

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED
Releasable to Sweden

12 January 2024

DOCUMENT
PO(2023)0467-AS1 (INV)

**IBAN REPORT ON THE 2022 FINANCIAL STATEMENTS OF NATO ALLIANCE
GROUND SURVEILLANCE MANAGEMENT ORGANISATION IN LIQUIDATION
(NAGSMO i.L.)**

ACTION SHEET

On 12 January 2024, under the silence procedure, the Council noted the RPPB report and the IBAN Audit Report attached to PO(2023)0467 (INV), approved the conclusions in the RPPB report, and approved the public disclosure of the 2022 Financial Statements of NAGSMO i.L. enclosed to PO(2023)0467 (INV).

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2023)0467 (INV).

NATO UNCLASSIFIED





NATO UNCLASSIFIED
Releasable to Sweden

20 December 2023

DOCUMENT
PO(2023)0467 (INV)
Silence Procedure ends:
12 Jan 2024 - 15:30

To: Permanent Representatives (Council)

From: Secretary General

**IBAN REPORT ON THE 2022 FINANCIAL STATEMENTS OF NATO ALLIANCE
GROUND SURVEILLANCE MANAGEMENT ORGANISATION IN LIQUIDATION
(NAGSMO i.L.)**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the 2022 Financial Statements of the NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i. L.). The IBAN issued an unqualified opinion on the Financial Statements and a qualified opinion on compliance for the year ended 31 December 2022.
2. I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 12 January 2024**, I shall assume the Council noted the RPPB report and the IBAN Audit Report, approved the conclusions in the RPPB report, and approved the public disclosure of the 2022 Financial Statements of NAGSMO i.L.

(Signed) Jens Stoltenberg

1 Annex
2 Enclosures

Original: English



**IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF NATO ALLIANCE
GROUND SURVEILLANCE MANAGEMENT ORGANISATION IN LIQUIDATION
(NAGSMO i.L.)**

Report by the Resource Policy and Planning Board

References:

- | | | |
|----|------------------|---|
| A. | IBA-AR(2023)0013 | IBAN Audit Report on the Financial Statements of the NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i.L.) for the year ended 31 December 2022 |
| B. | C-M(66)9 | Rules Governing the Dissolution of NATO Production Organizations |
| C. | C-M(2015)0025 | NATO Financial Regulations (NFR) |
| D. | 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 Report on the 2022 Financial Statements of the NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i.L.). The IBAN issued an unqualified opinion on the Financial Statements and a qualified opinion on compliance for the year ended 31 December 2022 (reference A).

AIM

2. This report highlights key issues in the IBAN Audit Report with the aim to enable the RPPB to reflect on strategic challenges resulting from the audit of Financial Statements of NATO entities and to recommend courses of action to Council as applicable, in order to improve transparency, accountability and consistency.

OBSERVATIONS AND RPPB VIEW

3. During the audit, IBAN made one observation and recommendation for the NAGSMO i.L. that impacted the audit opinion on compliance. It relates to the Financial Controller position not established in the set-up of the Executive Agent - Liquidator's Staff.

4. The IBAN followed up on the status of observations and recommendations from the previous years' audits and found that all observations were closed. The IBAN closed the observation on the NAGSMO's transfer to the Alliance Ground Surveillance (AGS) core system assets to the NATO Support and Procurement Organisation (NSPO). The observations are detailed in document at reference A.

5. Observation: The RPPB supports IBAN's recommendation that for future liquidations Council task the appropriate governing body to ensure that the Rules Governing the Dissolution of NATO Production Organizations (reference B) provide a clear framework regarding maintaining compliance with the NATO Financial Regulations (NFR) (reference C), including the function of the Financial Controller and adequate internal controls.

DISCUSSION

6. At the RPPB meeting held on 23 November 2023, after the IBAN's presentation, the Chair of NAGSMO i.L. Board of Directors explained the situation that initiated the IBAN qualified opinion on compliance.

7. The RPPB noted that the IBAN recommendation is intended for future liquidations and not specifically to NAGSMO i.L. (liquidation shall be completed within December 2023 and NAGSMO i.L. should be dissolved within 2024). The Rules Governing the Dissolution of NATO Production Organizations, in effect since 1966, do not provide a clear framework regarding the role of the Financial Controller and adequate internal controls. Consequently, the RPPB agreed on the need to update the Rules at reference B.

CONCLUSIONS

8. The IBAN issued an unqualified opinion on the Financial Statements and a qualified opinion on compliance. As of the date of the IBAN Audit Report, all previous years' observations were closed.

9. The RPPB supports IBAN's recommendation for future liquidations that Council task the International Staff, to initiate a review of the Rules Governing the Dissolution of NATO Production Organizations in 2024, with oversight from the relevant committees, to ensure they provide a clear framework regarding maintaining compliance with the NFR, including the function of the Financial Controller and adequate internal controls.

RECOMMENDATIONS

10. The Resource Policy and Planning Board recommends that Council;

10.1. note this report and the IBAN Audit Report at reference A;

10.2. approve the conclusions at paragraphs 8 to 9;

10.3. invite the International Staff, to initiate a review of the Rules Governing the Dissolution of NATO Production Organizations in 2024, with oversight from the relevant committees, to ensure they provide a clear framework regarding maintaining compliance with the NFR, including the function of the Financial Controller and adequate internal controls.

10.4. approve the public disclosure of the 2022 Financial Statements for NAGSMO i.L., its associated IBAN Audit Report and this report in line with agreed policy at reference D.



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

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2023)0071
25 August 2023

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)
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 in Liquidation (NAGSMO i.L.)'s Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)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 NAGSMO and a qualified opinion on compliance for financial year 2022.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**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 in Liquidation
(NAGSMO i.L.) and its former executive body NATO Alliance Ground
Surveillance Management Agency (NAGSMA) and liquidating body Office for
Liquidation (OfL)
for the year ended 31 December 2022**

The NATO Alliance Ground Surveillance Management Organisation (NAGSMO) was created within NATO for the acquisition of the Alliance Ground Surveillance (AGS) Core System.

Based on Council decision (PO(2021)0449), NAGSMO was put into liquidation starting 1 April 2022, and since that date, NAGSMO's title is followed by the terms "in liquidation" in accordance with C-M(66)9.

The budgetary expenditure for the administrative budget in 2022 was EUR 3.1 million. The budgetary expenditure for the operational budget in 2022 was EUR 10.5 million and USD 47.4 million.

IBAN issued an unqualified opinion on the Financial Statements and a qualified opinion on compliance for the year ended 31 December 2022.

During the audit, IBAN made one observation. This finding does not impact the audit opinion on the financial statements, but impacts the audit opinion on compliance:

1. Financial Controller position not established in the set-up of NAGSMO i.L.

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

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

NATO UNCLASSIFIED

IBA-AR(2023)0013

25 August 2023

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE
NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION
IN LIQUIDATION (NAGSMO i.L.) AND ITS FORMER EXECUTIVE BODY NATO
ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY (NAGSMA)
AND LIQUIDATING BODY OFFICE FOR LIQUIDATION (OfL)**

FOR THE YEAR ENDED 31 DECEMBER 2022

NATO UNCLASSIFIED

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 in Liquidation (NAGSMO i.L.) and its former executive body NATO Alliance Ground Surveillance Management Agency (NAGSMA) and liquidating body Office for Liquidation (OfL) for the 12 month period ended 31 December 2022, issued under document reference NAGSMO i.L./LIQ/L/(2023)00129 and submitted to IBAN on 27 March 2023. These Financial Statements comprise the Statement of Financial Position as at 31 December 2022, 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 2022, 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 2022.

In our opinion, the Financial Statements give a true and fair view of the financial position of NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i.L.) and its former executive body NATO Alliance Ground Surveillance Management Agency (NAGSMA) and liquidating body Office for Liquidation (OfL) as at 31 December 2022, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2022, 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 Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899).

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.

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs and where applicable in the Rules Governing the Dissolution of NATO Production Organizations (C-M66(9)). The Financial Statements of NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMO i.L.) and its former executive body NATO Alliance Ground Surveillance Management Agency (NAGSMA) and liquidating body Office for Liquidation (OfL) are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. According to the NFRs, 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.

According to the NFRs, 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 standards consistent 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 standards consistent 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.
- 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

Qualified Opinion on Compliance

Based on the procedures we performed, except for the matter described in the basis for qualified opinion on compliance paragraph, 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.

Basis for Qualified Opinion on Compliance

The NATO Financial Regulations (NFRs) govern the financial administration of all civilian and military headquarters and other organizations established pursuant to the North Atlantic Treaty. The NAGSMO Board of Directors (BoD) adopted the NAGSMO Financial Management Procedures Document and Financial Rules and Regulations (FMPD-FRPs). These are based on the NFRs and take into account any deviations approved by Council.

NAGSMO was put into liquidation on 1 April 2022. As from that date, NAGSMO i.L. decided no longer to have a Financial Controller on its staff. Nevertheless, NAGSMO i.L. continued to incur material levels of expenditures after 1 April 2022. During the April to December 2022 period, NAGSMO i.L. incurred EUR 1,944,145 expenditure for the Administrative Budget and EUR 4,256,033 expenditure for the Operational Budget.

Not having a Financial Controller leads to non-compliance regarding Section II – Financial Controller of the NAGSMO FMPD-FRP, which in turn leads to non-compliance regarding a number of other articles of the NAGSMO FMPD-FRPs, in particular concerning the internal control (Article 12), and the management of, and the provision of funds with respect to material levels of expenditure (Article 25). The requirement of Article 35 of the NAGSMO FMPD-FRPs and Implementing Rules and Procedures (IRP) XXXV, requiring a personal certification of the financial statements by a Financial Controller is also not fulfilled.

We have conducted our compliance audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899).

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, 25 August 2023



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

During the audit IBAN made one observation and recommendation. This finding set out below does not impact the audit opinion on the financial statements, but impacts the audit opinion on compliance:

1. Financial Controller position not established in the set-up of NAGSMO i.L.

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

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

1. FINANCIAL CONTROLLER POSITION NOT ESTABLISHED IN THE SET-UP OF NAGSMO i.L.

Reasoning

1.1 According to the NATO Financial Regulations (NFRs), they *"shall govern the financial administration of all civilian and military headquarters and other organizations established pursuant to the North Atlantic Treaty [...]"*

1.2 The NAGSMO Charter, C-M(2008)0059, section XI, Financial Management, Article 42 (c), General Provisions states that, *"NAGSMO shall adopt based on the NATO Financial Regulations a set of financial rules and procedures to be approved by the BOD in conformity with the present Article and any regulations promulgated pursuant to Article 41."*

1.3 The NAGSMO Board of Directors (BoD) adopted the NAGSMO Financial Management Procedures Document and Financial Rules and Regulations (FMPD-FRPs). These are based on the NFRs and take into account any deviations approved by Council. According to the FMPD-FRPs, the *"NATO Financial Regulations prevail over the NAGSMO FMPD-FRP document, which takes precedence over NAGSMO Board of Directors governance and policy"*. The FMPD-FRPs also includes Implementing Rules and Procedures (IRP).

1.4 According to Article 25 of the NAGSMO FMPD-FRPs and the IRP XXV.1, paragraph 1 and 5 – Approval and Control of Commitments, a *"Liability to expend international funds shall not be incurred, nor shall such funds be expended, without the NAGSMA Financial Controller's prior approval of the corresponding commitment of credit and contract authority"*, also *"the NAGSMA Financial Controller authorizes payments of invoices received from suppliers."*

1.5 Article 35 of the FMPD-FRPs and IRP XXXV – Annual Financial Statements

and Certification of Financial Statements states that *“the NAGSMA Financial Controller shall personally certify annual financial statements for NAGSMO and declare that these statements are compliant with the IPSAS in accordance with the decision of the NAC under PO(2002)109, NATO Accounting Framework and have been prepared on an accrual basis.”*

1.6 According to the Rules Governing the Dissolution of NATO Production Organizations (C-M(66)9), Article 1 (a) - Obligation to liquidate, *“as soon as a NATO Production Organization shall have completed: the mission for which it has been created, it shall be put into liquidation at the request of the States concerned, by decision of the North Atlantic-Council. Its title shall subsequently be followed by the terms “in liquidation”.*

1.7 Further, according to C-M(66)9, Article 1 (b) *“Until the liquidation is completed, the Provisions 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.”*

1.8 The NAGSMO FMPD-FRPs describe the roles and responsibilities of its Financial Controller, especially in the following sections and articles:

- Section I – General Provisions
 - Article 3 – Responsibility and Accountability
- Section II - Financial Controller
 - Article 6 – Responsibilities
 - Article 7 – Recourse of the Financial Controller
 - Article 8 – Recruitment
 - Article 9 – Appointment
 - Article 10 – Term of Appointment
- Section III – Risk Management, Internal Control and Audit
 - Article 12 – Internal Control
- Section IV – Preparation and Approval of the Budget
 - Article 18 – Budget Estimates
 - Article 19 – Format
 - Article 21 – Budget Approval
 - Article 22 – Interim Financing
 - Article 23 – Revised Budgets
- Section V – Management of Appropriations
 - Article 25 – Commitments, Contract Authority and Carry Forward
 - Article 26 – Transfer of Appropriations
- Section VI – Provision of Funds
 - Article 29 – Calls for Contributions
 - Article 31 – Deposit and Investment of Funds
- Section VII – Procurement and Contracting
 - Article 32 – Principles
- Section VIII – Accounting

- Article 35 – Annual Financial Statements

Observation

1.9 Based on Council decision (PO(2021)0449), NAGSMO was put into liquidation starting 1 April 2022, and since that date, NAGSMO's title is followed by the terms "in liquidation" in accordance with C-M(66)9.

1.10 NAGSMO had on its staff a Financial Controller up to 31 March 2022 in accordance with the NAGSMO FMPD-FRPs and the NFRs. As from 1 April 2022, NAGSMO i.L. decided no longer to have a Financial Controller on its staff, based on its interpretation of C-M(66)9 which states that "*The Liquidator may be assisted by a small staff*". The Liquidator and a Fiscal and Accounting Officer thereafter assumed the function and responsibilities of the Financial Controller.

1.11 Although NAGSMO was put into liquidation on 1 April 2022 following the completion of the mission for which it had been created, NAGSMO i.L. continued to incur material levels of expenditures after that date. During the April to December 2022 period, NAGSMO i.L. incurred EUR 1,944,145 expenditure for the Administrative Budget and EUR 4,256,033 expenditure for the Operational Budget.

1.12 Not having a Financial Controller may be appropriate immediately prior to the dissolution of the Organisation, when expenditure levels are minimal. However, this is not the case when expenditure levels are still high and an appropriate level of internal controls therefore needs to be maintained.

1.13 IBAN considers that in light of the significance of the expenditures incurred during the period, the basis for not having a Financial Controller on its staff as required by the NAGSMO FMPD-FRPs, which are based on the NFRs and the Charter, cannot be construed as resulting from the provisions of C-M(66)9 or from the purpose of the liquidation. The fact that C-M (66)9 states that the liquidator may be assisted by a small staff, does not preclude NAGSMO i.L. from having a Financial Controller on its staff, if this is required by the NAGSMO FMPD-FRPs, which are based on the NFRs.

1.14 From a compliance perspective, not having a Financial Controller, leads to non-compliance regarding Section II – Financial Controller of the NAGSMO FMPD-FRPs, which in turn leads to non-compliance regarding a number of other articles of the NAGSMO FMPD-FRPs, in particular concerning the internal control (Article 12), and the management of, and the provision of funds with respect to material levels of expenditure (Article 25). The requirement of Article 35 of the NAGSMO FMPD-FRPs and IRP XXXV requiring a personal certification of the financial statements by a Financial Controller is also not fulfilled.

1.15 NAGSMO i.L. acknowledges in its 2022 Financial Statements that the "*inconsistency between the governance document [NAGSMO FMPD-FRP] and the actual situation is recognized as a potential compliance issue and causes an uncertain situation with regards to sound financial management and governance.*" The Financial

Statements further state that *“in order to mitigate the risk, interim governance measures are applied insofar they do not contradict pertinent BoD decisions, whereas the role of the Liquidator is the ultimate responsible and accountable to the BoD for financial management of all OfL activities.”*

1.16 NAGSMO i.L. informed IBAN that NAGSMO i.L. will be dissolved on 31 December 2023. As this is the last year of operation, IBAN does not raise any recommendation addressed to NAGSMO i.L. regarding this qualifying compliance audit matter.

1.17 IBAN considers that this issue has arisen because the Rules Governing the Dissolution of NATO Production Organizations (C-M(66)9) do not provide a clear framework regarding the role of the Financial Controller and for establishing adequate internal controls in line with the NFRs where significant levels of expenditure continue to be incurred after the start of the liquidation process.

Recommendation

1.18 IBAN recommends for future liquidations that Council task the appropriate governing body to ensure that the Rules Governing the Dissolution of NATO Production Organizations (C-M(66)9) provide a clear framework regarding maintaining compliance with the NATO Financial Regulations, including the function of the Financial Controller and adequate internal controls.

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 IBAN's Recommendation IBAN recommends that NAGSMO: a) 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;	a) The required financial data was provided to NSPO prior to the official handover. The transfer of AGS core system assets to the NATO Support and Procurement Organisation (NSPO) was completed with the official handover on 31 March 2022 and the dissolution of NAGSMA on 31 March 2022. The exception to this being a number of spare parts yet to be delivered, which NSPO has agreed to accept from the main contractor on behalf of NAGSMO i.L. once received. Additionally, NAGSMO i.L. received the release of claims from the main contractor finalising the closure of the contract. Closed.	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
b) 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; c) 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.	b) The transfer of AGS core system assets to NSPO was completed and all data was provided to NSPO for cost valuation purposes. Closed. c) No discrepancies were found in the information presented in the notes to the Financial Statements regarding the transition phase. Closed.	

NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION IN LIQUIDATION (NAGSMO i.L.) AND ITS FORMER EXECUTIVE BODY NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY (NAGSMA) AND LIQUIDATING BODY OFFICE FOR LIQUIDATION (OfL) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

**OBSERVATION 1:
FINANCIAL CONTROLLER POSITION NOT ESTABLISHED IN THE SET-UP OF NAGSMO i.L.**

NAGSMO i.L.'s Formal Comments

Agreed.

Risk recognized and mitigated in line with pertinent BoD decisions. Concur that governance documents must be updated to reflect the unique status of a Liquidating Entity, ensuring the compliance with NFRs, whereas subsequently adequate implementing FRPs can be developed to comply.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) NAGSMO 2019 FY

IBA-AR(2020)0014, paragraph 1

NAGSMO'S TRANSFER OF THE AGS CORE SYSTEM ASSETS TO NSPO

NAGSMO i.L.'s Formal Comments

a) Agreed. Finalized with the closure of NAGSMA on 31/MAR/2022.

b) Agreed. Finalized with the closure of NAGSMA on 31/MAR/2022.

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.

NAGSMOIL

2022

FINANCIAL STATEMENTS



NATO UNCLASSIFIED



NAGSMOIL

OFFICE FOR LIQUIDATION

PAGE LEFT INTENTIONALLY BLANK

NATO UNCLASSIFIED

NAGSMOIL OfL NATO HQ
Boulevard Léopold III
B-1110 Brussels - Belgium
Tel: +32 2 707 1801 Email: nagsma@nagsma.nato.int

NATO UNCLASSIFIED



NAGSMOIL
OFFICE FOR LIQUIDATION

NAGSMOIL/LIQ/L/(2023)00129
27 March 2023

International Board of Auditors for NATO

Attention: NAGSMOIL Board of Directors - Chair and National Representatives

Subject: **NAGSMOIL Financial Statements - Year ending 31 December 2022**

Enclosed are the NAGSMOIL 2022 Financial Statements. Please note that the enclosed statements are subject to audit by the International Board of Auditors for NATO.

Sincerely,

Giorgio
Orsini

Digitally signed by Giorgio
Orsini
Date: 2023.03.27
16:12:48 +02'00'

Major General (ret.) Giorgio Orsini
Liquidator

Encl.: NAGSMOIL Financial Statements for the year ending 31 December 2022.

NATO UNCLASSIFIED

NAGSMOIL OfL NATO HQ
Boulevard Léopold III
B-1110 Brussels - Belgium
Tel: +32 2 707 1801 Email: nagsma@nagsma.nato.int

NATO UNCLASSIFIED



NAGSMOIL

OFFICE FOR LIQUIDATION

PAGE LEFT INTENTIONALLY BLANK

NATO UNCLASSIFIED

NAGSMOIL OfL 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 in Liquidation (NAGSMOIL) and its former executive body NATO Alliance Ground Surveillance Management Agency (NAGSMA) and liquidating body Office for Liquidation (OfL).

On the 1st of April 2022, NAGSMO entered into Liquidation and as such is referred to as NAGSMOIL. The difference between NAGSMO/NAGSMOIL in this document is the status change to a liquidating body. Where each term is used to represent the timeframe in which events occurred, NAGSMO referring to any time before 1st of April 2022, NAGSMOIL to any date thereon or thereafter.

THE NATO ALLIANCE GROUND SURVEILLANCE PROGRAMME

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

The AGS Core capability enables 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 continuously detects and tracks moving objects throughout the observed areas, as well as providing radar imagery of areas and stationary objects.

The NAGSMO and its executive body NAGSMA were 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.

On the 31st of March 2022, NAGSMA delivered the AGS system and handed over the system to the NATO AGS Force/NATO Support & Procurement Agency for lifecycle Operations and Maintenance. The executive body was dissolved per North Atlantic Council (NAC) decision and the liquidating body Office for Liquidation was established on 1 April 2022. OfL is tasked to finalize all pending contractual activities, render final payments for the AGS core system and archive the relevant documentation following NATO regulations.

THE AGS CORE

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

The air segment is based on the Block 40 version of the US RQ-4B Global Hawk high-altitude, long-endurance (HALE) unmanned aerial vehicle (UAV). The UAV is 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 also includes the ground-based UAV control stations, which are located at the AGS Main Operating Base (MOB) at Sigonella Air Base, Italy.

The ground segment consists of deployable ground stations in mobile and transportable configurations, and dedicated mission operations support facilities at the MOB. The ground segment entities 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 enables 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 is 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 (in LIQUIDATION)

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; and
- 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 comprised a Board of Directors (BoD) with Representatives from the Participating Nations, a Finance Committee, NAGSMA as the Executive Body, led by a General Manager (GM) (1 January 2022 - 31 March 2022)

NAGSMOIL comprises a Board of Directors (BoD) with Representatives from the Participating Nations and Liquidator as the Executive Agent with Office for Liquidation. OfL as the Liquidating body, led by a Liquidator (1 April 2022 - 31 December 2022).

NAGSMA/OfL and Service Support Agreement

NAGSMA and OfL have 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 bodies. In all respects of NAGSMA and OfL related activities, the GM/Liquidator and their 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/OfL'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. At the start of the Liquidation phase on the 1st of April 2022, there were significant changes to the structure, setup, organizational chart and governance bodies in NAGSMO. These changes are not reflected in the NAGSMO FMPD-FRP document. This inconsistency between the governance document and the actual situation is recognized as a potential compliance issue and causes an uncertain situation with regards to sound financial management and governance. In order to mitigate the risk, interim governance measures are applied insofar they do not contradict pertinent BoD decisions, whereas the role of the Liquidator is the ultimate responsible and accountable to the BoD for financial management of all OfL activities.

NAGSMA 2022 Administrative Budget

The 2022 NAGSMA Administrative Budget was approved by the NAGSMO BoD in December 2021. The 2022 NAGSMA Administrative Budget funded NAGSMA's expenditure from 1 January to 31 March 2022. In accordance with the BoD decision of the extension of NAGSMA by additional 3 months, NAGSMA extended contracts of 14 staff members until 31 March 2022 in order to retain personnel and maintain needed support for the completion of the AGS Programme Procurement Phase Objectives.

In 2022 NAGSMA's administrative expenditures were lower than what had been anticipated. 84% of the total savings were in Personnel. 81% of the total savings were in Risk Management due to the lower than budgeted outcome of two appeal cases with former NAGSMA Staff Members at the NATO Administrative Tribunal.

In Operations and Maintenance (O&M), the Agency negotiated the Service Support Agreement and Service Support Package with the NCI Agency for external administrative and IT support for the first quarter of 2022. It also received administrative support from the NATO IS under the Memorandum of Understanding (MoU). 16% of the total savings were identified in O&M, including Risk Management, and primarily related to a lower scope of support from the NCI Agency, as well as less travel on duty.

NAGSMA 2022 Operational Budget

The 2022 NAGSMA Operational Budget was approved by the NAGSMO BoD in December 2021. The budget consists of carry forwards of uncommitted 2021 funds of 3.5M USD and 1.8M EUR. These funds were used to cover the payment of the NATO Airborne Recorder (NAR) to NSPA (3.5M USD), electricity for Core Software-Only Pack (CSOP) (2k EUR), and final contractual payments to Terma (150k EUR).

NAGSMOIL 2022 Administrative Budget

In February 2022 the NAGSMO BoD approved the 2022 NAGSMOIL Administrative Budget. The 2022 NAGSMOIL Administrative Budget funded OfL expenditure from 1 April 2022 to 31 December 2022. In accordance with the NAC decision of entry into Liquidation on the 1 April 2022 and the BoD approved OfL Staffing Plan for 2022 and 2023, new employment contracts were signed with 11 NAGSMA staff members for the period 1 April 2022 to 31 December 2023.

In 2022 OfL continued finding cost-effective manpower and increased performance solutions. Notwithstanding the efforts of the OfL, it is challenging to recruit new and keep current staff members in the OfL.

In 2022 OfL's administrative expenditure were lower than what had been anticipated. 68% of the total savings were in Personnel. The majority of savings (47%) were in Risk Management due to the lower than budgeted outcome of two appeal cases with former NAGSMA Staff Members at the NATO Administrative Tribunal. 21% of the total savings were generated in basic salary and payroll related costs and resulted from early departure of two staff members and subsequently unfilled positions foreseen in the OfL Staffing Plan.

In O&M, the OfL signed the Service Support Agreement and Service Support Package with the NCI Agency for external administrative and IT support. It also received administrative support from the NATO IS under the MoU. 32% of the total savings were identified in O&M and primarily related to a lower scope of support from the NCI Agency and less travel on duty, as well as unused funds from Risk Management.

Major Achievements FY 2022:

In 2022, the AGS Programme delivered the AGS Core System to the NATO Alliance. This historical achievement was accomplished along with the following important milestones:

Core Contract:

- Acceptance and Handover of:
 - 70% of the I-ISS spare parts remaining to be delivered by NGISSII as part of the Core Contract.

I-ISS Contracts:

- I-ISS Contracts. Completion of Task Orders related to the I-ISS Service and Maintenance:
 - Airbus:
 - Completion of Task Order#5 for procurement of critical spare parts;
 - Completion of 85% of the repairs activities ordered with Task Order #7.
 - Leonardo:
 - Completion of Task Order#7 for Update of Single SW to integrate ATR/ATD capabilities on MOS and TGGS;
 - Completion of 85% for procurement of critical spare parts and of the repairs activities ordered with Task Order #5.

Core Extension Contracts:

- ATR/ATID by Terma, DK:
 - IISS;
 - EP 62224 (Amendment 0004);
 - Amendment 0004 equipment installation and testing;
 - ATR/ATID Amendment 0004 handover to NSPA and NAGSF.
- CSOP / Back-Up SMARF by PIT-RADWAR, POL:
 - TRR Event#4;
 - FCA/PCA;
 - Formal Verification;
 - Site Acceptance and Hand Over to NSPA/NAGSF.

Since the beginning of 2022 the NAGSMA Liquidation activities have been started with carrying out of the preparatory work prerequisite for setting up the Office for Liquidation followed by Liquidation effort execution.

Specifically the effort has been concentrated on the following main items:

- Ensuring the continuity of the services necessary for the OfL operability with NATO providers through the renewal of Service agreements;
- Reformulating all the Agency Admin Directives and Operation Procedures in compliancy with the new Agency set up and scope;
- Preparatory work for the Liquidation task:
 - Assessment of the requirements for the Archiving effort:
 - Establishing stable collaboration with NATO Archives in identifying processes and requirements (including training, planning, and execution);
 - Assessment of the records volume to be managed;
 - Consolidation of the records transferring process to NATO Archives;
 - Data Model and metadata identification through STANAG tailoring;
 - Planning and execution of records trails to verify the consistency of the processes with NATO Archive.
 - Assessment of the effort needed for the handling of the left over activities from NAGSMA in generating new records.
- Assignment of the workload to the team and definition of the liquidation schedule;
- Preparation and issue of the IKM Plan;
- Transferring of all the classified records to NATO Archives.

2023 Outlook

The main activities foreseen in 2023 are the execution of the following:

- Completion of all the repairs activities ordered with Task Order #7 of the Airbus' IISS contract;
- Completion of all the procurement of critical parts and of the repairs activities ordered with Task Order #5 of the Leonardo's IISS contract;
- Completion of the acquisition of the remaining Spare Parts ordered with the Core Contract to NAGSMA;
- Execution, delivery, acceptance, and Handover the Core Extension (IP) Capabilities;
- POL - PITRADWAR for CSOP: Installation and acceptance at JFTC;
- Completion by the liquidation team all the relevant activities leading to transfer all the records inherited from NAGSMA to NATO Archives and the records generated during OfL;

- Planning and preparation of NAGSMOIL dissolution and transfer of remaining tasks by the end of 2023.

NAGSMA/OfL 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 and 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 was 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 did not own any assets.

As per AGS Transition Plan, NSPA, as the executive body of the AGS Support Partnership, exercises ownership and is 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 was 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 2022, the following assets were handed over to the AGS Support Partnership:

- NATO AGS Automatic Target Recognition/Automatic Target Identification Capability Development & Integration (ATR/ATID) Amendment 0004 (18 Nov 2022)
- Core Software Only Package (CSOP) (15 December 2022) completed the AGS Core System handover to the NATO AGS Support Partnership. This signified handover of the AGS Core System that is functional, verified, and airworthiness certified with potential immediate ISR capability addition to NATO.

More than 30,000 parts were turned over to NAGSF in 2022. NAGSMA/OfL has provided data for all transferred assets and inventory to NSPA.

CERTIFICATION

1. The NAGSMOIL 2022 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 NAGSMOIL Financial Statements are certified by the Liquidator to the best of his 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 NAGSMOIL and to be in accordance with the books and records maintained by the NAGSMA and OfL.
4. The NAGSMOIL Financial Statements may be disclosed to the general public.

Giorgio
Orsini

Digitally signed by Giorgio
Orsini
Date: 2023.03.27
16:14:06 +02'00'

Major General (ret.) Giorgio Orsini
Liquidator

STATEMENT ON INTERNAL CONTROL

This statement of internal control applies to the Financial Statements of NAGSMA & OfL, as the executive body of NAGSMOIL, for the year ended 31 December 2022.

Scope of responsibility

- The Liquidator acknowledges responsibility for the correct use of funds made available to OfL and for maintaining a sound system of internal control that supports the achievement of OfL's mandate under its NATO Charter, whilst safeguarding the public funds and assets.
- Funds received are recorded, accounted and managed through the core financial system.

The NAGSMOIL 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.

Office for Liquidation applies the NAGSMO FMPD-FRP document insofar it does not contradict pertinent BoD decisions.

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 period ending 31 March 2022 and up to the date of approval of the Financial Statements.

The process within OfL accords with the NAGSMO FMPD-FRP insofar it does not contradict with pertinent BoD decisions and has been in place for the period from 1 April 2022 until 31 December 2022 and up to the date of approval of the Financial Statements.

Risk and Control Framework

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

NAGSMA/OfL 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.

Review of Effectiveness

The Liquidator 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;
- 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 2022, no material instances of failure to the internal control system were reported that should be brought to your attention.

Giorgio
Orsini

Digitally signed by Giorgio
Orsini
Date: 2023.03.27
16:14:42 +02'00'

Major General (ret.) Giorgio Orsini
Liquidator

NAGSMO – Statement of Financial Position
as at 31 December 2022
(all amounts in Euro)

	Notes	Current Year	Prior Year
	ANNEX B	31-Dec-22	31-Dec-21
ASSETS			
Cash and cash equivalents	B01	17,454,943	73,313,239
Receivables	B02	17,144	0
Other current assets and prepayments	B03	38,522	89,814
Current assets		17,510,609	73,403,053
TOTAL ASSETS		17,510,609	73,403,053
LIABILITIES			
Payables	B04	1,600,914	1,543,236
Advances and deferred revenue	B05	5,403,106	66,331,895
Short term provisions	B06	38,522	89,814
Other current liabilities	B07	10,468,067	3,747,424
Current liabilities		17,510,609	71,712,369
Long-term payables	B08	0	1,690,684
Non-current liabilities		0	1,690,684
NET ASSETS/EQUITY			
Accumulated surpluses/(deficits)		0	0
Net Assets/Equity		0	0
TOTAL LIABILITIES		17,510,609	73,403,053

NAGSMO – Statement of Financial Performance
for the year ended 31 December 2022
(all amounts in Euro)

	Notes	Current Year	Prior Year
	ANNEX C	2022	2021
REVENUE			
Revenue from non-exchange transactions	C01	3,088,307	6,573,004
Revenue		3,088,307	6,573,004
EXPENSES			
Personnel	C02	2,289,111	5,866,454
Contractual supplies and services	C03	799,196	706,550
Expenses		3,088,307	6,573,004
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 2022
(all amounts in Euro)

	Notes	Current Year	Prior Year
	ANNEX D	2022	2021
CASH FLOW FROM OPERATING ACTIVITIES			
Cash flow from operating and other activities			
Net surplus/(deficit)		0	0
Total cash flow from operating and other activities		0	0
Decrease/(increase) Current assets			
Decr./ (incr.) Other current assets and prepayments		51,292	144,000
Decr./ (incr.) Receivables		(17,144)	1,392,436
Total decrease/(increase) Current assets		34,148	1,536,436
Increase/(decrease) Current liabilities			
Incr./ (decr.) Short term provisions		(51,292)	(144,000)
Incr./ (decr.) Other current liabilities		6,720,643	(1,533,620)
Incr./ (decr.) Payables		57,678	(8,227,031)
Incr./ (decr.) Advances and deferred revenue		(60,928,789)	(87,959,022)
Total increase/(decrease) Current liabilities		(54,201,759)	(97,863,673)
NET CASH FLOW FROM OPERATING ACTIVITIES		(54,167,612)	(96,327,237)
NET CASH FLOW FROM INVESTING ACTIVITIES		0	0
Incr./ (decr.) Long-term payables		(1,690,684)	1,690,684
NET CASH FLOW FROM FINANCING ACTIVITIES		0	0
NET INCREASE/(DECREASE) CASH AND CASH EQUIVALENTS		(55,858,296)	(94,636,553)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		73,313,239	167,949,792
CASH AND CASH EQUIVALENTS AT END OF PERIOD		17,454,943	73,313,239

**NAGSMO – Statement of Changes in Net Assets/Equity
for the year ended 31 December 2022
(all amounts in Euro)**

BALANCE AT 31-DECEMBER-2021	0
Net surplus for the period	0
BALANCE AT 31-DECEMBER-2022	0
NET CHANGE IN ASSETS/EQUITY (OPERATING FUND) FOR THE YEAR ENDED 31-DECEMBER-2022	0

NAGSMO Budget Execution Statement - Operational Budget Total
for the year ended 31 December 2022
(All amounts in Euro equivalent)

Notes	Initial Authorisation ¹	Transfers Effectuated	Final Authorisation	Net Commitment	Expenditure	Total Spend	Carry Forward	Lapsed
Annex F								
AGS Core System Procurement								
2015 - AGS Core System Procurement	539	0	539	0	0	0	0	539
2018 - AGS Core System Procurement	4,746,953	0	4,746,953	20,825	4,726,129	4,746,954	20,825	0
2019 - AGS Core System Procurement	28,953,184	0	28,953,184	0	28,925,400	28,925,400	0	27,785
2020 - AGS Core System Procurement	5,692,243	0	5,692,243	2,430	5,689,813	5,692,243	2,430	0
2021 - AGS Core System Procurement	12,778,750	0	12,778,750	124,913	12,653,837	12,778,750	124,913	0
2022 - AGS Core System Procurement	5,077,317	0	5,077,317	0	3,474,318	3,474,318	0	1,602,999
TOTAL AGS Core System Procurement	57,248,987	0	57,248,987	148,168	55,469,497	55,617,665	148,168	1,631,322

¹ (1) 2022 NAGSMA Operational Budget approved by the NAGSMO Board of Directors - NAGSMO/BOD/D/2021/0060-AS1 "Special Carry Forward of Uncommitted Appropriations and Formation of 2022 Operational Budget", dated 17 December 2021;
(2) Carry forward of committed appropriated 2015 - 2021 funds.

NAGSMO Budget Execution Statement - Operational Budget (USD part)
for the year ended 31 December 2022
All amounts in USD

	Notes	Initial Authorisation ¹	Transfers Effected ²	Final Authorisation	Net Commitment	Expenditure	Total Spend	Carry Forward	Lapsed
	Annex F								
System Design, Development and Qualification									
2019 - System Design, Development and Qualification		20,323,616	0	20,323,616	0	20,323,616	20,323,616	0	0
Total System Design, Development and Qualification		20,323,616	0	20,323,616	0	20,323,616	20,323,616	0	0
Production									
2018 - Production		3,501,883	0	3,501,883	0	3,501,883	3,501,883	0	0
2019 - Production		4,434,391	0	4,434,391	0	4,434,391	4,434,391	0	0
Total Production		7,936,274	0	7,936,274	0	7,936,274	7,936,274	0	0
Management Reserve									
2022 - Management Reserve		3,500,000	-3,500,000	0	0	0	0	0	0
Total Management Reserve		3,500,000	-3,500,000	0	0	0	0	0	0
CAFX									
2015 - CAFX		568	0	568	0	0	0	0	568
2022 - CAFX		0	3,500,000	3,500,000	0	3,500,000	3,500,000	0	0
Total CAFX		568	3,500,000	3,500,568	0	3,500,000	3,500,000	0	568
IISS									
2020 - IISS		2,725,000	0	2,725,000	0	2,725,000	2,725,000	0	0
2021 - IISS		12,868,873	0	12,868,873	0	12,868,873	12,868,873	0	0
Total IISS		15,593,873	0	15,593,873	0	15,593,873	15,593,873	0	0
TOTAL BUDGET EXECUTION		47,354,330	0	47,354,330	0	47,353,762	47,353,762	0	568

Notes:

¹ 2022 NAGSMA Operational Budget approved by the NAGSMO Board of Directors - NAGSMO/BOD/D/2021/0060-AS1 "Special Carry Forward of Uncommitted Appropriations and Formation of 2022 Operational Budget", dated 17 December 2021;

² Transfer Effected approved by the NAGSMO Finance Committee - NAGSMO/FC/D/2022/0004-AS1 "Transfer of Budget Credits", dated 30 March 2022.

NAGSMO Budget Execution Statement - Operational Budget (EUR part)
for the year ended 31 December 2022
All amounts in Euro

	Notes	Initial Authorisation ¹	Transfers Effected ²	Final Authorisation	Net Commitment	Expenditure	Total Spend	Carry Forward	Lapsed
	Annex F								
System Design, Development and Qualification									
2019 - System Design, Development and Qualification		2,527,000	0	2,527,000	0	2,527,000	2,527,000	0	0
Total System Design, Development and Qualification		2,527,000	0	2,527,000	0	2,527,000	2,527,000	0	0
Production									
2018 - Production		1,274,166	0	1,274,166	0	1,274,166	1,274,166	0	0
2019 - Production		2,234,914	0	2,234,914	0	2,234,914	2,234,914	0	0
Total Production		3,509,080	0	3,509,080	0	3,509,080	3,509,080	0	0
Management Reserve									
2022 - Management Reserve		1,687,278	-115,000	1,572,278	0	0	0	0	1,572,278
Total Management Reserve		1,687,278	-115,000	1,572,278	0	0	0	0	1,572,278
CAFX									
2019 - CAFX		77,365	0	77,365	0	49,581	49,581	0	27,785
2022 - CAFX		13,380	0	13,380	0	2,059	2,059	0	11,321
Total CAFX		90,745	0	90,745	0	51,639	51,639	0	39,106
IISS									
2018 - IISS		148,741	0	148,741	20,825	127,916	148,741	20,825	0
2020 - IISS		6,399	0	6,399	2,430	3,969	6,399	2,430	0
2021 - IISS		380,899	0	380,899	124,913	255,985	380,899	124,913	0
Total IISS		536,039	0	536,039	148,168	387,871	536,039	148,168	0
ATR / ATID									
2021 - ATR/ ATID		15,000	0	15,000	0	15,000	15,000	0	0
2022 - ATR/ ATID		45,000	115,000	160,000	0	150,000	150,000	0	10,000
Total ATR / ATID		60,000	115,000	175,000	0	165,000	165,000	0	10,000
TCB									
2019 - TSEC, CSOP & Battle Lab. Capability		613,187	0	613,187	0	613,187	613,187	0	0
2020 - TSEC, CSOP & Battle Lab. Capability		3,099,228	0	3,099,228	0	3,099,228	3,099,228	0	0
2021 - TSEC, CSOP & Battle Lab. Capability		167,500	0	167,500	0	167,500	167,500	0	0
2022 - TSEC, CSOP & Battle Lab. Capability		9,400	0	9,400	0	0	0	0	9,400
Total TCB		3,889,315	0	3,889,315	0	3,879,915	3,879,915	0	9,400
TOTAL BUDGET EXECUTION		12,299,457	0	12,299,457	148,168	10,520,505	10,668,673	148,168	1,630,784

Notes:

¹ 2022 NAGSMA Operational Budget approved by the NAGSMO Board of Directors - NAGSMO/BOD/D/2021/0060-AS1 "Special Carry Forward of Uncommitted Appropriations and Formation of 2022 Operational Budget", dated 17 December 2021;

² Transfer Effected approved by the NAGSMO Finance Committee - NAGSMO/FC/D/2022/0002-AS1 "Transfer of Budget Credits", dated 08 February 2022.

NAGSMO Budget Execution Statement - Administrative Budget
for the period 1 January 2022 - 31 March 2022
(All amounts in Euro)

	Notes	Initial Authorisation ¹	Transfers Effected ²	Final Authorisation	Net Commitment	Expenditure ³	Total Spend	Carry Forward	Lapsed
	ANNEX E								
Personnel									
2019 - Personnel	E01	0	0	0	0	-4,462	-4,462	0	4,462
2021 - Personnel	E02	0	0	0	0	-305	-305	0	305
2022 - Personnel	E03	900,808	29,500	930,308	0	907,425	907,425	0	22,883
Total Personnel		900,808	29,500	930,308	0	902,657	902,657	0	27,651
Contractual supplies and services									
2021 - Contractual supplies and services	E04	0	0	0	0	-2,238	-2,238	0	2,238
2022 - Contractual supplies and services	E05	314,080	0	314,080	0	235,782	235,782	0	78,298
Total Contractual supplies and services		314,080	0	314,080	0	233,544	233,544	0	80,536
Capital and investment budgeting									
2022 - Capital and investment budgeting	E06	2,000	0	2,000	0	0	0	0	2,000
Total Capital and investment budgeting		2,000	0	2,000	0	0	0	0	2,000
Budget contingencies									
2022 - Budget contingencies	E07	650,000	-29,500	620,500	0	59,252	59,252	0	561,248
Total Budget contingencies		650,000	-29,500	620,500	0	59,252	59,252	0	561,248
TOTAL BUDGET EXECUTION		1,866,888	0	1,866,888	0	1,195,453	1,195,453	0	671,435

Notes:

¹ 2022 NAGSMA Administrative Budget approved by the NAGSMO Board of Directors - NAGSMO/BOD/D/2021/0059-AS1 "2022 NAGSMA Administrative Budget", dated 17 December 2021;

² Transfer Effected within the authority of Liquidator;

³ Negative amounts in Expenditure include the impact of reversal of unspent accruals for previous periods.

NAGSMO in Liquidation Budget Execution Statement - Administrative Budget
for the period 1 April 2022 - 31 December 2022
(All amounts in Euro)

	Notes	Initial	Transfers	Final	Net Commitment	Expenditure	Total Spend	Carry Forward	Lapsed
	ANNEX E	Authorisation ¹	Effectuated	Authorisation					
Personnel									
2022 - Personnel	E08	1,745,256	0	1,745,256	0	1,437,745	1,437,745	0	307,511
Total Personnel		1,745,256	0	1,745,256	0	1,437,745	1,437,745	0	307,511
Contractual supplies and services									
2022 - Contractual supplies and services	E09	892,240	0	892,240	0	506,400	506,400	0	385,840
Total Contractual supplies and services		892,240	0	892,240	0	506,400	506,400	0	385,840
Capital and investment budgeting									
2022 - Capital and investment budgeting	E10	2,000	0	2,000	0	0	0	0	2,000
Total Capital and investment budgeting		2,000	0	2,000	0	0	0	0	2,000
Budget contingencies									
2022 - Budget contingencies	E11	750,000	0	750,000	0	0	0	0	750,000
Total Budget contingencies		750,000	0	750,000	0	0	0	0	750,000
TOTAL BUDGET EXECUTION		3,389,496	0	3,389,496	0	1,944,145	1,944,145	0	1,445,351

Notes:

¹ 2022 NAGSMOIL Administrative Budget approved by the NAGSMO Board of Directors - NAGSMO/BOD/D/2022/0003REV1-AS1 "Revision 1 of the Revised 2022 NAGSMOIL Administrative Budget and 2023 Budget Estimate", dated 22 February 2022.

Notes to the Financial Statements for the year ending 31 December 2022

Index Page

- 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 NAGSMOIL, including NAGSMA being the executive body and OfL being the liquidating body of the NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMOIL), 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. They are prepared on a non-going concern basis, in consideration of the close of the executive body (NAGSMA) of 31st of March 2022 and the intended closure date of the liquidating body (OfL) of 31st December 2023.

In accordance with Article 2.1 of the NFRs, the financial year at NAGSMA/OfL begins on 1 January and ends on 31 December of the year. Considering OfL start date of 1 April 2022, there are no transactions before this date for this body.

These financial statements represent the consolidated activities of the NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMOIL), its executive body NAGSMA and its liquidating body OfL.

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, 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 ceased to exist and was taken over by NAGSMO in Liquidation - Office for Liquidation, as NAGSMOIL's Executive Agent.

NAGSMA's/OfL'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 was 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 did not bear any inventory risk before or after the customer order;
- It did not bear the credit risk for the amounts receivable from the customer;
- It did carry out acceptance of goods and services on behalf of Nations/NATO;
- It did not receive a fixed fee per transaction or a stated percentage of the amount billed, as it was reimbursed for the running costs of the Agency via the Administrative Budget.

NAGSMA provided for a contract administration function to NAGSMO. NAGSMA acted 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 was 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 is 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. OfL functions as the liquidating body of NAGSMOIL and aims to close all pending activities and final handover of records to NATO archives.

Foreign Currency Translation

The functional and reporting currency of NAGSMA/OfL 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/OfL 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 was forecasting the yearly expected expenditures in foreign currencies. In order to have the required funding, NAGSMA asked the Participating Nations to provide their contributions in the necessary currencies. OfL does not have any foreign currency requirements.

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/OfL 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/OfL has a present obligation as a result of a past event, and it is probable that NAGSMA/OfL will be required to settle that obligation. Provisions are measured at the General Manager's/Liquidator'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/OfL.

Budget Execution Statement

The Board of Directors approves the annual budgets which include budgeted amounts for the administration of the Agency, Liquidation body 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/OfL 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/OfL employees are members of the NATO-wide Defined Contribution Pension Scheme (DCPS). The assets of the plans are held separately from those of NAGSMA/OfL in funds under the control of trustees. NAGSMA/OfL 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/OfL with respect to the DCPS is to make the specified contributions.

Defined Benefit Plans

NAGSMA/OfL 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-22	31-Dec-21	
The Statement of Financial Position details the assets and liabilities of NAGSMA/OfL as of 31 December.			
B01	Cash and cash equivalents	17,454,943	73,313,239
	Administrative account	0	6,529,641
	Operational account	8,555,909	61,149,736
	Administrative account NAGSMOIL	8,899,034	5,633,862
Cash and Cash equivalents are short-term liquid assets. NAGSMA/OfL operates highly reliable and interest bearing bank accounts in EUR and USD currencies. The NAGSMOIL administrative account covers any final payments remaining from NAGSMA.			
B02	Receivables	17,144	0
Accounts receivable constitutes an insurance refund.			
B03	Other current assets and prepayments	38,522	89,814
Other current assets match provision for annual leave entitlements accrued but untaken at year-end.			

B04	Payables	1,600,914	1,543,236
	Payables	0	7,533
	Accruals	1,600,914	1,535,703

These short-term payables comprise payables and accruals for milestones accomplished as well as services rendered in 2022, including consulting, communication, travel and personnel related expenses.

B05	Advances and deferred revenue	5,403,106	66,331,895
	Advances from Nations	0	11,078,227
	Advance towards NAGSMOIL Administrative budget	5,254,938	5,633,862
	Deferred revenue	148,168	49,619,806

As part of the non-going concern consideration, there will be no more future year budgets, the only remaining advance at the end of the reporting date is the funds to cover for 2023 NAGSMOIL OfL approved budget. Remaining funds and the cumulative effect of unrealised foreign exchange impact over the periods have been moved to other current liabilities.

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

Deferred revenue comprises unspent commitments carry forward from prior periods.

B06	Short-term provisions	38,522	89,814
------------	------------------------------	---------------	---------------

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

Balance at 1 January 2022	89,814
Provision decrease	(51,292)
Balance at 31 December 2022	38,522

B07	Other current liabilities	10,468,067	3,747,424
------------	----------------------------------	-------------------	------------------

Other payables mainly include lapsed credits comprising 3,748,108 EUR (2021: 3,448,727 EUR), financial results, refunded amounts, and other liabilities due to the Nations.

B08	Other non-current liabilities	0	1,690,684
------------	--------------------------------------	----------	------------------

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 the liquidation process. Unused emergency reserve was moved to current liabilities as part of the non-going concern consideration.

B09	Contingent Liabilities
------------	-------------------------------

During 2022, NAGSMOIL Office for Liquidation saw through closure of two appeals cases by the NATO Administrative Tribunal. On 3 June 2022, an appeal case on dispute concerning amount of damages owed to an appellant stemming from another appeal case from January 2021. The amounts to pay for the first case was partially accrued in the 2021 NAGSMO Financial Statements, the remaining amount and the full amount for the second case is included in the NAGSMOIL 2022 Financial Statements.

NAGSMOIL OfL (Liquidator) provided its decision on 4 (four) separate requests for administrative review. None were advanced further to an appeals procedure. There are no new pending cases with the NATO Administrative Tribunal.

ANNEX C Notes to the Statement of Financial Performance

Notes Reference	Current Year	Prior Year
	2022	2021
The Statement of Financial Performance details the revenue and expenses that NAGSMA/OfL incurred during the year ending 31 December.		
C01 Revenue from non-exchange transactions	3,088,307	6,573,004
Revenue represents funding from Nations for expenses incurred during the financial year.		
C02 Personnel	2,289,111	5,866,454
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 2022 OfL had 9 staff members (2021: 13 staff members NAGSMA) 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) which will occur in 2023.		
The breakdown of wages, salaries and employee benefits is as follows:		
	Year ended 31-Dec-2022	Year ended 31-Dec-2021
	EUR	EUR
Employee benefits expense, consultants and contractors	2,158,065	5,173,484
Post-employment benefits		
for defined contribution pension scheme	182,337	303,426
for defined benefit pension scheme	0	0
Termination benefits	0	533,544
Provision for annual leave entitlements accrued	(51,292)	(144,000)
Total employee benefits expense	2,289,111	5,866,454
C03 Contractual supplies and services	799,196	706,550
Supplies and consumables are costs of goods and services used by NAGSMA/OfL 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/OfL 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/OfL 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. 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.

Two separate Administrative Budget Execution Statements are presented, one providing the information on the procurement agent (NAGSMA) and one providing the information on the liquidation body (OfL). Combined, the expenses reconcile to the Statement of Financial Performance 2022, with the untaken leave provision moved to the responsibility of OfL.

Personnel, E01 – E02 – E03 – E08

The expenses with regard to Personnel mainly covered basic salary, allowances, contributions to the employees' pension scheme and complementary employment insurance. Lapses (E08) are due to savings that were generated in basic salary and payroll related costs, following the lower personnel strength than what was approved in the OfL Staffing Plan 2022.

Contractual supplies and services, E04 – E05 – E09

The expenditure as regards Contractual supplies and services were mainly related to support from NCI Agency and NATO IS, as well as travel for duty. Lapses are due to savings that were generated due to lower scope of support from NCI Agency.

Capital and investment budgeting, E06 – E10

Lapses are due to no expenditure 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, E07 – E11

Lapses are mainly due to unused budget contingencies budgeted for potential claims related to two ongoing appeal cases with former NAGSMA Staff Members pending resolution at the NATO Administrative Tribunal.

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 average NATO rate applicable over 2022 of 1.0535.

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.

The Operational Budget is presented as the consolidated figures throughout the year. It is noted that out of the total Operational budget execution in 2022, 51,213,463 EUR EQ was achieved during Q1 2022 (NAGSMA) and 4,256,034 EUR EQ during Q2-Q3-Q4 2022 (OfL), with a total remaining volume of work of 148,168 EUR carried into 2023 to be completed by OfL.

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.

I/ISS

I/ISS includes several milestone payments in 2022 for the supporting contracts with Airbus and Leonardo, mainly comprising of spare parts.

Management Reserve

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 were partially used to fund the requirements that arose in the process of completing the AGS program.

CAFX

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 were 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.

In March 2022 NAGSMO BoD approved the transfer of 3.5M USD held in Management Reserve of 2022 NAGSMA Operational Budget to CAFX to fund the NATO Airborne Recorder (NAR) Replacement Engineering Change Proposal Solution, and to transfer these funds to NSPA.

ATR/ ATID

In February 2022 NAGSMO BoD approved the Amendment 4 to the NATO AGS Automated Target Recognition/Automated Target Identification (ATID/ATR) and agreed to fund provided from Management Reserve for 115,000 EUR.

TCB

In December 2021 the NAGSMO BoD approved the transfer of uncommitted TSEC, CSOP & Battle Lab funds. 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.

Declaration of Responsibility (DoR) undelivered spare parts

In order to comply with established dissolution date of 31 March 2022 and account for still outstanding AGS spare parts deliveries, NAGSMA conducted negotiations with its prime contractor in order to be able to close out the AGS Core Contract. It was established that pending spare parts deliveries extended into 2023 and potentially beyond due to post-COVID situation concerning shortage of chipsets. It was also known that Office for Liquidation will exist to serve as an executive agent of NAGSMO during its liquidation phase that is envisaged to continue until 31 December 2023. Lastly, in March 2022 there were two outstanding milestone payments, which were liquidation payments to be paid upon 100% delivery of all spare parts.

Taking into account all circumstances and considerations, in particular wish of the NAGSMO nations to close out the AGS Core Contract by the end March 2022, the agreement was made containing the following elements: (a) parties agreed to proceed towards close out of the AGS Core Contract by making payments on the two outstanding milestones; (b) in return, the prime contractor issues a separate commitment (Declaration of Responsibility – DOR) containing list of outstanding contractual activities, which the prime contractor undertakes to complete within the dates identified therein; and (c) as final closeout step, the prime contractor upon payment of the two milestones issues release of claim notification to NAGSMA. This would confirm completion of the AGS Core Contract and discharge all parties from any contract related potential claims or further implementation.

Carry Forwards

In December 2022 the NAGSMO Board of Directors provided an exceptional extension of the carry forward of 2018 and 2020 commitments to be expensed in 2023.

Carry forwards from 2018 are related to remaining outstanding I-ISS support to be provided by Leonardo.

Carry forwards from 2020 & 2021 are related to remaining outstanding I-ISS support to be provided by Airbus.

The Table below represents the cumulative NAGSMA Operational budget per year from 2012 to 2022 expensed, 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 31.12.2022.

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	33,380,820	20,825	8,736,298
2019	82,086,583	81,370,562	0	716,021
2020	15,273,047	15,037,103	2,430	233,514
2021	9,330,878	9,205,965	124,913	0
2022	1,755,058	151,978	0	1,603,080
Total	726,203,407	615,174,354	148,168	110,880,885

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	0	64,812,051
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	141,382,826	0	15,901,375
2019	139,142,932	137,352,933	0	1,790,000
2020	7,125,000	7,125,000	0	0
2021	30,600,000	30,600,000	0	0
2022	3,500,000	3,500,000	0	0
Total	1,621,399,686	1,371,155,853	0	250,243,833

The Carry Forwards from the Financial Statements 2018-2021 which have been expensed in 2022 have been added to the Actual Expenses of 2018-2021 respectively.

ANNEX G General Notes to the Financial Statements

G01 Related Party Disclosures

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

Transactions with NATO bodies

	Current Year 2022	Prior Year 2021
	EUR	EUR
NATO Communications and Information Agency	314,853	554,311
NATO Support and Procurement Agency	3,119,081	137,839
NATO International Staff	104,782	217,061
NATO International Military Staff	1,120	280
NATO School Oberammergau	6,050	450
Joint Force Training Centre	2,077	0
	3,547,963	909,940

In 2022, the NCI Agency provided administrative services for NAGSMA/OfL under the Support Services and Service Level Agreements.

NSPA provided Technical Engineering Services support in 2022 as well as logistics support services and were paid the EUR equivalent of 3.5M USD to procure NAR.

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

NATO School Oberammergau and NATO IMS provided training.

Joint Force Training Centre was reimbursed for the electricity usage of the CSOP installation.

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 2022	Prior Year 2021
	EUR	EUR
Basic salaries	164,884	549,570
Allowances	15,888	114,815
Post-employment benefits	19,786	77,418
Employer's contribution to Insurance	18,993	62,605
	219,551	804,107

The compensation of key management personnel in 2022 is lower than the previous year due to departures during the year that were not replaced.

	Current Year 2022	Prior Year 2021
Number of individuals at year-end on a full time equivalent basis		
General Manager	0	1
Programme Manager	0	1
Key management personnel	0	1
Liquidator	1	1
	1	4

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. There were no representation allowance reimbursements or payments made during 2022.

G03 Approval of Financial Statements

The financial statements were approved by the Liquidator and authorised to be issued on 27 March 2023.



PAGE LEFT INTENTIONALLY BLANK





PAGE LEFT INTENTIONALLY BLANK





PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE



NATO Alliance Ground Surveillance
Management Organisation in Liquidation
(NAGSMOIL)

NAGSMOIL
NATO Headquarters
1110 Brussels
Belgium



NAGSMOIL

2022

FINANCIAL STATEMENTS



NATO UNCLASSIFIED



NAGSMOIL

OFFICE FOR LIQUIDATION

PAGE LEFT INTENTIONALLY BLANK

NATO UNCLASSIFIED

NAGSMOIL OfL NATO HQ
Boulevard Léopold III
B-1110 Brussels - Belgium
Tel: +32 2 707 1801 Email: nagsma@nagsma.nato.int

NATO UNCLASSIFIED



NAGSMOIL

OFFICE FOR LIQUIDATION

NAGSMOIL/LIQ/L/(2023)00129

27 March 2023

International Board of Auditors for NATO

Attention: NAGSMOIL Board of Directors - Chair and National Representatives

Subject: **NAGSMOIL Financial Statements - Year ending 31 December 2022**

Enclosed are the NAGSMOIL 2022 Financial Statements. Please note that the enclosed statements are subject to audit by the International Board of Auditors for NATO.

Sincerely,

Giorgio
Orsini

Digitally signed by Giorgio
Orsini
Date: 2023.03.27
16:12:48 +02'00'

Major General (ret.) Giorgio Orsini
Liquidator

Encl.: NAGSMOIL Financial Statements for the year ending 31 December 2022.

NATO UNCLASSIFIED

NAGSMOIL OfL NATO HQ
Boulevard Léopold III
B-1110 Brussels - Belgium
Tel: +32 2 707 1801 Email: nagsma@nagsma.nato.int

NATO UNCLASSIFIED



NAGSMOIL

OFFICE FOR LIQUIDATION

PAGE LEFT INTENTIONALLY BLANK

NATO UNCLASSIFIED

NAGSMOIL OfL 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 in Liquidation (NAGSMOIL) and its former executive body NATO Alliance Ground Surveillance Management Agency (NAGSMA) and liquidating body Office for Liquidation (OfL).

On the 1st of April 2022, NAGSMO entered into Liquidation and as such is referred to as NAGSMOIL. The difference between NAGSMO/NAGSMOIL in this document is the status change to a liquidating body. Where each term is used to represent the timeframe in which events occurred, NAGSMO referring to any time before 1st of April 2022, NAGSMOIL to any date thereon or thereafter.

THE NATO ALLIANCE GROUND SURVEILLANCE PROGRAMME

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

The AGS Core capability enables 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 continuously detects and tracks moving objects throughout the observed areas, as well as providing radar imagery of areas and stationary objects.

The NAGSMO and its executive body NAGSMA were 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.

On the 31st of March 2022, NAGSMA delivered the AGS system and handed over the system to the NATO AGS Force/NATO Support & Procurement Agency for lifecycle Operations and Maintenance. The executive body was dissolved per North Atlantic Council (NAC) decision and the liquidating body Office for Liquidation was established on 1 April 2022. OfL is tasked to finalize all pending contractual activities, render final payments for the AGS core system and archive the relevant documentation following NATO regulations.

THE AGS CORE

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

The air segment is based on the Block 40 version of the US RQ-4B Global Hawk high-altitude, long-endurance (HALE) unmanned aerial vehicle (UAV). The UAV is 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 also includes the ground-based UAV control stations, which are located at the AGS Main Operating Base (MOB) at Sigonella Air Base, Italy.

The ground segment consists of deployable ground stations in mobile and transportable configurations, and dedicated mission operations support facilities at the MOB. The ground segment entities 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 enables 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 is 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 (in LIQUIDATION)

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; and
- 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 comprised a Board of Directors (BoD) with Representatives from the Participating Nations, a Finance Committee, NAGSMA as the Executive Body, led by a General Manager (GM) (1 January 2022 - 31 March 2022)

NAGSMOIL comprises a Board of Directors (BoD) with Representatives from the Participating Nations and Liquidator as the Executive Agent with Office for Liquidation. OfL as the Liquidating body, led by a Liquidator (1 April 2022 - 31 December 2022).

NAGSMA/OfL and Service Support Agreement

NAGSMA and OfL have 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 bodies. In all respects of NAGSMA and OfL related activities, the GM/Liquidator and their 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/OfL'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. At the start of the Liquidation phase on the 1st of April 2022, there were significant changes to the structure, setup, organizational chart and governance bodies in NAGSMO. These changes are not reflected in the NAGSMO FMPD-FRP document. This inconsistency between the governance document and the actual situation is recognized as a potential compliance issue and causes an uncertain situation with regards to sound financial management and governance. In order to mitigate the risk, interim governance measures are applied insofar they do not contradict pertinent BoD decisions, whereas the role of the Liquidator is the ultimate responsible and accountable to the BoD for financial management of all OfL activities.

NAGSMA 2022 Administrative Budget

The 2022 NAGSMA Administrative Budget was approved by the NAGSMO BoD in December 2021. The 2022 NAGSMA Administrative Budget funded NAGSMA's expenditure from 1 January to 31 March 2022. In accordance with the BoD decision of the extension of NAGSMA by additional 3 months, NAGSMA extended contracts of 14 staff members until 31 March 2022 in order to retain personnel and maintain needed support for the completion of the AGS Programme Procurement Phase Objectives.

In 2022 NAGSMA's administrative expenditures were lower than what had been anticipated. 84% of the total savings were in Personnel. 81% of the total savings were in Risk Management due to the lower than budgeted outcome of two appeal cases with former NAGSMA Staff Members at the NATO Administrative Tribunal.

In Operations and Maintenance (O&M), the Agency negotiated the Service Support Agreement and Service Support Package with the NCI Agency for external administrative and IT support for the first quarter of 2022. It also received administrative support from the NATO IS under the Memorandum of Understanding (MoU). 16% of the total savings were identified in O&M, including Risk Management, and primarily related to a lower scope of support from the NCI Agency, as well as less travel on duty.

NAGSMA 2022 Operational Budget

The 2022 NAGSMA Operational Budget was approved by the NAGSMO BoD in December 2021. The budget consists of carry forwards of uncommitted 2021 funds of 3.5M USD and 1.8M EUR. These funds were used to cover the payment of the NATO Airborne Recorder (NAR) to NSPA (3.5M USD), electricity for Core Software-Only Pack (CSOP) (2k EUR), and final contractual payments to Terma (150k EUR).

NAGSMOIL 2022 Administrative Budget

In February 2022 the NAGSMO BoD approved the 2022 NAGSMOIL Administrative Budget. The 2022 NAGSMOIL Administrative Budget funded OfL expenditure from 1 April 2022 to 31 December 2022. In accordance with the NAC decision of entry into Liquidation on the 1 April 2022 and the BoD approved OfL Staffing Plan for 2022 and 2023, new employment contracts were signed with 11 NAGSMA staff members for the period 1 April 2022 to 31 December 2023.

In 2022 OfL continued finding cost-effective manpower and increased performance solutions. Notwithstanding the efforts of the OfL, it is challenging to recruit new and keep current staff members in the OfL.

In 2022 OfL's administrative expenditure were lower than what had been anticipated. 68% of the total savings were in Personnel. The majority of savings (47%) were in Risk Management due to the lower than budgeted outcome of two appeal cases with former NAGSMA Staff Members at the NATO Administrative Tribunal. 21% of the total savings were generated in basic salary and payroll related costs and resulted from early departure of two staff members and subsequently unfilled positions foreseen in the OfL Staffing Plan.

In O&M, the OfL signed the Service Support Agreement and Service Support Package with the NCI Agency for external administrative and IT support. It also received administrative support from the NATO IS under the MoU. 32% of the total savings were identified in O&M and primarily related to a lower scope of support from the NCI Agency and less travel on duty, as well as unused funds from Risk Management.

Major Achievements FY 2022:

In 2022, the AGS Programme delivered the AGS Core System to the NATO Alliance. This historical achievement was accomplished along with the following important milestones:

Core Contract:

- Acceptance and Handover of:
 - 70% of the I-ISS spare parts remaining to be delivered by NGISSII as part of the Core Contract.

I-ISS Contracts:

- I-ISS Contracts. Completion of Task Orders related to the I-ISS Service and Maintenance:
 - Airbus:
 - Completion of Task Order#5 for procurement of critical spare parts;
 - Completion of 85% of the repairs activities ordered with Task Order #7.
 - Leonardo:
 - Completion of Task Order#7 for Update of Single SW to integrate ATR/ATD capabilities on MOS and TGGS;
 - Completion of 85% for procurement of critical spare parts and of the repairs activities ordered with Task Order #5.

Core Extension Contracts:

- ATR/ATID by Terma, DK:
 - IISS;
 - EP 62224 (Amendment 0004);
 - Amendment 0004 equipment installation and testing;
 - ATR/ATID Amendment 0004 handover to NSPA and NAGSF.
- CSOP / Back-Up SMARF by PIT-RADWAR, POL:
 - TRR Event#4;
 - FCA/PCA;
 - Formal Verification;
 - Site Acceptance and Hand Over to NSPA/NAGSF.

Since the beginning of 2022 the NAGSMA Liquidation activities have been started with carrying out of the preparatory work prerequisite for setting up the Office for Liquidation followed by Liquidation effort execution.

Specifically the effort has been concentrated on the following main items:

- Ensuring the continuity of the services necessary for the OfL operability with NATO providers through the renewal of Service agreements;
- Reformulating all the Agency Admin Directives and Operation Procedures in compliancy with the new Agency set up and scope;
- Preparatory work for the Liquidation task:
 - Assessment of the requirements for the Archiving effort:
 - Establishing stable collaboration with NATO Archives in identifying processes and requirements (including training, planning, and execution);
 - Assessment of the records volume to be managed;
 - Consolidation of the records transferring process to NATO Archives;
 - Data Model and metadata identification through STANAG tailoring;
 - Planning and execution of records trails to verify the consistency of the processes with NATO Archive.
 - Assessment of the effort needed for the handling of the left over activities from NAGSMA in generating new records.
- Assignment of the workload to the team and definition of the liquidation schedule;
- Preparation and issue of the IKM Plan;
- Transferring of all the classified records to NATO Archives.

2023 Outlook

The main activities foreseen in 2023 are the execution of the following:

- Completion of all the repairs activities ordered with Task Order #7 of the Airbus' IISS contract;
- Completion of all the procurement of critical parts and of the repairs activities ordered with Task Order #5 of the Leonardo's IISS contract;
- Completion of the acquisition of the remaining Spare Parts ordered with the Core Contract to NAGSMA;
- Execution, delivery, acceptance, and Handover the Core Extension (IP) Capabilities;
- POL - PITRADWAR for CSOP: Installation and acceptance at JFTC;
- Completion by the liquidation team all the relevant activities leading to transfer all the records inherited from NAGSMA to NATO Archives and the records generated during OfL;

- Planning and preparation of NAGSMOIL dissolution and transfer of remaining tasks by the end of 2023.

NAGSMA/OfL 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 and 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 was 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 did not own any assets.

As per AGS Transition Plan, NSPA, as the executive body of the AGS Support Partnership, exercises ownership and is 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 was 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 2022, the following assets were handed over to the AGS Support Partnership:

- NATO AGS Automatic Target Recognition/Automatic Target Identification Capability Development & Integration (ATR/ATID) Amendment 0004 (18 Nov 2022)
- Core Software Only Package (CSOP) (15 December 2022) completed the AGS Core System handover to the NATO AGS Support Partnership. This signified handover of the AGS Core System that is functional, verified, and airworthiness certified with potential immediate ISR capability addition to NATO.

More than 30,000 parts were turned over to NAGSF in 2022. NAGSMA/OfL has provided data for all transferred assets and inventory to NSPA.

CERTIFICATION

1. The NAGSMOIL 2022 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 NAGSMOIL Financial Statements are certified by the Liquidator to the best of his 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 NAGSMOIL and to be in accordance with the books and records maintained by the NAGSMA and OfL.
4. The NAGSMOIL Financial Statements may be disclosed to the general public.

Giorgio
Orsini

Digitally signed by Giorgio
Orsini
Date: 2023.03.27
16:14:06 +02'00'

Major General (ret.) Giorgio Orsini
Liquidator

STATEMENT ON INTERNAL CONTROL

This statement of internal control applies to the Financial Statements of NAGSMA & OfL, as the executive body of NAGSMOIL, for the year ended 31 December 2022.

Scope of responsibility

- The Liquidator acknowledges responsibility for the correct use of funds made available to OfL and for maintaining a sound system of internal control that supports the achievement of OfL's mandate under its NATO Charter, whilst safeguarding the public funds and assets.
- Funds received are recorded, accounted and managed through the core financial system.

The NAGSMOIL 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.

Office for Liquidation applies the NAGSMO FMPD-FRP document insofar it does not contradict pertinent BoD decisions.

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 period ending 31 March 2022 and up to the date of approval of the Financial Statements.

The process within OfL accords with the NAGSMO FMPD-FRP insofar it does not contradict with pertinent BoD decisions and has been in place for the period from 1 April 2022 until 31 December 2022 and up to the date of approval of the Financial Statements.

Risk and Control Framework

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

NAGSMA/OfL 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.

Review of Effectiveness

The Liquidator 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;
- 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 2022, no material instances of failure to the internal control system were reported that should be brought to your attention.

Giorgio
Orsini

Digitally signed by Giorgio
Orsini
Date: 2023.03.27
16:14:42 +02'00'

Major General (ret.) Giorgio Orsini
Liquidator

NAGSMO – Statement of Financial Position
as at 31 December 2022
(all amounts in Euro)

	Notes	Current Year	Prior Year
	ANNEX B	31-Dec-22	31-Dec-21
ASSETS			
Cash and cash equivalents	B01	17,454,943	73,313,239
Receivables	B02	17,144	0
Other current assets and prepayments	B03	38,522	89,814
Current assets		17,510,609	73,403,053
TOTAL ASSETS		17,510,609	73,403,053
LIABILITIES			
Payables	B04	1,600,914	1,543,236
Advances and deferred revenue	B05	5,403,106	66,331,895
Short term provisions	B06	38,522	89,814
Other current liabilities	B07	10,468,067	3,747,424
Current liabilities		17,510,609	71,712,369
Long-term payables	B08	0	1,690,684
Non-current liabilities		0	1,690,684
NET ASSETS/EQUITY			
Accumulated surpluses/(deficits)		0	0
Net Assets/Equity		0	0
TOTAL LIABILITIES		17,510,609	73,403,053

NAGSMO – Statement of Financial Performance
for the year ended 31 December 2022
(all amounts in Euro)

	Notes	Current Year	Prior Year
	ANNEX C	2022	2021
REVENUE			
Revenue from non-exchange transactions	C01	3,088,307	6,573,004
Revenue		3,088,307	6,573,004
EXPENSES			
Personnel	C02	2,289,111	5,866,454
Contractual supplies and services	C03	799,196	706,550
Expenses		3,088,307	6,573,004
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 2022
(all amounts in Euro)

	Notes	Current Year	Prior Year
	ANNEX D	2022	2021
CASH FLOW FROM OPERATING ACTIVITIES			
Cash flow from operating and other activities			
Net surplus/(deficit)		0	0
Total cash flow from operating and other activities		0	0
Decrease/(increase) Current assets			
Decr./ (incr.) Other current assets and prepayments		51,292	144,000
Decr./ (incr.) Receivables		(17,144)	1,392,436
Total decrease/(increase) Current assets		34,148	1,536,436
Increase/(decrease) Current liabilities			
Incr./ (decr.) Short term provisions		(51,292)	(144,000)
Incr./ (decr.) Other current liabilities		6,720,643	(1,533,620)
Incr./ (decr.) Payables		57,678	(8,227,031)
Incr./ (decr.) Advances and deferred revenue		(60,928,789)	(87,959,022)
Total increase/(decrease) Current liabilities		(54,201,759)	(97,863,673)
NET CASH FLOW FROM OPERATING ACTIVITIES		(54,167,612)	(96,327,237)
NET CASH FLOW FROM INVESTING ACTIVITIES		0	0
Incr./ (decr.) Long-term payables		(1,690,684)	1,690,684
NET CASH FLOW FROM FINANCING ACTIVITIES		0	0
NET INCREASE/(DECREASE) CASH AND CASH EQUIVALENTS		(55,858,296)	(94,636,553)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		73,313,239	167,949,792
CASH AND CASH EQUIVALENTS AT END OF PERIOD		17,454,943	73,313,239

**NAGSMO – Statement of Changes in Net Assets/Equity
for the year ended 31 December 2022
(all amounts in Euro)**

BALANCE AT 31-DECEMBER-2021	0
Net surplus for the period	0
BALANCE AT 31-DECEMBER-2022	0
NET CHANGE IN ASSETS/EQUITY (OPERATING FUND) FOR THE YEAR ENDED 31-DECEMBER-2022	0

NAGSMO Budget Execution Statement - Operational Budget Total
for the year ended 31 December 2022
(All amounts in Euro equivalent)

Notes	Initial Authorisation ¹	Transfers Effected	Final Authorisation	Net Commitment	Expenditure	Total Spend	Carry Forward	Lapsed
Annex F								
AGS Core System Procurement								
2015 - AGS Core System Procurement	539	0	539	0	0	0	0	539
2018 - AGS Core System Procurement	4,746,953	0	4,746,953	20,825	4,726,129	4,746,954	20,825	0
2019 - AGS Core System Procurement	28,953,184	0	28,953,184	0	28,925,400	28,925,400	0	27,785
2020 - AGS Core System Procurement	5,692,243	0	5,692,243	2,430	5,689,813	5,692,243	2,430	0
2021 - AGS Core System Procurement	12,778,750	0	12,778,750	124,913	12,653,837	12,778,750	124,913	0
2022 - AGS Core System Procurement	5,077,317	0	5,077,317	0	3,474,318	3,474,318	0	1,602,999
TOTAL AGS Core System Procurement	57,248,987	0	57,248,987	148,168	55,469,497	55,617,665	148,168	1,631,322

¹ (1) 2022 NAGSMA Operational Budget approved by the NAGSMO Board of Directors - NAGSMO/BOD/D/2021/0060-AS1 "Special Carry Forward of Uncommitted Appropriations and Formation of 2022 Operational Budget", dated 17 December 2021;
(2) Carry forward of committed appropriated 2015 - 2021 funds.

NAGSMO Budget Execution Statement - Operational Budget (USD part)
for the year ended 31 December 2022
All amounts in USD

Notes	Initial Authorisation ¹	Transfers Effected ²	Final Authorisation	Net Commitment	Expenditure	Total Spend	Carry Forward	Lapsed
Annex F								
System Design, Development and Qualification								
2019 - System Design, Development and Qualification	20,323,616	0	20,323,616	0	20,323,616	20,323,616	0	0
Total System Design, Development and Qualification	20,323,616	0	20,323,616	0	20,323,616	20,323,616	0	0
Production								
2018 - Production	3,501,883	0	3,501,883	0	3,501,883	3,501,883	0	0
2019 - Production	4,434,391	0	4,434,391	0	4,434,391	4,434,391	0	0
Total Production	7,936,274	0	7,936,274	0	7,936,274	7,936,274	0	0
Management Reserve								
2022 - Management Reserve	3,500,000	-3,500,000	0	0	0	0	0	0
Total Management Reserve	3,500,000	-3,500,000	0	0	0	0	0	0
CAFX								
2015 - CAFX	568	0	568	0	0	0	0	568
2022 - CAFX	0	3,500,000	3,500,000	0	3,500,000	3,500,000	0	0
Total CAFX	568	3,500,000	3,500,568	0	3,500,000	3,500,000	0	568
IISS								
2020 - IISS	2,725,000	0	2,725,000	0	2,725,000	2,725,000	0	0
2021 - IISS	12,868,873	0	12,868,873	0	12,868,873	12,868,873	0	0
Total IISS	15,593,873	0	15,593,873	0	15,593,873	15,593,873	0	0
TOTAL BUDGET EXECUTION	47,354,330	0	47,354,330	0	47,353,762	47,353,762	0	568

Notes:

¹ 2022 NAGSMA Operational Budget approved by the NAGSMO Board of Directors - NAGSMO/BOD/D/2021/0060-AS1 "Special Carry Forward of Uncommitted Appropriations and Formation of 2022 Operational Budget", dated 17 December 2021;

² Transfer Effected approved by the NAGSMO Finance Committee - NAGSMO/FC/D/2022/0004-AS1 "Transfer of Budget Credits", dated 30 March 2022.

NAGSMO Budget Execution Statement - Operational Budget (EUR part)
for the year ended 31 December 2022
All amounts in Euro

	Notes	Initial Authorisation ¹	Transfers Effected ²	Final Authorisation	Net Commitment	Expenditure	Total Spend	Carry Forward	Lapsed
	Annex F								
System Design, Development and Qualification									
2019 - System Design, Development and Qualification		2,527,000	0	2,527,000	0	2,527,000	2,527,000	0	0
Total System Design, Development and Qualification		2,527,000	0	2,527,000	0	2,527,000	2,527,000	0	0
Production									
2018 - Production		1,274,166	0	1,274,166	0	1,274,166	1,274,166	0	0
2019 - Production		2,234,914	0	2,234,914	0	2,234,914	2,234,914	0	0
Total Production		3,509,080	0	3,509,080	0	3,509,080	3,509,080	0	0
Management Reserve									
2022 - Management Reserve		1,687,278	-115,000	1,572,278	0	0	0	0	1,572,278
Total Management Reserve		1,687,278	-115,000	1,572,278	0	0	0	0	1,572,278
CAFX									
2019 - CAFX		77,365	0	77,365	0	49,581	49,581	0	27,785
2022 - CAFX		13,380	0	13,380	0	2,059	2,059	0	11,321
Total CAFX		90,745	0	90,745	0	51,639	51,639	0	39,106
IISS									
2018 - IISS		148,741	0	148,741	20,825	127,916	148,741	20,825	0
2020 - IISS		6,399	0	6,399	2,430	3,969	6,399	2,430	0
2021 - IISS		380,899	0	380,899	124,913	255,985	380,899	124,913	0
Total IISS		536,039	0	536,039	148,168	387,871	536,039	148,168	0
ATR / ATID									
2021 - ATR/ ATID		15,000	0	15,000	0	15,000	15,000	0	0
2022 - ATR/ ATID		45,000	115,000	160,000	0	150,000	150,000	0	10,000
Total ATR / ATID		60,000	115,000	175,000	0	165,000	165,000	0	10,000
TCB									
2019 - TSEC, CSOP & Battle Lab. Capability		613,187	0	613,187	0	613,187	613,187	0	0
2020 - TSEC, CSOP & Battle Lab. Capability		3,099,228	0	3,099,228	0	3,099,228	3,099,228	0	0
2021 - TSEC, CSOP & Battle Lab. Capability		167,500	0	167,500	0	167,500	167,500	0	0
2022 - TSEC, CSOP & Battle Lab. Capability		9,400	0	9,400	0	0	0	0	9,400
Total TCB		3,889,315	0	3,889,315	0	3,879,915	3,879,915	0	9,400
TOTAL BUDGET EXECUTION		12,299,457	0	12,299,457	148,168	10,520,505	10,668,673	148,168	1,630,784

Notes:

¹ 2022 NAGSMA Operational Budget approved by the NAGSMO Board of Directors - NAGSMO/BOD/D/2021/0060-AS1 "Special Carry Forward of Uncommitted Appropriations and Formation of 2022 Operational Budget", dated 17 December 2021;

² Transfer Effected approved by the NAGSMO Finance Committee - NAGSMO/FC/D/2022/0002-AS1 "Transfer of Budget Credits", dated 08 February 2022.

NAGSMO Budget Execution Statement - Administrative Budget
for the period 1 January 2022 - 31 March 2022
(All amounts in Euro)

	Notes	Initial Authorisation ¹	Transfers Effected ²	Final Authorisation	Net Commitment	Expenditure ³	Total Spend	Carry Forward	Lapsed
	ANNEX E								
Personnel									
2019 - Personnel	E01	0	0	0	0	-4,462	-4,462	0	4,462
2021 - Personnel	E02	0	0	0	0	-305	-305	0	305
2022 - Personnel	E03	900,808	29,500	930,308	0	907,425	907,425	0	22,883
Total Personnel		900,808	29,500	930,308	0	902,657	902,657	0	27,651
Contractual supplies and services									
2021 - Contractual supplies and services	E04	0	0	0	0	-2,238	-2,238	0	2,238
2022 - Contractual supplies and services	E05	314,080	0	314,080	0	235,782	235,782	0	78,298
Total Contractual supplies and services		314,080	0	314,080	0	233,544	233,544	0	80,536
Capital and investment budgeting									
2022 - Capital and investment budgeting	E06	2,000	0	2,000	0	0	0	0	2,000
Total Capital and investment budgeting		2,000	0	2,000	0	0	0	0	2,000
Budget contingencies									
2022 - Budget contingencies	E07	650,000	-29,500	620,500	0	59,252	59,252	0	561,248
Total Budget contingencies		650,000	-29,500	620,500	0	59,252	59,252	0	561,248
TOTAL BUDGET EXECUTION		1,866,888	0	1,866,888	0	1,195,453	1,195,453	0	671,435

Notes:

¹ 2022 NAGSMA Administrative Budget approved by the NAGSMO Board of Directors - NAGSMO/BOD/D/2021/0059-AS1 "2022 NAGSMA Administrative Budget", dated 17 December 2021;

² Transfer Effected within the authority of Liquidator;

³ Negative amounts in Expenditure include the impact of reversal of unspent accruals for previous periods.

NAGSMO in Liquidation Budget Execution Statement - Administrative Budget
for the period 1 April 2022 - 31 December 2022
(All amounts in Euro)

	Notes	Initial	Transfers	Final	Net Commitment	Expenditure	Total Spend	Carry Forward	Lapsed
	ANNEX E	Authorisation ¹	Effectuated	Authorisation					
Personnel									
2022 - Personnel	E08	1,745,256	0	1,745,256	0	1,437,745	1,437,745	0	307,511
Total Personnel		1,745,256	0	1,745,256	0	1,437,745	1,437,745	0	307,511
Contractual supplies and services									
2022 - Contractual supplies and services	E09	892,240	0	892,240	0	506,400	506,400	0	385,840
Total Contractual supplies and services		892,240	0	892,240	0	506,400	506,400	0	385,840
Capital and investment budgeting									
2022 - Capital and investment budgeting	E10	2,000	0	2,000	0	0	0	0	2,000
Total Capital and investment budgeting		2,000	0	2,000	0	0	0	0	2,000
Budget contingencies									
2022 - Budget contingencies	E11	750,000	0	750,000	0	0	0	0	750,000
Total Budget contingencies		750,000	0	750,000	0	0	0	0	750,000
TOTAL BUDGET EXECUTION		3,389,496	0	3,389,496	0	1,944,145	1,944,145	0	1,445,351

Notes:

¹ 2022 NAGSMOIL Administrative Budget approved by the NAGSMO Board of Directors - NAGSMO/BOD/D/2022/0003REV1-AS1 "Revision 1 of the Revised 2022 NAGSMOIL Administrative Budget and 2023 Budget Estimate", dated 22 February 2022.

Notes to the Financial Statements for the year ending 31 December 2022

Index Page

- 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 NAGSMOIL, including NAGSMA being the executive body and OfL being the liquidating body of the NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMOIL), 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. They are prepared on a non-going concern basis, in consideration of the close of the executive body (NAGSMA) of 31st of March 2022 and the intended closure date of the liquidating body (OfL) of 31st December 2023.

In accordance with Article 2.1 of the NFRs, the financial year at NAGSMA/OfL begins on 1 January and ends on 31 December of the year. Considering OfL start date of 1 April 2022, there are no transactions before this date for this body.

These financial statements represent the consolidated activities of the NATO Alliance Ground Surveillance Management Organisation in Liquidation (NAGSMOIL), its executive body NAGSMA and its liquidating body OfL.

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, 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 ceased to exist and was taken over by NAGSMO in Liquidation - Office for Liquidation, as NAGSMOIL's Executive Agent.

NAGSMA's/OfL'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 was 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 did not bear any inventory risk before or after the customer order;
- It did not bear the credit risk for the amounts receivable from the customer;
- It did carry out acceptance of goods and services on behalf of Nations/NATO;
- It did not receive a fixed fee per transaction or a stated percentage of the amount billed, as it was reimbursed for the running costs of the Agency via the Administrative Budget.

NAGSMA provided for a contract administration function to NAGSMO. NAGSMA acted 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 was 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 is 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. OfL functions as the liquidating body of NAGSMOIL and aims to close all pending activities and final handover of records to NATO archives.

Foreign Currency Translation

The functional and reporting currency of NAGSMA/OfL 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/OfL 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 was forecasting the yearly expected expenditures in foreign currencies. In order to have the required funding, NAGSMA asked the Participating Nations to provide their contributions in the necessary currencies. OfL does not have any foreign currency requirements.

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/OfL 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/OfL has a present obligation as a result of a past event, and it is probable that NAGSMA/OfL will be required to settle that obligation. Provisions are measured at the General Manager's/Liquidator'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/OfL.

Budget Execution Statement

The Board of Directors approves the annual budgets which include budgeted amounts for the administration of the Agency, Liquidation body 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/OfL 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/OfL employees are members of the NATO-wide Defined Contribution Pension Scheme (DCPS). The assets of the plans are held separately from those of NAGSMA/OfL in funds under the control of trustees. NAGSMA/OfL 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/OfL with respect to the DCPS is to make the specified contributions.

Defined Benefit Plans

NAGSMA/OfL 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-22	31-Dec-21	
The Statement of Financial Position details the assets and liabilities of NAGSMA/OfL as of 31 December.			
B01	Cash and cash equivalents	17,454,943	73,313,239
	Administrative account	0	6,529,641
	Operational account	8,555,909	61,149,736
	Administrative account NAGSMOIL	8,899,034	5,633,862
Cash and Cash equivalents are short-term liquid assets. NAGSMA/OfL operates highly reliable and interest bearing bank accounts in EUR and USD currencies. The NAGSMOIL administrative account covers any final payments remaining from NAGSMA.			
B02	Receivables	17,144	0
Accounts receivable constitutes an insurance refund.			
B03	Other current assets and prepayments	38,522	89,814
Other current assets match provision for annual leave entitlements accrued but untaken at year-end.			

B04	Payables	1,600,914	1,543,236
	Payables	0	7,533
	Accruals	1,600,914	1,535,703

These short-term payables comprise payables and accruals for milestones accomplished as well as services rendered in 2022, including consulting, communication, travel and personnel related expenses.

B05	Advances and deferred revenue	5,403,106	66,331,895
	Advances from Nations	0	11,078,227
	Advance towards NAGSMOIL Administrative budget	5,254,938	5,633,862
	Deferred revenue	148,168	49,619,806

As part of the non-going concern consideration, there will be no more future year budgets, the only remaining advance at the end of the reporting date is the funds to cover for 2023 NAGSMOIL OfL approved budget. Remaining funds and the cumulative effect of unrealised foreign exchange impact over the periods have been moved to other current liabilities.

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

Deferred revenue comprises unspent commitments carry forward from prior periods.

B06	Short-term provisions	38,522	89,814
------------	------------------------------	---------------	---------------

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

Balance at 1 January 2022	89,814
Provision decrease	(51,292)
Balance at 31 December 2022	38,522

B07	Other current liabilities	10,468,067	3,747,424
------------	----------------------------------	-------------------	------------------

Other payables mainly include lapsed credits comprising 3,748,108 EUR (2021: 3,448,727 EUR), financial results, refunded amounts, and other liabilities due to the Nations.

B08	Other non-current liabilities	0	1,690,684
------------	--------------------------------------	----------	------------------

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 the liquidation process. Unused emergency reserve was moved to current liabilities as part of the non-going concern consideration.

B09	Contingent Liabilities
------------	-------------------------------

During 2022, NAGSMOIL Office for Liquidation saw through closure of two appeals cases by the NATO Administrative Tribunal. On 3 June 2022, an appeal case on dispute concerning amount of damages owed to an appellant stemming from another appeal case from January 2021. The amounts to pay for the first case was partially accrued in the 2021 NAGSMO Financial Statements, the remaining amount and the full amount for the second case is included in the NAGSMOIL 2022 Financial Statements.

NAGSMOIL OfL (Liquidator) provided its decision on 4 (four) separate requests for administrative review. None were advanced further to an appeals procedure. There are no new pending cases with the NATO Administrative Tribunal.

ANNEX C Notes to the Statement of Financial Performance

Notes Reference	Current Year	Prior Year
	2022	2021
The Statement of Financial Performance details the revenue and expenses that NAGSMA/OfL incurred during the year ending 31 December.		
C01 Revenue from non-exchange transactions	3,088,307	6,573,004
Revenue represents funding from Nations for expenses incurred during the financial year.		
C02 Personnel	2,289,111	5,866,454
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 2022 OfL had 9 staff members (2021: 13 staff members NAGSMA) 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) which will occur in 2023.		
The breakdown of wages, salaries and employee benefits is as follows:		
	Year ended 31-Dec-2022	Year ended 31-Dec-2021
	EUR	EUR
Employee benefits expense, consultants and contractors	2,158,065	5,173,484
Post-employment benefits		
for defined contribution pension scheme	182,337	303,426
for defined benefit pension scheme	0	0
Termination benefits	0	533,544
Provision for annual leave entitlements accrued	(51,292)	(144,000)
Total employee benefits expense	2,289,111	5,866,454
C03 Contractual supplies and services	799,196	706,550
Supplies and consumables are costs of goods and services used by NAGSMA/OfL 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/OfL 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/OfL 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. 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.

Two separate Administrative Budget Execution Statements are presented, one providing the information on the procurement agent (NAGSMA) and one providing the information on the liquidation body (OfL). Combined, the expenses reconcile to the Statement of Financial Performance 2022, with the untaken leave provision moved to the responsibility of OfL.

Personnel, E01 – E02 – E03 – E08

The expenses with regard to Personnel mainly covered basic salary, allowances, contributions to the employees' pension scheme and complementary employment insurance. Lapses (E08) are due to savings that were generated in basic salary and payroll related costs, following the lower personnel strength than what was approved in the OfL Staffing Plan 2022.

Contractual supplies and services, E04 – E05 – E09

The expenditure as regards Contractual supplies and services were mainly related to support from NCI Agency and NATO IS, as well as travel for duty. Lapses are due to savings that were generated due to lower scope of support from NCI Agency.

Capital and investment budgeting, E06 – E10

Lapses are due to no expenditure 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, E07 – E11

Lapses are mainly due to unused budget contingencies budgeted for potential claims related to two ongoing appeal cases with former NAGSMA Staff Members pending resolution at the NATO Administrative Tribunal.

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 average NATO rate applicable over 2022 of 1.0535.

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.

The Operational Budget is presented as the consolidated figures throughout the year. It is noted that out of the total Operational budget execution in 2022, 51,213,463 EUR EQ was achieved during Q1 2022 (NAGSMA) and 4,256,034 EUR EQ during Q2-Q3-Q4 2022 (OfL), with a total remaining volume of work of 148,168 EUR carried into 2023 to be completed by OfL.

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.

I/ISS

I/ISS includes several milestone payments in 2022 for the supporting contracts with Airbus and Leonardo, mainly comprising of spare parts.

Management Reserve

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 were partially used to fund the requirements that arose in the process of completing the AGS program.

CAFX

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 were 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.

In March 2022 NAGSMO BoD approved the transfer of 3.5M USD held in Management Reserve of 2022 NAGSMA Operational Budget to CAFX to fund the NATO Airborne Recorder (NAR) Replacement Engineering Change Proposal Solution, and to transfer these funds to NSPA.

ATR/ ATID

In February 2022 NAGSMO BoD approved the Amendment 4 to the NATO AGS Automated Target Recognition/Automated Target Identification (ATID/ATR) and agreed to fund provided from Management Reserve for 115,000 EUR.

TCB

In December 2021 the NAGSMO BoD approved the transfer of uncommitted TSEC, CSOP & Battle Lab funds. 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.

Declaration of Responsibility (DoR) undelivered spare parts

In order to comply with established dissolution date of 31 March 2022 and account for still outstanding AGS spare parts deliveries, NAGSMA conducted negotiations with its prime contractor in order to be able to close out the AGS Core Contract. It was established that pending spare parts deliveries extended into 2023 and potentially beyond due to post-COVID situation concerning shortage of chipsets. It was also known that Office for Liquidation will exist to serve as an executive agent of NAGSMO during its liquidation phase that is envisaged to continue until 31 December 2023. Lastly, in March 2022 there were two outstanding milestone payments, which were liquidation payments to be paid upon 100% delivery of all spare parts.

Taking into account all circumstances and considerations, in particular wish of the NAGSMO nations to close out the AGS Core Contract by the end March 2022, the agreement was made containing the following elements: (a) parties agreed to proceed towards close out of the AGS Core Contract by making payments on the two outstanding milestones; (b) in return, the prime contractor issues a separate commitment (Declaration of Responsibility – DOR) containing list of outstanding contractual activities, which the prime contractor undertakes to complete within the dates identified therein; and (c) as final closeout step, the prime contractor upon payment of the two milestones issues release of claim notification to NAGSMA. This would confirm completion of the AGS Core Contract and discharge all parties from any contract related potential claims or further implementation.

Carry Forwards

In December 2022 the NAGSMO Board of Directors provided an exceptional extension of the carry forward of 2018 and 2020 commitments to be expensed in 2023.

Carry forwards from 2018 are related to remaining outstanding I-ISS support to be provided by Leonardo.

Carry forwards from 2020 & 2021 are related to remaining outstanding I-ISS support to be provided by Airbus.

The Table below represents the cumulative NAGSMA Operational budget per year from 2012 to 2022 expensed, 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 31.12.2022.

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	33,380,820	20,825	8,736,298
2019	82,086,583	81,370,562	0	716,021
2020	15,273,047	15,037,103	2,430	233,514
2021	9,330,878	9,205,965	124,913	0
2022	1,755,058	151,978	0	1,603,080
Total	726,203,407	615,174,354	148,168	110,880,885

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	0	64,812,051
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	141,382,826	0	15,901,375
2019	139,142,932	137,352,933	0	1,790,000
2020	7,125,000	7,125,000	0	0
2021	30,600,000	30,600,000	0	0
2022	3,500,000	3,500,000	0	0
Total	1,621,399,686	1,371,155,853	0	250,243,833

The Carry Forwards from the Financial Statements 2018-2021 which have been expensed in 2022 have been added to the Actual Expenses of 2018-2021 respectively.

ANNEX G General Notes to the Financial Statements

G01 Related Party Disclosures

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

Transactions with NATO bodies

	Current Year 2022	Prior Year 2021
	EUR	EUR
NATO Communications and Information Agency	314,853	554,311
NATO Support and Procurement Agency	3,119,081	137,839
NATO International Staff	104,782	217,061
NATO International Military Staff	1,120	280
NATO School Oberammergau	6,050	450
Joint Force Training Centre	2,077	0
	3,547,963	909,940

In 2022, the NCI Agency provided administrative services for NAGSMA/OfL under the Support Services and Service Level Agreements.

NSPA provided Technical Engineering Services support in 2022 as well as logistics support services and were paid the EUR equivalent of 3.5M USD to procure NAR.

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

NATO School Oberammergau and NATO IMS provided training.

Joint Force Training Centre was reimbursed for the electricity usage of the CSOP installation.

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 2022	Prior Year 2021
	EUR	EUR
Basic salaries	164,884	549,570
Allowances	15,888	114,815
Post-employment benefits	19,786	77,418
Employer's contribution to Insurance	18,993	62,605
	219,551	804,107

The compensation of key management personnel in 2022 is lower than the previous year due to departures during the year that were not replaced.

	Current Year 2022	Prior Year 2021
Number of individuals at year-end on a full time equivalent basis		
General Manager	0	1
Programme Manager	0	1
Key management personnel	0	1
Liquidator	1	1
	1	4

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. There were no representation allowance reimbursements or payments made during 2022.

G03 Approval of Financial Statements

The financial statements were approved by the Liquidator and authorised to be issued on 27 March 2023.



PAGE LEFT INTENTIONALLY BLANK





PAGE LEFT INTENTIONALLY BLANK





PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE



NATO Alliance Ground Surveillance
Management Organisation in Liquidation
(NAGSMOIL)

NAGSMOIL
NATO Headquarters
1110 Brussels
Belgium

