of the COVID-19 situation.

6. Unearned Revenue

Total	3,940	2,796
Unearned Revenue	3,940	2,796
	2021	2020

Deferred Revenue represents accumulated deferred revenue which is the excess of national contributions and miscellaneous revenue over expenditure on the NETMA program to date.

The movement on unearned revenue can be reconciled as follows:

	2021	2020
Unearned revenue b/f	2,796	2,619
National Contributions	46,157	44,943
Miscellaneous Revenue (excl Bank Interest)	192	99
Movement in Receivable from nations for following year	37	38
Less:		
Operational Expenditure	46,172	44,843
Movement in Lapsed Credits	(485)	(504)
Movement in IT Duty Travel/SP Tel Line/Misc Advances	(410)	(397)
Miscellaneous Financial Charges / (Income)	(36)	960
Foreign Exchange (Gains) / Losses	1	1
Unearned revenue c/f	3,940	2,796

7. Advances

	2021	2020
Advance contributions	12,410	11,958
Total	12,410	11,958

Advance contributions

Advance contributions reflects the first Call for Funds for all Nations for 2022 that were raised in 2021 and are therefore treated as advances.

8. Other long term liabilities

	2021	2020
Operating lease liability	467	628
Total	467	628

In May 2015 the agency moved into new office accommodation in Hallbergmoos. Due to delays in this move, rent was not charged until September 2016, despite the lease being signed from 1st December 2014. Therefore in accordance with IPSAS 13, a liability for rental payments over the rent free period has been created and will be unwound against actual payments over the life of the lease.

Net Assets

9. Surplus / (Deficits)

	2021	2020
PP&E additions / revaluations	27	66
PP&E depreciation and amortisation	(95)	(119)
Total	(69)	(53)

The accumulated surplus balance represents in year movements relating to PP&E. The deficit for 2021 results from in year depreciation and amortisation charges totalling €95K against asset purchases totalling €27K. This surplus / (deficit) is transferred to reserves at the close of each financial year.

10. Reserves

	2021	2020
Non-current asset reserve	144	197
Total	144	197

The non-current asset reserve represents the nation's equity in PP&E and intangible assets. IT & Communications equipment assets are capitalised and accounted for at their net carrying amount (i.e. gross historical purchase costs less accumulated depreciation / amortisation). At the end of 2020, the asset reserve decreased by the accumulated deficit of €53K, resulting in an opening Net Assets balance as at 1st January 2021 of €144K.

C. Notes to Statement of Financial Performance

(in thousands of Euros, unless otherwise stated)

1. Revenue

Total	46,138	45,804
Other reimbursements	(19)	861
National contributions to be called for	0	0
National contributions	46,157	44,943
	2021	2020

National contributions represents the funds provided by nations to support NETMA in fulfilling its objectives under the administrative budget. Funding is normally called for in advance on a quarterly basis.

Other reimbursements includes recoveries from nations in support of the overall NETMA Programme, the movement on unearned revenue representing the surplus or deficit of revenue over expenditure in the financial year and recoveries from staff employed by the agency.

Expenses

2. Personnel

	2021	2020
Pay and overtime	25,227	25,002
Allowance	5,086	4,904
Pension	3,039	2,937
Medical and insurance	4,469	4,329
Travel and other costs	1,032	1,080
Total	38,854	38,252

Personnel expenses include civilian and military personnel expenses as well as other non-salary related expenses, in support of common funded activities. The amounts include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel, for other salary related and non-salary related allowances including overtime, medical examinations, recruitment, installation, removal and for contracted consultants and training.

NATO introduced the Defined Contribution Pension Scheme (DCPS) on 1st July 2005. The scheme is a money purchase pension scheme which is funded by NETMA and the staff member. This pension scheme is compulsory for all new entrants. NETMA's contribution is 12% (Staff contribution is 8% of Basic Salary and the Additional Voluntary Contribution AVC (up to 5% of Basic Salary). Pension costs are predominantly for those members in the DCPS. The scheme is administered and accounted for centrally by NATO IS.

Travel costs include duty travel, home leave travel, removals and travel for interviews and repatriation.

At the year-end, NETMA has 249 established posts. A breakdown of wages, salaries and employee benefits is provided below. Costs remained largely consistent in 2021 although there was a pay rise applied to all staff with a corresponding increase in DCPS payments.

	2021	2020
Employee benefits expense	34,128	33,421
Post employee benefits		
For defined contribution pensions scheme	3,039	2,937
Untaken leave accrued	655	814
Total employee benefits expense	37,822	37,172

Untaken leave

Untaken leave at year-end may be carried over to the following year. Under normal circumstances, NETMA takes measures to ensure all carried over leave is taken by 30th April of the following year in accordance with the CPRs. However, due to the current situation of travel and movement restrictions as a result of the COVID-19 outbreak, this has resulted in a larger than normal untaken leave accrual.

Related Parties Disclosure

The key management personnel of NETMA have no significant related party relationships that could affect the operation of NETMA. NETMA is led by four directors, one for each participating Nation. They are remunerated in line with NATO pay scales as are all other NETMA staff.

Key management remunera	tion

2021
974

2020
1,002

The figure for 2021 is lower than 2020 owing to a change in the directors in 2020.

Representation allowance

(stated in Euros)

Representation Allowance has been utilised by the GM in line with the post entitlement. As per DC(2020)0143 dated 7 January 2021 expenditure on the representation allowance by the qualifying officials totalled €12,129 and is broken out below.

	2021	2020
Rent supplement	3,173	3,173
Hospitality expenses	8,956	1,678
Total	12,129	4,851

Contractual supplies and services

3. Buildings and maintenance

Total	2,759	2,899
Other costs	245	255
Security costs	672	659
Building costs	1,842	1,985
	2021	2020

Building costs include rent of the Agency's accommodation, utilities and cleaning. Security costs are predominantly those of the contracted out guard service. Other costs include office supplies, the rental of reprographic equipment and the costs for the canteen services that have been outsourced.

For the current accommodation at Hallbergmoos, NETMA signed a contract on 27th September 2013 to lease the new office building to 30th November 2024. Although a firm price has been agreed, the contract incorporates a clause whereby a rental increase or reduction can be triggered after the first three years if inflation in Germany varies by more than 5% based on the consumer price index. Utility payments are subject to an annual review and can vary on the basis of actual usage of the previous year (they have not changed in this reporting period). The contract includes an option to extend the lease for a further two periods of 5 years.

In accordance with IPSAS 13 — Leases, the table below details obligations under the Operating Leases as at 31 December 2021 (for the new building both building and garage costs are combined). For this reconciliation an assumption has been made that the lease will be extended for the later than five years calculation.

Buildings: (Includes Garage Charges)	2021	2020
Not later than one year	252	252
Later than one year and not later than five years	3,721	3,721
Later than five years	4,573	4,573
Utilities:		
Not later than one year	366	272
Later than one year and not later than five years	1,464	1,089
Later than five years	1,799	1,338

4. IT services

	2021	2020
Communication	152	167
Information technology support	4,336	4,428
Total	4,488	4,595

The major cost elements in this category are for consultancy and outsourced support costs for the Agency's information systems.

5. Depreciation and amortisation

Total	95	119
Amortisation	32	59
Depreciation	63	60
	2021	2020

PP&E and intangible assets are depreciated/amortised on a straight-line basis over the useful life of the asset. The depreciation charge relates to IT and Communication Equipment assets capitalised by NETMA.

6. Finance costs

	2021		2020
Foreign exchange gain / (loss)	1		1
Other charges	10		(9)
Total	11	•	(8)

Translation gains and losses occur when assets held in foreign currencies are converted to a Euro value at the closing NATO-promulgated exchange rates for the financial period. While some Euro: GBP exchange rate fluctuations were experienced in 2021, due to the low value of GBP transactions made only immaterial values were incurred.

Other charges include bank charges that are now being incurred on to NETMA bank accounts for transactions mainly attributed to cross border payroll allotments (\le 10k).

D. Notes to Statement of Cash Flow

(in thousands of Euros)

Cash flow from operating activities

1. Surplus / (deficit)

	2021	2020
Surplus / (deficit)	(69)	(53)
Total	(69)	(53)

NOTES ON CASH FLOW

This represents the surplus/deficit from normal operating activities after interest, depreciation and financial charges such as exchange differences arising from transactions. The previous year's balance is transferred from surplus/deficit into Nation Reserves in the following year.

Non-cash movements

2. Depreciation / amortisation

	2021	2020
Depreciation and amortisation	95	119
Total	95	119

This represents the annual depreciation/amortisation on NETMA Assets which is calculated on a straight-line basis.

3. Increase / (decrease) in payables

	2021	2020
Payables to suppliers	(0)	(7)
Other payable	(673)	(197)
Total	(673)	(204)

The movement on payables in 2021 represents an decrease in the outstanding liabilities from 2020. The decrease in other payables is attributable to a lower lapsed credit value to be returned to nations in 2021 compared to the 2020 Statement of Budget Execution.

4. Increase / (decrease) in advances

	2021	2020
Advance contributions	452	(7,367)
Total	452	(7,367)

The movement in advance contributions in 2021 reflects the increase in the first Call for Funds for all Nations for 2022 over the first call for 2021. The closing 2020 balance reflects the revised treatment of unearned revenue and advances adjustments made in 2020.

5. Increase / (decrease) in other liabilities

	2021	2020
Operating lease liability	(160)	(160)
Total	(160)	(160)

This reflects the movement created by the operating lease liability explained at Note B8.

6. Increase / (decrease) in unearned revenue

	2021	2020
Unearned revenue	1,143	177
Total	1,143	177

Unearned revenue represents the excess of national contributions and miscellaneous revenue over expenditure on the NETMA program to date.

7. (Increase) / decrease in receivables

	2021	2020
National contributions	2,310	(2,921)
VAT	(17)	56
Other receivables	8	485
Total	2,301	(2,381)

The decrease in national contributions receivable is explained in Note B2, it relates to the value of national contributions called for the administration budget for 2021. The increase in VAT receivable relates to monies owed to the Agency from the German VAT office regarding VAT reclaimable expenditure in 2021. Other receivables relate to monies owed from NETMA Staff members.

Cash flow from investing activities

8. Purchase of property plant and equipment / intangible assets

	2021	2020
Asset additions	(27)	(66)
Total	(27)	(66)

Asset additions represents the expenditure relating to hardware, software and consultancy costs which met the required criteria for capitalisation in line with IPSAS 17 & 31. The 2021 addition is attributed to a single intangible asset.

E. Notes to Statement of Budget Execution

1. Budget analysis - 2021

	2021 Budget	2021 Expenditure
Chapter 1	39,522	38,877
Total	39,522	38,877

NOTES ON BUDGET EXECUTION

There was an underspend of €0.608M against the budget for 2021 due to lower than budgeted spend on salaried expenses, Allianz contributions, removal expenses and duty travel expenditure. The return of the lapsed credits will be agreed with nations in 2022.

	2021 Budget	2021 Expenditure
Chapter 2	3,054	2,839
Total	3,054	2,839

In 2021 for Chapter 2 NETMA spent 10% less than budget due to lower than expected maintenance costs together with canteen charges due to COVID-19 restrictions. The return of the lapsed credits will be agreed with nations in 2022.

	2021 Budget	2021 Expenditure
Chapter 3	5,257	4,416
Total	5,257	4,416

In 2021 for Chapter 3 NETMA spent 20% less than the approved budget. This was caused by lower than budgeted costs for IT Consultancy, as well as lower than budgeted IT procurements. Where applicable the return of the lapsed credits will be agreed with nations in 2022.

	2021 Budget	2021 Expenditure
Chapter 4	(91)	(104)
Total	(91)	(104)

In 2021 for Chapter 4 NETMA spent 15% less than the approved budget due to lower than expected bank charges. The return of the lapsed credits will be agreed with nations in 2022

2. Reconciliation between Statement of Financial Performance and Statement of Budget Execution:

	2021
SCHEDULE 2: EXPENSES	46,207
- Change in manual accruals (Untaken Leave, IT Licences & Canteen)	96
- Asset additions less depreciation/amortisation	(69)
- Operating Lease Expense	160
22012247277	
CASH PAYMENTS	46,394
- Admin Recoveries	(115)
- Less: IT duty travel / SP Phone line / UK Exostar payments excl. from budget	(114)
PREDICTED BUDGET CASH PAYMENTS	46,165

F. Contingent Liabilities / Provisions

NETMA has no contingent liabilities or provisions.

G. Related Parties Disclosure

The key management personnel of NETMA have no significant related party relationships that could affect the operation of NETMA. Board members receive no remuneration and senior management is remunerated in accordance with the published NATO pay scales. Both do not receive loans that are not available to all staff.

H. Write-Off and Donations

In accordance with the NATO Financial Regulations, where a global statement of write-offs and donations shall be reported in the Annual Financial Statements NETMA can report that no items were submitted and approved for write-off/strike-off through the NETMA Internal Audit section in 2021 in accordance with NETMA delegated authorities. These write-offs/strike-offs are effected when items are deemed surplus to requirements, obsolete, damaged beyond economic repair or lost.

I. Morale and Welfare Activities (MWA)

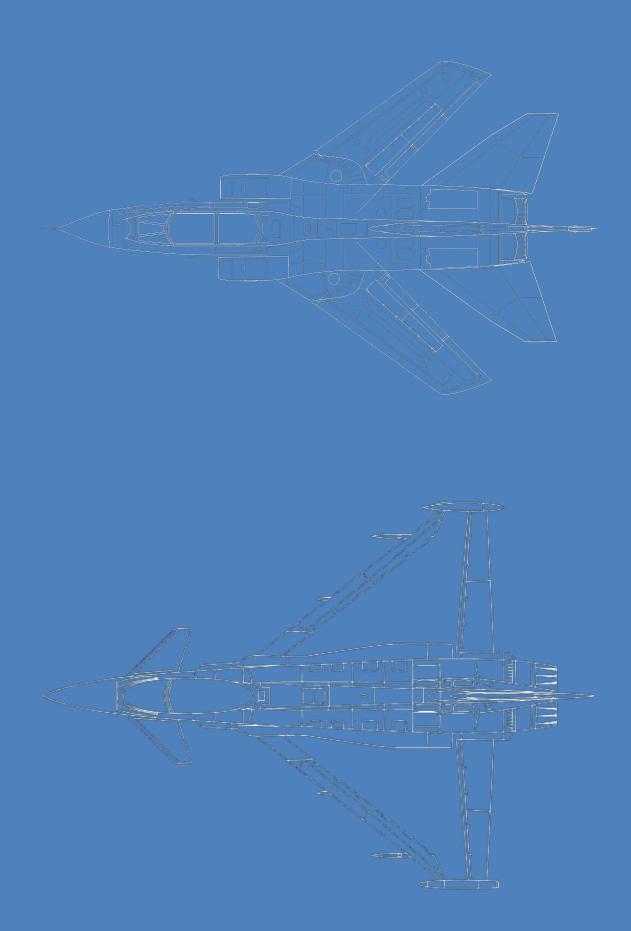
In line with the requirements of C-M(2019)0099, the following disclosures regarding the MWA are made:

Cash and Cash Equivalents: €35,554.54

Liabilities: €0.00

Full-time equivalent personnel directly supporting MWA as of year-end: Zero

The statement of Internal Control within these Annual Financial Statements includes MWA activities.



North Atlantic Treaty Organization



NATO Medium Extended Air Defense System Management Organization in Liquidation



Financial Statements

For the year ended

31 December 2021

Serial # GM-5006-38056-OL

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A. Overview of NATO MEADS Management Organization's in Liquidation Operations and Environment

General description of the NATO MEADS Management Organization in Liquidation

The North Atlantic Treaty Organization (NATO) Medium Extended Air Defense System Management Organization (NAMEADSMO) is a NATO Development, Production and Logistics Organization (NPLO), a subsidiary body of NATO created by the North Atlantic Council with the "Charter of NAMEADSMO", documented at C-M(2005)0044-ADD1. Per virtue of the Section VII of the Charter, the organization comprises a Steering Committee (now called Board of Directors), and a NATO Agency whose headquarter is located in the United States of America.

NAMEADSMO shares the international characteristics of NATO and the jurisdictional autonomy by virtue of Article 4 of the Ottawa Agreement. NAMEADSMO was created to provide direction, coordination, and execution of all phases of the MEADS program as delineated by the participating Nations. The participating Nations (Participants) are Germany, Italy, and the United States of America.

On 4 April 2016, the Board of Directors (BoD) submitted a formal request to the North Atlantic Council (NAC) to place NAMEADSMO into Liquidation (NAMEADSMO i.L.). This request was approved and became effective on 1 July 2016.

NAMEADSMO i.L. is comprised of a BoD, composed of one representative from each of the Participants, and the Office of the Liquidator (OotL) which replaced the former NATO MEADS Management Agency (NAMEADSMA).

Consequently, NAMEADSMO i.L. and its staff are under the governance of the NATO Document C-M(66)9 which states in Article 1.b):

"Until the liquidation is completed, the provision of the Charter of the Production Organization will continue to apply to the Production Organization in Liquidation and its staff, insofar as nothing to the contrary results from the provisions of this document or from the purpose of the liquidation."

The liquidation phase for the MEADS program is financed with the "inherited" contributions received prior to the liquidation phase from participating Governments in accordance with the Financial Management Policy Document (FMPD) and in accordance with the terms stipulated in the Design and Development (D&D) Memorandum of Understanding (MoU). While some parts of the MoU expired on 22 April 2017, Section 19.7 provides application in perpetuity of the Sections "Equipment", "Disclosure and Use of Project Information", "Controlled unclassified Information, "Security"," Third Party Sales and transfers", "Liability and Claims" and "Amendment, Termination, Entry into Effect, and Duration".

The FMPD specifies the financial management policies and the funding schedule set for the MEADS D&D phase also applicable for the liquidation phase. It delineates the Participants' annual cumulative financial ceilings which are the basis for the NAMEADSMO i.L. annual budgets. The budgets consist of the Administrative and Operational Budgets. Germany, Italy and the USA (DEU/ITA/USA) percentage shares of the total contribution ceiling are 25.2%, 16.7% and 58.1% respectively, including a portion of non-financial contributions as defined in the FMPD. No further contribution by each Nation will occur during the liquidation phase. The total contribution ceilings for Germany and Italy for the Operational Budget (OB) were reached in 2013 and for the Administrative Budget (AB) in 2014. The USA will not reach their contribution ceilings for either budget as it was noted with BoD decision D14/08 that "no additional USA funds will be provided for the remainder of the MEADS program."

The cumulative D&D costs incurred until 31 December 2021 amounts to 2,607M US Dollars and 1,420M Euros.

The organization of the OotL changed from previous years. In 2021, the Office of the Liquidator is comprised of the position of a Liquidator (DEU) and a Business Financial Manager (DEU)/acting Financial Controller (DEU). In addition, the agency has one consultant under contract supporting the agency in the close out effort.

NAMEADSMO i.L. has no liens or encumbrances on the agency's assets.

NAMEADSMO i.L. has given no guarantees to third parties.

NAMEADSMO i.L. is located in Huntsville, Alabama, USA.

Role of the Office of the Liquidator

Beginning 01 July 2016, the Office of the Liquidator (OotL) is the successor of NAMEADSMA. OotL is responsible for the planning, execution, and overall management of the liquidation of the program with the goal to complete the ongoing effort, safeguard the development results and accomplish a successful close-out.

Main responsibility of the OotL is the close out of contracts of the MEADS program. In addition, as per direction of the BoD, the OotL amends existing contracts or awards new ones. It also provides support and information/data to the BoD, the National Product Offices, Industry, and national price audit agencies.

The OotL inherited all existing contracts awarded by the (former) NATO Agency NAMEADSMA throughout the D&D phase.

Contract legacy with NAMEADSMA can be explained as follows:

- The Prime Contract with MEADS International (MI), the prime contractor, was definitized on 31 May 2005. The main D&D phase and MI main contract effort were completed on 31 December 2014 while "Data Archival" of all development documentation (drawings, reports, test results, etc.) and the distribution of the development residual material lasted throughout 2016-2017. It is now completed. Remaining contractual and administrative close-out activities and price audits will be carried out prior final settlement.
- Ancillary contracts were also part of the business transferred to the OotL. Lockheed Martin was engaged in a cooperative agreement for the realization of a Low Frequency Sensor (LFS). The MBDA joint venture EuroMEADS was retrofitting one of the two Multifunction Fire Control Radars (MFCR). MBDA-DEU received a contract to fulfill a non-common requirement regarding German Maturation Activities funded by Germany only. MEADS LLC had been providing support services for the D&D effort to the Agency by conducting independent technical analyses of the MEADS Program system level performance, systems engineering activities, design, development, integration, fabrication, test, producibility, logistic, and programmatic activities. All ancillary contracts are completed. The LFS and MFCR#1 contract are currently under final price audit.

- Bailment agreements were awarded in order to preserve German and Italian hardware in the USA and in Italy. In both cases the owners of the equipment (Germany and Italy) decided the final disposition of the hardware. Both agreements/efforts are now completed.

Compliance with Financial Regulations

NAMEADSMO i.L. follows standardized rules and regulations approved by the NAC. Specifically, NAMEADSMO i.L. adheres to the NATO Financial Regulations (NFRs) and Financial Rules and Procedures (FRPs) and to the NATO Civilian Personnel Regulations (CPRs). Since the financial management of NAMEADSMO i.L. is separate and distinct from those of the International Staff or other NATO entities, NAMEADSMO i.L. also follows the NAMEADSMO Financial Rules and Regulations (FRRs), as approved by the NAMEADSMO BoD. If a conflict between the NFR/FRP and NAMEADSMO FRRs arises, the most recent NATO NFR/FRP will prevail.

Note that the BoD decided with decision D22/03 that the Liquidator has the discretion to modify processes and regulations of the NAMEADSMO FRR and Operating Instructions (OIs) to accommodate the OotL organization and requirements, as long as these modifications are compliant with the NFR.

NAMEADSMO i.L.'s mission, strategies and how they relate to its Financial Position, Financial Performance and Cash Flows

NAMEADSMO i.L. does not have any objectives and strategies in relation to its financial position, performance, and cash flows other than to have enough funding available to cover its administrative and operational costs. This is done while acting in the best interest of the three participating Nations within the mission established by the NAMEADSMO Charter and the D&D MoU objectives, in accordance with guidance received from the BoD.

Risks and Uncertainties that affect NAMEADSMO i.L.'s Financial Position and Performance

NAMEADSMO i.L.'s performance is based on the MEADS program results and deliveries that can be achieved with the resources spent. The financial position of NAMEADSMO i.L. is not affected by any significant risk as the MEADS program comes to an end.

Assets/Liabilities in regard of other NATO bodies

NAMEADSMO i.L. does not have any assets or liabilities in respect of other NATO entities.

B. Statement of Financial Position

as at 31 December 2021 (in US Dollars)

	Notes	2021	2020 Restated
Assets	_		
Current Assets			
Cash and Cash Equivalents	2	7,175,577	7,793,078
Receivables	3	-	1,599
Prepayments	4	-	-
	_	7,175,577	7,794,678
	-		
Non-Current Assets			
Property, Plant and Equipment	5	-	-
T () A	-	n 105 500	7 704 (70
Total Assets	-	7,175,577	7,794,678
Liabilities			
Current Liabilities			
Accounts Payable and Accruals	6	22,702	40,717
Deferred Revenue and Liability to Nations	7	7,152,875	7,753,960
•	-	7,175,576	7,794,678
Total Liabilities	<u>-</u>	7,175,577	7,794,678

C. Statement of Financial Performance

for the year ended 31 December 2021 (in US Dollars)

Revenue	Notes	2021	2020
Operational		-	-
Administrative	_	592,251	824,010
Total Revenue		592,251	824,010
Expense	11, 12, 13, 14		
Operational		-	-
Administrative		592,251	824,010
Total Expense		592,251	824,010
Net Result for the Year	<u>-</u>		<u> </u>

D. Statement of Cash Flows

for the year ended 31 December 2021 (in US Dollars)

	2021	2020
Operational Budget		
Cash Paid to Contractors	(580)	(184,894)
Other Cash Receipts	-	305,458
Total Operational Budget	(580)	120,564
Administrative Budget		
Other Cash Receipts	1,849	66,481
Cash Paid to Suppliers and Employees	(610,266)	(816,253)
Total Administrative Budget	(608,417)	(749,772)
Total Cash Flows from Operating Activities	(608,997)	(629,208)
Total Cash Flows from Investing Activities	-	
Total Cash Flows from Financing Activities	-	-
Net Increase/Decrease in Cash	(608,997)	(629,208)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(8,505)	10,948
Cash at Beginning of Period	7,793,078	8,411,338
Cash at End of Period	7,175,576	7,793,078

E. Statement of Changes to Net Assets/Equity

for the year ended 31 December 2021 (in US Dollars)

	Capital assets	Reserves	Accumulated surplus/deficit	Total
Balance at the end of the period 1Jan - 31 Dec 2019	-	-	-	-
Net gains/(losses) recognised directly in net assets/equity Surplus/(deficit) for the period	-	-	- -	-
Change in net assets/equity for the year ended 31 Dec 2020	-	-	-	
Balance at the end of the period 1 Jan - 31 Dec 2020	-	-	-	
Net gains/(losses) recognised directly in net assets/equity	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
Change in net assets/equity for the year ended 2021	-	-	-	-
Balance at 31 December 2021	-	-	-	_

F. Notes to the Financial Statements

The notes form an integral part of these financial statements.

Note 1. Significant Accounting Policies

Basis of preparation

The financial statements of NAMEADSMO i.L. have been prepared on the accrual basis of accounting in accordance with the NATO Accounting Framework (NAF) as adopted by the North Atlantic Council (NAC). The NAF is an adaptation of the International Public Sector Accounting Standards (IPSAS).

The application of the NATO accounting framework has had no material impact on the disclosures or on the amounts recognised in the NAMEADSMO i.L. financial statements.

The financial statements comply with the accounting requirements of the NFR and FRP and the relevant NAMEADSMO FRR. They are prepared on a non-going concern basis in consideration of the decisions taken by the Participants.

With the development coming to an end and with none of the participating Nations continuing this MEADS Program, in 2012 the NAMEADSMO BoD requested a plan for the orderly transition to close-out the Agency by mid-2014. Subsequently, in June 2014 the BoD approved a new plan to initiate the liquidation of the entity on 1 February 2015. In the end, the BoD submitted a formal request to the NAC to place NAMEADSMO into Liquidation on 4 April 2016. This request was approved and became effective on 1 July 2016. Consequently, NAMEADSMO became "NAMEADSMO in Liquidation", headed by the Liquidator who is supported by a small staff also referred to as "Office of the Liquidator".

Accounting as Procurement Agent

According to the IPSAS Preface, IPSASs are converged with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) by adapting them to public sector context where appropriate.

The only IPSAS that specifically refers to Principals and Agents, is IPSAS 9 which provides guidance on how Principals and Agents should account for 'Revenue from exchange transactions'.

IFRS 15 defines a Principal as the party that controls the goods or services before they are transferred to customers and defines an Agent as the party that arranges for the goods or services to be provided by another party without taking control over those goods or services.

In accordance with paragraphs B.35 and B.36 of IFRS 15, a Principal recognises revenue and expenses in gross amounts, whereas an Agent recognises only fees or commissions, even if gross cash flows go through the Agent.

NAMEADMO i.L. is responsible for the planning, execution and overall management of the liquidation of the program with the goal to complete the ongoing effort, safeguard the development results and accomplish a successful closeout on behalf of its member.

NAMEADSMA/NAMEADSMO i.L. – OotL has been acting as a procurement agent in respect of its operations since it does not control a good or service before it is transferred to the customer. As such the agency does not have:

- Primary responsibility for fulfilling the promise to provide the specified good or service
- Inventory risk
- Discretion in establishing the price for the specified good or service

The Agency was created for the sole purpose of designing MEADS on behalf of Germany, Italy and the United States and consequently has been carrying out the acceptance of goods and services on behalf of the participating Nations. All assets are owned, controlled, and operated by the three Nations.

The running costs of the Agency are reimbursed via the Administrative Budget. Therefore, the operational revenue and expenses are not recognised throughout these financial statements.

Accounting estimates and judgments

In accordance with NAF, the financial statements necessarily include amounts based on estimates and assumptions made by management and based on historical experience as well as on the most reliable information available. In exercising the judgments to make the estimates, a degree of caution was included in light of the principle of prudence in order not to overstate assets or revenue or understate liabilities or expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue, and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods are not likely to be significant to the financial statements.

Changes in accounting policy

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in NAF/IPSAS 3. For the 31 December 2021 financial statements, the accounting policies have been applied consistently throughout the reporting period.

Restatements

NAMEADSMO i.L. restated balances. In line with IFRS 15, a Principal recognizes revenue and expenses in gross amounts, whereas an Agent recognizes only fees or commissions, even if gross cash flows go through the Agent.

Given that NAMEADSMO does not recognize any expenses in relation to OB expenditure, it no longer has any accruals in relation to the OB expenditure either. Payables in relation to the OB therefore only contain those invoices with an invoice date in the reporting year which remain unsettled at the period end date. Accruals previously shown in relation to OB expenditure, have now been presented as a Liability to Nations.

Changes in pronouncements

Some new standards, alignments, updates, amendments of standards and interpretations were issued. The adoption of or updates to these below-mentioned standards will not have a material impact on the financial statements of the agency.

IPSAS	Name	Effective date for periods beginning on or after
IPSAS 41	Financial Instruments	01 January 2023
IPSAS 42	Social Benefits	01 January 2023
IPSAS 36 and IPSAS 41	Long-term Interests in Associates and Joint Ventures (Amendment to IPSAS 36) and Prepayment Features with Negative Compensation (Amendment to IPSAS 41)	01 January 2023
IPSAS 19	Collective and Individual Services (Amendments to IPSAS 19)	01 January 2023
IPSAS	Improvements to IPSAS, 2019	01 January 2023
IPSAS 41	Non-Authoritative Amendments to IPSAS 41	01 January 2023
IPSAS 41	Non-Authoritative Amendments to IPSAS 41	01 January 2023
IPSAS 5	Amendments to IPSAS 5, Borrowing Costs – Non-Authoritative Guidance	No effective date
Improvement to IPSAS	General improvements and IFRS alignment improvements to IPSAS 2021	01 January 2023
IPSAS 43	Leases	01 January 2025

Foreign Currency

These financial statements are presented in US Dollars (USD), which is NAMEADSMO i.L.'s reporting currency. EURO (€) currency transactions are translated into USD at the average monthly NATO exchange rates, with the exception of foreign exchange transactions, which are converted at the daily exchange rate. Monetary assets and liabilities denominated in EURO at period-end are translated into USD using the NATO exchange rates applicable at 31 December 2021.

All EURO transactions related to the budget are converted into equivalent USD (EUSD) at the MoU exchange rate of 1.19.

For transparency, Note 14 explains in more detail the Effect of Exchange Rate Changes on Cash and Cash Equivalents.

Financial Instruments disclosure/presentation

NAMEADSMO i.L. uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, accounts receivable, provisions and liabilities. Financial instruments are recognized in the Statement of Financial Position at fair value.

Financial risk factors

NAMEADSMO i.L. is minimally exposed to a variety of financial risks, including credit, liquidity, and currency risks.

a. Credit risk

The OotL holds current bank account balances with registered banking institutions in the USA and Germany. Wells Fargo (USA) and Sparkasse (Germany) have a very low long-term credit risk rating. In accordance with Fitch, the following bank deposit ratings assigned (as of the date of the submittal of these Financial Statements):

Wells Fargo Bank: AA-/F1+Sparkasse Koblenz: A+/F1+

b. Liquidity risk

The OotL does not expect to encounter any difficulty in meeting obligations associated with financial liabilities. There is limited exposure to liquidity risk because of the budget mechanism that guarantees funds for the total approved budget.

c. Currency risk

The OotL continues to operate on the contributions received in prior years from the Participants in USD (\$) and EURO (€), based on the FMPD. Generally, expenses are paid in the same currency as the receipts. For the Operational Budget, in the past total obligations for each currency may not have matched the available resources in the same currency, yielding some foreign exchange risk from fluctuations in currency rates. Consequently, the BoD authorized foreign exchange money market operations, if necessary, to maintain adequate funding level in each currency to hedge this risk (decision D15/09). As of 2021 the Operational Budget holds enough resources in the same currency and therefore yielding no longer foreign exchange risk.

The exposure of financial instruments to foreign currency exchange risk associated with the Administrative Budget is insignificant as contributions and expenditure are made in USD only.

Revenue and Expense Recognition

Revenue comprises contributions from Participants to fund the entity's budgets. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The revenue recognition is matched with the recognition of expenses.

Administrative Budget

Administrative Budget contributions fund the costs of NATO contract personnel and the goods and services to be rendered toward the performance of tasks to be executed by NAMEADSMO i.L. over an agreed period of time. Contributions are initially recorded as deferred revenue liabilities. They are recognized as revenue in the statement of financial performance when such contributions are used for their intended purpose as estimated in the Administrative Budget.

Operational Budget

The entity's contracts are with the private sector utilizing *cost-plus fixed fee* contract. The operational revenue and expenses are not recognised since the entity is considered an agent in respect of its operations.

Budget Execution

Total budgetary resources are comprised of assessed contributions from the Participants.

The budgets are Administrative (costs for agency personnel, supplies and services, furnishings and equipment), and Operational (costs associated with the MEADS system development and ancillary contracts). Costs are further categorized by chapters, items and sub-items within the separate budgets. In accordance with NFR Art. 34.4, a Budget Execution Statement (BES) is presented in Annex I. There has not been a change in the execution of the BES compared to the previous accounting period for transparency and disclosures to readers. The BES is prepared on an accrual basis of accounting.

Cash Flow Statements

NAMEADSMO i.L. has elected to use the direct method of presentation in these financial statements, in accordance with NAF.

Financial Assets

The financial assets are cash and cash equivalents, accounts receivable and prepayments. They are measured at fair value. Bank deposits denominated in foreign currencies are translated to reporting currency at the closing date NATO exchange rate. Changes in fair value are recognized in the Statement of Financial Performance

Financial Liabilities

The financial liabilities are accounts payable and accruals, and advances and deferred revenue and liability to Nations. They are measured at fair value. Changes in fair value are recognized in the Statement of Financial Performance. As consequence of the 1 July 2016 transition into liquidation, all NAMEADSMO assets and liabilities were subsumed into NAMEADSMO i.L. assets and liabilities.

Receivables

Amounts receivable are stated at fair value in the Statement of Financial Position. No provision for doubtful debts is necessary as all receivables are deemed to be collectible.

Prepayments

Advance payments to vendors are reflected as prepayments in the Statement of Financial Position.

Accounts Payable and Accruals

Accounts Payable represent amounts for which goods and/or services, supported by an invoice, have been received by period-end but which remain unpaid. Accruals represent amounts for goods and/or services rendered by period-end but are not yet supported by an invoice at period-end.

Deferred Revenue and Liability to Nations

Deferred revenue represents contributions from Participants and/or third parties for the Administrative Budget that have been called for, in prior years' budgets but that have not yet been recognized as revenue.

Liability to Nations refers to contributions from Participants and/or third parties for the Operational Budget that have been called for, in prior years' budgets but that have not yet been returned back to the Nations.

Property, Plant and Equipment (PP&E)

PP&E is reported in the financial statements in accordance with internal policy guidance for Property, Plant and Equipment for the Administrative Budget. No changes occurred with the criterion adopted by former NAMEADSMA's internal policy guidelines. PP&E is recognized in accordance with the criteria relating to control outlined in the NATO Accounting Framework.

After recognition as an asset, an item of PP&E is carried at its historical cost less any accumulated depreciation. Total cost consists of the asset purchase price plus any installation costs for bringing the asset to working condition for its intended use.

As allowed under the NATO Accounting Framework, NAMEADSMO i.L. uses capitalization thresholds based on its activities and size. These thresholds are lower than the agreed NATO thresholds in the framework.

NAMEADSMO i.L. uses the straight-line method of depreciation (calculated by dividing the cost equally over the asset's useful life) with a half-year rule to recognize assets with six months depreciation in the first year regardless of the date the asset was received. The half-year rule treats all property acquired during the year as being acquired exactly in the middle of the year. This means that only half of the full-year depreciation is allowed in the first year, with the remaining balance being deducted in the final year of the depreciation schedule, or the year that the property is disposed.

The estimated useful lives for asset classes applicable to NAMEADSMO i.L. are listed in the table below:

Asset Class	Depreciation Method	Useful Life Years	Capitalization Threshold Dollars (\$)	Notes
Leasehold Improvements	Straight-Line	40	65,000	Major Building Renovations
Furniture & Fixtures	Straight-Line	10	1,000	Per item cost
Communication Systems	Straight-Line	3	1,000	Per item cost
Automated Information Systems	Straight-Line	3	1,000	Per item cost
Major Software	Straight-Line	3	65,000	Acquired Externally

Note that for some items the useful life is longer than the estimated life of the Agency. The depreciation expense was adjusted in 2012 and again in 2013 to the estimated expected end of the life of the agency. The final year of depreciation for all remaining NAMEADSMO assets was 2015. Consequently, everything acquired by the NAMEADMSMO i.L. - OotL, starting 01 July 2016, is fully expensed.

Intangible Assets

NAMEADSMO i.L. does not have any intangible assets.

Retirement benefit plans: NATO Defined Contribution Pension Scheme (DCPS)

Contributions to the NATO defined contribution pension scheme are charged to the Statement of Financial Performance in the year to which they relate. NAMEADSMO i.L. is not directly exposed to any liabilities that may arise on the scheme and has no control over the assets of the scheme. The assets and liabilities for the NATO Pension Schemes are accounted for centrally by NATO International Staff (IS).

Retirement benefit plans: NATO Defined Benefit Scheme

Contributions to the NATO defined benefit scheme are charged to the Statement of Financial Performance in the year to which they relate. NAMEADSMO i.L. is not directly exposed to any liabilities that may arise on the scheme and has no control over the assets of the scheme. The assets and liabilities for the NATO Pension Schemes are accounted for centrally by NATO IS.

Provisions

Provisions are recognized when the entity has a legal or constructive obligation as a result of a past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made.

Contingent Liabilities

Contingent liabilities are possible obligations arising from past events whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of NAMEADSMO i.L..

Reserves and Net Assets

NAMEADSMO i.L. operates on a "no profit, no loss" basis. As such, it does not have net assets; any surplus gained in the year becomes payable to the Participants while any deficit becomes a receivable from the Participants.

Comparative Figures

The reporting period for the current financial statements of 12 months, is the same as the reporting period for the previous financial statements (01 Jan - 31 Dec 2020). Comparative amounts for related notes are therefore comparable.

Note 2. Cash and Cash Equivalents

2021:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	91,501	-	-	-	4,609,960	4,712,652
Administrative	-	18,651	-	5,136	2,439,138	2,462,925
TOTAL	91,501	18,651	-	5,136	7,049,098	7,175,577

The agency's cash includes deposits which are held in non-interest-bearing current bank accounts in immediately available funds. Current bank accounts are held in USD (\$) and Euro (\$) currencies.

2020:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	91,989	-	-	-	4,609,960	4,721,736
Administrative	-	19,991	-	5,136	3,046,215	3,071,342
TOTAL	91,989	19,991	-	5,136	7,656,175	7,793,078

The cash holdings of USD 4,609,960 for the operational account include a return of funding in 2020 in the amount of USD 305,458 for de-obligated funds for the Foreign Military Sales case implemented in 2014.

Note 3. Receivables

2021:

There are no accounts receivable as at 31 December 2021.

2020:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Contract Receivables		-		-		-
Total Operational	-	-	-	-	-	-
Administrative						
Miscellaneous					1,599	1,599
Total Administrative		-		-	1,599	1,599
TOTAL			-	-	1,599	1,599

Note 4. Prepayments

2021:

There are no prepayments as at 31 December 2021.

2020:

There were no prepayments as at 31 December 2020.

Note 5. Property, Plant and Equipment

The gross carrying amount and the accumulated depreciation at the beginning and end of the period can be seen in the table below. A reconciliation of the carrying amount at the beginning and end of the period is also displayed.

	Furniture	& Fixtures		inication tems		Information tems	Major S	Software	То	otal
Reporting Period	Jan-Dec 2021	Jan-Dec 2020	Jan-Dec 2021	Jan-Dec 2020	Jan-Dec 2021	Jan-Dec 2020	Jan-Dec 2021	Jan-Dec 2020	Jan-Dec 2021	Jan-Dec 2020
Gross Carrying Amount, opening	6,395	6,395		-	13,274	13,274			19,669	19,669
Additions Disposals	(1,894)	-	-	-	-	-	-	-	(1,894)	
Loss on Disposals	-	-	-	-	-	-	-	-	-	-
Gross Carrying Amount, closing	4,501	6,395	•	•	13,274	13,274	-	•	17,775	19,669
Accumulated Depreciation, opening	6,395	6,395			13,274	13,274	-		19,669	19,669
Depreciation	-	-	-	-	-	-	-	-	-	-
Disposals	(1,894)	-	-	-	-	-	-	-	(1,894)	-
Accumulated Depreciation, closing	4,501	6,395	-	-	13,274	13,274	-	-	17,775	19,669
Net Carrying Amount	•	-	•	•	-	•	•	-	-	-

Additionally, the entity has several non-capitalized items of Property, Plant and Equipment, acquired before 2013. These are maintained in the disposition of the Entity. In accordance with the NATO Accounting Framework (C-M(2016)0023), which requires for these items to provide the type of inventories, locations and approximate number of these items held per asset category, the table below is disclosed:

Furniture &	Automated	Communication	Leasehold	Major	Total
Fixtures	Information System	Systems	Improvements	Software	
36	5	0	0	0	41

These items are located at the Office site – 620 Discovery Dr. – BLDG 1 – Suite 110 – Huntsville (AL).

Note 6. Accounts Payable and Accruals

2021:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Accrued Expenses	-	-	-	-	-	-
Total Operational	-	-	-	-	-	-
Administrative						
Accounts Payable	-	-	-	-	-	-
Accrued Expenses	-	58	-	-	22,644	22,702
Total Administrative	-	58	-	-	22,644	22,702
TOTAL	-	58	-	-	22,644	22,702

Payables to contractors and suppliers include invoices received from suppliers but not yet paid and estimated accrued expenses.

2020 Restated:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Accrued Expenses	-	-	-	-		-
Total Operational	-	-	-	-	-	-
Administrative						
Accounts Payable	-	-	-	-	-	-
Accrued Expenses	-	62	-	-	40,654	40,716
Total Administrative	-	62	-	-	40,654	40,716
TOTAL	-	62	-	-	40,654	40,716

Prior to the restatement the amount recognized as Operational Accrued Expenses in US USD for the year 2020 was 27,689. Given that NAMEADSMO i.L. does not recognize any expenses in relation to OB expenditure, it no longer has any accruals in relation to OB expenditure either.

Note 7. Deferred Revenue and Liability to Nations

2021:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Liability to Nations	91,501	-	-	-	4,609,960	4,712,651
Total Operational	91,501	-	-	-	4,609,960	4,712,651
Administrative						
Deferred Revenue	-	18,594	-	5,137	2,416,493	2,440,223
Total Administrative	-	18,594		5,137	2,416,493	2,440,223
TOTAL	91,501	18,594	-	5,137	7,026,452	7,152,875

Deferred revenue and Liability to nations include uncommitted funds and lapses. All remaining funds, if any, will be returned to the respective national treasuries prior to the dissolution of the agency.

2020 Restated:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Liability to Nations	91,989	-	-	-	4,609,960	4,721,735
Total Operational	91,989	-	-	-	4,609,960	4,721,735
Administrative						-
Deferred Revenue	-	19,929	-	5,137	3,007,158	3,032,225
Total Administrative	-	19,929		5,137	3,007,158	3,032,225
TOTAL	91,989	19,929	-	5,137	7,617,118	7,753,960

Prior to the restatement the amount recognized as Liability to Nations in US USD for the year 2020 was 4,582,270. Accruals previously shown in relation to OB expenditure, have now been presented as a Liability to Nations. The amount of USD 4,609,960 under Liability to Nations includes a 2020 return of funding in the amount of USD 305,458 for de-obligated funds for the Foreign Military Sales case implemented in 2014.

Note 8. Other Current Liabilities

2021:

There are no other current liabilities as the banks ceased to yield interest on the cash balances for the period $01 \, \text{Jan} - 31 \, \text{Dec} \, 2021$.

2020:

There are no other current liabilities as the banks ceased to yield interest on the cash balances for the period $01 \, \text{Jan} - 31 \, \text{Dec} \, 2020$.

Note 9. Provisions and Contingent Liabilities

The OotL does not have any provisions or contingent liabilities to report.

Note 10. Revenue

2021:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	-	-	-	-	-	-
Administrative	-	1,336	-	-	590,915	592,251
TOTAL	-	1,336	-	-	590,915	592,251

The operational revenue is not recognised since the entity is considered an agent in respect of its operations.

2020:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational	-	-	-	-	-	-
Administrative	-	5,838	-	-	818,172	824,010
TOTAL	-	5,838	-	-	818,172	824,010

Note 11. Expenses

2021:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Total Operational	-	-	-	-	-	-
Administrative						
Personnel	-	-	-	-	529,626	529,626
Operating	-	1,336	-	-	61,289	62,625
Total Administrative	-	1,336	-	-	590,915	592,251
TOTAL	-	1,336	-	-	590,915	592,251

The operational expenses are not recognised since the entity is considered an agent in respect of its operations.

2020:

	GE EURO	GE USD	IT EURO	IT USD	US USD	TOTAL
Operational						
Total Operational	-	-	-	-	-	-
Administrative						
Personnel	-	-	-	-	745,673	745,673
Operating	-	5,838	-	-	72,500	78,338
Total Administrative	-	5,838	-	-	818,172	824,010
TOTAL	-	5,838	-	-	818,172	824,010

Note 12. Personnel Expenses

The figures disclosed below represent the costs of NATO personnel including salary, allowances, complementary insurance, and pension plan contributions. The amount for Personnel Expense in Note 11 is greater than the employee benefits expense defined in this note because Note 11 includes all Chapter 1 budget Personnel items such as recruitment/separation, home leave, contractor personnel expense, etc.

	31 Dec 2021 (2 people for 12 months)	31 Dec 2020 (3 people for 12 months)
Employee Benefits Expenses	449,169	642,619
Post Employment Benefits	16,850	30,979

The OotL does not accrue untaken leave. In accordance with CPR Article 42.3, untaken leave must be taken within the allowed time period or will be forfeited.

The OotL does not have any termination benefits. The Agency has only seconded personnel under NATO personnel contracts.

NATO Pension Schemes are accounted for centrally at NATO Headquarters and therefore are not recognized in these financial statements. NATO IS manages these systems centrally on behalf of the other NATO entities.

Note 13. Leases

The OotL has two operational leases. One lease is for an office space with the JU Huntsville CRP III Owner, LLC, which currently terminates on 31 August 2021 but will be extended through 31 December 2022 to reflect the BoD decision to extend the office through the end of 2022. The obligated base lease payments from 01 January through 31 December 2021 amount to USD 39,074. In addition, the OotL pays operating expenses in the amount of USD 408 per month. The base costs from 01 January through 31 August 2021 will total USD 27,969 plus USD 200 monthly operating expenses. Costs for 01 September through 31 December 2022 have yet to be determined.

The other operational lease is for a printer for the office which went into effect on 01 October 2020. The contract lease charge is in the amount of USD 50 per month (USD 600 for the year 2021) and the contract base rate in the amount of USD 22.50 per month (USD 202.50 for 01 Jan - 30 Sep 2021) and USD 24.75 per month (USD 74.25 for 01 Oct -31 Dec 2021).

The OotL does not have any financial leases.

Note 14. Effect of Foreign Exchange Rates Changes on Cash and Cash Equivalents

The total effect is separately disclosed in the Statement of Cash Flow. The nature of exchange differences and how they are calculated is shown in the table below:

	Eliro	Year-end Rate 2020 (1.21510)		Year-end Rate 2021 (1.12230)	
Opening Balance	91,989	111,776		103,239	(8,537)
Contractors Exp.	(488)		(580)	(548)	32
Total Balance	91,501				
Effect on FX					(8,505)

Note 15. Draw Down of Operations

Operational:

After the completion of all operational effort in November of 2020 (legacy effort from D&D program plus safe keeping effort during liquidation phase) the OotL continues to support national requirements (e.g., price audits, information requests) and the close out of contracts.

In the beginning of 2020, the prime contractor MI announced a delay in their ability to close out contracts which was later on even more impacted by the ongoing pandemic. At the end of March 2021, OotL received a proposal for the conversion of MEADS D&D into a firm fixed price which would have closed out the open CLIN on the prime contract. If it had been accepted, it would have been likely that approximately USD 1.4M in funds could be de-obligated. This proposal expired in November 2021. Instead, Germany requested in November 2021 price audits for the D&D Contract in the USA and Italy in addition to the already ongoing price audit in Germany.

The MFCR#1 contract is still under price investigation. The close out is pending, awaiting the outcome of a price audit requested by Nations.

In October 2016, NAMEADSMO i.L. – OotL awarded a bailment agreement with Lockheed Martin Syracuse on behalf of the German government

Under this agreement, industry was in possession of the property and responsible for all loss or damage of it during the bailment and until the end of the agreement. The value of the assets was approximately USD 2.642M. In April 2018, this Bailment was subsumed under CLIN006 of the LFS Cooperative Agreement. In March 2020, the hardware was transferred to DEU National contract (and CLIN 006 completed). The LFS contract is completed and still undergoing a price audit requested by Nations. The audit is currently scheduled to end May 2022.

In March 2017, NAMEADSMO i.L. – OotL awarded a bailment agreement with Leonardo SpA on behalf of the Italian government as well. The value of the assets was approximately €2.658M (USD 2.98M at year-end rate 2021). ITA directed the OotL to have Leonardo SpA abandon these items in place in November of 2020. The contract was closed out in May 2021.

All other operational effort is completed and closed out.

Administrative:

Parallel to closing down the operational part of the agency, the OotL continues the liquidation effort on the administrative side as well. This includes but is not limited to resolving open security matters, dismantling of the office, archiving materials, etc).

Un-obligated funds will be continued to be used for administrative expenses of the OotL. Unused funds will be returned to Nations.

Note 16. Write-Off

In accordance with the NFRs Article 17 and the NAMEADSMO FRR Section VIII, 127, 1 capitalized item was written off in 2021. The gross carrying amount was \$1,894 and the net book value was zero. This asset related to office furnishings.

Note 17. Employee Disclosure

During 2021, there was no government personnel from the USA detailed to the agency.

Note 18. Related Parties

The OotL is under direct control of NAMEADSMO i.L.'s Board of Directors.

The key management personnel of the OotL and the BoD have no related party relationships that could affect the operation of this reporting entity. Board members receive no remuneration, and the Liquidator is remunerated in accordance with the published NATO pay scales. Neither receives loans that are not available to all staff.

NATO IS, who deals with NATO pensions on behalf of other NATO entities, is a related party due to the OotL's pension plans being handled centrally at NATO HQ. NATO IS performed administrative support services for the OotL in 2021. No fees were charged to OotL for the period ending 31 December 2021.

During 2021, there is one key management personnel - the Liquidator. The aggregate remuneration of key management personnel includes salary, allowances, and complementary insurances and was as follows for the period $01 \, \text{Jan} - 31 \, \text{Dec} \, 2021$:

	31 Dec 2021	31 Dec 2020
	(1 person 12 months)	(1 person 12 months)
Aggregate Remuneration	262,879	258,663

Note 19. Representation Allowance

There were no qualifying officials to receive Representation Allowance in 2021.

Note 20. Events after the Reporting Date

The price audit for the Italian portion of the MFCR#1 contract was finished at the beginning of February 2022.

In September of 2021 the OotL was extended through 31 August 2022. At the end of February 2022 the BoD extended the OotL's staff contracts until 31 December 2022.

Otherwise, there have been no other events between the reporting date and the date the financial statements are issued that would affect the amounts recognized in these financial statements.

G. Report of Management

The North Atlantic Treaty Organization (NATO) Medium Extended Air Defense Missile System Management Organization in Liquidation's (NAMEADSMO i.L.) Financial Statements have been prepared in accordance with the NAF as adopted by the NAC. The NAF is an adaptation of the IPSAS. The Agency's system of internal financial control is designed to provide reasonable assurance regarding the reliability of financial reports and the preparation of financial statements.

The NAMEADSMO i.L. Financial Statements are approved and certified by the Liquidator and the Financial Controller respectively to the best of their knowledge and according to the applicable accounting standards to give a true and fair view, in all material respect, of the assets, liabilities, financial position and financial performance of NAMEADSMO i.L. and to be in accordance with the books and records maintained.

Nils Kusserow Liquidator

MAR 3 0 2022

Mandy Geyer \\
Financial Controller (acting)

MAR 3 0 2077

Annex I – Budget Execution

The Budget Execution Statement (BES) for the current reporting period 01 January 2021 through 31 December 2021 is presented on the accrual basis of accounting. For transparency purposes, both the Operational and the Administrative Budgets are shown.

"Accrual Basis" provides full visibility of revenues and expenses recorded in the period when they are earned, irrespective of the actual cash flows (according to NAF).

The funds shown for the Operational Budget 2021 reflect the maximum amount that is being authorized to be committed and spent.

The funds shown for the Administrative Budget 2021 reflect only the current year authorizations. Remaining funds are available for future years until dissolution.

Statement of Budget Execution as at 31 December 2021

Equivalent USD	Original estimated budget for 2021	Special Carry Forward 2020/2021	Special Carry Forward Adjustment 2020/2021	Final budget 2021/ Appropriations	Commitments	2021 Expenses	Special CFw for Uncommitted Appropriations 2021 - 2022	CFw for Committed Appropriations 2021 - 2022	Lapses
Budget 2021 Operational									
Chapter 3	595	-	-	595	581	581	_	-	14
Total FY 2021	595	-	-	595	581	581	_		14
Budget 2021 Administrative				-					
Chapter 1 Personnel	741,100	-	-	741,100	529,795	529,795	-	-	211,305
Chapter 2 Admin/Svcs	224,500	-	-	224,500	62,042	62,042	_	-	162,458
Chapter 4 Investments	29,000	-	-	29,000	583	583	-	-	28,417
Total FY 2021	994,600	-	-	994,600	592,420	592,420	_	-	402,180
Budget 2021 Operational									
Total FY 2021	-	-	-	-	-	-	-	-	-
Budget 2020 Administrative				-					
Total FY 2020	-	-	-	_	-	-	-	-	-
Budget 2019 Operational									
Total FY 2019	-	-	-	-	-		-	-	-
Budget 2019 Administrative									
Total FY 2019	-	-	-	-	-	-	-	-	-
Budget 2018 Operational									
Chapter 3	_	1,615,053		1,615,053	200,000	200,000	1,415,053	-	
Total FY 2018	-	1,615,053	-	1,615,053	200,000	200,000	1,415,053	-	-
Budget 2018 Administrative									
Total FY 2018	-	-	-	***************************************	***************************************	-	-	-	-
Total Operational	595	1,615,053	-	1,615,648	200,581	200,581	1,415,053	-	14
Total Administrative	994,600			994,600	592,420	592,420		_	402,180
Total all Budgets	995,195	1,615,053	-	2,610,248	793,001	793,001	1,415,053	-	402,194

Explanation of Special Carry Forward, Carry Forward and Lapsed Credits/Ending Balance:

Operational Budget:

The Budget Execution Statement (BES) shows special carry forward in order to recognize the nature of funds. Special carry forward are funds of uncommitted appropriations for a clearly identified purpose.

In the BES, the total amount of special carry forward of uncommitted appropriations on 31 December 2021 for Chapter 3 (Design and Development) is EUSD 1,415,053. These funds are allocated to the prime contract with MEADS International (MI) which are not related to any active specific work to be performed but to cover the final price settlements of "cost reimbursement" contracts.

The total amount of lapses represents funds that were budgeted for other OB related expenses but not obligated.

Administrative Budget:

The lapsed credits of EUSD 402,180 are funds that were approved by the BoD for the entire Administrative Budget 2021 but were not obligated or spent by the end of 2021. EUSD 320,604 of the lapsed EUSD 402,180 were tied to the closure of the agency (which was the 31 December 2021 at the time the 2021 budget was approved) and to the issues relating to the pandemic. In detail lapses are as follows:

Amount	Explanation
31,217	Funds approved by BoD for Personnel expenses but not obligated or spent due to lower personnel costs (USD 21,150 for Consultant unspent due to less hours) - Chapter 1
158,273	Funds approved by the BoD for removal/separation expenses but not obligated or spent due to extension of Agency – Chapter 1
21,815	Funds approved by the BoD for allowances personnel is entitled to, but not requested (EDU and Home Leave) – Chapter 1
100,000	Funds approved by BoD for travel/training and associated expenses but non taken due to ongoing pandemic issues – Chapter 2
62,331	Funds approved by the BoD for Closing of the Agency but not obligated or spent due to extension of Agency – Chapter 2 and 4
28,544	Funds approved by the BoD for the management of the agency, but neither completely used or not necessary at all – Chapter 2 and 4

Budget Transfers

For the Administrative Budget, transfers of credits between budget chapters can be made after approval of the BoD. The Liquidator may authorize transfers within any chapter between items and among subitems within an item concerning recurring expenditure and within any item concerning capital expenditure. One transfer within the Administrative Budget occurred in 2021. No budget amendment occurred.

Item	Name	Transfers within AB (Jan-Dec 2021)
Budget	803 - 3 Nations (GE/IT/US)	
1125	Complementary Insurance	(400)
1121	Expatriation Allowance	400

For the Operational Budget, transfers of credits between budget chapters and items can be made after approval by the BoD. The Liquidator may authorize transfers between sub-items within any chapter item. No transfers within the Operational Budget occurred in 2021 and no amendment to the budget took place.

Budget Execution Reconciliations

Reconciliation of expenses in the Statement of Cash Flows to the expenses in the Budget Execution Statement

	Administrative	Operational	
Statement of Cash Flow - Cash paid to Contractors/ Suppliers and Employees	610,266	580	
Less: Accruals 2020	(40,716)	(27,689)	
Plus: Overestimated Accruals 2020 Accruals 2021 Variation for Expenses (avg. NATO ER vs. MoU rate)	169 22,702	27,689 200,000 1	
BES Expenses	592,420	200,581	

Reconciliation of the expenses in the Statement of Financial Performance to the expenses in the Budget Execution Statement

	Adn	ninistrative	Operational	
Statement of Financial Performance Expenses	\$	592,251	\$	-
Plus:				
Cash paid to contractors				580
Adjustments for Euro payments at average NATO ER vs MoU Rate for				
- Other OB related charges				1
Adjustment for Accruals		169		200,000
BES Expenses	\$	592,420	\$	200,581

Annex II: Budget Calls and Receipts

The Operational and Administrative Budget contributions are called based on cash requirements and within the FMPD schedule and limits. The Operational Budget reached the contribution ceiling in 2013, the Administrative Budget reached the contribution ceiling in 2014 and as such there were no calls made in 2021 by the OotL