



**NATO UNCLASSIFIED**

19 December 2024

**DOCUMENT  
PO(2024)0425-AS1**

**IBAN AUDIT REPORTS ON THE 2023 FINANCIAL STATEMENTS OF NAMMO,  
NAPMA AND NETMA**

**ACTION SHEET**

On 19 December 2024, under the silence procedure, the Council noted the RPPB report and the IBAN Audit Reports attached to PO(2024)0425, approved the conclusions and recommendations in the RPPB report, and approved the public disclosure of the 2023 Financial Statements of NAMMO, NAPMA and NETMA, the associated IBAN Audit Reports and the RPPB report.

(Signed) Mark Rutte  
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2024)0425.

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16 December 2024

**DOCUMENT  
PO(2024)0425  
Silence Procedure ends:  
19 Dec 2024 – 17.30**

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF NAMMO, NAPMA  
AND NETMA**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Reports on the 2023 NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO), on the resubmitted 2023 Financial Statements of the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA), and on the 2023 Financial Statements of the NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA). IBAN issued unqualified opinions on the financial statements and on compliance for the year ended 31 December 2023.

2. I do not believe this issue requires further discussion in Council. **Therefore, unless I hear to the contrary by 17.30 on Thursday, 19 December 2024**, I shall assume that Council has noted the RPPB report and the IBAN Audit Reports, approved the conclusions and recommendations in the RPPB report, and approved the public disclosure of the 2023 Financial Statements of NAMMO, NAPMA and NETMA, the associated IBAN Audit Reports and the RPPB report.

(Signed) Mark RUTTE

1 Annex  
2 Enclosures

Original: English



**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF NAMMO, NAPMA AND NETMA**

**Report by the Resource Policy and Planning Board**

References:

A.	IBA-AR(2024)0026	IBAN Audit Report on the 2023 Financial Statements of the NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO) for the year ended on 31 December 2023
B.	IBA-AR(2024)0025	IBAN Audit Report on the 2023 Financial Statements of the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA) for the year ended on 31 December 2023
C.	IBA-AR(2024)0027	IBAN Audit Report on the 2023 Financial Statements of the NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA) for the year ended on 31 December 2023
D.	C-M(2015)0025	NATO Financial Regulations (NFRs)
E.	C-M(2016)0023	NATO Accounting Framework (NAF)
F.	PO(2015)0052	Wales Summit tasker on transparency and accountability

**INTRODUCTION**

1. This report by the Resource Policy and Planning Board (RPPB) addresses the IBAN Audit Reports on the 2023 Financial Statements of the NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO), on the resubmitted 2023 Financial Statements of the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA), and on the 2023 Financial Statements of the NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA). IBAN issued unqualified opinions on the financial statements and on compliance for the year ended 31 December 2023 (references A, B and C).

**AIM**

2. This report highlights key issues in the IBAN Audit Reports 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.

3. The RPPB acknowledges that the observations highlighted in the IBAN Audit Report have been discussed and dealt with by the participating Nations, represented on the appropriate governing bodies. The RPPB is mandated under Article 15 of the NATO Financial Regulations (NFRs) (reference D) to examine the IBAN Audit Reports and to provide comments and recommendations to Council as required.

4. To distinguish among the three different NATO reporting entities, the main highlights for NAMMO, NAPMA and NETMA are covered in their respective sections.

## OBSERVATIONS AND RPPB VIEW

5. During the audit of 2023 Financial Statements, IBAN made no observations and recommendations for NAMMO, it made two observations and recommendations for NAPMA and three for NETMA. The observations for NAPMA relate to the need to strengthen internal controls over the preparation of financial statements, and to the need to ensure full compliance with the principles of Procurement and Contracting of the NAPMO Financial Regulations. The three observations for NETMA relate to the need to strengthen NETMA procurement practices to ensure full compliance with the NFR principles, incorrect reporting of cases of overpayment, and an incorrect balance of Morale and Welfare Activities (MWA) Cash and Cash equivalents presented in the NETMA Financial Statements disclosure note. These observations and recommendations did not impact the audit opinion on the financial statements or on compliance.

### 1 NAMMO

6. IBAN made no observations and recommendations for NAMMO. IBAN followed up on the status of observations and recommendations from the previous years' audits and found that all were closed. The observations are detailed at reference A.

### 2 NAPMA

7. IBAN made two observations and recommendations for NAPMA.

7.1. Observation 1: The RPPB supports IBAN's recommendation that NAPMA strengthen internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that the financial statements are in compliance with the NATO Accounting Framework (reference E) and NFRs. The Head of Financial Reporting Policy (HFRP) raised the topic of the resubmissions of financial statements at the Working Group of Financial Controllers held in November 2024. Due to the increasing number of resubmissions in the last years, the HFRP emphasized the importance of strengthening internal controls NATO-wide in order to limit such cases.

7.2. Observation 2: In respect to non-compliance with the principles of procurement and contracting of the NAPMO Financial Regulations, the RPPB supports IBAN's recommendation that NAPMA ensure full compliance with Article 32.1 of the NAPMO Financial Regulations regarding the Principles of Procurement and Contracting, taking into account industrial benefits considerations.

7.3. Furthermore, IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three remain in-progress. The observations are detailed at reference B. In terms of the NAPMA 2021 financial year observation still considered in-progress ('Clarification and approval from the NAC with respect to the

compliance of the contractual recoupment clauses with the NAPMO Charter'), the RPPB notes that NAPMA undertook a detailed analysis, based on the contractual conditions between NAPMO and the Contractor, in order to assess whether the Contractor is acting as a Principal or an Agent on behalf of the NAPMO Nations. Considering various indicators (including, but not limited to, control over the assets sold by the Contractor, intellectual property rights, contractor discretion over price setting and inventory risk) NAPMA concluded that the Contractor is a 'Principal' and therefore not acting as an 'Agent' on behalf of the NAPMO Nations when concluding agreements with any other Nation, including non-NATO Nations. NAPMA therefore considers that Article 10 of the NAPMO Charter does not apply to recoupment clauses.

7.4. The RPPB also notes that the recoupment clause is a standard contractual condition used in many development contracts, which does not enter NAPMO into agreements or contracts with non-NATO Nations, but it allows NAPMO to recover costs incurred for the development of NE-3A Capabilities provided by Contractors (based in NATO Nations), should those Contractors incur profits from future sales of those capabilities. The RPPB supports NAPMA's view and therefore considers that this observation and recommendation should be closed, as there is no need to seek clarification or approval from the North Atlantic Council.

### **3 NETMA**

8. For the financial year 2023, IBAN made three observations and recommendations for NETMA.

8.1. Observation 1: With regard to the need to strengthen NETMA procurement practices to ensure full compliance with NFR principles, the RPPB supports IBAN's recommendation that NETMA open for formal competitive procurement the procurement of goods and services required for the Agency's activities, in accordance with the procurement thresholds foreseen in the NETMA Financial Rules and Regulations (FRRs) and Procurement Operating Procedures (POPs), or obtain formal approval of any departure from the procedures for competitive bidding at the appropriate level; and to update the NETMA FRRs and POPs in order to include provisions regarding the maximum duration of contracts, the conditions for the award of contract extensions and the conditions for the amendments in the scope of a contract.

8.2. Observation 2: Concerning the incorrect reporting of cases of overpayment, the RPPB supports IBAN's recommendation that NETMA fully comply with NFRs and NAF IPSAS 14 by adequately adjusting the amounts recognised in its financial statements to reflect any adjusting events after the reporting date, and obtaining formal approval at the appropriate level of any write-offs and duly recording any receivables and related write-offs.

8.3. Observation 3: Relating to the incorrect balance of MWA cash and cash equivalents presented in the NETMA Financial Statements disclosure note, the RPPB supports IBAN's recommendation that NETMA remove inventories from the balance of cash and cash equivalents presented in the MWA disclosure note in the Financial Statements and update the reference to the MWA Regulations included in the respective disclosure note.

8.4. In addition, IBAN followed up on the status of observations from the previous years' audits and found that all were closed. The observations are detailed at reference C.

## CONCLUSIONS

9. The IBAN issued unqualified opinions on the 2023 NAMMO, NAPMA and NETMA Financial Statements and on compliance. IBAN made no observations or recommendations for NAMMO and made two observations and recommendations for NAPMA and three for NETMA. Three previous years' observations for NAPMA remain in-progress. All observations and recommendations from the previous years' audits for NAMMO and NETMA were closed.

10. The RPPB reminds that the resubmission of the NAPMA 2023 Financial Statements to correct material misstatements shows that progress is still needed in strengthening internal controls over the financial reporting process. The RPPB notes that the HFRP raised the topic of the resubmissions of financial statements at the Working Group of Financial Controllers, and also emphasized the importance of strengthening internal controls NATO-wide in order to limit such cases.

11. In terms of the NAPMA 2021 financial year observation still considered in-progress ('Clarification and approval from the NAC with respect to the compliance of the contractual recoupment clauses with the NAPMO Charter'), the RPPB supports NAPMA's view and therefore considers that this observation and recommendation should be closed as, there is no need to seek clarification or approval from the North Atlantic Council.

## RECOMMENDATIONS

12. The Resource Policy and Planning Board recommends that Council:

12.1. note this report and the IBAN Audit Reports at references A to C;

12.2. approve the conclusions at paragraphs 9-11;

12.3. approve the public disclosure of the 2023 Financial Statements for NAMMO, NAMPA and NETMA, their associated IBAN Audit Reports and this report in line with agreed policy at reference F.



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

Brussels - Belgium



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IBA-A(2024)0137  
20 November 2024

To: Secretary General  
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives  
Chair, NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO), Board of Directors  
General Manager, NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA)  
Financial Controller, NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA)  
Chair, Resource Policy & Planning Board  
Branch Head, Resource Management Branch, NATO Office of Resources  
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0026***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO) and on compliance for financial year 2023.

Yours sincerely,

Radek Visinger  
Chair

Attachments: As stated above.

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**Summary Note for Council  
by the International Board of Auditors for NATO (IBAN)  
on the audit of the Financial Statements of the  
NATO Multi-Role Combat Aircraft Development Production and  
In Service Support Management Organisation (NAMMO)  
for the year ended 31 December 2023**

NAMMO is the NATO reporting entity for the Tornado Programme. The participating Nations for NAMMO are Germany, Italy and the United Kingdom. The NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) manages this Programme and its Operational Budget. NETMA also manages the procurement and the administration of the EF2000 Programme, for which the NATO European Fighter Aircraft Development Production and Logistic Management Organisation (NEFMO) is the NATO reporting entity.

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

IBAN audited the NAMMO Financial Statements for the year ended 31 December 2023. The total expenditure in 2023 for the NAMMO Operational Budget amounts to EUR 593 million.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2023.

IBAN made no observations and recommendations.

IBAN followed up on the status of observations from the previous years' audit. All the observations and recommendations from the previous years' audit were closed.

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

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



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IBA-AR(2024)0026

20 November 2024

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE  
NATO MULTI-ROLE COMBAT AIRCRAFT DEVELOPMENT PRODUCTION  
AND IN SERVICE SUPPORT MANAGEMENT ORGANISATION**

**(NAMMO)**

**FOR THE YEAR ENDED 31 DECEMBER 2023**

PUBLICLY DISCLOSED - PDN(2025)0017 - MIS EN LECTURE PUBLIQUE

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**INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL**

***Financial Statements***

**Opinion on the Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NAMMO, for the 12 month period ended 31 December 2023, issued and submitted to IBAN on 19 September 2024. These Financial Statements comprise the Statement of Financial Position as at 31 December 2023, 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 2023, 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 2023.

In our opinion, the Financial Statements give a true and fair view of the financial position of NAMMO as at 31 December 2023, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2023, 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. The Financial Statements of NAMMO are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31<sup>st</sup> March following the end of the financial year.

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

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

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

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

#### **Opinion on Compliance**

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

### **Basis for Opinion on Compliance**

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, the associated NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA) Financial Rules and Regulations (FRRs) 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, 20 November 2024



Radek Visinger  
Chair

**OBSERVATIONS AND RECOMMENDATIONS**

IBAN made no observations and recommendations.

There were no observations and recommendations from the previous years' audits.

The Audit Report was issued to NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NETMA executive responsibility.

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

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

## GLOSSARY OF TERMS

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

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

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

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





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

Brussels - Belgium



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IBA-A(2024)0132  
20 November 2024

To: Secretary General  
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives  
Chair, NATO Airborne Early Warning & Control Programme Management Organisation (NAPMO) Board of Directors  
General Manager, NATO Airborne Early Warning & Control Programme Management Agency (NAPMA)  
Financial Controller, NATO Airborne Early Warning & Control Programme Management Agency (NAPMA)  
Chair, Resource Policy & Planning Board  
Branch Head, Resource Management Branch, NATO Office of Resources  
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Airborne Early Warning & Control Programme Management Agency's (NAPMA) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0025***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Airborne Early Warning & Control Programme Management Agency and on compliance for financial year 2023.

Yours sincerely,

Radek Visinger  
Chair

Attachments: As stated above.

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**Summary Note for Council  
by the International Board of Auditors for NATO (IBAN)  
on the audit of the Financial Statements of the  
NATO Airborne Early Warning and Control  
Programme Management Agency (NAPMA)  
for the year ended 31 December 2023**

The NATO Airborne Early Warning & Control Programme Management Organisation (NAPMO), including the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA) was established to assume the direction, the co-ordination, and the execution of the NATO Airborne Early Warning and Control (NAEW&C) system. The management of the Programme consists of overseeing the acquisition of the operating assets needed to establish NAEW&C capability and subsequent acquisitions of enhancements thereof. Total NAPMA expenses in 2023 amounted to USD 21 million and additions to modernisation assets amounted to USD 73 million.

IBAN issued an unqualified opinion on the Financial Statements resubmitted to IBAN on 23 September 2024 and on compliance for the year ended 31 December 2023.

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

1. Need to strengthen internal controls over the preparation of financial statements.
2. Need to ensure full compliance with the principles of Procurement and Contracting of the NAPMO Financial Regulations.

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

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

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

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IBA-AR(2024)0025

20 November 2024

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE**

**NATO AIRBORNE EARLY WARNING AND CONTROL  
PROGRAMME MANAGEMENT AGENCY**

**(NAPMA)**

**FOR THE YEAR ENDED 31 DECEMBER 2023**

PUBLICLY DISCLOSED - PDN(2025)0017 - MIS EN LECTURE PUBLIQUE

**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 NAPMA, for the 12 month period ended 31 December 2023, issued under document reference NAPMA/FC(24)50-00/031, and resubmitted to IBAN on 23 September 2024. These Financial Statements comprise the Statement of Financial Position as at 31 December 2023, 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 2023, 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 2023.

In our opinion, the Financial Statements give a true and fair view of the financial position of NAPMA as at 31 December 2023, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2023, 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. The Financial Statements of NAPMA are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31<sup>st</sup> March following the end of the financial year.

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

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

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

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

#### **Opinion on Compliance**

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

### **Basis for Opinion on Compliance**

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 NAPMO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

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

### **Auditor's Responsibilities for Compliance**

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

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorised 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, 20 November 2024



Radek Visinger  
Chair

**OBSERVATIONS AND RECOMMENDATIONS**

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

1. Need to strengthen internal controls over the preparation of financial statements.
2. Need to ensure full compliance with the principles of Procurement and Contracting of the NAPMO Financial Regulations.

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

**1. NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS****Reasoning**

1.1 According to the NATO Accounting Framework (NAF) *“Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.”*

1.2 According to the NAF IPSAS 17, NAPMA *“[...] shall, for PPE held prior to 1 January 2013, and not previously recognized as an asset, provide a brief description of PPE in the notes to the financial statements. Such disclosure should include as a minimum the types of PPE held, locations where PPE is held and the approximate number of items held per asset category [...]”*.

1.3 According to the NATO Financial Regulations (NFRs) Article 34.1: *“NATO bodies shall adhere to the accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council.”*

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

**Observations**

1.5 IBAN identified a material misstatement and other non-material misstatements during the audit of the NAPMA Financial Statements first submitted to IBAN on 27



March 2024, as described below. These misstatements were corrected in the resubmitted Financial Statements submitted to IBAN on 23 September 2024.

1.6 The 2023 NAPMA Financial Statements, as initially submitted, contained a material misstatement due to the non-disclosure of three retired aircraft acquired before 2013 in Note 7 of the NAPMA 2023 Financial Statements related to Property, Plant, and Equipment (PP&E). This non-disclosure does not comply with the disclosure requirements of NAF IPSAS 17.

1.7 IBAN also identified the following non-material omissions and errors in disclosure:

- a) The non-disclosure in Note 7, related to PP&E, of prior period opening balances and movements (2022 additions, transfers, disposals, depreciation, etc.) which is not compliant with the provisions of NAF IPSAS 1.
- b) The non-disclosure of contingent liabilities, in accordance with NAF IPSAS 19, of future costs (demilitarisation, depollution, dismantling, etc.) to be incurred following the approval by the NAPMO Board of Directors (BoD) for the disposal of three aircraft, together with an initial assessment of these future costs as presented to the NAPMO BoD.
- c) The non-disclosure of operating leases for printers, cars and other leased assets, in accordance with NAF IPSAS 13.
- d) The misclassification of NAPMA Investments within the current asset category, as they are presented in the NAPMA Statement of Financial Position after receivables and prepayments, rather than being placed below cash and cash equivalents, as required by the principles of liquidity order presentation outlined in NAF IPSAS 1.

1.8 The above misstatements demonstrate the need to ensure adequate processes are in place for the preparation, review and reporting of the Financial Statements to avoid material misstatements or errors in disclosures.

### **Recommendations**

1.9 IBAN recommends that NAPMA strengthen internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that the financial statements are in compliance with the NATO Accounting Framework and NATO Financial Regulations.

## 2. NEED TO ENSURE FULL COMPLIANCE WITH THE PRINCIPLES OF PROCUREMENT AND CONTRACTING OF THE NAPMO FINANCIAL REGULATIONS

### Reasoning

2.1 NATO Reporting Entities established procurement directives in line with the legal definition of Competitive Bidding. According to Black's Law Dictionary, "*Competitive bidding means that the council must, by due advertisement, give everyone the opportunity to bid, but does not mean that more than one bid must be submitted.*" [...] "*It requires that all bidders be placed on a plane of equality and that they bid upon the same terms and conditions.*" [...]

2.2 In accordance with the legal definition of a competitive bidding, the established practice within NATO Reporting Entities for International Competitive Bidding (ICB), is to issue a Notification of Intent (NOI) as a formal communication to the national delegations to conduct ICB procedures. The NOI abstract is then posted on the procurement opportunities website portal to ensure transparency and fairness, so that eligible suppliers are given the same opportunity and treated equitably.

2.3 Article 32 of the NAPMO Financial Regulations (NAPMO FRs) describes the principles to which NAPMA Procurement and Contracting shall adhere. NAPMA implements the regulations as per Article 32 of the NAPMO FRs through Financial Rules and Procedures (FRPs) XXXII.

2.4 Article 32.1 of the NAPMO FRs states that: "*NAPMO Procurement and Contracting shall adhere to the following principles: [...]*

*(b) Goods and services will be procured, in a transparent and fair manner built upon the principle of non-discrimination and fairness in which eligible suppliers are given the same opportunity and treated in the same fair manner [...]*

*(d) Every aspect of the procurement process must conform to the highest standards of integrity and accountability."*

2.5 Article 1 of the NAPMO FRPs XXXII state that "*The NAPMO BOD has delegated this authority to the NAPMA General Manager pursuant to the authorizations and restrictions of the NAPMO Charter, Section IV, Para 11. The General Manager will be responsible for granting exceptions from normal competitive bidding including sole source deviations. [...]*"

2.6 Article 6 of the NAPMO FRPs XXXII state that "*Contracting officials shall make use of modern acquisition technology, practices and processes whilst ensuring NAPMO's procurement principles are respected.*"

2.7 Article 1 of the NAPMO FRPs XII reads '*Five financial limits of discretionary powers (EFL) are established as follows:*

- i. EFL A: €10.000
- ii. EFL B: €20.000
- iii. EFL C: €80.000
- iv. EFL D: €160.000
- v. EFL E: €800.000'

2.8 Article 7 of the NAPMO FRPs XXXII establishes the thresholds for formal biddings by explaining that *“Subject to the provisions of NAPMO FRPs XXXII. a, procurement of goods and services shall be governed by the following requirements: [...]*

*ii. Formal bidding, consisting of International Competitive Bidding and Proposals for all procurement over EFL C.”*

2.9 Article 1 of the NAPMO FRPs XXXII state that *“The General Manager will be responsible for granting exceptions from normal competitive bidding including sole source deviations [...].”*

2.10 Article 4.4. of the NAPMO FRs state that *‘The BOD shall, as applicable, approve a set of Financial Rules and Procedures that provide additional guidance to ensure the effective implementation of these Financial Regulations. Furthermore, and consistent with the applicable set of Financial Regulations, Rules and Procedures, the Financial Controller may promulgate additional internal implementing directives in order to ensure sound financial management. Such internal implementing directives shall be sent to the NAPMO Policy and Finance Committee (hereinafter the PFC) upon request.’*

2.11 The NAPMA Operating Instructions on contracting (O.I.G01.) explains in Article 2.2.7 that *‘In view of the general requirement to procure the goods/services in the most economical way (NFR Article 32 and associated FRPs), all NAPMA contracts shall, in principle and as far as practicable, be subject to the widest use of full and open competition within the contributing NAPMO Nations.’*

2.12 Annex 10 of the NAPMA Operating Instructions on contracting (O.I.G01.) gives a set of guidelines for sole/limited source justification. Part of these guidelines reads *“State clearly the Agency's requirements. Make sure that the entire requirement is covered by the justification.”*

2.13 Article 2.2.2 the O.I.G01. reads *‘The procurement of goods and services should be aggregated to the maximum extent possible by the originator of the requirement.’*

2.14 The NAPMA Operating Instructions on contracting (O.I.G02) outline the regulations governing the contracting of goods and services through direct NAPMA contracts. Article 2.2.3 specifies the acquisition levels in accordance with the NAPMO Financial Regulations FRP XII Article 1, stating that:

*“a. Competitive bidding is not required in those cases where the costs of the procurement are estimated not to exceed Acquisition Level A;*

*b. Limited competitive bidding: A minimum of three (3) informal requests are required for bids in those cases where the costs of the procurement, while exceeding Acquisition Level A, are estimated not to exceed Acquisition Level B;*

*c. Competitive bidding: A minimum of five (5) formal requests for bids are required in those cases where the costs of the procurement, while exceeding Acquisition Level B, are estimated not to exceed Acquisition Level C;*

*d. International Competitive Bidding (ICB) is required for those cases where the costs of the procurement are likely to exceed Acquisition Level C.”*

2.15 The NAPMA Operating Instructions on contracting (O.I.G01), outlining the general principles, define ICB as follows:

- *“This is the process for acquisitions in excess of Level C whereby sources from within the NAPMO Nations who are known to be able to meet the technical requirements of a request for bids, are invited to submit a bid for the required goods/services.*
- *For acquisitions above Level E, companies from NAPMO Nations who are nominated by the Industrial Benefits Focal Points and are known to be able to meet the technical requirements of a request for bids are invited to submit a bid for the required goods/services.”*

2.16 This Operating Instructions on contracting includes a table that describes the competition requirements for each level, as disclosed in Annex 3, as follows:

- Up to Level A: *“No competition required, but recommended”*
- Up to Level B: *“Informal, solicit at least 3 contractors”*
- Up to Level C: *“Formal competition, solicit at least 5 contractors”*
- Up to Level D: *“Formal ICB, solicit at least 5 contractors. Does not require Nations’ nominations. Above Level D GM’s approval for release of RFP is required”*
- Up to Level E: *“Formal ICB, solicit at least 5 contractors. Does not require Nations’ nominations”*
- Above E: *“Formal ICB with Nation’s nominations. Nations need to be informed prior release of RFP”*

2.17 According to the NAPMA Operating Instructions on contracting (O.I.G01), all procurement actions above EFL C (EUR 80,000) and below EFL E (EUR 800,000) therefore require a minimum of five formal requests for bids, without the requirement to inform Nations, taking into account industrial benefits considerations.

## Observations

### Non-compliance related to NAPMA's International Competitive bidding procurement method

2.18 IBAN found that the definition of International Competitive Bidding (ICB) outlined in the NAPMA's Operating Instructions on contracting general principles (O.I.G01), is not fully in line with the legal definition of competitive bidding, which requires that everyone must be given the opportunity to bid. Moreover, these Operating Instructions for procurement above EFL C (EUR 80,000) and below EFL E (EUR 800,000), only require "a minimum of five (5) formal requests for bids" similarly to all procurement actions between EFL B (EUR 20,000) and EFL C (EUR 80,000). Consequently, NAPMA does not issue a Notification of Intent (NOI) as a formal communication to national delegations when conducting ICB procedures and therefore does not provide opportunities for all interested parties to bid through appropriate advertising, taking into account industrial benefits considerations. This interpretation of the ICB process contradicts procurement regulations and operating instructions, which adhere to the legal definition of competitive bidding.

2.19 Additionally, IBAN found that NAPMA does not publish procurement bidding processes for open competition. Instead, the contracting officer (CO) selects a list of potential competitors based on personal research and experience, relying on their judgment of which suppliers would be efficient and competent in delivering the required goods or services. While this practice complies with NAPMA's Operating Instructions on Contracting, it does not comply with Article 6 of the NAPMO FRPs XXXII which states that "Contracting officials shall make use of modern acquisition technology, practices and processes whilst ensuring NAPMO's procurement principles are respected". Furthermore, restricting the procurement Notification to an established list of potential competitors does not fully ensure that "goods and services are procured in a transparent and fair manner, adhering to the principles of non-discrimination and fairness, where eligible suppliers are given equal opportunities and treated equitably" as prescribed by Article 32.1 of the NAPMO FRs.

2.20 As a result of the above, IBAN identified instances of non-compliance with Article 32 of the NAPMO FRs related to the principles of non-discrimination and fairness. Specifically, of six contracts tested (from a total of 16 procurement actions carried out in 2023, excluding NATO Entities and the main prime contractor), two contracts indicated that NAPMA conducted ICB in accordance with its Operating Instructions on Contracting and therefore did not issue a NOI as formal communication to national delegations and did not advertise these procurement opportunities on NAPMA's website:

- a) Local Area Network Infrastructure Replacement: This procurement was awarded in 2023 via a formal request for bids sent to seven preselected contractors by the CO. The contract, valued at EUR 219,280, was awarded on 27 September 2023, with a duration of 17 weeks and later extended to 29 February 2024.
- b) Training activities: This procurement, totaling EUR 85,750, was awarded in 2023 after formal bids were solicited from six preselected contractors by the CO. The contract was awarded on 15 September 2023, with an end date of 31 December 2025.

Non-compliance related to the lack of aggregation of requirements

2.21 IBAN found one instance of non-compliance, out of six contracts tested, concerning the approval level for a single-source request and the lack of aggregation of requirements. This instance involved the procurement of laptops since 2020. More specifically, IBAN identified the following:

- a) Since 2020, the cumulative procurement value of Secure Inter-Network Architecture (SINA) computers from the same supplier has reached approximately EUR 590,000 as of 31 December 2023. This procurement was initiated through a 2020 single-source request for 30 SINA computers, totalling approximately EUR 115,000. However, instead of using a Basic Ordering Agreement (BOA) to aggregate the overall requirements, the procurement was split across multiple purchase orders over the years. This practice is not compliant Article 4.4 of the NAPMO FRs, which requires adherence to NAPMO Financial Rules and Procedures, and more specifically Article 2.2 of the NAPMO Operating Instructions on Contracting, which mandates that "the procurement of goods and services should be aggregated to the maximum extent possible by the originator of the requirement." Furthermore, it contradicts Annex 9 of the NAPMO Operating Instructions, which stipulates that single-source requests must clearly state and fully justify the entire scope of the requirement.
- b) Because of the lack of aggregation of requirements described above, the 2020 single-source request was approved by the Programme Support Division Chief, following the authorisation matrix in the NAPMA Operating Instructions for procurements between EFL D (EUR 160,000) and EFL E (EUR 800,000). However, as the total procurement value from 2020 to 2023 reached approximately EUR 590,000, and according to NAPMO Operating Instructions on Contracting, the approval should have been escalated to the General Manager (GM), since the total exceeded 50% of the EFL E threshold (EUR 400,000).

## Recommendations

2.22 IBAN recommends that NAPMA ensure full compliance with Article 32.1 of the NAPMO Financial Regulations regarding the Principles of Procurement and Contracting, taking into account industrial benefits considerations. This could be achieved by:

- a) Ensuring that NAPMO Operating Instructions on contracting related to the International Competitive Bidding procurement method are aligned with the regulations and the operating instructions that adhere to the legal definition of competitive bidding;
- b) Advertising procurement opportunities by using modern acquisition technology, practices and processes, and submission of Notification of intent to national delegations when necessary for International Competitive Bidding to ensure transparency, fairness and non-discrimination, in accordance with Article 32.1b of the NFRs and Article 6 of NAPMO FRP XXXII;
- c) Aggregating requirements to the maximum extent possible during procurement to ensure that the appropriate procurement method is used, the necessary level of approval is sought, and exceptions to normal competitive bidding are granted at the appropriate level, in accordance with Article 1 of FRP XXXII and NAPMO Operating Instructions on Contracting.

**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
<p>(1) NAPMA FY 2022 IBA-AR(2023)0025, paragraph 1.8</p> <p><b>NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS</b></p> <p><b>IBAN's Recommendation</b> IBAN recommends that NAPMA strengthen internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that the financial statements are in compliance with the NATO Accounting Framework and NATO Financial Regulations.</p>	<p>IBAN identified a material misstatement and other non-material misstatements in the 2023 NAPMA Financial Statements first submitted to IBAN for audit. <b>In-Progress.</b></p>	<p>Observation <b>In-Progress.</b></p>
<p>(2) NAPMA FY 2022 IBA-AR(2023)0025, paragraph 2.8</p> <p><b>NON-COMPLIANCE WITH THE NATO CIVILIAN PERSONNEL REGULATIONS REGARDING THE JUSTIFICATION FOR THE CLASS OF AIR TRAVEL AND REPORTING TO THE APPROPRIATE BUDGET COMMITTEE</b></p> <p><b>IBAN's Recommendation</b> IBAN recommends NAPMA to comply with the provisions of the NATO Civilian Personnel Regulations by:</p> <p>a) Ensuring that the service necessity justification on special decisions for air travel by the NAPMA General Manager are documented;</p>	<p>NAPMA documented the justification for service necessity regarding special decisions for air travel.</p>	<p>Observation <b>In-Progress.</b></p>



OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>b) Providing quarterly reports on the use of business class air travel to the NAPMO Policy and Finance Committee.</p>	<p><b>Closed.</b></p> <p>NAPMA prepared a quarterly report on the use of business class air travel which will be presented to the NAPMO Policy and Finance Committee in fall 2024.</p> <p><b>In-Progress.</b></p>	
<p><b>(3) NAPMA FY 2021</b>  <b>IBA-AR(2022)0024, paragraph 2</b></p> <p><b>CLARIFICATION AND APPROVAL FROM THE NORTH ATLANTIC COUNCIL WITH RESPECT TO THE COMPLIANCE OF THE CONTRACTUAL RECOUPMENT CLAUSES WITH THE NAPMO CHARTER</b></p> <p><b>IBAN's Recommendation</b>                      IBAN recommends NAPMO to seek clarification and approval in principle from the North Atlantic Council on whether Article 10 of the NAPMO Charter provides for recoupment clauses that grant the right to the NAPMO Contractor, to act as an agent with non-NATO Member States, in the benefit of NAPMO and in the name of NATO.</p>	<p>In January 2023, the NAPMO Board of Directors issued a letter to the Resource Policy and Planning Board (RPPB) to request guidance concerning the clarification and approval from the North Atlantic Council with respect to the compliance of the contractual recoupment clauses with the NAPMO Charter. NAPMA informed IBAN that there have been informal discussions with the RPPB and several stakeholders within the International Staff under the coordination of the NATO Office of Resources (NOR). Discussions are currently still ongoing between NAPMA and the NOR. However, as of the date of the audit fieldwork, NAPMO has not received any formal response from the RPPB to proceed forward to the North Atlantic Council.</p> <p><b>In-Progress.</b></p>	<p>Observation  <b>In-Progress.</b></p>

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

**OBSERVATION 1:  
NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF  
THE FINANCIAL STATEMENTS**

***NAPMA's Formal Comments***

*Agreed.*

*NAPMO concurs with the IBAN observation.*

*The Financial Statements that NAPMA submitted on 27 March 2024, contained a material misstatement due to the nondisclosure of three retired aircraft acquired before 2013. This non-disclosure is corrected in the Financial Statements that NAPMA resubmitted on 23 September 2024.*

*NAPMO also concurs with the following nonmaterial omissions and errors in disclosure identified by the IBAN:*

- a) The non-disclosure of prior period opening balances and movements of PP&E.*
- b) The non-disclosure of contingent liabilities of future cost and/or any associated reimbursements related to the final disposal of the three retired aircrafts stored at Aerospace Maintenance and Regeneration Group (AMARG).*
- c) The non-disclosure of operating leases for printers, cars and other leased assets.*
- d) The misclassification of NAPMA Investments within the current asset category, as they are presented in the NAPMA Statement of Financial Position after receivables and prepayments, rather than being placed below cash and cash equivalents.*

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

**OBSERVATION 2:  
NEED TO ENSURE FULL COMPLIANCE WITH THE PRINCIPLES OF  
PROCUREMENT AND CONTRACTING OF THE NAPMO FINANCIAL  
REGULATIONS**

***NAPMA's Formal Comments***

*Agreed.*

*NAPMO concurs with the IBAN observation.*

*NAPMA will take the following actions:*

- a) update Operating Instructions/Standards;*
- b) advertise procurement actions above Level C on NAPMA's webpage, including notifications of intent for upcoming opportunities;*
- c) notify national delegations of procurements exceeding Level E;*
- d) aggregate requirements to the maximum extent possible.*

**FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS**

**(2) NAPMA 2022 FY  
IBA-AR(2023)0025, paragraph 2.8  
NON-COMPLIANCE WITH THE NATO CIVILIAN PERSONNEL REGULATIONS  
REGARDING THE JUSTIFICATION FOR THE CLASS OF AIR TRAVEL AND  
REPORTING TO THE APPROPRIATE BUDGET COMMITTEE**

***NAPMA's Formal Comments***

*Agreed.*

*NAPMO concurs with the IBAN observation and recommendation. For future on special decisions for air travel by the NAPMA General Manager, the service necessity justification will be documented. NAPMA will provide quarterly reports on the use of business class air travel to the NAPMO Policy and Finance Committee.*

**(3) NAPMA 2021 FY****IBA-AR(2022)0024, paragraph 2****CLARIFICATION AND APPROVAL FROM THE NORTH ATLANTIC COUNCIL WITH RESPECT TO THE COMPLIANCE OF THE CONTRACTUAL RECOUPMENT CLAUSES WITH THE NAPMO CHARTER*****NAPMA's Formal Comments***

*Agreed.*

*The NAPMO Board of Directors continues to take appropriate and timely action to address the IBAN observation raised in the IBAN Audit Report on the Financial Statements for the year ending 31 December 2021 by seeking guidance from the RPPB on the subject matter. To date of this report, NAPMA continues to engage with the NATO Office of Resources (NOR) to find the best way forward. However, based on the actions taken so far, as described below, NAPMO considers that Article 10 of the NAPMO Charter does not apply to recoupment clauses.*

*Before seeking clarification from the North Atlantic Council (NAC), the NAPMO Board of Directors requested guidance from the Resource Policy and Planning Board (RPPB) as the de facto audit committee advising the NAC on audit issues. The NOR staff sought clarifications from different stakeholders in the International Staff (Defence Investment division/DI and the Office of Legal Affairs/OLA) on whether Article 10 of the NAPMO Charter applied to recoupment clauses. However, to date, no conclusive answer could be provided by DI or OLA.*

*IBAN considered that the NAPMO Contractor's rights to act as an agent in the benefit of NAPMO, and in the name of NATO, with non-NATO Member States, could be construed as NAPMO having a third-party benefit agreement with non-NATO Member States. In concert with further guidance received from the NOR, NAPMA undertook a detailed analysis, based on the contractual conditions between NAPMO and the Contractor, to assess whether the Contractor is acting as a Principal or an Agent on behalf of the NAPMO Nations. Considering various indicators (including, but not limited to, control over the assets sold by the Contractor, intellectual property rights, contractor discretion over price setting and inventory risk) NAPMA concluded that the Contractor is a 'Principal' and therefore not acting as an 'Agent' on behalf of the NAPMO Nations when concluding agreements with any other Nation, including non-NATO Nations. NAPMA therefore considers that Article 10 of the NAPMO Charter does not apply to recoupment clauses.*

*Additionally, it should be highlighted that the Contractor is subject to stringent U.S. export controls, particularly under regulations such as the U.S. Export Administration Regulations (EAR) and the U.S. International Traffic in Arms Regulations (ITAR). Consequently, the Contractor must obtain proper licenses*

*or authorizations from relevant U.S. government agencies when selling NE-3A capabilities to other Nations.*

*Finally, NAPMO would like to highlight that the recoupment clause is a standard contractual condition used in many development contracts which has been adopted by NAPMA in past and current contracts. The recoupment clause does not enter NAPMO into agreements or contracts with non-NATO Nations. It allows NAPMO to recover costs incurred for the development of NE-3A Capabilities provided by Contractors (based in NATO Nations), should those Contractors incur profits from future sales of those capabilities. NAPMO Nations have benefitted from this practice on previous development programmes, generating over 40 million USD since 2012. Inclusion of recoupment clauses in development contracts is an industry standard contributing to sound financial management. Therefore, NAPMO finds no contention or ambiguity between Article 10 of the NAPMO Charter and the use of the recoupment clause in development contracts, as highlighted through their use over the entirety of the NE-3A Programme's life.*

#### **IBAN's Position**

**IBAN acknowledges NAPMO's efforts to seek clarification from the Council with respect to the compliance of the contractual recoupment clauses with the NAPMO Charter. IBAN also takes note of NAPMA's view that Article 10 of the NAPMO Charter does not apply to recoupment clauses, based on its assessment that the Contractor is a 'Principal' and therefore not acting as an 'Agent' on behalf of the NAPMO Nations when concluding agreements with any other Nation, including non-NATO Nations. IBAN also notes that NAPMO finds no contention or ambiguity between Article 10 of the NAPMO Charter and the use of the recoupment clause in development contracts, since it considers that the recoupment clause does not enter NAPMO into agreements or contracts with non-NATO Nations. Nevertheless, IBAN considers that the NAPMO Contractor's role does not necessarily preclude NAPMO from being construed as having a third-party benefit agreement with non-NATO Member States. IBAN therefore maintains its observation and recommendation, pending obtaining clarification on this matter from the Council or the appropriate subsidiary governing body.**

## GLOSSARY OF TERMS

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

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

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

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



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

Brussels - Belgium



**NATO UNCLASSIFIED**

IBA-A(2024)0135  
22 November 2024

To: Secretary General  
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives  
Chair, NATO European Fighter Aircraft Development Production and Logistic Management Organisation (NEFMO), Board of Directors  
Chair, NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation (NAMMO), Board of Directors  
General Manager, NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA)  
Financial Controller, NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA)  
Chair, Resource Policy & Planning Board  
Branch Head, Resource Management Branch, NATO Office of Resources  
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of NATO EF2000 and Tornado Development Production and Logistics Management Agency (NETMA) Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0027***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) and on compliance for financial year 2023.

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 EF2000 and Tornado Development  
Production and Logistics Management Agency (NETMA)  
for the year ended 31 December 2023**

The NATO reporting entity NETMA is the agency that manages the procurement and the administration of two operational programmes on behalf of its member Nations: the Tornado Programme and the EF2000 Programme. The NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO) is the NATO reporting entity for the Tornado Programme, and the NATO European Fighter Aircraft Development Production and Logistic Management Organisation (NEFMO) for the EF2000 Programme.

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

IBAN audited the Financial Statements of NETMA for the year ended 31 December 2023. The total expenditure in 2023 for the Administrative Budget amounts to EUR 51.4 million.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2023.

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

1. Need to strengthen NETMA procurement practices to ensure full compliance with the NFR principles.
2. Incorrect reporting of cases of overpayment.
3. Incorrect balance of Morale and Welfare Activities (MWA) Cash and Cash equivalents presented in the NETMA Financial Statements disclosure note.

IBAN followed up on the status of observations from the previous years' audit. All the observations and recommendations from the previous years' audit were closed.

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

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



**NATO UNCLASSIFIED**

IBA-AR(2024)0027

22 November 2024

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE  
NATO EF 2000 AND TORNADO DEVELOPMENT PRODUCTION AND  
LOGISTICS MANAGEMENT AGENCY**

**(NETMA)**

**FOR THE YEAR ENDED 31 DECEMBER 2023**

PUBLICLY DISCLOSED - PDN(2025)0017 - MIS EN LECTURE PUBLIQUE

**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 NETMA, for the 12 month period ended 31 December 2023, issued and submitted to IBAN on 19 September 2024. These Financial Statements comprise the Statement of Financial Position as at 31 December 2023, 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 2023, 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 2023.

In our opinion, the Financial Statements give a true and fair view of the financial position of NETMA as at 31 December 2023, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2023, 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. The Financial Statements of NETMA are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31<sup>st</sup> March following the end of the financial year.

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

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

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

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

#### **Opinion on Compliance**

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

### **Basis for Opinion on Compliance**

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, the associated NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA) Financial Rules and Regulations (FRRs) and internal implementing directives. These include the NATO Civilian Personnel Regulations.

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

### **Auditor's Responsibilities for Compliance**

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

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

Brussels, 22 November 2024



Radek Visinger  
Chair

**OBSERVATIONS AND RECOMMENDATIONS**

IBAN made three observations and recommendations. These observations do not impact the audit opinion on the Financial Statements and on compliance:

1. Need to strengthen NETMA procurement practices to ensure full compliance with the NFR principles.
2. Incorrect reporting of cases of overpayment.
3. Incorrect balance of Morale and Welfare Activities (MWA) Cash and cash equivalents presented in the NETMA Financial Statements disclosure note.

Based on a further review of the wording of the recommendation included in the first observation in the draft audit report, IBAN has reformulated this recommendation in the final audit report to make it more generally applicable.

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

The Audit Report was issued to NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NETMA executive responsibility.

**1. NEED TO STRENGTHEN NETMA PROCUREMENT PRACTICES TO ENSURE FULL COMPLIANCE WITH NFR PRINCIPLES**

**Reasoning**

1.1 Article 32 of the NATO Financial Regulations (NFRs) states that:

*"1. NATO Procurement and Contracting shall adhere to the following principles:*

- a. The timely acquisition of goods and services to be achieved wherever possible through a competitive bidding process, using approved procurement procedures to achieve the most effective, efficient and economical solution;*
- b. Goods and services will be procured, in a transparent and fair manner built upon the principle of non-discrimination and fairness in which*

*eligible suppliers are given the same opportunity and treated in the same fair manner;*

- c. Tendering documents shall contain a clear, precise and complete description to enhance full and open competition among eligible suppliers;*
- d. Every aspect of the procurement process must conform to the highest standards of integrity and accountability.*

*2. The Financial Controller shall ensure and verify that procurement and contracting principles are adhered to [...].”*

1.2 According to the NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA) Financial Rules and Regulations (FRRs) Para 45.1, *“manufacturers and suppliers in Participating Nations will be accorded an opportunity to submit bids for supplies or services in accordance with Para 49 and Annex C, para 2.3.”*

1.3 NETMA FRRs Para 49.1. gives reference to Annex C stating that *“subject to the provisions of Para 45 and the cases covered in Para 47, the procedure for competitive bidding will be in accordance with the conditions laid down in Annex C.”*

1.4 As per NETMA FRRs Annex C Para 2, *“subject to the provisions of Para 45 and 46, the procedure for competitive bidding will be as follows:*

*2.1 Restricted Bidding. Goods and services estimated to cost less than the equivalent of EUR 18,000 may be procured subject to tenders being solicited from at least three suppliers known to meet the required technical and commercial standards.*

*2.2 Formal Bidding. Goods and services estimated to cost less than the equivalent of EUR 72,000 may be procured subject to formal tenders being invited from at least five suppliers known to meet the required technical and commercial standards.*

*2.3 International Bidding. For goods and services estimated to cost more than the equivalent of EUR 72,000, calls for bids shall be sent to suppliers located in funding member countries and known to meet the required technical security and commercial standards.*

*2.4 Departure from the above requirements may in the interests of security, urgency, standardisation of equipment or for other practical considerations, be authorised by the Agency Financial Controller (DLF). When the total amount exceeds EUR 720,000, such cases shall be submitted to the FAC [NETMA Financial and Administrative Committee] for endorsement. This will normally take place during the annual FAC budget setting round. In the latter*

*case, any request for exemption from the international competitive bidding procedure should, if possible, be made at the same time as the request for authorisation to commit funds.”*

1.5 According to Article 1.1. of the NETMA Procurement Operating Procedures (POPs), *“POPs amplify procedures set out in the NETMA Financial Rules and Regulations (FRRs) for the procurement of the supplies and the services. These procedures must be followed whenever administrative procurement takes place.”*

### **Observations**

1.6 In order to support the activity of the Agency, NETMA entered into a number of agreements for the provision of recurring services, as follows:

- a) Cleaning, Meeting Room Services together with janitorial service: the contract came into force on 1 April 2010. It is concluded for an indefinite period and it can be terminated with a notice period of 3 months. The price of the contract is revised annually, based on a quotation document from the supplier.

The amount of expenses incurred in 2023 for this service is EUR 318,886.

- b) Security and Monitoring Services: the initial contract entered into by NETMA was valid until 30 June 2001. Since then, two successive revisions of the contract were signed, with the same supplier. The second revision of the contract is still in force, for an indefinite duration, and the price of the contract is revised annually, based on a quotation document from the supplier. This contract can be terminated with 6 months' notice.

The revision defines the number and the categories of the security staff, their working hours, remuneration rates and flat rates. The amount of the flat rate is calculated on the basis of the average number of hours worked by security personnel during the year. On 30 June and 31 December of each year, the hours worked up to that point are offset against the flat rate, if applicable.

With the second revision of the contract from 2015, the working hours of the security staff were revised and their number increased from 7 to 12. New categories for the remuneration rates were created (i.e. one-time training allowance for weapons expertise per employee, electronic watch book per month) and existing remuneration rates increased (i.e. hourly rate of reception service with access control increased from EUR 17.25 to EUR 20.56). The flat rate increased also increased from EUR 38,130 to EUR 48,150, to which subsequent increases were applied.

The amount of expenses incurred in 2023 for this service is EUR 831,809.

- c) Rent of printing equipment: the initial contract expired on 30 June 2015. Since then, four successive contracts were signed with the same supplier for this



service, with the last contract being in force until end-2023.

Prior to the contract expiry in 2023, the supplier offered NETMA to replace the rented equipment with new one, due to obsolescence, thereby amending the scope and the price of the contract. According to NETMA, the Agency attempted in this context to obtain informal price quotations from three other companies for the renting of comparable equipment but these were higher than the new offer from the existing supplier. Thus, in August 2023, NETMA signed a new contract with the existing supplier, starting in September 2023, for a period of five years.

According to NETMA, the above procurement approach was endorsed by the FAC in October 2023. IBAN notes that it was not provided with evidence regarding the obtained quotations and the FAC approval.

The amount of expenses incurred in 2023 for this service is EUR 93,628.

- d) Purchase of software licenses: NETMA business databases and application servers are running with a software delivered by a specific supplier. Each year, NETMA issues a purchase order for the delivery of licenses and software updates by the supplier in the upcoming year.

NETMA considers the annual orders placed with the supplier as contract extensions, not as separate contracts. Hence, the Agency deems that no requirement exists for the approval of the departure from the procedure for competitive bidding in this case.

The amount of expenses incurred in 2023 for this service is EUR 189,026.

1.7 Concerning the above, IBAN considers that the NETMA practice of not conducting formal competitive bidding for the award of contracts for a significant amount of time (10 or even 20 years) is not fully in compliance with the NATO Procurement and Contracting Principles set out in Article 32 of the NFRs. According to the NFRs, the acquisition of goods and services needs to be achieved wherever possible through a competitive bidding process, using approved procurement procedures.

1.8 IBAN also notes that the approach of not conducting formal competitive bidding in the cases presented above is not fully compliant with the NETMA approved procurement procedures, specified in Annex C of the FRRs. These stipulate that international bidding needs to take place for the procurement of goods and services estimated to cost more than EUR 72,000, in which case calls for bids need to be sent to suppliers located in the NETMA Nations. In the cases presented, the annual value of expenses recorded in relation to these contracts (as well as the overall cumulative value since the contracts were awarded) is significantly higher than the NETMA threshold for international bidding of EUR 72,000.

1.9 NETMA considers that formal competitive procurement is not a requirement for the extension of a contract, which NETMA considers to be the case for two of the contracts in question (Cleaning, Meeting Room Services together with janitorial service and Security and Monitoring Services). However, according to the evidence made available, the related services are in fact provided through contracts of indefinite duration, for which only a price revision is done annually, and not through annual contract extensions. Therefore, from IBAN's perspective, the award of these services should be subject to competition, according to the principles in the NFRs and the provisions of the NETMA FRRs.

1.10 Similarly, we found no evidence contradicting the fact that the other services concerned (Purchase of software licenses) are provided through separate annual purchase orders and thus should be subject to the NETMA rules on competitive procurement or, alternatively, to an approved departure from the rules. No such approval exists in this case.

1.11 According to NETMA, informal market research is conducted for the identification of other interested suppliers for the services mentioned (cleaning, security, rent of equipment) and for assessing market rates. However, as the Agency states, price quotations are rarely received from companies due to specific constraints such as the location of NETMA near the Munich Airport, that already contracts a significant number of existing providers of services, and requirements for the staff of the suppliers to be security cleared. While these constraints are retained, IBAN notes that similar conditions also impact other NATO reporting entities that carry out competitive procurement, and that they should not prevent NETMA from conducting formal competitive bidding on a regular basis, in accordance with the NFRs and the FRRs.

1.12 According to the NETMA procurement procedures, outlined in Annex C of the FRRs, departure from the formal competitive procedures may be allowed, subject to the approval of the Agency Financial Controller (DLF) and, above EUR 720,000, subject to the approval of the NETMA Financial and Administrative Committee (FAC). However, according to our understanding, departure from normal procurement rules may be authorised *"in the interests of security, urgency, standardisation of equipment or for other practical considerations"* and it is not to be understood as the regular practice in terms of procurement.

1.13 In addition to this, we also note that the NETMA approach of having service contracts of indefinite duration is against the best practices observed by most NATO reporting entities in the area of procurement. In the absence of periodical competition, which entails contracts of definite duration (for example of three or five years), it is difficult to assess whether the amounts paid by NETMA for the required services reflect current market prices and represent the most effective, efficient and economical contractual solution.

1.14 Similarly, periodical competition enables an accurate estimation of the total value of the services to be provided for the duration of the contract, which should be

the basis for the selection of the appropriate procurement procedure considering the thresholds specified in the NETMA FRRs.

1.15 It also ensures that any changes in the scope of the services required are adequately incorporated in the statement of works based on which the potential suppliers would submit their bids during the competitive solicitation, in order to obtain relevant offers, as per Article 32.1 c) of the NFRs.

1.16 In the cases described above, the change in the working hours and in number of the security staff with the second revision of the Security and Monitoring Services Contract and the change in the number and the models of the printing equipment with the Printing Equipment Rental Contract signed in August 2023 represent a modification of the statement of works which should also have been considered as a basis for a new competition.

1.17 With respect to all the above cases, it is also to be noted that NETMA FRRs and POPs do not contain any provisions regarding the maximum duration of contracts, the definition of contract extensions and the conditions under which these can be awarded, as well as the conditions for carrying out amendments as regards the scope of a contract.

### Recommendations

1.18 IBAN recommends that, in order to ensure full compliance with Article 32 of the NFRs, NETMA:

- a) Open for formal competitive procurement the procurement of goods and services required for the Agency's activities, in accordance with the procurement thresholds foreseen in the NETMA FRRs and POPs, or obtain formal approval of any departure from the procedures for competitive bidding at the appropriate level (DLF or FAC).
- b) Update the NETMA FRRs and POPs in order to include provisions regarding the maximum duration of contracts, the conditions for the award of contract extensions and the conditions for the amendments in the scope of a contract.

## 2. INCORRECT REPORTING OF CASES OF OVERPAYMENT

### Reasoning

2.1 According to the NATO Accounting Framework (NAF), IPSAS 1 – Presentation of Financial Statements, *“assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity”*.

2.2 According to the NAF IPSAS 23 – Revenue from Non-Exchange Transactions, the following provisions apply as regards the recognition of assets:

*“31. An inflow of resources from a non-exchange transaction, other than services in-kind, that meets the definition of an asset shall be recognised as an asset when, and only when:*

*(a) It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and*

*(b) The fair value of the asset can be measure reliably”.*

2.3 According to the NAF IPSAS 14 – Events after reporting date:

*“10. An entity shall adjust the amount recognised in its financial statements to reflect adjusting events after the reporting date.*

*11. The following are examples of adjusting events after the reporting date that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised: [...]*

*(f) The discovery of fraud or errors that show that financial statements were incorrect.”*

2.4 The NATO Financial Regulations (NFRs) Article 4 details the principles of sound financial management that NATO reporting entities need to adhere to:

*“4.2 The financial administration of NATO bodies must be based on clear delegations of authority and ensure the most cost efficient, cost effective and economic use of resources incorporating the following principles:*

*(a) propriety;*

*(b) sound governance; [...].”*

2.5 According to the NFRs, *“6.1 The Secretary General, the Supreme Commanders and the other Heads of NATO bodies shall have a Financial Controller on their staffs [...] who exercises in their names responsibilities for, but not limited to [...]:*

*(b) ensuring adherence to the principles of sound financial management as laid down in article 4;”.*

2.6 The NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA) Financial Rules and Regulations (FRRs) specify that:

*“58.1. Write-off is the procedure whereby an accountable officer is relieved of responsibility for: [...] b. Loss of cash, including failure to collect money due. [...]*

*59.1. Whenever an officer wishes to initiate the write-off of items for which he has accounting responsibility, he must make written application to Division Leader Finance (DLF). [...]*

*59.5. Every write-off submission and decision must be fully documented in writing and retained to support the accounting records. [...]*

*61.1. Authorisation will be given for the write-off of cash losses only where recovery is impossible. Such instances will be exceptional.”*

2.7 According to the FRRs, Annex F, the NETMA General Manager (GM) can authorise cash write-offs of up to EUR 2,500. Above this limit and until EUR 5,000, the cash write-offs need to be authorised by the Legal, Financial and Contractual Committee (LFCC) and thereafter, by the Board of Directors.

2.8 An internal audit report issued by the NETMA Audit Team (NAT) in April 2023 identified multiple findings in the area of allowances provided to NETMA personnel under the NATO Civilian Personnel Regulations (CPRs), specifically as regards family and education allowances. Based on the work of the NAT and of the NETMA Human Resources (HR) team as well as subsequent IBAN review of supporting documents, an amount of EUR 84,761 of overpayments related to allowances was noted, regarding which IBAN reported in the audit report on the NETMA Financial Statements for the year ended 31 December 2022 (reference IBA-AR(2023)0026).

2.9 NETMA Management have taken corrective actions throughout 2023 to address the findings identified by the NAT report, as well as by the IBAN report. As at year-end 2023, NETMA had already recovered through subsequent payroll corrections an amount of EUR 53,453 related to the overpayments. As regards the balance of EUR 31,308 remaining to be corrected, NETMA undertook the following actions:

- a) A decision was taken in November 2023 by the NETMA HR Section Leader that no recovery will be pursued for an amount of EUR 3,214. According to NETMA, the documented decision of the HR Section Leader was preceded by discussions with NETMA Management.
- b) An agreement was signed in February 2024 between NETMA and one former staff regarding the repayment of an amount of EUR 19,799 of overpaid allowances. According to the agreement, the repayment is to be done in instalments, starting March 2024.
- c) A separate legal action for recovery was initiated for an amount of EUR 8,160.

2.10 Based on the above actions, an amount of EUR 135 remains unaddressed.

## Observations

2.11 IBAN notes that the amount of EUR 31,308 of overpayments represents a previous expense from the NETMA Administration Budget funded by the Nations. Since the expense was incurred by error, by definition it does not respect the NETMA FRRs provision that *“28.1. The principle to be adopted in all cases is that the expenditure requested is necessary in the interests of NETMA, within the appropriate budgetary limits and in accordance with financial regulations”*. In this context, IBAN considers that NETMA should respect the provisions of the FRRs with respect to the collection of money due and as regards any related write-off procedure.

2.12 Concerning the first case described, IBAN considers that the decision of the NETMA HR Section Leader not to pursue the recovery of the amount of EUR 3,214 is not fully in compliance with the principles of sound financial management provided for in Article 4 of the NFRs, considering that this is a previous expense from the NETMA Administration Budget funded by the Nations, incurred in error.

2.13 The decision not to collect money due also falls under the incidence of the NETMA FRRs provisions regarding write-offs of amounts due. In this case, the appropriate treatment should have been for NETMA to record in 2023 a receivable for the amount of EUR 3,214 and then to record a write-off of the respective receivable, provided that the formal approval for the write-off had been obtained from the LFCC, in accordance with the NETMA FRRs. In this way, NETMA would have ensured an adequate audit trail as well as the reporting of an expense loss as regards the Administration Budget.

2.14 Concerning the second case described, the signature of an agreement for the recovery of the amount of EUR 19,799 in February 2024 is the basis for the recognition of an asset (receivable) of the same amount in the NETMA Financial Statements. NETMA recorded a receivable of EUR 15,797 in the 2023 Statement of Financial Position with respect to this agreement. For the remaining amount of EUR 4,002, NETMA clarified that, under German Law, the claim for recovery would not be actionable through legal means, as the expense was incurred more than three years before. Since there was no probable expectation that this money will be recoverable as a result, no corresponding receivable was recorded in the 2023 accounts. In the agreement with the staff concerned, NETMA included a clause mentioning that, if regular payments were carried out up to EUR 15,797, NETMA would waive the recovery of the remaining amount of EUR 4,002.

2.15 Regarding the above, IBAN notes that, since the grounds for the agreement were the discovery of an error of overpayment with respect to the NETMA accounts, based on the provisions of IPSAS 14, the agreement generates an adjusting event after the reporting date with respect to the NETMA 2023 Financial Statements, that should have led to the adjustment of the 2023 balance of NETMA receivables with the full amount of EUR 19,799.

2.16 Similar to the first case described, the appropriate treatment should have been for NETMA to record therefore in 2023 a receivable for the amount of EUR 4,002 and then to record a write-off of the respective receivable, provided that the formal approval for the write-off had been obtained from the LFCC, in accordance with the NETMA FRRs.

2.17 Based on this, we consider that the NETMA balance of receivables and of payables to the Nations presented in the 2023 Financial Statements are each understated by EUR 7,216 at year-end 2023, representing the sum of the two cases above (EUR 3,214 and EUR 4,002).

### Recommendations

2.18 IBAN recommends that NETMA fully comply with the principles of sound financial management foreseen in the NFRs and with the provisions of the NAF IPSAS 14 by:

- a) Adequately adjusting the amounts recognised in its financial statements to reflect any adjusting events after the reporting date;
- b) Obtaining formal approval at the appropriate level of any write-offs and duly recording any receivables and related write-offs.

### 3. INCORRECT BALANCE OF MORALE AND WELFARE ACTIVITIES (MWA) CASH AND CASH EQUIVALENTS PRESENTED IN THE NETMA FINANCIAL STATEMENTS DISCLOSURE NOTE

#### Reasoning

3.1 The Morale and Welfare Activities (MWA) and related commercial activities for convenience and retail purposes in support of MWA of all NATO bodies are governed by the Morale and Welfare Activity (MWA) Regulations (C-M (2019)0026(INV)). The MWA Regulations introduce a further adaptation of Section 6.2 of the NATO Accounting Framework regarding reporting for MWA by the NATO bodies, that has fully come into effect on 1 January 2022.

3.2 Section 6.2 of the NAF, as amended via the MWA Regulations Annex 2 sets out that: *“NATO Reporting Entities shall continue to submit an annual report on the financial viability of their Morale and Welfare Activities and shall present the following financial information in support of such activities by way of a disclosure note to their financial statements:*

- *Cash and cash equivalents;*
- *Liabilities (including provisions and contingent liabilities); and*
- *The number of full-time equivalent personnel directly supporting MWA as of year-end.”*

3.3 As required under the Section 6.2 of the NAF, NETMA included in the 2023 Financial Statements a disclosure note regarding MWA, presenting the balance of Cash and cash equivalents at year-end 2023, in the amount of EUR 42,445.

3.4 According to the definition provided in the NATO Accounting Framework, International Public Sector Accounting Standards (IPSAS) 2 - Cash Flow Statements, *“cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value”*.

3.5 As per IPSAS 2 paragraph 9, *“cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and to be subject to an insignificant risk of changes in value. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of the acquisition.”*

3.6 As per the illustrative examples to IPSAS 2, *“cash and cash equivalents consist of cash on hand, balances with banks and investments in money markets”*. Accordingly, examples of cash equivalents are investment instruments such as treasury bills and money market funds.

3.7 According to the NAF IPSAS 12 – Inventories, paragraph 9, *“inventories are assets [...] c) Held for sale or distribution in the ordinary course of operations”*.

### **Observations**

3.8 The balance of Cash and cash equivalents of EUR 42,445 disclosed in the NETMA 2023 Financial Statements includes inventories held for sale, in the amount of EUR 3,335. According to the definitions provided in the NAF, these assets represent inventories and should not therefore be included in the Cash and cash equivalents balance disclosed in the NETMA Financial Statements.

3.9 IBAN also notes that the correct reference to the MWA Regulations is C-M(2019)0026(INV), and not C-M(2019)0099, which is the reference included in the NETMA Financial Statements.

### **Recommendations**

3.10 IBAN recommends that NETMA remove inventories from the balance of cash and cash equivalents presented in the MWA disclosure note in the Financial Statements and update the reference to the MWA Regulations included in the respective disclosure note.



**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
<p>(1) NETMA FY 2022 IBA-AR(2023)0026, paragraph 1</p> <p><b>WEAKNESSES IN THE PRESENTATION OF THE STATEMENT OF BUDGET EXECUTION</b></p> <p><b>IBAN's Recommendation</b> IBAN recommends that NETMA:</p> <p>a) Ensure a consistent presentation of the lapsed appropriations in the Statement of Budget Execution, specifically by not including already lapsed credits in the total of lapsed appropriations presented;</p> <p>b) Include in the Notes to the Financial Statements explanations for any restatements of previous year balances.</p>	<p>a) NETMA included in the Statement of Budget Execution presented in the 2023 Financial Statements only lapsed appropriations related to the current year budget. <b>Closed.</b></p> <p>b) No cases of restatement of previous year balances were noted with respect to the NETMA 2023 Financial Statements.</p> <p>NETMA confirmed that extraordinary events in future years, if they take place, will be carefully considered to ensure presentation is consistent and fully detailed in the Notes to the Financial Statements. <b>Closed.</b></p>	<p>Observation <b>Closed.</b></p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(2) NETMA FY 2022 IBA-AR(2023)0026, paragraph 2</p> <p><b>ABSENCE OF A RECONCILIATION BETWEEN THE EXPENDITURE PRESENTED IN THE STATEMENT OF BUDGET EXECUTION AND THE EXPENSES REPORTED IN THE STATEMENT OF FINANCIAL PERFORMANCE</b></p> <p><b>IBAN's Recommendation</b> IBAN recommends NETMA to include in their Annual Financial Statements a reconciliation between the expenditure presented in the Statement of Budget Execution and the expenses presented in the Statement of Financial Performance, together with any explanations concerning the nature of the adjustments made for the purposes of this reconciliation.</p>	<p>NETMA has included in the 2023 Financial Statements a reconciliation between the expenditure presented in the Statement of Budget Execution and the expenses presented in the Statement of Financial Performance, including the adjustments made. <b>Closed.</b></p>	<p>Observation <b>Closed.</b></p>
<p>(3) NETMA FY 2022 IBA-AR(2023)0026, paragraph 3</p> <p><b>INTERNAL CONTROL WEAKNESSES IN THE AREA OF ALLOWANCES PROVIDED TO NETMA PERSONNEL UNDER THE NATO CIVILIAN PERSONNEL REGULATIONS</b></p> <p><b>IBAN's Recommendation</b> IBAN recommends NETMA to strengthen internal control in the area of allowances provided to NETMA personnel under the NATO Civilian Personnel Regulations, specifically by implementing the management actions recommended by the internal NETMA Audit Team and ensuring the recovery of any undue amounts from the concerned personnel.</p>	<p>Superseded by Observation 2.</p>	<p>Observation <b>Closed.</b></p>
<p>(4) NETMA FY 2022 IBA-AR(2023)0026, paragraph 4</p> <p><b>WEAKNESSES IDENTIFIED IN RECORDING OF SUPPLIER INVOICES</b></p> <p><b>IBAN's Recommendation</b> IBAN recommends NETMA to review the process of recording supplier invoices at year-end in order to ensure that assets and liabilities are recognised in the correct financial period. Specifically, IBAN</p>	<p>NETMA currently reviews the invoices received post year-end in order to ensure supplier invoices are recorded as payables to suppliers based on</p>	<p>Observation <b>Closed.</b></p>

recommends NETMA to record supplier invoices as payables to suppliers based on the invoice date and to accrue or defer expenses based on the delivery information of the goods or services concerned if required.	the invoice date and to accrue or defer expenses based on the delivery information of the goods or services concerned if required. <b>Closed.</b>	
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**NATO EF 2000 AND TORNADO DEVELOPMENT PRODUCTION AND LOGISTICS  
MANAGEMENT AGENCY (NETMA) FORMAL COMMENTS ON THE AUDIT  
REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

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

## 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.

# NAMMO



## ANNUAL FINANCIAL STATEMENTS 2023

For the period ended 31 December 2023



**NETMA**

NATO EF2000 AND TORNADO DEVELOPMENT, PRODUCTION AND LOGISTICS MANAGEMENT AGENCY

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

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# Introduction to the 2023 Financial Statements



## *The Foundation of NAMMO*

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

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

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

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

## *Key Achievements 2023*

There has been significant focus on ensuring that Nations' fleets are supported in the most cost effective way possible. A key challenge to achieving this is the fact that the vital support from supplier base is starting to degrade. NATO EF 2000 and Tornado Development, Production & Logistics Management Agency (NETMA) is therefore expending considerable effort in working with the Panavia (aircraft) and the Turbo-Union (engine) consortia to identify supplier and engineering capability sustainment options and improve obsolescence management.

Moreover for the first time ever in Programme history, and in order to make improvements toward Weapon System sustainment, a Tornado Supply Chain Management, via an End-to-End Supply Chain Management Task has been implemented since May 2022. Some improvements were implemented in 2023 by the Nations, based on the actual results of this new approach.

For 2024, a revolutionary approach to the Supplier base is expected with a newly generated and shared Combined Joint Demand List (CJDL), entailing all Nations consolidated requirements for spares and repairs until the relevant Out of Service Dates (OSDs). The latter CJDL is the driver for a cost effective management of suppliers, obsolescence and as a whole the Supply Chain.

Finally the so-called Tornado Deactivation Strategy is now well established as a multi-disciplinary workstreams activity covering all aspects of the drawing down and the deactivation of the Tornado programme.

## *Key points from the Annual Financial Statements*

### *Basis of Preparation*

The NAMMO accounts have been presented on the basis of an Agent status.

### *Addressing Previous Audit Observations*

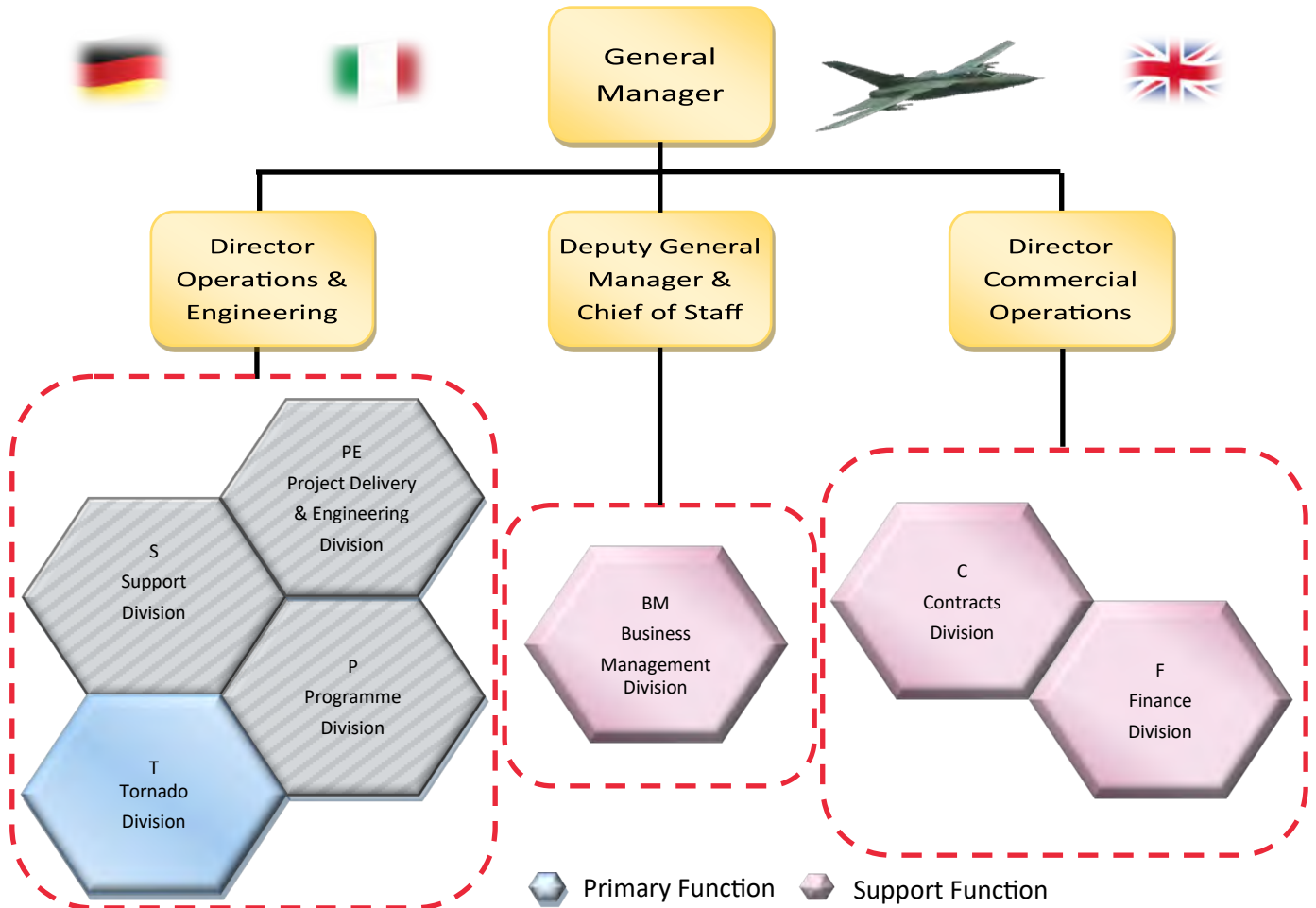
The IBAN audit report for the 2022 NAMMO Financial Statements included no new recommendations for improvements or observations to the production of the annual Financial Statements.

All previous observations and recommendations were closed in the 2022 International Board of Auditors NATO (IBAN) audit.

**NAMMO at a glance**

INTRODUCTION

NETMA operates using a functional organisational structure, grouping its staff into agency divisions based on their specific skills and knowledge across the agency. The NETMA organisational structure has been provided below to illustrate this:



In support of the NAMMO BoD and the Tornado Weapon System, with the last batch of aircraft produced in 1998, the NAMMO structure is organised to deliver the In-Service Support (ISS) requirements. T (Tornado) Division is responsible for the engineering operations and management of the sustainment of the aircraft with our Tornado industry partners (PANAVIA Aircraft GmbH and Turbo-Union GmbH), acting as the focal point for primary NAMMO activities.

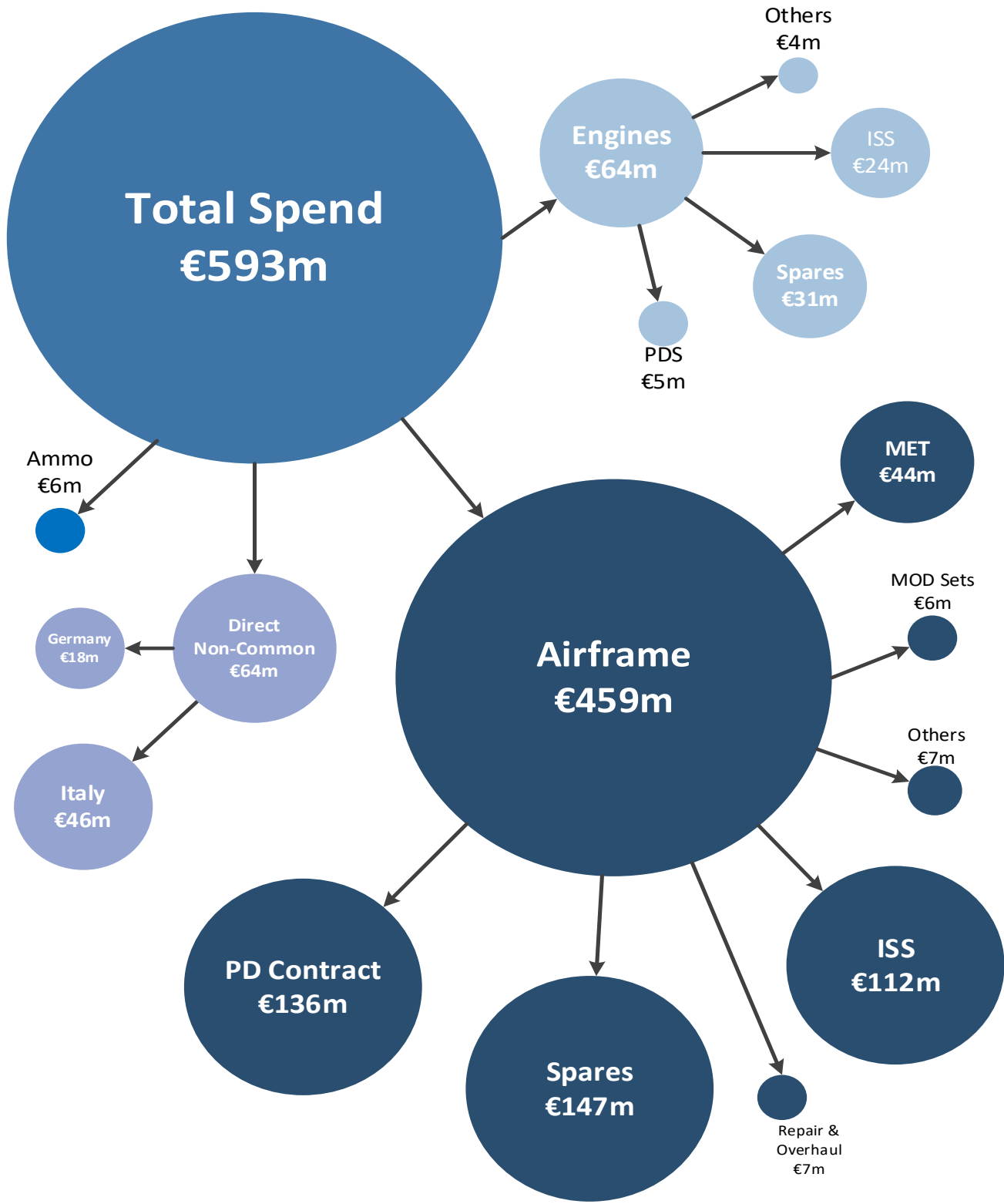
In support of these primary activities, the Contracts and Finance Divisions drive value through Contract and Financial management between nations and industry. The Business Management Division, made up of Human Resources, IT Management and Business Improvement and Performance, supports the entire NETMA agency. The IT Management department supports the IT Applications which enable Tornado Programme management. These include (but are not limited to) the Agency Integrated Management System (AIMS) for Milestone/Task and Invoice Management, the Enhanced Procurement System-Central Automatic Data Processing System (EPS-CADPS) for Procurement and Logistics Support Activities, and the Personnel & Accruals Reporting Management Information System (PARMIS) for Invoice to Payment & Banking processes.

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**NAMMO Expenditure Breakdown 2023**

The total expenditure on the Tornado programme through NETMA in 2023 was €593m. This has decreased slightly (2%) from last year due to the slippage of some engineering tasks into 2024.

Spend on Tornado is largely focused on the airframe, totalling 77% of all costs, with a further 11% relating to the engine, as illustrated below:



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## NAMMO Statement of Internal Control



As General Manager of NETMA, I have responsibility for maintaining an effective system of internal control that supports the achievement of my Agency's policies, aims and objectives, set by NETMA's Four Nations and the Board of Directors. I am personally responsible for safeguarding the funds and assets.

The Board has established appropriate structures, reporting lines and responsibilities to support the delivery of objectives. These responsibilities are set out in the NETMA Financial Rules and Regulations (NFRR) as governed by the NATO Financial regulations (NFR) and Financial Rules and Procedures (FRP).

The system of internal control is based on an ongoing evidence based process designed to identify the principle risks to the achievement of my Agency's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently and effectively on a continual year round basis.

I have responsibility for reviewing the effectiveness of the system of internal control. The processes in place to achieve this are summarised below:

- NETMA has an annual Management Plan which identifies NETMA's strategic priorities, objectives & the associated performance metrics. The Management Plan focuses on agency planning and improvements, including identification of key business risks which are mitigated and owners appointed to monitor and report on these on a regular basis as part of NETMA's wider Risk Management system.
- Management checks are undertaken and the internal audit function performs a range of audit activities, based on an annual audit plan agreed by the Audit Advisory Panel and approved by the Audit Committee. NETMA Audit Team also conduct audits on our Industry Partners, which involve the checking of property held in industry, and Self-Certified Milestones to ensure appropriate internal controls are in place and adhered to. The Internal Audit process complies with the International Standards for the Professional Practice of Internal Auditing in accordance with previous IBAN recommendations.
- The Agency operates the integrated framework for internal control developed by the Committee of Sponsoring Organisations of the Treadway commission (COSO Framework) as a mechanism for formally documenting the internal control system and providing assurance that it is functioning effectively. It is well established and part of our normal internal control system. The annual COSO review was undertaken as scheduled for the year 2023, with the Directors confirming we meet those requirements.

My review of the effectiveness of the system of internal control is informed by the work of the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, comments made by the Internal Audit Reports, and external auditors in their management letters together with the results of the annual COSO review.

I am content that the processes in place within the organisation provide reasonable assurance of the effectiveness and efficiency of the organisation's operations, the reliability of its financial information and its integrity with regards to application and compliance to applicable rules and regulations. Whilst we always seek to improve our processes each year there were no material internal control weaknesses identified that need specific intervention from Senior Management in 2023.

SIMON ELLARD CB FREng

General Manager

WENDY BRADBURY

Financial Controller

Overview

**2023 Financial Statements**

Notes to the NAMMO Accounts

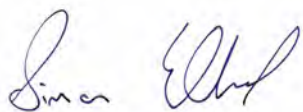
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## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

(in thousands of Euros)	Note	2023	2022
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	B1	217,954	236,578
Short term investments		0	0
Receivables	B1	1,675	528
Prepayments		0	0
Inventories		0	0
		<u>219,629</u>	<u>237,106</u>
<b>Non-current assets</b>			
Property, plant & equipment		0	0
Intangible assets		0	0
		<u>0</u>	<u>0</u>
<b>Total assets</b>		<b><u>219,629</u></b>	<b><u>237,106</u></b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables	B2	13,654	6,713
Unearned revenue	B3	205,975	212,177
Advances	B4	0	18,216
		<u>219,629</u>	<u>237,106</u>
<b>Non-current liabilities</b>			
Provisions		0	0
		<u>0</u>	<u>0</u>
<b>Total liabilities</b>		<b><u>219,629</u></b>	<b><u>237,106</u></b>
Surplus / (deficit)		0	0
Reserves		0	0
<b>Total net assets</b>		<b><u>0</u></b>	<b><u>0</u></b>

The Financial Statements on pages 10 to 14 and their associated notes were issued to the International Board of Auditors for NATO on 31<sup>st</sup> March 2024.



SIMON ELLARD CB FREng

General Manager



WENDY BRADBURY

Financial Controller

**STATEMENT OF FINANCIAL PERFORMANCE**

FOR THE YEAR ENDED 31 DECEMBER 2023

(in thousands of Euros)	Note	2023	2022
<b>Revenue</b>	C1		
Revenue		0	0
Financial revenue		0	0
Other revenue		0	0
<b>Total revenue</b>		<u>0</u>	<u>0</u>
<b>Expenses</b>	C1		
Personnel		0	0
Contractual supplies and services		0	0
Depreciation and amortisation		0	0
Impairment		0	0
Provisions		0	0
Other expenses		0	0
Finance costs		0	0
<b>Total expenses</b>		<u>0</u>	<u>0</u>
<b>Surplus / (deficit) for the period</b>		<u>0</u>	<u>0</u>



**STATEMENT OF CASH FLOW**

FOR THE YEAR ENDED 31 DECEMBER 2023

(in thousands of Euros)	Note	2023	2022
<b>Cash flow from operating activities</b>			
Surplus / (deficit)	D1	0	0
<b>Non-cash movements</b>			
Depreciation / amortisation		0	0
Impairment		0	0
Increase / (decrease) in payables	D2	6,941	(10,983)
Increase / (decrease) in unearned revenue	D3	(6,202)	107,366
Increase / (decrease) in advances	D4	(18,216)	(6,784)
Increase / (decrease) in provisions		0	0
(Gains) / losses on sale of property, plant and equipment		0	0
(Increase) / decrease in receivables	D5	(1,147)	18,573
<b>Net cash flow from operating activities</b>		<b>(18,624)</b>	<b>108,171</b>
<b>Cash flow from investing activities</b>			
Purchase of property plant and equipment / intangible assets		0	0
Proceeds from sale of property plant and equipment		0	0
<b>Net cash flow from investing activities</b>		<b>0</b>	<b>0</b>
<b>Cash flow from financing activities</b>			
		0	0
<b>Net cash flow from financing activities</b>		<b>0</b>	<b>0</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(18,624)</b>	<b>108,171</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>236,578</b>	<b>128,407</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>217,954</b>	<b>236,578</b>

## STATEMENT OF CHANGE IN NET ASSETS/EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	PP&E Asset Reserve	Revaluation Reserves	Accumulated Surplus / (Deficit)	Total
(in thousands of Euros)				
<b>Balance at the beginning of the period 2022</b>	0	0	0	0
Changes in accounting policy	0	0	0	0
<b>Restated balance</b>	0	0	0	0
Transfer from accumulated surplus / (deficit)	0	0	0	0
Surplus / (deficit) for the period	0	0	0	0
<b>Balance at the end of the period 2022</b>	0	0	0	0
Changes in accounting policy	0	0	0	0
<b>Restated balance</b>	0	0	0	0
Transfer from accumulated surplus / (deficit)	0	0	0	0
Surplus / (deficit) for the period	0	0	0	0
<b>Balance for the period ended 2023</b>	0	0	0	0

## Note

## STATEMENT OF BUDGET EXECUTION

FOR THE YEAR ENDED 31 DECEMBER 2023

(in thousands of Euros)	Note	Transfers and Budget Adjustments		Accrued expenditure		Total Expenditure 2023	Unused Budget
		Initial Budget	Final Budget	2022	2023		
<b>Budget 2023</b>							
Chapter 3	E1	663,989	762,025	566,145	103,414	592,963	169,062
<b>Total FY 2023</b>		663,989	762,025	566,145	103,414	592,963	169,062

Overview

2023 Financial Statements

**Notes to the NAMMO Accounts**

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## A. Significant Accounting Policies

### *Basis of preparation*

The 2023 Annual Financial Statements have been prepared on the basis that NAMMO is an Agent. This is consistent with the Annual Financial Statements presented in 2022. NETMA considers that it is acting as an Agent for the NAMMO member states in relation to managing the TORNADO programme. NETMA is not exposed to the risks or rewards of the programme and is paying industry on behalf of NAMMO member states with funding received from member states.

The Financial Statements of NAMMO have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and based on International Financial Reporting Standards (IFRS/IAS), as adopted by the North Atlantic Council (NAC) in 2002. In 2013, the NAC adopted an adaptation to IPSAS to better suit the specific requirements of the Alliance and an associated NATO accounting framework, applicable for financial reporting periods beginning on 1 January 2013.

The Financial Statements comply with the accounting requirements of the NATO Financial Regulations (NFRs) and the relevant NAMMO directives and policies. In instances where there is a conflict between IPSAS and the NFRs this has been noted.

The Financial Statements have been prepared on a going-concern basis and it is considered that there are no impediments to continuing with this assumption for the foreseeable future.

The Financial Statements have been prepared on a historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The accounting principles are recognised as appropriate for the recognition, measurement and reporting of the financial position, financial performance and cash flow on the basis of the entity being an Agent and have been applied consistently throughout the reporting period. The Budget Execution Statement has been prepared on an accruals basis in accordance with the NFRs.

In accordance with Article 2.1 of the NFRs, the financial year of NAMMO is 1 January to 31 December.

### *Accounting estimates and judgments*

In accordance with IPSAS and generally accepted accounting principles, the Financial Statements include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgements to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS.

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue and expenses reported. By their nature, these estimates are subject to measurement uncertainty. Where the change in presentation of NAMMO to an Agent has affected some estimates and assumptions, these changes have been highlighted throughout the notes to the accounts (Notes B-E). Further changes to such estimates and assumptions in future periods could be significant to the Financial Statements.

### *Changes in accounting policy and standards*

There have been no changes in the accounting policies applied by NAMMO since the accounts were presented in 2022.

### *Changes in pronouncements*

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards. The following 2023 issued IPSAS standards have been reviewed and are not relevant for the NAMMO Financial Statements 2023: IPSAS 43 (Leases), IPSAS 44 (Non-current Assets Held for Sale and Discontinued Operations), IPSAS 45 (Property, Plant & Equipment), IPSAS 46 (Measurement) and IPSAS 48 (Transfer Expense). IPSAS 47 (Revenue) will be assessed for the future statements and included if required prior to the 2026 adoption date.

### *Restatements*

For the 2023 Financial Statements there has been no requirement to restate the 2022 figures.

### *Changes in financial rules and regulations*

In 2023 NETMA updated its Financial Rules and Regulations to ensure that they are in line with NATO 2016 Financial Rules and Regulations with the following deviations approved in 2022: NEFMO & NAMMO gained approval from the North Atlantic Council on 24th June 2022 (Reference PO(2022)0270-AS1)(DMS:215508) to deviate from NFR 24.2, 25.1(a) and (c) and 25.3 to 25.7 and to deviate separately from NFR 25.1 with regard to CADPS only.

Aside from these approved deviations, only minor adjustments were made in the NETMA FRRs 2023, and none of these changes affected the process in the preparation of the NEFMO Financial Statements.

### *Foreign currency*

These Financial Statements are presented in Euros, which is the NAMMO functional and reporting currency. Foreign currency transactions are translated into Euros at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Euros using the NATO exchange rates applicable at 31 December 2023, with the resulting realised and unrealised gains and losses are recognised in the general ledger.

NAMMO used the following NATO-promulgated exchange rates as at 31<sup>st</sup> Dec 2023:

EUR – GBP = 1 : 0.86805

EUR – USD = 1 : 1.0983

EUR – SEK = 1 : 11.099

### *Consolidation*

The NAMMO Financial Statements are not consolidated, with the administration elements of the programme presented in the NETMA Financial Statements.

### *Financial Instruments disclosure / presentation*

NAMMO uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, accounts receivable, liabilities and loans between NATO entities. Financial instruments are recognised in the statement of financial position at fair value.

### *Financial risk factors*

#### **Credit risk**

There is very limited credit risk as the contributing nations generally have a high credit rating. The risk of financial loss due to a participating nations' failure to raise funds is still assessed as very low. In the event that there is a shortage of funds by one or more nations to meet financial obligations, other nations will be consulted with a view to covering any shortages.

#### **Liquidity risk**

The liquidity risk is based on the assessment of whether the organisation will encounter difficulties in meeting its obligations associated with financial liabilities. There is limited exposure to liquidity risk because of the budget mechanism that seeks to guarantee contributions for the total approved budget. The accuracy of forecasts that result in the calls for contributions as well as the delay in receiving payments represent the main liquidity risks.

#### **Currency risk**

As an Agent NAMMO does not bear the currency risk of the programme, however processes are implemented to reduce the currency risk for the Nations. To limit the exposure to foreign currency risk, NAMMO forecasts yearly expected expenditures in foreign currencies where it is material (i.e. Great British Pound - GBP). In order to have the required funding, NAMMO asks the nations to provide their contributions in either Euros or GBP.

#### **Interest rate risk**

NAMMO is restricted from entering into borrowings and investments, and therefore there is no significant interest rate risk identified.

## Assets

NAMMO holds the following types of current assets:

### Cash and cash equivalents

Cash and cash equivalents represents cash held on NAMMO current bank accounts.

### Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. It can also include amounts due by other NATO entities.

Contributions receivable are recognised when a call for contribution has been issued to the member nations. No allowance for impairment loss is recorded with respect to member nations' assessed contributions receivable.

### Inventories

NAMMO does not hold any inventory assets. Any inventories held in industry to be consumed in the production process are expensed and any inventory assets held in the ordinary course of operations to support Tornado are owned by the benefiting nations.

### Property, plant and equipment

NETMA considers that industry controls the assets in production until they are delivered to Nations and therefore does not recognise these assets in the NAMMO accounts. The subject of knowing the stage of completion of programme assets from an accounting perspective is not relevant due to the change in accounting policy. Nation's assets held in industry are still maintained and recorded, and NETMA continues to conduct audits to ensure these records are accurate.

### Leases

The costs for operating the Agency's headquarters are accounted for in the NETMA Financial Statements and this includes leases and rental payments.

### Intangible assets

Similarly to property, plant and equipment, NAMMO does not own any intangible assets.

### Impairment of tangible and intangible assets

As there are no assets owned by NAMMO there has been no need to conduct an impairment review.

## Liabilities

### Payables

Payables (including amounts due to other NATO entities) are amounts due to third parties for goods and services received that remain unpaid as of the reporting date. They are recognised at their fair value.

For the 2023 Financial Statements estimates of accrued obligations for goods and services received at year-end but not yet invoiced are recognised only in the Statement of Budget Execution in line with the NATO Financial Regulations. Acting as an Agent of the programme, NAMMO recognises payables only if the invoice has been received and so these accrued estimates are not included in the Statements of Financial Position and Cash Flow.

### Unearned revenue

Unearned revenue represents contributions from member nations for current or prior years' budgets, for services that have not yet been delivered.

**Advances**

Advances are contributions from member nations called for or received related to future years' budgets.

**Employee benefits**

The personnel costs for operating the Agency's headquarters are accounted for in the NETMA Financial Statements.

**Provisions**

As an Agent NAMMO does not have any provisions.

***Net assets***

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

NATO entities perform their activities on a no-profit / no-loss basis globally over the reporting period. However, this does not prohibit the realisation of operating surplus or deficit in the financial reporting period.

***Revenue and expenses recognition*****Revenue and Expenses**

From 2021, NAMMO transitioned to an Agent resulting in NETMA changing its accounting policy for the treatment of accounting for revenues and expenditure. Therefore, these revenues and expenditures are excluded from the Statement of Financial Performance. Liabilities for accrued expenses are excluded from the Annual Financial Statements but are included in the Budget Execution Statement.

***Cash flow statement***

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



## B. Notes to Statement of Financial Position

(in thousands of Euros)

### Assets

#### 1. Current Assets

	2023	2022
Cash accounts	0	0
Clearing cash accounts	0	0
Petty cash and advances	0	0
Current bank accounts	217,954	236,578
Receivables	1,675	528
Bank accounts interest	0	0
<b>Total</b>	<b>219,629</b>	<b>237,106</b>

#### Current bank accounts

The Tornado Programme has a number of bank accounts relating to the various funding offices from which payments are made and contributions are received. These include accounts for payments to be made in CAD, GBP, USD, SEK and EUR. The accounting system (PARMIS) functionality necessitates that each cash and bank account separately identified has an associated clearing account to enable the sub-ledger to interface with the general ledger. The carrying balance on all these clearing accounts is zero at the end of the reporting period.

The overall levels of cash holdings has decreased in 2023 due to reduced national contributions received but are broadly in line with the cash holdings from the previous year.

#### Receivables

At 31st December 2023 receivables were mainly made up of credit notes sent into the agency that were unpaid. The increase in the value in 2023 compared to 2022 is due to a funding key adjustment credit note of \$993k for the UK. This credit is waiting to be offset against future USD payments.

### Liabilities

#### 2. Payables

	2023	2022
Payables to suppliers	13,131	6,375
Payables to non-consolidated entities	0	0
Payables to staff members	0	0
Payables to governments	0	0
Other payables	524	339
<b>Total</b>	<b>13,654</b>	<b>6,713</b>

#### Payables to suppliers

Payables to suppliers include invoices received from commercial vendors not settled by the reporting date. This account is reconciled to the payables sub-ledger within the financial system operated by NAMMO on a monthly basis. Any outstanding currency liabilities have been translated at the respective closing exchange rates as promulgated by NATO. The payable as at 31<sup>st</sup> December 2023 is €13.131M compared with the 2022 amount of €6.375M. This increase is due to the final validation of €8M of late invoices submitted to NETMA in Dec 2023. These invoices have now been paid in early 2024.

**Other payables**

Other payables represents the income received by NAMMO which is yet to be transferred to another operational account or to national treasuries.

The movement on unearned revenue can be reconciled as follows:

**3. Unearned Revenue**

	2023	2022
<b>Unearned revenue b/f</b>	<b>212,177</b>	<b>104,811</b>
National contributions	585,611	678,784
National Contributions from other program	(24,457)	0
Miscellaneous Revenue (excl. bank interest)	1,588	2,463
Bank Interest received	579	13
Operational Expenditure	(566,145)	(570,231)
Miscellaneous Expenditure	(1,588)	(2,463)
Bank interest returned to Nations	(530)	(13)
Miscellaneous financial income / (charges)	(1)	(2)
Foreign exchange gains / (losses)	(1,259)	(1,184)
<b>Unearned revenue c/f</b>	<b>205,975</b>	<b>212,177</b>

Unearned revenue represents the excess of national contributions and miscellaneous revenue over expenditure on the NAMMO programme to date. It is similarly reflected in the level of cash holdings within the NAMMO bank accounts.

The decrease in unearned revenue represents the reduced level of contributions for the year as mentioned in B1. There was a net transfer of €24M from NAMMO to NEFMO to fund expenditure.

**4. Advances**

	2023	2022
Advances	0	18,216
<b>Total</b>	<b>0</b>	<b>18,216</b>

Advance contributions represent funds received for future year's operational budgets. There were no advances raised in 2023 for 2024.

**C. Notes to Statement of Financial Performance****1. Revenue and Expenditure**

NAMMO has been presented on the basis of being an Agent of the operational Multi-Role Combat Aircraft programme. On this basis, it is recognised that NAMMO as an entity does not generate revenue from its activities in managing the programme on behalf of the member nations and so nil values have been presented against revenue and expenditure for the current and prior years.

## D. Notes to Statement of Cash Flow

(in thousands of Euros)

### Cash flow from operating activities

#### 1. Surplus / (deficit)

	2023	2022
Surplus / (deficit)	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

This represents the surplus or deficit from normal operating activities before interest, depreciation and financial charges such as exchange differences arising from transactions. As an Agent NAMMO does not have ownership of any assets and does not generate revenue from its activities and so it does not recognise any surplus / deficit.

### Non-cash movements

#### 2. Increase / (decrease) in payables

	2023	2022
Payables to suppliers	6,756	(10,996)
Other payables	185	13
<b>Total</b>	<b>6,941</b>	<b>(10,983)</b>

Payables to suppliers represent invoices presented but not yet paid. As stated in the Notes to Statement of Financial Position, the increase in payables between 2023 and 2022 is due to the greater value of unpaid invoices at 31<sup>st</sup> December 2023 (€8M). The 2023 statement recognises these liabilities as unpaid.

#### 3. Increase / (decrease) in unearned revenue

	2023	2022
Unearned revenue	(6,202)	107,366
<b>Total</b>	<b>(6,202)</b>	<b>107,366</b>

The movement on unearned revenue represents the accumulated surplus / (deficit) of contributions over expenditure for 2023. In 2023 the unearned revenue has decreased due to the decreased closing balance on NETMA bank accounts.

#### 4. Increase / (decrease) in advances

	2023	2022
Advance contributions	(18,216)	(6,784)
<b>Total</b>	<b>(18,216)</b>	<b>(6,784)</b>

As stated in note B4, no call for funds was raised in December 2023 relating to the 2024 NAMMO Operational Budget.

**5. (Increase) / decrease in receivables**

	2023	2022
National contributions	0	10,000
Other receivables	(1,147)	8,573
<b>Total</b>	<b>(1,147)</b>	<b>18,573</b>

The movement on National Contributions receivable represents the change in the nations' debt to the programme from the previous financial year. There are no outstanding calls at the end of 2023 and a nation interbank transfer balance had been repaid.

Receivables include credit invoices received on PARMIS from industry which were offset against payables in 2023.

**E. Notes to Statement of Budget Execution**

(in thousands of Euros)

**1. Budget analysis - 2023**

	2023 Budget	2023 Expenditure
All nations initial approved budget	663,989	592,963
In-year budget adjustments	98,036	
<b>Total</b>	<b>762,025</b>	<b>592,963</b>

The budget and actual expenditure figures in the budget execution statement are presented on an accrual basis and are therefore different to the amounts entered in the general ledger. The budget is compiled based on the advice and assistance of a number of sources including nations, commercial and technical staff within NETMA and industry. It has been based on the best information available and takes into account known payment plans and estimates of new work in line with advice on technical progress. During 2023 the NAMMO nations chose to uplift their budget from the original values by €98.036M to reflect additional Air Force operational requirements.

For its Operational budget, NAMMO does not formally lapse budget called for but unspent in the following year. The excess of funds is viewed as "unused budget". The unused budget is caused largely by various milestone slippages into 2024 and several "Cost Reimbursement" tasks for which the accurate forecast is not always feasible due to their nature. For these reasons, as budget is not lapsed, the unused part of the budget will be reflected in Tornado Operational Budget 2024.

**F. Contingent Liabilities / Provisions**

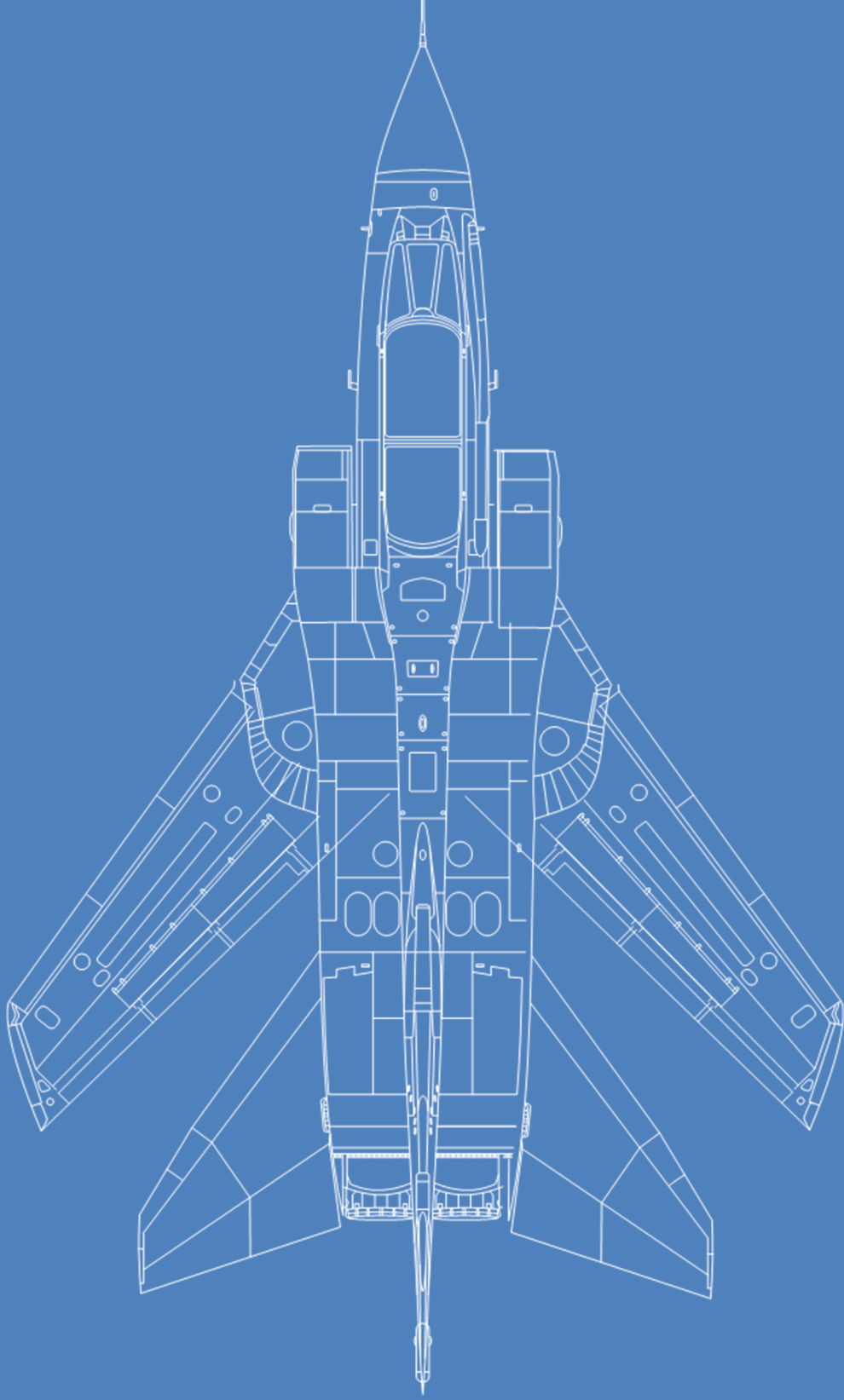
NAMMO has no contingent liabilities or provisions.

**G. Related Parties Disclosure**

The key management personnel of NAMMO have no significant related party relationships that could affect the operation of NAMMO. Board members receive no remuneration and senior management is remunerated in accordance with the published NATO pay scales. Both do not receive loans that are not available to all staff.

**H. Write-Off and Donations**

In accordance with the NATO Financial Regulations, where a global statement of write-offs and donations shall be reported in the Annual Financial Statements, NAMMO as an Agent has nothing to disclose for 2023. Write-offs/strike-offs are administered by the NETMA Tornado Sustainment Section when items are deemed surplus to requirements, obsolete, damaged beyond economic repair or lost.



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**NATO AEW&C PROGRAMME  
MANAGEMENT AGENCY (NAPMA)  
FINANCIAL STATEMENTS 2023**

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PUBLICLY DISCLOSED - PDN(2025)0017 - MIS EN LECTURE PUBLIQUE

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## OVERVIEW

### Overview of the NAEW&C Programme Management Organisation's Operations and Environment (NAPMO)

In 1975, the NATO Military Authorities established a "priority one" requirement for an Airborne Early Warning and Control (AEW&C) system to operate over both land and sea. The system was designed to provide an airborne warning and detection capability and to improve the Alliance's maritime surface surveillance capability. It would also contribute to the direction and control of tactical air forces and to the gathering of information on hostile ship and aircraft movements.

In December 1978, a number of NATO Nations joined together to establish and implement the NATO AEW&C Programme. As a result of the international agreements formally ratified at that time, the NAEW&C Force Programme Management Organisation (NAPMO) was created as a NATO Production and Logistics Organisation and established as a NATO civil organisation, under the provisions of the 1951 Ottawa Agreement i.a.w. its charter.

Nations agreed at the time to operate and support the NAEW&C Force under a single Force Commander, subordinate to the Strategic Commanders (SCs). The Supreme Allied Commander Europe (SACEUR) acts as the executive agent for the SCs in NAEW&C Force matters. However, with regard to the maintenance and supply concept, the NAPMO retained responsibility to represent the NAPMO Nations' interest, in particular the NAPMO Board of Directors (BOD) is responsible for the Depot Level Maintenance (DLM) policy and its implementation as well as establishing goals how Industrial Benefits (IB) shall be achieved through a prime (main) contractor selected by them.

Currently, the NATO AEW&C Programme is comprised of 16 Nations participating as full members – Belgium, Czech Republic, Denmark, Germany, Greece, Hungary, Italy, Luxembourg, The Netherlands, Norway, Poland, Portugal, Romania, Spain, Turkey, and the United States.

The United Kingdom (UK) exercises limited participation as a NAPMO Member, but its fleet of Airborne Warning & Control System aircraft (AWACS) is an integral part of the NAEW&C Force. The UK E-3 Sentry airborne early warning aircraft fleet was retired in September 2021 with the delivery of its replacement, the E-7 Wedgetail, expected during the second half of 2024 and the Initial Operating Capability to follow three to six months later.

France has an observer role and maintains continual coordination to ensure its four E-3F aircraft remain interoperable with the other E-3 fleets. France also often assists in coordinated operations with the NAEW&C Force.

### Role of the NAEW&C Programme Management Agency (NAPMA)

As NAPMO executive agent, the NAEW&C Programme Management Agency (NAPMA) is accountable to the BOD for planning and coordinating the acquisition strategy, managing projects associated with modernisation of the E-3A fleet, providing sustainment support services and overseeing the technical aspects of the NAEW&C airworthiness programme.

NAPMA is a programme management organisation, mainly funded through contributions made by the Member Nations.



NAPMA's Peacetime Establishment (PE) currently is 113 posts manned by personnel drawn from all NAPMO Nations (A-Grades) and from all NATO Nations (B-Grades). The legal status of NAPMA, as an integral part of the North Atlantic Treaty Organisation, is laid down in the Ottawa Agreement as of 20 September 1951. Based on this agreement, NAPMA is, inter alia, exempt from all taxes and customs duties. The NAPMA General Manager (GM) is responsible for the Technical Airworthiness of the NAEW&C Force Fleet.

### How NAPMA's operating environment affects its Financial Statements

NAPMA's financial management is "separate and distinct from the International Staff, other NPLSOs or other NATO Organs<sup>1</sup>". The overall activities of NAPMA are funded by Member Nations, the income generated by NAPMA's authorised activities and funds otherwise made available to NAPMA. The budgets are approved annually by the NAPMO BOD. The Nations' Contributions are to remain within the overall Programme ceiling, as agreed in the respective MMoU addendum amendment. The Administrative Budget covers all expenditures for the internal functioning of the Agency. The Project Budgets contain the appropriations for the modification of the NAEW&C Force fleet. Aside from its own budgeted activities, NAPMA also supports other NATO entities, such as the HQ NAEW&C Force GK, and relies on the support of NATO Support and Procurement Agency (NSPA) and NATO Communications and Information Agency (NCIA).

NAPMO has an agreement with the US Government (USG) that they can act as an exclusive general agent which has responsibility and authority to procure and manage aircraft modernisation efforts. This gives NAPMO a special arrangement in the Foreign Military Sales (FMS) process, more specifically, the USG can act as the Agent for NAPMO, resulting in Agent Contracts between NAPMO and US industry. System Programme Office (SPO) support at Hanscom Air Force Base (Massachusetts) performs the day-to-day support functions for US Agent contracts. Since 2017, NAPMO also uses regular agreements under the FMS with the United States.

### Compliance with Financial Regulations

The NAPMA Financial Statements have been prepared on the accrual basis of accounting in accordance with the NATO Accounting Framework (NAF), as adopted by the North Atlantic Council (NAC). The NAF is based upon the International Public Sector Accounting Standards (IPSAS), issued by the IPSAS Board (IPSASB), and relevant to NAPMA, as decided by the NAC in 2002, and revised again in 2013 and 2016, to adapt IPSAS 12 – Inventories, IPSAS 17 – Property Plant and Equipment, IPSAS 31 – Intangible Assets and IPSAS 1 – Presentation of Financial Statements.

NAPMA Financial Statements have been prepared in accordance with the accounting requirements of the NAPMO Financial Regulations (NFRs), Version 2.0, approved by the NAC on 07 December 2017, and the accompanying NAPMO Financial Rules and Procedures (FRPs).

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<sup>1</sup> NAPMO Charter paragraph 37 (a)

## How NAPMA's mission and strategies relate to its financial position, financial performance and cash flows

NAPMA's mission is to plan and coordinate acquisition strategy, manage projects associated with modernisation of the NE3A fleet, provide initial sustainment support services, and oversee the technical aspects of the NAEW&C airworthiness programme.

Programme schedule risks and national budgetary cycles require NAPMA to maintain appropriate annual cash levels.

## Basis for the preparation of NAPMA's Financial Statements

NAPMA has prepared the Financial Statements for the financial year ended 31 December 2023 on a going concern basis, which assumes continuity of current business activities, the realization of assets and the settlement of liabilities in the ordinary course of business.

NAPMA's functional and reporting currency, used throughout these Financial Statements, is USD (\$) equivalent.

## Risks and Uncertainties that affect NAPMA's Financial Position and Performance

The operational deployment of NATO's NE-3A-fleet in response to the invasion of Ukraine and regular Depot Level Maintenance, have an effect on the number of aircraft available for modification. NAPMA's management recognizes that aircraft availability issues may have an impact on the cost and schedule of the FLEP Production and Retrofit phase.

FLEP will be the last modernization programme for NATO's NE-3A aircraft as directed by the NAPMO BOD. The member states of NAPMO will have to decide how the NAPMA Functions not related with the modernization programmes (so called "Collateral Functions"), that need to be carried out until the NE-3A fleet retirement and disposition), will be managed after FLEP, including how these activities will be funded.

## Final Lifetime Extension Programme (FLEP)

At the Wales Summit in 2014, the NATO Council stated: "NATO's Airborne Early Warning and Control Force will continue to be modernized to maintain its full operational capability."

Accordingly, at the Warsaw summit it was stated that "NATO's Airborne Early Warning and Control Force (AWACS) continues to prove itself instrumental not only to monitor our airspace, but also as a critical part of NATO's command and control capabilities and that NATO AWACS will continue to be modernised and extended in service until 2035. By 2035, the Alliance needs to have a follow-on capability to the E-3 AWACS".

Upon receipt of the last signature of a financially contributing NAPMO Nation, the 6th Amendment to the Addendum to the Multilateral Memorandum of Understanding (MMOU) entered into effect the 23 September 2019, committing the Nations to the USD 1,000,000,000 at Base-Year 2016 ceiling amount for the FLEP. This allowed for the necessary Contract Authority to enter into the main contract for this modernisation programme and secured the

related Administrative budgets for the Agency. The main contract with Boeing was formally awarded on 27 November 2019.

According to the 6th Amendment, the contribution ceiling for the FLEP includes the costs for administration. Other sources to fund the overall activities of NAPMA are the income generated by NAPMA's authorised activities and funds otherwise made available to NAPMA (NAPMO Charter Section X Financial Management).

### **NAPMA's Future**

Should the NAPMO Nations not agree on another Amendment to the Addendum to the MMOU, NAPMO's remaining responsibilities are: to ensure the Technical Airworthiness and perform configuration management of the fleet, manage the Industrial Returns (O&S MOU and MMOU) and exercise the property rights, thus enjoyed by NATO, on all assets acquired by NAPMO (NAPMO Charter Section V, par. 13). NAPMO may choose to continue performing these activities via its executive agent NAPMA, right-sized for the tasks. In accordance with the NAPMO Charter (Section V, par. 15.), in the event of dissolution of NAPMO, the difference between the proceeds derived from the sale of assets and any liabilities of NAPMO shall be shared or borne by the Member States of NAPMA in accordance with a formula to be established by the Board of Directors.

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**NAPMA Statement of Financial Position**

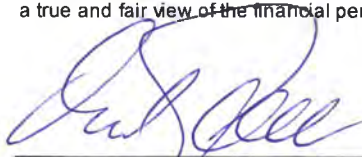
as at 31 December 2023

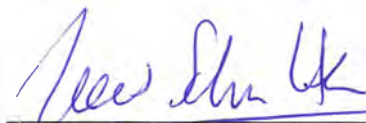
(in USD equivalent)

	Note	2023	Restated 2022	Original 2022
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	1	66,199,252	88,756,059	88,756,059
Investments	2	355,393,564	283,615,161	281,000,000
Receivables	3	51,831,207	71,673,743	74,288,903
Prepayments	4	13,783,684	8,642,704	8,642,704
		<u>487,207,707</u>	<u>452,687,666</u>	<u>452,687,666</u>
<b>Non-current assets</b>				
Receivables >12 Months	5	0	295,118	295,118
Prepayments >12 Months	6	61,993	95,888	95,888
Property, Plant & Equipment	7	20,323,244	24,020,022	24,020,022
Other non-current assets *	8	439,520,072	362,777,121	362,777,121
		<u>459,905,309</u>	<u>387,188,149</u>	<u>387,188,149</u>
<b>TOTAL ASSETS</b>		<b><u>947,113,016</u></b>	<b><u>839,875,815</u></b>	<b><u>839,875,815</u></b>
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Payables	9	1,502,914	2,097,792	2,097,792
Accruals	10	2,662,649	2,423,235	2,423,235
Deferred Revenue	11	311,488,213	287,279,870	287,279,870
Advances	12	91,565,382	91,781,344	91,781,344
Risk Mitigation Fund Nations	13	54,592,723	32,383,827	32,383,827
		<u>461,811,882</u>	<u>415,966,069</u>	<u>415,966,069</u>
<b>Non-current liabilities</b>				
Deferred Revenue	14	44,863,589	60,188,514	60,188,514
Other non-current liabilities	15	439,520,072	362,777,121	362,777,121
		<u>484,383,661</u>	<u>422,965,635</u>	<u>422,965,635</u>
<b>TOTAL LIABILITIES</b>		<b><u>946,195,542</u></b>	<b><u>838,931,704</u></b>	<b><u>838,931,704</u></b>
<b>Net assets/equity</b>	16	<b><u>917,473</u></b>	<b><u>944,112</u></b>	<b><u>944,112</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b><u>947,113,014</u></b>	<b><u>839,875,815</u></b>	<b><u>839,875,815</u></b>

\* The figures given in respect of FMS and indirect contracting via the U.S. System Program Office (SPO) are presented on a modified cash basis.

We hereby certify that to the best of our knowledge the attached financial statements and notes present a true and fair view of the financial performance and position of NAPMA as at 31 December 2023.

  
 BrigGen Michael Gschossmann  
 General Manager NAPMA,  
 Date 23rd Sept 2024

  
 Kees Schulten  
 Financial Controller NAPMA,  
 Date 23 Sep 2024

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**NAPMA Statement of Financial Performance**

for the year ended 31 December 2023

(in USD equivalent)

	Note	2023	2022
<b>Revenue</b>			
Revenue from Contributions	17	21,269,172	20,235,587
Financial Revenue	18	22,180,068	8,467,455
Revenue from received grants	19	446,915	0
Other Revenue	20	57,728	653,085
<b>Total Revenue</b>		<b>43,953,882</b>	<b>29,356,127</b>
<b>Expenses</b>			
Projects	21	387,160	421,660
Administrative	22	20,676,901	19,442,052
Depreciation	23	240,801	236,266
Finance Costs	24	63	89,042
<b>Total expenses</b>		<b>21,304,925</b>	<b>20,189,019</b>
<b>Surplus/(Deficit) for the period</b>	25	<b>22,648,957</b>	<b>9,167,107</b>

## NAPMA Statement of Changes in Net Assets/Equity

for the year ended 31 December 2023

(in USD equivalent)

	Capital Assets Reserve	Accumulated Surplus/Deficit	Total
<b>Balance at the beginning of the period 2022</b>	<b>776,448</b>	<b>0</b>	<b>776,448</b>
Net increase-decrease capital assets	167,059	(167,059)	(0)
Surplus/(Deficit) for the period (Restated)	0	9,167,107	9,167,107
Distribution to Nations/RMF (Restated)	0	(8,999,444)	(8,999,444)
<b>Change in net assets/equity for the year ended 2022</b>	<b>167,059</b>	<b>605</b>	<b>167,664</b>
<b>Balance at the end of the period 2022</b>	<b>943,507</b>	<b>605</b>	<b>944,112</b>
<b>Balance at the beginning of the period 2023</b>	<b>943,507</b>	<b>605</b>	<b>944,112</b>
Net increase-decrease capital assets	(31,051)	31,051	0
Surplus/(Deficit) for the period	0	22,648,957	22,648,957
Distribution to Nations/RMF	0	(22,675,596)	(22,675,596)
<b>Change in net assets/equity for the year ended 2023</b>	<b>(31,051)</b>	<b>4,413</b>	<b>(26,638)</b>
<b>Balance at the end of the period 2023</b>	<b>912,456</b>	<b>5,017</b>	<b>917,473</b>

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**NAPMA Cash Flow Statement**

for the year ended 31 December 2023

(in USD equivalent)

	<u>2023</u>	<u>Restated 2022</u>	<u>Original 2022</u>
<b>Cash Flow from Operating Activities</b>			
Surplus/(Deficit) from Operating Activities	22,648,957	9,167,107	9,167,107
<b>Add: Non-Cash Movements</b>			
Depreciation	240,801	236,266	236,266
Depreciation adjustment CAP	4,839,227	4,614,927	4,614,927
Unrealised Foreign Exchange Rate Gains/Losses	(4,413)	(605)	(605)
(Increase)/Decrease in Accounts Receivable	20,137,653	8,896,992	6,281,831
(Increase)/Decrease in Prepayments	(5,107,086)	(3,432,444)	(3,432,444)
Increase/(Decrease) in Accounts Payables	(594,878)	5,040	5,040
Increase/(Decrease) in Deferred Revenue	8,883,419	(33,572,576)	(33,572,576)
Increase/(Decrease) in Advances and Reimbursables NATO Entities	21,992,934	1,214,631	1,214,631
Change of Value in Deliverable to NAEW&C Force*	73,168,364	136,813,116	136,813,116
Increase/(Decrease) in Goods Receipt	239,415	1,825,558	1,825,558
<b>Net Cash Flow from Operating Activities</b>	<b>146,444,392</b>	<b>125,768,010</b>	<b>123,152,849</b>
<b>Cash Flow from Investing Activities</b>			
Additions to Other investments not included in cash and cash equivalent	(71,778,403)	7,384,839	10,000,000
- (Purchase)/Disposal of Assets	(1,383,250)	(1,778,324)	(1,778,324)
Corrections to Assets	0	0	0
Additions to Work in Progress (WIP)**	(73,168,364)	(136,813,116)	(136,813,116)
<b>Net Cash Flow from Investing Activities</b>	<b>(146,330,017)</b>	<b>(131,206,602)</b>	<b>(128,591,441)</b>
<b>Cash Flow from Financing Activities</b>			
Fund Transfer from Net Assets	(22,675,596)	(8,999,444)	(8,999,444)
<b>Effect of Currency Valuations</b>			
Currency Valuation Operating Activities	4,413	605	605
Currency Valuation Financing Activities	0	0	0
<b>Total Currency Valuations</b>	<b>4,413</b>	<b>605</b>	<b>605</b>
<b>Net Increase (Decrease) in Cash/Cash Equival.</b>	<b>(22,556,808)</b>	<b>(14,437,430)</b>	<b>(14,437,430)</b>
Cash and Cash Equiv. Beginning of Period	88,756,059	103,193,487	103,193,487
<b>Cash and Cash Equiv. End of Period</b>	<b>66,199,252</b>	<b>88,756,059</b>	<b>88,756,059</b>

\*For further details see Note 15.

\*\*For further details see Note 8.

## GENERAL INFORMATION

The NAPMA Financial Statements for the year ending 31 December 2023 were authorized for issuance, in accordance with NAPMO Financial Rules and Procedures, by the General Manager and the Financial Controller on 26 March 2023. Additionally, with approval from IBAN, the General Manager and the Financial Controller, on an exceptional basis and with the intent to correct a material misstatement or disclosure, can restate financial statements until one month from after the end of the field/remote audit work, as communicated in the audit notification letter.

## ACCOUNTING POLICIES

### Basis of Preparation

NAPMA Financial Statements have been prepared on the accrual basis of accounting, in accordance with the NAF, which is based on the IPSAS issued by the IPSAS Board. NAPMA uses an Enterprise Resource Planning System, based on SAP, to record and report financial information. NAPMA Financial Statements are prepared in accordance with the accounting requirements of the NAPMO FRs and FRPs.

The accounting principles accepted as appropriate for the recognition, measurement and reporting of the financial position, performance, and cash flows are based on accrual accounting using historical costs, unless the NAF requires otherwise. The accounting principles have been applied consistently throughout the reporting period. This ensures that the Financial Statements provide information that is relevant to decision-making and that is reliable, comparable, and understandable in light of the qualitative characteristics of financial reporting.

For the accounting of the expenditures related to indirect contracts and FMS, in accordance with the NAF's adaptation of IPSAS 1 – Presentation of Financial Statements, NAPMA reports data on a cash basis where the agency is unable to satisfy that the data is presented on a reliable accrual basis. The modified cash basis reflects that FMS/indirect contracts goods and services delivered according to DD645 billing statements as provided by the US government and for which the US government has received cash payments.

Slight differences in summation may occur due to the fact that all the figures have been rounded to the nearest dollar.

The Financial Statements have been prepared on a going-concern basis which assumes that NAPMA will continue in operation for at least a year from the date the financial statements are issued.

In accordance with the NAF, the Financial Statements necessarily include amounts based on estimates and assumptions made by the management and based on historical knowledge as well as on the most reliable information available. In exercising the judgement to formulate the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

The estimates and underlying assumptions are reviewed on an on-going basis. These estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses reported. The estimates are subject to a measure of uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the Financial Statements.



The most significant estimate used in these Financial Statements is the estimation of goods/services received that are not yet supported by an invoice at year-end.

### Accounting Period

The 2023 Financial Statements are based on the accounting records of NAPMA as of 31 December 2023. In accordance with the NAPMO FRs, the financial year at NAPMA begins on 1 January and ends on 31 December.

### Functional and reporting Currency

The functional and reporting currency used throughout these Financial Statements is the USD (\$) equivalent. The Financial Statements are prepared using data based on the actual multi-currency execution of the approved budget appropriations.

### Cash Flow Statement

IPSAS 2 – Cash Flow Statement allows the choice between presenting the cash flow based on the direct method or indirect method. NAPMA has selected the indirect method of presentation for these Financial Statements.

### Revenue and Expense Recognition

According to the NAPMO charter, NAPMA has an administrative budget and an operational (project) budget for the annual programme objectives and operating plans of NAPMO. The operational budget covers the disbursements which are directly related to the modernisation of the NE-3A aircraft. The administrative budget covers the expenses for the administration, acquisition, execution, support and other management activities related to the modernisation programmes. The administrative and operational budget are mainly funded through contributions made by the Member Nations.

NAPMA will recognize revenue when the administrative budget is used for its intended purpose as authorized by the BOD. This includes the (moment of) acquisition of Property, Plant and Equipment (PP&E).

NAPMA will recognize revenue when the operational budget is used (expenses incurred) for its intended purpose as authorized by the BOD, except when the outflow results in (1) a non-current liability to deliver assets to the NAEW&C Force (deliverable to NAEW&C Force) or (2) the recognition of Assets under Construction or Property, Plant and Equipment (PP&E). Depreciation of PP&E funded from the operational budget is simultaneously recognized as contract work in progress and as a deliverable to the NAEW&C Force. Depreciation of PP&E funded from the operational budget will therefore not result in gains or losses and will not be recognized in the statement of Financial Performance.

NAPMA will recognize other non-exchange revenues when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, recognition of revenue is deferred. NAPMA will not defer revenue for performance obligations that are also part of a modernisation programme approved by the NAPMO Nations, and that NAPMA has no alternative but to perform.

Revenues and expenses are accrued when goods and services are received or when economic benefits or expenses are incurred.

## Foreign Currency Transactions and Presentation

Foreign currency monetary items, like cash, trade creditors or debtors, will for reporting purposes be translated into US Dollar (USD) equivalents using the closing rate.

Foreign currency non-monetary items are assets and liabilities whose value depends on economic conditions. Non USD expenditures for non-monetary items are translated using the weekly posted NATO exchange rates that apply on the date of the transaction.

## Changes in Accounting Policies

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy is required by a standard, or if the change results in the financial statements providing more reliable and relevant information.

For the 2023 Financial Statements there were no changes in accounting policies.

## Changes in Accounting Standards

NAPMA discloses when initial application of an IPSAS has or would have an effect on the current period of any prior period of the Financial Statements. For 2023, no new relevant standards had or would have had an effect on the Financial Statements.

## Prior year adjustments and Corrections

NAPMA will retrospectively restate the opening balances of assets, liabilities and net assets for changes in accounting policies, initial or voluntary application of an IPSAS and corrections of prior period errors, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the effects of an error on comparative information, NAPMA shall restate the opening balances for the earliest financial period when retrospective restatement is practicable, which may be the current financial period.

The NAPMA 2022 Financial Statements were restated. Original figures are those which were published in the NAPMA Financial Statements for 2022. The restated column presents the new adjusted figures for 2022 after taking into account corrections.

According to IPSAS 41 Financial Instruments, financial assets held in order to collect contractual cash flows with contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, shall be measured at amortized cost. In NAPMA 2022 Financial Statements, principal amounts and the outstanding interest on these amounts, have been separately reported as Receivables from Bank interest and Investments. The management of NAPMA, while preparing the 2023 Financial Statements, recognized that in accordance with IPSAS 41 Financial Instruments, outstanding interest on principal amounts, should have been reported as investments. This error has been corrected by restating the 2022 comparative figures for Receivables from Bank interest and Investments in NAPMA's 2023 Financial Statements. Because the error does not affect the reported surplus or deficit in the Statement of Financial Performance, the management of NAPMA believes that detailed information on the Receivables from Bank interest and Investments in Financial Years prior to 2022, is inconsequential for future decision making.

## Assets – Current Assets

The current assets of NAPMA are cash and cash equivalents, accounts receivables, prepayments and short term investments. They are measured at fair value or amortized costs. Changes in fair value are recognized in the Statement of Financial Performance.

### Cash and Cash Equivalents

Cash and cash equivalents comprise cash at current and saving bank accounts and fixed-term deposits with an original maturity of three months or less.

### Investments

NAPMA's current investments are held-to-maturity fixed term deposits with original maturities between three and six months.

### Receivables

Receivables are reported at fair value in the Statement of Financial Position. No loss allowances and lifetime credit losses are recorded for the balance due as it is deemed to be collectable. Receivables are disaggregated into receivables from non-exchange transactions (contributions from NAPMO Nations) and receivables from exchange transactions (NATO and Non-NATO Entities, Staff members, bank interest and other receivables). Contribution receivables are recognized when a call for contribution has been issued to the Member Nations.

### Prepayments

Prepayments made to suppliers and to other NATO entities are reflected in the Statement of Financial Position.

## Assets – Non-Current Assets

In this category, NAPMA is reporting all assets which are not expected to realise within twelve months after the reporting period.

### Property, Plant and Equipment

PP&E includes tangible items that support programme management activities and are expected to be used in more than one reporting cycle. PP&E is recognized if it is controlled by NAPMA in accordance with the criteria outlined in the NAF and if the acquisition cost exceed the NAPMA capitalisation thresholds. Where an asset is acquired in a non-exchange transaction the asset is initially measured at its fair value.

After recognition as an asset, an item of PP&E is carried at its historical cost less any accumulated depreciation and impairment losses. Cost includes all expenditure that is directly attributable to the acquisition of the items.

The building and the land that NAPMA occupies are provided by the Host Nation as a "right of use".

In accordance with the NAF adaptation of IPSAS 17, PP&E acquired prior to 1 January 2013 has been fully expensed. PP&E controlled by NAPMA, but not previously recognized as an asset, will be disclosed in the notes to the financial statements.

### Contractor-held NATO Property

Contractor-held NATO Property concerns property that is NATO Furnished Property (NFP) or Contractor Acquired Property (CAP) for the performance of a contract and to which NAPMA has title.

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Contract costs for CAP that is also a deliverable end-item pursuant to a contract, will be reported as contract work in progress until delivery of the asset to NATO.

Contract costs for CAP that is not a deliverable end-item pursuant to a contract, that it is acquired under a cost reimbursement contract and that is expected to meet the NAPMA criteria for PP&E, will be reported as assets under construction until it is serviceable.

Contract costs for CAP that is not a deliverable end-item pursuant to a contract and that it is acquired under a fixed price contract, will be reported as contract work in progress until the constructive delivery of the asset. At the time of constructive delivery to NATO, the fully burdened unit cost will be estimated and transferred to assets under construction.

Serviceable assets will be transferred from assets under construction to the appropriate PP&E categories (if the relevant capitalization criteria are met).

### **Development laboratories**

For performing a modernisation contract, the contractor acquires development laboratories to simulate, test and evaluate integrated technologies in an as realistic operating environment. NATO holds title of the development laboratories when it has fully paid for them. Development laboratories are considered to be a combination of hardware and integrated software (i.e. the hardware cannot operate without the software) and together recognized as PP&E. No development laboratory software is separately recognized as an intangible asset.

Serviceable development laboratories will be reported in the PP&E category integrated systems (if the relevant capitalization criteria are met).

### **Depreciation of Property, Plant and Equipment**

Depreciation is charged at rates calculated to allocate the cost or valuation of the assets, less their residual values, over their estimated useful lives, using the straight-line method. Depreciation of an asset begins when it is available for use. PP&E categorization for purposes of determining the appropriate depreciable life of the assets and the associated capitalization thresholds per item, is listed in the table below.

### **Disposal of Property, Plant and Equipment**

An item of PP&E is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item is determined as the difference between the sales proceeds and the carrying amount of the asset and it is recognised in the statement of financial performance.

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**PP&E categories**

Categories (classes) of PP&E is a grouping of assets of a similar nature or function in an entity's operation that is shown as a single item for the purpose of disclosure in the financial statements. The following table provides details per PP&E category on the expected useful life and their associated capitalization thresholds per item:

<b>PPE Category</b>	<b>Description</b>	<b>Threshold per item</b>	<b>Useful life</b>
Buildings	Building	200,000	40
Installed Equipment	Equipment/building improvements as part of the building such as heating & cooling systems, security systems, renovation, replacements and fixtures	30,000	10
Vehicles	Transportation equipment	10,000	5
Furniture	Desks, Chairs, Cabinets, Safes, Conference, etc.	30,000	10
Automated Information Systems	NIMS, major Hardware and Software	50,000	3
Communication and IT Equipment	Equipment/Tools required for daily office operations such as PC's, Laptops, Software, etc.	50,000	3
Government Furnished Equipment	Miscellaneous Equipment provided to Contractors	50,000	7-10
Integrated Systems	Development laboratories to simulate, test and evaluate integrated technologies	50,000	5-10
Assets under Construction			No depreciation

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## Leases

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and benefits incidental to ownership to the lessee. All other leases are classified as operating leases. NAPMA does not have any finance leases.

## Work in Progress (other non-current assets)

Contract work in progress is the accumulated amount of expenses during the execution of a programme to modernize the NE-3A aircraft. Deliverable end-items pursuant to the contract, that are ready for their intended use and controlled by the NAEW&CF, will be de-recognized as contract work in progress in NAPMA's financial statements ("transferred to the NAEW&CF").

Contract work in progress is valued at its historical acquisition value at the exchange rate in effect on the date of the expenditure transactions. The expenditures for US FMS contracts and agent contracts are presented on a cash basis provided by the US Government under the US Government Acquisition Agreement. Contract work in Progress is presented on a modified cash basis in the financial statements.

Acquisition programmes have a full cost recovery basis for NAPMA, so no surpluses or deficits are recognized in relation to the contract work in progress with the provision that the budget is used for its intended purpose. Impairment or depreciation of the accumulated costs only starts after the operational capability has been transferred to the NAEW&C Force and put into service.

## Liabilities – Current Liabilities

### Payables and Accruals

Payables are reported at fair value in the Statement of Financial Position. They represent amounts for which goods and services, supported by an invoice, have been received due to NATO and Non-NATO entities, commercial vendors and NAPMA Staff for goods received or services provided that remain unpaid as of the reporting date. Accruals are estimates of the cost for goods and services received but not yet supported by an invoice at year-end.

### Deferred Revenue – current

Deferred revenue - current are unearned contributions from Nations that are expected to be consumed in the first year after the end of the reporting period and payments from third parties subject to specific conditions that are expected to become unconditional in the first year after the end of the reporting period.

### Advance NAPMO Nations

Advances NAPMO Nations represent the amounts of funds held on behalf of the Member Nations, arising from a variety of sources including received advanced payments from some Nations, sales of residual assets and Research and Development (R&D) recoupment.

### **Advances NATO Entities**

Advances received from NATO Entities to support Third Party Projects. Funds are received and expended on behalf of other NATO entities, predominantly the NAEW&C Force, for execution of projects and activities for Operations and Support.

### **Risk Mitigation Funds (RMF)**

During BOD/96, the NAPMO BOD approved the creation of a fund comprised of revenue generated from gross interest earned and investments to mitigate currency and exchange risks. Upon dissolution of the fund, the fund will be redistributed to the Nations according to the then current MoU cost shares.

The RMF is comprised of income generated from interest earned on bank accounts, investments in term/time deposits or money market accounts and gains or losses from foreign currency exchanges. The liquidity held in the fund will have no denomination or link to a particular programme rate or inflation factor.

### **Employee Benefits**

NAPMA employees participate in one of the two NATO pensions schemes: the Coordinated Pension Scheme (CPS) which is a benefit plan, and the Defined Contribution Pension Scheme (DCPS) which is a contribution plan. NATO IS operates the CPS for all NATO staff. NATO appointed Previnet SPA as the pension scheme administrator for the DCPS. The assets and liabilities for these pension schemes are accounted for centrally at NATO Headquarters and therefore are not recognized in these Financial Statements. NAPMA only accounts for the contributions paid during the year.

### **Provisions and Contingent Liabilities**

Provisions are recognized when the NAPMA has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

## **Liabilities – Non-Current Liabilities**

### **Deferred Revenue – non-current**

Deferred revenue – non-current are unearned contributions from Nations that are not expected to be consumed in the first year after the end of the reporting period and payments from third parties subject to specific conditions that are not expected to become unconditional in the first year after the end of the reporting period.

### **Deliverables to NAEW&C Force (other non-current liabilities)**

Deliverables to NAEW&C Force represent the obligation to transfer deliverable end-items to the NAEW&C Force pursuant to the contract. Deliverable end-items that are controlled by the NAEW&CF, will be de-recognized in NAPMA's financial statements ("transferred to the NAEW&CF").

Because work in progress is presented in the financial statements on a modified cash basis, deliverables to NAEW&C Force – being a derivative – is also presented on a modified cash basis.

**Contingent Liabilities**

At BOD 110 in November 2023, the NAPMO Board of Directors approved the final disposal of the three retired aircrafts stored at Aerospace Maintenance and Regeneration Group (AMARG) at Davis-Monthan Air Force Base in Tucson, Arizona (US), each upon reaching their 10 years storage point. At time of writing, insufficient information is available to make an estimate of the cost and/or any associated reimbursements related to the final disposal of the aircraft. The earliest outflow anticipated is upon reaching of the first aircraft 10-year storage point in 2025, the following aircrafts will reach this point in 2027 and 2028 respectively.

**Net Assets**

Net assets is the residual interest of the NAPMO Nations in NAPMA's assets after deducting all its liabilities. Net assets are disaggregated into capital asset reserves, cash reserves and accumulated surpluses and deficits.

**Nature and purpose of reserves**

A capital assets reserve has been established for the depreciation and impairment of capitalized PP&E from the administrative budget. The capital assets reserve is increased with the expenditures for acquired PP&E and decreased with the depreciation and impairment of the PP&E. The capital assets reserve equals the carrying amount of the PP&E from the administrative budget. The capital assets reserve is not available for redistribution to Nations, programmes or budgets.



## NOTES TO THE STATEMENT OF FINANCIAL POSITION

## Assets – Current Assets

## 1. Cash and Cash Equivalents

<u>Cash and cash equivalents</u>	<u>2023</u>	<u>2022</u>
Current Accounts	824,802	1,418,990
Saving Accounts	65,374,451	87,337,069
<b>Total</b>	<b>66,199,252</b>	<b>88,756,059</b>

Cash balances are held in current checking and saving accounts spread between various financial institutions and in multiple currencies.

Details of cash and cash equivalents:

Bank	Currency	USD equivalent
DNB Bank	EUR	27,586,012
	NOK	29,111,168
	USD	8,816,154
WELLS FARGO	USD	24,259,682
<b>Grand Total</b>		<b>66,199,252</b>

Savings are converted using the NATO weekly posted exchange rates applicable on 31 December 2023.

## 2. Investments

<u>Investments</u>	<u>2023</u>	<u>Restated</u> <u>2022</u>	<u>Original</u> <u>2022</u>
Investments	355,393,564	283,615,161	281,000,000
<b>Total</b>	<b>355,393,564</b>	<b>283,615,161</b>	<b>281,000,000</b>

NAPMA's current investments are held-to-maturity fixed term deposits with original maturities between three and six months. Transaction costs and all other premiums or discounts are an integral part of the deposit interest rates. The reported Investments consist of the principle amounts plus the accrued interest at balance sheet date.

The 2022 figures were restated because in accordance with IPSAS 41, Receivables for Bank interest were reclassified as Investments.

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Fixed-Term Deposits held 31 December 2023

Bank	Duration	Currency	Total amount
BBVA Bank	Up to 6 Months	USD	170,000,000
DNB Bank	Up to 6 Months	USD	180,000,000
	<b>Total</b>	USD	<b>350,000,000</b>
	Accrued Interest	USD	5,393,564
	<b>Grand Total</b>	USD	<b>355,393,564</b>

### 3. Accounts Receivable

	<u>2023</u>	<u>Restated</u> <u>2022</u>	<u>Original</u> <u>2022</u>
<b>Accounts receivable</b>			
Receivables from Nations	51,202,704	71,050,089	71,050,089
Other Receivables/Recoverable	620,914	620,914	620,914
Receivables from Bank interest	0	0	2,615,161
Receivables from Staff	6,833	2,740	2,740
Other Receivables/Recoverable	756	0	0
<b>Total</b>	<b>51,831,207</b>	<b>71,673,743</b>	<b>74,288,903</b>

Receivables are reported at fair value in the Statement of Financial Position. No loss allowances and lifetime credit losses are recorded for the balance due as it is deemed to be collectable. Receivables are disaggregated into receivables from non-exchange transactions (contributions from NAPMO Nations) and receivables from exchange transactions (other receivables and staff members). Receivables from Nations/Contribution receivables are recognized when calls for contribution have been issued to the Member Nations.

The 2022 figures were restated because in accordance with IPSAS 41, Receivables for Bank interest were reclassified as Investments.

Contributions from Nations primarily represent the amount not yet received from Member Nations for the first call for contributions 2024 and open balances from prior year calls. The decrease is due to payments of contributions received prior to the year end.

Other Receivables represent the balance reported on the DFAS holding accounts as at 31 December 2023 in the amount of USD 620,914 as well as a reimbursement to be received by Allianz World Wide Care in the amount of 756 USD equivalent.

### 4. Prepayments

<u>Prepayments</u>	<u>2023</u>	<u>2022</u>
NATO Entities	1,180,344	1,966,053
DFAS	12,364,873	6,438,556
ADMIN NON-NATO Entities	238,467	238,094
<b>Total</b>	<b>13,783,684</b>	<b>8,642,704</b>

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Advance payments were made to NSPA and NCIA (NATO Entities) and DFAS against Taskings and Case Directive Amendments (CDAs).

Advance payments to Non-NATO entities are payments for which goods have not been received, or services have not been rendered. The advances relate, for the most part, to prepaid education allowances which covered the school year 2024, maintenance contracts, insurances, and software licenses for 2024.

### Assets – Non-Current Assets

#### 5. Accounts Receivable > 12 Months

<u>Accounts receivable</u>	<u>2023</u>	<u>2022</u>
Other Receivables/Recoverable >12Months	0	295,118
<b>Total</b>	<b>0</b>	<b>295,118</b>

Other receivables/recoverable > 12 months. The open amount from 2022 has been received and the open receivables was settled during the financial year 2023.

#### 6. Prepayments > 12 Months

<u>Prepayments</u>	<u>2023</u>	<u>2022</u>
ADMIN NON-NATO Entities >12Months	61,993	95,888
<b>Total</b>	<b>61,993</b>	<b>95,888</b>

Advance payments to Non-NATO entities > 12 months are prepayments to vendors for maintenance contracts and licenses beyond the following financial year.

#### 7. Property, Plant and Equipment (PP&E)

PP&E includes tangible items that support programme management activities and are expected to be used in more than one reporting cycle.

Based on the best available information provided by the contractor when the financial statements were prepared, development laboratories are considered to be a combination of hardware and integrated software (i.e. the hardware cannot operate without the software) and together recognized as property, plant and equipment. Serviceable development laboratories are categorized as integrated systems. No development laboratory software is separately recognized as an intangible asset.

In 2023 the following amounts were capitalized as PP&E:

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Assets funded from the administrative budget totaling 209,750 USD equivalent (Communication and IT Equipment and Installed Equipment);

Additions to the development laboratory funded from the operational budget totaling 1,173,500 USD equivalent (Integrated Systems).

**PP&E acquired prior to 1 January 2013**

At the reporting date, three retired NE-3A aircraft are stored at Aerospace Maintenance and Regeneration Group (AMARG) at Davis-Monthan Air Force Base in Tucson, Arizona (US).

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	Automated Inf. System (NIMS) *	Communication and IT Equipment	Furniture *	Vehicles	Buildings	Installed Equipment	Gov. Furnished Equipment	Integrated Systems	Assets under Construction	Totals
Opening Balance (01 January 2022)	0	238,000	80,432	35,728	342,512	79,777	0	26,316,442	0	27,092,891
Additions	0	314,079	0	0	0	89,245	0	1,375,000	0	1,778,324
Transfer to PP&E	0	0	0	0	0	0	0	0	0	0
Disposals/Corrections	0	0	0	0	0	0	0	0	0	0
Depreciation	0	177,761	8,655	23,144	15,097	11,608	0	4,614,927	0	4,851,193
<b>Closing Balance (31 December 2022)</b>	<b>0</b>	<b>374,318</b>	<b>71,777</b>	<b>12,584</b>	<b>327,414</b>	<b>157,414</b>	<b>0</b>	<b>23,076,515</b>	<b>0</b>	<b>24,020,022</b>
Gross Carrying Amount	7,275,057.57	1,585,718	632,269	115,722	603,899	190,934	0	30,548,000	0	40,951,599
Accumulated Depreciation	7,275,057.57	1,211,400	560,492	103,139	276,484	33,520	0	7,471,485	0	16,931,577
<b>Net Carrying Amount</b>	<b>0</b>	<b>374,318</b>	<b>71,777</b>	<b>12,584</b>	<b>327,414</b>	<b>157,414</b>	<b>0</b>	<b>23,076,515</b>	<b>0</b>	<b>24,020,022</b>
<b>2023</b>										
Opening Balance (01 January 2023)	0	374,318	71,777	12,584	327,414	157,414	0	23,076,515	0	24,020,022
Additions	0	51,924	0	0	0	157,826	0	1,173,500	0	1,383,250
Transfer to PP&E	0	0	0	0	0	0	0	0	0	0
Disposals/Corrections	0	0	0	0	0	0	0	0	0	0
Depreciation	0	185,464	8,565	12,584	15,097	19,091	0	4,839,227	0	5,080,028
<b>Closing Balance (31 December 2023)</b>	<b>0</b>	<b>240,778</b>	<b>63,212</b>	<b>0</b>	<b>312,317</b>	<b>296,149</b>	<b>0</b>	<b>19,410,788</b>	<b>0</b>	<b>20,323,244</b>
Gross Carrying Amount	7,205,224.10	1,637,642	618,053	115,722	603,899	348,760	0	31,721,500	0	42,250,800
Accumulated Depreciation	7,205,224.10	1,396,864	554,841	115,722	291,581	52,611	0	12,310,712	0	21,927,555
<b>Net Carrying Amount</b>	<b>0</b>	<b>240,778</b>	<b>63,212</b>	<b>0</b>	<b>312,317</b>	<b>296,149</b>	<b>0</b>	<b>19,410,788</b>	<b>0</b>	<b>20,323,244</b>

\* If an asset purchased in a foreign currency, the difference in gross carrying amount/accumulated depreciation between the closing balance of the previous year and the opening balance of the current year, is caused by foreign exchange difference.

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8. Work in Progress (WIP) (other non-current assets)

<u>Work in Progress</u>	<u>2023</u>	<u>2022</u>
Work in Progress (WIP)	439,520,072	362,777,121
<b>Total</b>	<b>439,520,072</b>	<b>362,777,121</b>

WIP – The value of work in progress for the acquisition projects will be transferred to the NAEW&C Force when the related asset is ready for its intended use and controlled by the NAEW&C Force.

The amount of 1,264,640 USD equivalent was transferred to the NAEW&C Force in 2023 in compliance with the control criteria of assets as outlined in the NAF (see note 15 on Deliverables).

In accordance with the NAF, NAPMA records the expenditures related to indirect contracts in the Financial Statements based on data/billing reports as provided by the US Government. The additions in the amount of 73,168,364 USD equivalent include 373,852 USD equivalent recorded on a modified cash basis.

The below summary table shows additions and transfers occurred during the financial year 2023 as well as the accumulated amounts:

	<b>Work in Progress (WIP)</b>
Opening Balance (01 January 2023)	362,777,121
Additions	73,168,364
Transferred to NAEW&C	-1,264,640
Disposals/Corrections	0
Additions depreciation CAP	4,839,227
<b>Closing Balance (31 December 2023)</b>	<b>439,520,072</b>
Gross Carrying Amount	2,829,333,861
Accumulated Transfers	2,389,813,789
<b>Net Carrying Amount</b>	<b>439,520,072</b>

**Liabilities – Current Liabilities**

**9. Accounts Payable**

<b><u>Accounts Payable</u></b>	<b><u>2023</u></b>	<b><u>2022</u></b>
Payables to NATO Entities	23,962	236,138
Payables to Non-NATO Entities	182,198	284,289
Payables to Suppliers	1,290,585	1,559,111
Payables to Staff	6,169	18,254
<b>Total</b>	<b>1,502,914</b>	<b>2,097,792</b>

**Payables to NATO Entities**

Payables to NATO Entities include primarily invoices received from JFC HQ Brunssum and NATO Communications and Information Agency (NCIA) that were not settled at year-end.

**Payables to Non-NATO Entities**

Payables to Non-NATO Entities include the DFAS US-Reimbursables that were not settled at year-end.

**Payables to Suppliers**

Payables to suppliers include invoices received from commercial vendors not settled at year-end. There is a decrease in payables to suppliers because the majority of the invoices were received and settled before the deadline for the last payment date in December 2023.

**Payables to staff members** Payables to staff members include travel expenses which were not submitted by staff members before the last payment date in December 2023 and therefore not settled at year-end.

**10. Accruals**

<b><u>Accruals</u></b>	<b><u>2023</u></b>	<b><u>2022</u></b>
Goods receipt – Invoices to be received	2,662,649	2,423,235
<b>Total</b>	<b>2,662,649</b>	<b>2,423,235</b>

Goods Receipt – Invoices to be received are the amounts based on estimates and assumptions made for goods/services that were delivered/performed during fiscal year 2023 and prior but not invoiced by 31 December 2023.

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### 11. Deferred Revenue - current

<b><u>Deferred Revenue</u></b>	<b><u>2023</u></b>	<b><u>2022</u></b>
Unearned Contribution - Current	306,634,106	282,664,943
Unearned depreciation PP&E - Current	4,854,107	4,614,927
<b>Total</b>	<b>311,488,213</b>	<b>287,279,870</b>

Revenue from contributions and other non-exchange transactions is deferred until it is deemed to have been earned.

Unearned Contributions - current represents the balance of BOD approved but not yet consumed budgets of the financial year and prior periods that are expected to be consumed in the twelve months after the end of the reporting period. Contract work in progress and deliverables to the NAEW&C Force are recognized simultaneously with the depreciation of PP&E funded from the operational budget to correspond with the consumption of the assets. The unearned depreciation PP&E - current is the expected depreciable amount funded from the operational budget in the twelve months after the end of the reporting period.

### 12. Advances NAPMO Nations and NATO Entities

<b><u>Advances</u></b>	<b><u>2023</u></b>	<b><u>2022</u></b>
Advances NAPMO Nations-Appropriated	56,458,284	59,183,103
Advances NAPMO Nations-Unappropriated	32,543,236	31,910,478
Advances NATO Entities	2,563,861	687,764
<b>Total</b>	<b>91,565,381</b>	<b>91,781,344</b>

Advances NAPMO Nations represent the amounts of funds held on behalf of the Member Nations, arising from a variety of sources including received advanced contributions from some Nations on calls for the following financial year, sales of residual assets, recoupment for the Radar System Improvement Project (RSIP) and CNS/ATM, and interest earned on bank accounts for the years 2010 to 2013. The Advances NAPMO Nations is split into appropriated and unappropriated.

Advances NAPMO Nations appropriated are refundable contributions, reimbursements or distributions payable allocated to NAPMO Nations including advance/discretionary payments from Nations.

Advances NAPMO Nations unappropriated are distributions not allocated to NAPMO Nations pending a NAPMO BOD decision on further use.

Advances NATO entities are funds received and expended in support of other NATO entities predominantly the NAEW&C Force for execution of projects and activities for Operations and Support.

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**13. Risk Mitigation Fund Nations**

<b><u>Risk Mitigation Fund Nations</u></b>	<b><u>2023</u></b>	<b><u>2022</u></b>
Risk Mitigation Fund Nations	54,592,723	32,383,827
<b>Total</b>	<b>54,592,723</b>	<b>32,383,827</b>

During BOD/96, the NAPMO BOD approved the creation of a Risk Mitigation Fund (RMF) to mitigate currency and exchange risks. The RMF is comprised of income generated from interest earned on bank accounts, investments in term/time deposits or money market accounts, and gains from foreign currency exchanges since 2014. The liquidity held in the fund will have no denomination or link to a particular programme rate or inflation factor. Risk management procedures are implemented specifically pertaining to measuring and managing liquidity risk in both normal and adverse conditions.

The RMF balance on 31 December 2023 is mainly made of interest generated in bank accounts held in USD and currency exchanges executed throughout the year. In 2023, interest paid in the amount of 63 USD equivalent was funded from the RMF without a budget and budget consumption. At the end of 2023 the net amount of 22,175,592 USD equivalent was distributed to the RMF. The currency revaluation in accordance with IPSAS 4 at year-end amounts to 33,304 USD.

A breakdown of P&L items distributed to the RMF can be found below:

	<b>2023</b>
Interest received	22,022,071
Interest paid	(63)
Exchange gains/(losses)	153,585
<b>Sub-Total</b>	<b>22,175,592</b>
Currency revaluation at year-end	33,304
<b>Total Distribution RMF</b>	<b>22,208,896</b>

**Liabilities – Non-Current Liabilities**

**14. Deferred Revenue – non-current**

<b><u>Deferred Revenue</u></b>	<b><u>2023</u></b>	<b><u>2022</u></b>
Unearned Contribution-Non-Current	30,306,908	41,726,926
Unearned depreciation PP&E-Non-Current	14,556,681	18,461,588
<b>Total</b>	<b>44,863,589</b>	<b>60,188,514</b>

Revenue from contributions and other non-exchange transactions is deferred until it is deemed to have been earned.

Unearned Contributions – non-current represents the balance of BOD approved but not yet consumed budgets of the financial year and prior periods that are not expected to be consumed in the first year after the end of the reporting period.

Revenue is recognized simultaneously with the depreciation of PP&E funded from the operational budget to correspond with the consumption of the assets. The unearned depreciation PP&E – non-current is the depreciable amount funded from the operational budget that is not expected to be recognized as revenue in the first year after the end of the reporting period.

**15. Other non-current liabilities (Deliverables)**

<b><u>Deliverable to NAEW&amp;C Force</u></b>	<b><u>2023</u></b>	<b><u>2022</u></b>
Deliverables	439,520,072	362,777,121
<b>Total</b>	<b>439,520,072</b>	<b>362,777,121</b>

Deliverables to NAEW&C Force represent the cumulative amount that is still to be transferred to NAEW&C Force when the related asset is ready for its intended use and controlled by the NAEW&C Force.

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The following summary table shows additions and transfers occurred during the financial year 2023 as well as the accumulated amounts.

	<b>Deliverables</b>
Opening Balance (01 January 2023)	362,777,121
Additions	73,168,364
Transferred to NAEW&C	-1,264,640
Disposals/Corrections	0
Additions depreciation CAP	4,839,227
<b>Closing Balance (31 December 2023)</b>	<b>439,520,072</b>
Gross Carrying Amount	2,829,333,861
Accumulated Transfers	2,389,813,789
<b>Net Carrying Amount</b>	<b>439,520,072</b>

### 16. Net Assets

Net assets is the residual interest of the NAPMO Nations in NAPMA's assets after deducting all its liabilities.

Net assets are disaggregated into capital asset reserves and accumulated surpluses and deficits.

The BOD (BOD/96) instructed to distribute the difference of financial revenue and finance costs (except unrealized gains/losses) from net assets to the RMF at year-end. In 2023 the amount transferred to the RMF was 22,175,592 USD equivalent.

In 2023 the total distribution from net assets to the RMF and Nations amounted to 22,675,596 USD equivalent. The amount of 500,004 USD equivalent was distributed to Advance Nation's account. This amount consist mainly from the recognition and receipt of the SESAR grants balance payment.

Further details can be found in the Statement of Changes in Net Assets/Equity (page 7).

## NOTES TO THE STATEMENT OF FINANCIAL PERFORMANCE

## REVENUE

## 17. Revenue from Contributions

<u>Revenue from Contributions</u>	<u>2023</u>	<u>2022</u>
Revenue from Contributions	21,269,172	20,235,587
<b>Total</b>	<b>21,269,172</b>	<b>20,235,587</b>

Revenue from Contributions has been recognized for project and administrative activities. Revenue recognition is matched with the recognition of expenses against NAPMA budgets. Contributions when called are booked as unearned revenue and recognized when earned.

## 18. Financial Revenue

<u>Financial Revenue</u>	<u>2023</u>	<u>2022</u>
Financial Revenue	22,180,068	8,467,455
<b>Total</b>	<b>22,180,068</b>	<b>8,467,455</b>

Financial revenue in the amount of 22,180,068 USD equivalent represents interest received, realized exchange rate gains and unrealized foreign exchange rate gains originating from the translation of the functional currency into the presentation currency.

Financial Revenue in USD equivalent:

	<b>2023</b>	<b>2022</b>
Interest received	22,022,071	6,056,273
Realised Exchange rate gains	153,585	2,410,577
Unrealised exchange gains	4,412	605
<b>Total</b>	<b>22,180,068</b>	<b>8,467,455</b>

## 19. Revenue received from Grants

<u>Revenue from received Grants</u>	<u>2023</u>	<u>2022</u>
Revenue from received Grants	446,915	0
<b>Total</b>	<b>446,915</b>	<b>0</b>

In 2016, NAPMA was found to be eligible for an EU grant from the Single European Sky Air Traffic Management Research (SESAR) for the efforts in defining, developing and delivering new or improved technologies and procedures to increase the performance of Europe's Air Traffic Management (ATM) system. The grant addressed the activities Production and Retrofit

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(PAR), and Flight Simulator Training Device upgrade and Air Crew Training (FSTD). NAPMA will recognize revenue on the SESAR grant when the activity is published as completed in the reporting tool called STAR and the financing needs are certified by the SESAR Deployment Manager.

In 2023, NAPMA received the final SESAR balance payment including € 233,762.67 additional eligible costs over the Maximum Grant amount accepted by the European Climate, Infrastructure and Environment Executive Agency (CINEA). The SESAR grant recognized as revenue in 2023 is 446,915 USD equivalent.

### 20. Other Revenue

<u>Other Revenue</u>	<u>2023</u>	<u>2022</u>
Other Revenue	57,728	653,085
<b>Total</b>	<b>57,728</b>	<b>653,085</b>

Other revenue in the amount of 57,728 USD equivalent represents an amount received in 2023 from NCIA related to a reimbursement on 2021 ADMIN costs.

### EXPENSES

#### 21. Project Expenses

<u>Project Expenses</u>	<u>2023</u>	<u>2022</u>
Projects - direct NAPMA	387,160	691,125
Projects - indirect Agent	0	-269,465
<b>Total</b>	<b>387,160</b>	<b>421,660</b>

Project expenses are outlay costs in support of the modernisation programmes, funded from the operational budget but not directly related to deliverable assets to the NAEW&C Force or assets acquired by the contractor for the performance of a contract. Project costs are expensed as incurred and not capitalized as WIP or PP&E.

#### 22. Administrative Expenses

<u>Administrative Expenses</u>	<u>2023</u>	<u>2022</u>
Personnel	18,253,021	17,286,580
Operational	2,423,880	2,155,472
<b>Total</b>	<b>20,676,901</b>	<b>19,442,052</b>

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The amounts for personnel include expenses for salaries and emoluments for NATO civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation, removal and training.

The remaining part of the administrative expenses relate to operational activities such as maintenance costs, travel expenses, communication and information systems. These expenses are needed to meet NAPMA's operational requirements.

In 2023, NAPMA had four non-cancellable operational lease contracts. The lease for three staff cars, photocopiers and the rental of the vending machines. These have been qualified as operating leases and are therefore included in the administrative costs on a straight-line basis over the lease term. The following table shows a break-down of operating leases at the reporting date:

Lease description	Amount paid in 2023 (USD equiv.)	Amount to pay in 2024 (USD equiv.)	Amount to pay in 2025- 2027 (USD equiv.)	Amount to pay after 2027 (USD equiv.)	Renewal/restriction
ONE XILLIUM - Lease of Printers	17,647	-	-	-	Terminated 31 July 2023
KONICA MINOLTA - Lease of Printers	18,781	46,110	69,165	-	New contract as of 01 July 2023 until 30 June 2026
Vending/Coffee Machines	4,592	4,592	13,776	-	Annual renewal
Ford S-Max 2.0 EcoBlue Aut. Allrad Titanium	18,335	18,195	-	-	Extended until 19 December 2024
<b>Total</b>	<b>59,355</b>	<b>68,897</b>	<b>82,941</b>	-	

### NAPMA Personnel Costs (including key management personnel)

	2023	2022
Salaries	12,564,678	11,926,527
Allowances	2,534,716	2,422,656
Pension contributions	1,338,749	1,239,466
Health care contributions	1,363,310	1,278,408
Loss-of-Job Indemnities	77,342	0
Other	374,227	419,524
<b>Total</b>	<b>18,253,021</b>	<b>17,286,580</b>

### Employee Disclosure

NAPMA personnel is enrolled in two NATO pension schemes. NAPMA contributes to the schemes for existing employees at amounts laid out in the NATO Civilian Personnel Regulations (NCPR's).

NAPMA does not control or manage any of the schemes or scheme assets and is not exposed to the risks and rewards of the schemes and hence does not record any assets or liabilities of the schemes on its statements of financial position. In 2023, NAPMA contributed 1,338,749 USD equivalent to the NATO pension schemes.

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**23. Depreciation Expenses**

<b><u>Depreciation Expenses</u></b>	<b><u>2023</u></b>	<b><u>2022</u></b>
Depreciation and amortization	240,801	236,266
<b>Total</b>	<b>240,801</b>	<b>236,266</b>

Assets of PP&E are depreciated over their useful life (see also note 7).

The depreciation expense in the amount of 240,801 USD equivalent relates to the depreciation funded out of the administrative budget.

The annual depreciation related to PP&E funded from the operational budget has been allocated to WIP in accordance with IPSAS 11, Construction Contracts, see note 8.

**24. Finance Expenses**

<b><u>Finance Expenses</u></b>	<b><u>2023</u></b>	<b><u>2022</u></b>
Finance Expenses	63	89,042
<b>Total</b>	<b>63</b>	<b>89,042</b>

Finance expenses in the amount of 63 USD equivalent represent interest paid to bank institutions (non-budgetary as per decision by the BOD/96, see also note 13).

**25. Surplus for the Period**

The 2023 surplus in the amount of 22,648,957 USD equivalent results from:

- The currency translation adjustments at the end of the year in accordance with IPSAS 4 presented under Financial revenue in the amount of 4,413 USD equivalent;
- The interest paid in the amount of (63) USD equivalent;
- The depreciation expenses in the amount of (240,801) USD equivalent;
- The interest received in the amount of 22,022,071 USD equivalent;
- The realized exchange rate gains in the amount of 153,585 USD equivalent;
- The recognition of the SESAR grant in the amount of 446,915 USD equivalent;
- The reimbursement received from NCIA in the amount of 53,089 USD equivalent;
- The purchase of PP&E funded out of the administrative budget in the amount of 209,750 USD equivalent.

## EVENTS AFTER THE REPORTING DATE

NAPMA's reporting date is 31 December 2023 and the Financial Statements were authorized for issue by the General Manager on 26 March 2024.

No material events, favorable or unfavorable, which would have an impact on the statements have occurred between the reporting date and the date on which the Financial Statements were authorized for issue.

## RELATED PARTY DISCLOSURE

Under IPSAS 20 parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 requires the disclosure of the existence of related party relationships, where control exists, and the disclosure of information about transactions between the entity and its related parties. This information is required for accountability purposes and to facilitate a better understanding of the Financial Position and Performance of the reporting entity. The BOD members receive no remuneration and do not receive loans from the entity. Based on the BOD annual declarations for 2023, received from all the BOD Members, no significant related party relationships could be identified which could affect the operation of NAPMA.

Based on the annual declaration for 2023 received from the key management personnel of NAPMA, there were no significant related party relationships identified which could affect the operation of NAPMA.

Senior management is remunerated in accordance with the published NATO pay scales. They do not receive loans that are not available to all staff members. The aggregate remuneration of key management personnel during the year was as follows:

### Number of individuals at year-end on a full time equivalent basis

Grades	2023	2022
A7/G24	1	1
A6/G23	3	3
A5/G22	4	4
A4/G20	7	7
A3/G17	0	1
<b>Total</b>	<b>15</b>	<b>16</b>

### Salaries and benefits paid to key management personnel

Remuneration type	2023 <i>USD Eq.</i>	2022 <i>USD Eq.</i>
Basic salaries	2,318,348	2,251,907
Allowances	423,531	502,215
Employer's contribution to insurance	251,591	243,377
Employer's contribution to pension	278,202	241,346
Other	0	13,720
<b>Total</b>	<b>3,271,671</b>	<b>3,252,566</b>



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The General Manager is entitled to receive a representation allowance as per DC (2016)0100. The amount spent in 2023 was 7,538 USD equivalent. Expenditures made against this allowance are supported by invoices.

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## BUDGET EXECUTION STATEMENT

### Budget Execution Statement

The Budget Execution Statement (BES) is the comparison of budget amounts and the actual amounts arising from the implementation of the programs for which funds were appropriated. The execution of the budget during financial year 2023 is shown in annex A.

According to the NAPMO charter, NAPMA has an administrative budget and an operational (project) budget for the annual programme objectives and operating plans of NAPMO. The operational (project) and administrative budgets are approved in USD equivalent. The administrative budget is primarily executed in euros. For each programme a fixed euro/dollar exchange rate is established on a given date and set for the entire duration of the programme (Programme Exchange Rate).

The budgets are approved and may subsequently be amended by the BOD. Transfers of approved budgets (appropriations) require the prior a general or specific prior approval of the Policy and Finance Committee (PFC).

### Change in the presentation and disclosure of actual amounts

In order to provide more reliable and relevant information, NAPMA has changed its policy on identifying budgetary consumption for Prime Contractor payments. Until 2022, NAPMA identified the use of NAPMO Nations contributions as budgetary consumption. This included the payment of Subcontractor invoices on behalf of the Prime Contractor. NAPMA is reimbursed by the Prime Contractor for these settlements. In order to provide faithfully representative and more relevant information on the budgetary consumption, starting with the financial year 2023, NAPMA accounts Prime Contractor Service Entries (Good Receipts) as budgetary outlays regardless whether Nations contributions or Prime Contractor reimbursement is used for the final settlement of the resulting invoices.

### BES Prior year adjustments

The FLEP project budget consumption as reported in the BES, is retrospectively restated for the Financial Years 2019 – 2022. Original figures of the FLEP project budget consumption are included under projects (Financial Statements for the years 2019 and 2020) or directly reported as FLEP (Financial Statements for the years 2021 and 2022). The restated project FLEP budget consumption represents budget consumption after taking into account the changes in the presentation and disclosure of the actual amounts.

FLEP PROJECT	Budget Consumption at Programme Rate (USD EQ)			
	2019	2020	2021	2022
Reported FLEP project budget consumption	25,715,036	102,525,955	142,330,961	117,420,630
Retrospective restated project FLEP budget consumption	25,715,036	103,604,618	115,356,867	129,066,697
Effect of change on reported project budget consumption	0	1,078,663	(26,974,093)	11,646,067

### Reconciliation of Budget Consumption

The budget and accounting bases differ for the recognition of budget consumption. In accordance with IPSAS, the actual amounts that result from execution of the budget are reconciled with the financial performance or cash flow statements.

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NAPMA's Financial Statements are prepared on an accrual basis. Expenses are recorded when incurred. Budgetary outlays in the financial statements include the capitalization of expenditures for both work in progress and the acquisition of PP&E funded from the administrative budget at market rate.

NAPMA's annual budget is approved and executed on a modified cash and commitment basis. Budgetary consumption is recognized when the Service Entry (Good Receipt) is posted and the budget is consumed by an individual project. This includes the acquisition of PP&E and the accrued budgetary outlays at the end of the financial year. Budget consumption is in multi-currencies and is expressed in USD equivalent at the established programme rate.

Exchange rate differences are generated because the BES expenditures are calculated at programme rate while the Financial Statement expenditures are calculated at market rate (NATO Parity Rate).

The following table reconciles the differences between the actual amounts (expenditures in the Financial Statements) and budget consumption in the BES.

<b>2023 Budget Reconciliation (USD EQ)</b>			
	Expenditures (Market Rate)	Exchange Difference Market Rate to Program Rate	Budget Execution Statement @Programme Rate
<b>PROJECTS</b>	74,729,024	91,549	74,820,573
<b>ADMIN</b>	20,886,651	(51,820)	20,834,831
<b>TOTAL</b>	95,615,675	39,730	95,655,404

**Non-Budgetary Expenses**

Depreciation expenses are not recognized as budgetary outlays. The purpose of the RMF is the mitigation of currency and exchange risks (see note 13). Interest paid and exchange losses are setoff in the RMF against received interest and exchange gains and are therefore also not considered as budgetary transactions.

Breakdown of non-budgetary transactions in 2023:

	<b>2023</b>
Interest paid	63
Exchange losses	0
Depreciation of PP&E	240,801
<b>Total</b>	<b>240,864</b>

**WRITE OFF**

Acquisition programmes have a full cost recovery basis for NAPMA. The NAEW&C Force is responsible for impairment (write off) after the operational capability has been transferred to the NAEW&C Force and put into service. NAPMA only reports write-offs of NAPMA fixed admin assets and inventory. This results from the implementation of the NAF.

In 2023, NAPMA wrote-off assets with a total historical value of 89,049 USD equivalent.

## FINANCIAL INSTRUMENTS DISCLOSURE

NAPMA's financial requirements are set by its Member Nations. NAPMA does not borrow money to meet any financial obligation. Other than financial assets and liabilities which are generated by day-to-day operational activities, no long term financial instruments are held. The Risk Mitigation Fund's purpose is to mitigate currency and exchange risks.

### **Liquidity risk**

NAPMA's financial requirements and capital expenditures are met by its Member Nations and are typically funded in advance. NAPMA is therefore not exposed to material liquidity risks.

### **Sovereign default risk**

NAPMO Nations are member and partner Nations of NATO, hence NAPMA is not exposed to material sovereign default risks.

### **Credit risk**

NAPMA's Investment strategy is limited to short-term and low risk investments with approved creditworthy counterparties and in accordance with approved limits. In this way, NAPMA has mitigated any material credit risks.

### **Foreign currency risk**

NAPMA has limited exposure to foreign currency because some of its work is denominated in currencies other than the USD. Each NAPMO Nation will contribute and be credited for its share in the ratio of currencies required at the time of contribution. The risk related to foreign currency transactions is ultimately borne by NAPMO Nations.

**2023 Budget Execution Statement (USD EQ)**

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	Appropriations	Transfers Between Projects	Uncommitted Appropriations Carried Forward from Previous FY	Commitments Carried Forward from Previous FY	Total Appropriations	Budget consumption	Uncommitted Appropriations Carried Forward into Following FY	Commitments Carried Forward into Following FY	Lapses
	A	B	C	D	E=A+B+C+D	F	G	H	I
FLEP	106,636,206	0	24,947,707	198,989,140	330,573,053	(72,182,228)	(30,646,299)	(227,744,526)	0
NMT	0	0	120,634	40,037	160,670	0	0	(40,037)	(120,634)
LAIRCM	0	0	0	1,418,682	1,418,682	0	0	(1,418,682)	0
FUTUREMODII	0	0	0	8,351,818	8,351,818	(1,010,781)	0	(7,214,117)	(126,919)
LPAII	0	0	0	282,974	282,974	0	0	(282,974)	0
MODE5/S-EMD	0	0	0	2,139,160	2,139,160	(306,074)	0	(1,833,086)	0
CNSATM-EMD	0	0	7,598,585	8,207,801	15,806,386	(1,321,491)	(7,033,066)	(7,451,829)	0
ADMIN	22,693,231	0	0	430,445	23,123,676	(20,834,831)	(56)	(520,073)	(1,769,204)
<b>TOTAL</b>	<b>129,329,437</b>	<b>0</b>	<b>32,666,925</b>	<b>219,860,056</b>	<b>381,856,418</b>	<b>(95,655,405)</b>	<b>(37,679,420)</b>	<b>(246,505,323)</b>	<b>(2,016,757)</b>

## Statement of Internal Control

### Scope of Responsibility

1. As General Manager of NAPMA, I am responsible and accountable to the agency's Board of Directors (BOD) for designing, implementing and maintaining an efficient, effective and economical system of Internal Control that supports the achievement of NAPMA's objectives. To this end, I have established an effective, efficient and economical Internal Control System, in accordance with NAPMO Financial Regulations (NFRs) and NAPMO Financial Rules and Procedures (FRPs), based on the principles of COSO Enterprise Risk Management (ERM) and Internal Control System, as described below.
2. As the NAPMA Financial Controller, I am responsible to the General Manager and accountable to the NAPMO Policy and Finance Committee (PFC) for establishing a system of internal financial and budgetary control, delegate authority to officials who may disburse and receive funds on my behalf, maintaining comprehensive accounting records of all assets and liabilities and the correct use of funds made available to the agency, in accordance with the NFR and FRP.

### Purpose and Limitation of the System of Internal Control

3. The Internal Control System defines a process, carried out by NAPMA's management and staff, designed to provide reasonable assurance that the Agency will achieve its objectives while using the agency's resources in an efficient and effective manner.
4. NAPMA's system of internal control specifically addresses the efficiency and effectiveness of operations, accuracy and reliability of financial reporting and compliance with its legal framework and applicable laws and regulations.
5. Common limitations for an internal control system are collusion, human error and management override.
6. The cost of the internal controls should not outweigh the risks they are mitigating.

### Oversight over NAPMA's Internal Control

7. Oversight on NAPMA's internal control is exercised by the NAPMO BOD and the PFC, pursuant to Articles 28 and 30 of the NAPMO Charter and paragraph 39 of the NAPMO Corporate Governance Policy (NCGP). The PFC's oversight role, as the Agency's Audit Advisory Panel, are pursuant to Article 16 of the NFR and paragraph 43 of the NCGP.
8. The revised and updated NAPMO Corporate Governance Policy (NCGP) document was approved during the 105<sup>th</sup> meeting of the NAPMO Board of Directors, on 22 June 2021.

9. In accordance with the NCGP, NAPMA has established an internal control process to provide reasonable assurance regarding the achievement of objectives, in accordance with COSO Risk Management and Internal Control principles.
10. In accordance with the NCGP, the NAPMA GM has implemented a risk management and internal control system that is consistent with the nature, complexity and risk inherent in the execution of the Agency's mission.

### **Risk Management**

11. NAPMA manages risks at two distinct levels: the enterprise and the functional levels. NAPMA has established an Enterprise Risk Manager and an enterprise risk management plan to manage risks that can jeopardize NAPMA's abilities to successfully execute NAPMA Programme of Work and its Technical Airworthiness responsibilities.
12. Division Heads and Office Chiefs are responsible for managing risks within their functional areas and to evaluate, implement and maintain the necessary internal controls.
13. Division Heads and Office Chiefs shall record and maintain Key Internal Controls in the Key Internal Control Catalog (KICC) and annually, after the end-of-year, self-assess the effectiveness of the recorded internal controls, and update as necessary to ensure the appropriateness of the Internal Controls for the following year.
14. Designated responsible managers within NAPMA shall annually confirm in a signed Statement of Assurance to the General Manager - to the best of their knowledge - compliance with applicable rules and regulations, knowledge or awareness of fraud, safeguarding of the assets within their respective areas of responsibility and evaluation of key controls for the functional areas of their responsibility through the self-assessment of the recorded Key Internal Controls in the KICC.

### Internal Control System

15. Other key elements of the Agency's Internal Control System include, but are not limited to:
- Commitment of NAPMA's senior leadership to integrity and ethical values;
  - Standards of Behaviour in line with the NATO Code of Conduct with an annual signed declaration of adherence by each staff member;
  - Annual signature by NAPMA key personnel of a statement on related party disclosure;
  - Signature on an annual basis by the General Manager and the Financial Controller of a NAPMA Management Representation Letter, that provides assurance regarding the integrity, reliability, accuracy, completeness and consistency of information contained in the Financial Statements;
  - The NAPMO FR and NAPMO FRP;
  - NAPMA Management Directives, Operating Standards, Business Process Procedures and Instructions;
  - The use of the NAPMA Integrated Management System (NIMS), which incorporates the standard SAP Enterprise Resource Planning system with a budgeting module especially designed to manage, monitor and safeguard the funds appropriated to NAPMA;
  - A Treasury Policy Group that periodically reviews cash management and issues regarding the financial institutions which are responsible for cash deposits;
  - Signature on an annual basis by designated responsible managers within the NAPMA organisation of a Statement of Assurance declaring their assessment of the execution of their internal controls;
  - Annual confirmation of the responsibility and accountability for NAPMA's system of internal control by the General Manager and the Financial Controller signature of the Statement of Internal Control.

### Internal Audit

16. NAPMA has established the position of an Internal Auditor within the PE that independently evaluates the adequacy and effectiveness of the organisation's governance, risk management, and internal controls to help the GM to protect assets, reputation and sustainability of the organisation.

### Review of the Effectiveness of the System of Internal Control

17. The Financial Controller is responsible for evaluating the system of financial control.
18. The main basis for the assessment of the effectiveness of the system of internal control by the Financial Controller is direct observation. Other sources include, but are not limited to, reporting by internal and external auditors, self-assessment of identified key risks and key internal controls, as recorded in the KICC and the signed statements of assurance by designated responsible managers within NAPMA.



19. It is the Financial Controller's assessment that strong controls exist over accounting, budgeting, treasury and the non-expendable items controlled by NAPMA. Some items controlled by NAPMA are held at contractors' locations. The Financial Controller found that strong controls exist for the accounting and safeguarding of NAPMA furnished property, but that the accounting for the completeness of Contractor Acquired Property to which NATO has title is challenging.


**General Manager's Internal Control Priorities for the Year 2024**


20. The General Manager's Internal Control Priorities for the Year 2024 are:

- Continue the implementation of a tailored NAPMA Internal Control System, inspired by the principles of the COSO framework;
- Implementing a structured framework of Directives, Standards, and Guidance's, clarifying the granular linking from strategy to processes, capturing those levels of responsibility, internal control artefacts and methods of reporting.

**Confirmation of adherence to NAPMO Financial Regulations article 3.1**

21. Based on the above, to the best of our knowledge and information available and within the scope of our respective responsibilities, we hereby confirm that the agency operated satisfactory systems of internal control for the year ended 31 December 2023 and up to the date of approval of the Financial Statements.

26th March 2024  
  
BrigGen Michael Gschossmann  
General Manager NAPMA

26 Mar 2024  
  
Kees Schulten  
Financial Controller NAPMA

# NETMA



## ANNUAL FINANCIAL STATEMENTS 2023

FOR THE PERIOD ENDED 31 DECEMBER 2023

PUBLICLY DISCLOSED - PDN(2025)0017 - MIS EN LECTURE PUBLIQUE



**NETMA**

NATO EF2000 AND TORNADO DEVELOPMENT, PRODUCTION AND LOGISTICS  
MANAGEMENT AGENCY

These statements are produced in Thousands of Euros, unless otherwise stated.

For example:

34,632 = Thirty Four Million Six Hundred and Thirty Two Thousand Euros;

132 = One Hundred and Thirty Two Thousand Euros

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# Overview

2023 Financial Statements

Notes to the NETMA Accounts

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# Introduction to the 2023 Financial Statements



NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA) is an agency formed jointly by NAMMO (NATO Multi-Role Combat Aircraft Development, Production and In-Service Support Management Organisation) and NEFMO (NATO European Fighter Aircraft Development, Production and Logistics Support Management Organisation) in 1996 to manage the procurement and the administration of the two programmes within the framework of NATO. The operations of NETMA concerning NAMMO and NEFMO are each controlled by a Joint Steering Committee of the three NAMMO nations and the four NEFMO nations involved in the programmes.

NETMA is based in Hallbergmoos, Germany and is an Executive Body created by charter to administer the functions of two NATO Production and Logistic Organisations (NPLOs). The two NPLOs are NAMMO and NEFMO.

The budgetary organisation of NETMA is funded by the four member nations – Germany, Italy, Spain and United Kingdom. Budget approval is given jointly by the Boards of Directors (BoDs) of NAMMO and NEFMO. As a NATO agency, NETMA is exempt from taxation relating to operating revenue and expenses, where VAT is incurred this is recovered directly from the host nation's tax office.

## Key points from the Annual Financial Statements

### NETMA Liabilities

The Agency's office accommodation is the subject of an operating lease and is therefore not capitalised as PP&E. In accordance with IPSAS 13, it must be expensed on a straight-line basis over the lease term. IPSAS 13 mandates that operating leases are accounted for in this way irrespective of cash payments made. As NETMA were able to negotiate a rent free period at the start of the lease, these expenses are accrued as a long term liability which is unwound over the term of the lease. This only impacts on the Financial Statements and does not impact on either the budget or cash spent in 2023.



## Vision

"We are trusted by our Nations to meet their expectations in delivering their security needs and defence demands"



## Mission

"To manage the Eurofighter and Tornado Programmes effectively through their lifecycle by ensuring the safe and timely delivery of Nations' requirements"

## Addressing Previous Audit Observations

### Weakness in the presentation of the statement of budget execution.

NETMA has presented a consistent Statement of Budget Execution, detailing only lapsed credits for the annual financial statement year in the table.

### Absence of a reconciliation between the expenditure presented in the statement of budget execution and the expenses reported in the statement of financial performance.

A reconciliation has been provided in the notes to budget execution statement as recommended.

Internal control weaknesses in the area of allowances provided to NETMA personnel under the NATO civilian personnel regulations.

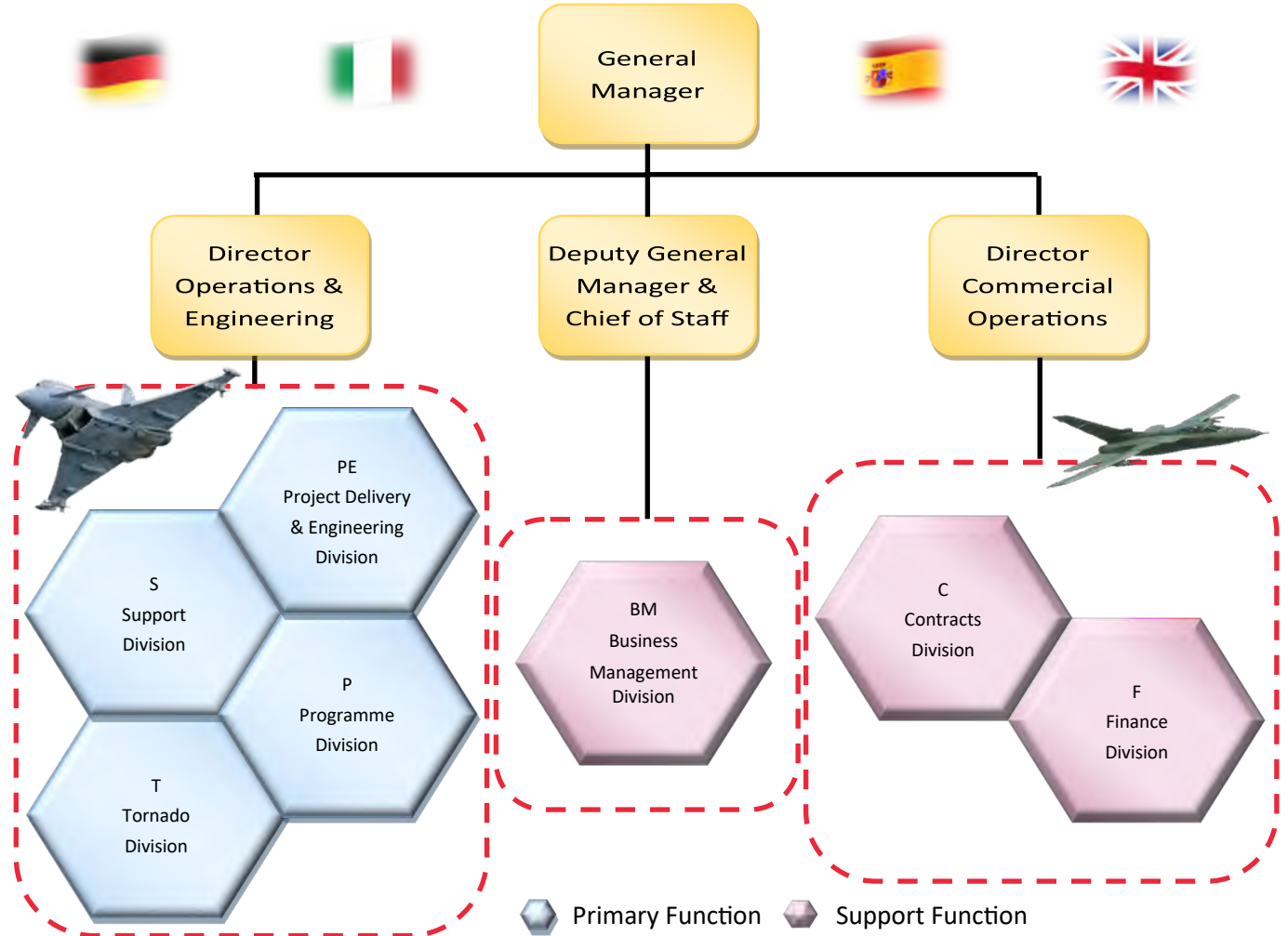
The audit recommendations have been implemented.

**Weaknesses identified in recording of supplier invoices.**

NETMA has introduced a process to check and, if necessary, record supplier invoices as payables.

## NETMA AT A GLANCE

In order to deliver our operational programmes for the Nations, NETMA operates using a functional organisational structure, grouping its staff into agency divisions based on their specific skills and knowledge, as shown below:



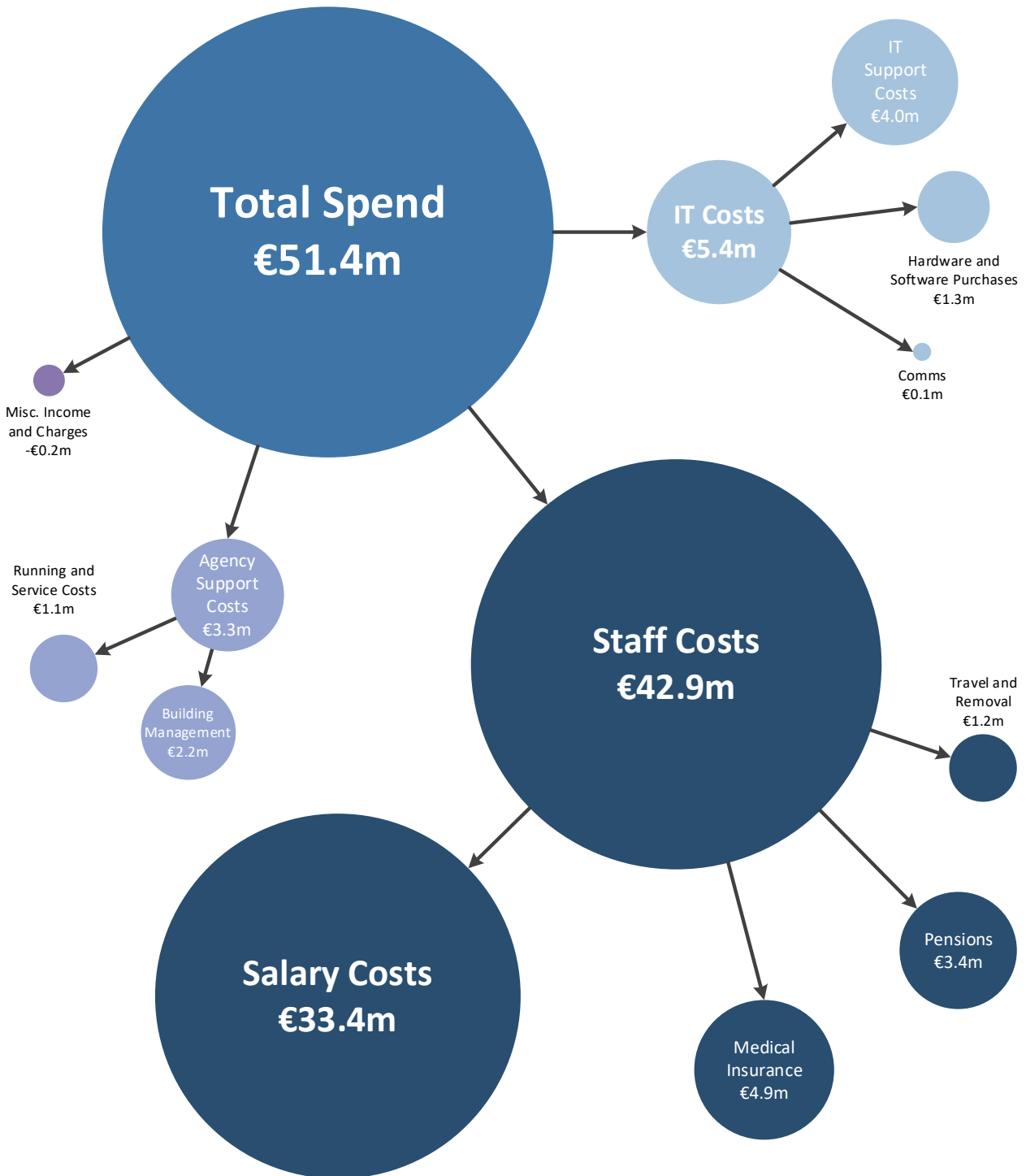
In support of the NEFMO and NAMMO BoDs and the Typhoon and Tornado Weapon Systems, the NETMA structure is organised to deliver the agency's requirements. PE, S, and P Divisions manage, on behalf of the contributing nations, the logistics and operations activities with our industry partners for Typhoon (Eurofighter Jagdflugzeug GmbH and Eurojet Turbo GmbH). T Division acts in the same manner for Tornado (PANAVIA Aircraft GmbH and Turbo-Union GmbH).

In support of these primary activities, the Contracts and Finance Divisions drive value through Contract and Financial management between Nations and industry. The Business Management Division, made up of Human Resources, IT Management and Business Improvement and Performance, supports the entire NETMA agency. The IT Management department supports the IT Applications which enable Tornado Programme management. These include (but are not limited to) the Agency Integrated Management System (AIMS) for Milestone/Task and Invoice Management, the Enhanced Procurement System-Central Automatic Data Processing System (EPS-CADPS) for Procurement and Logistics Support Activities, and the Personnel & Accruals Reporting Management Information System (PARMIS) for Invoice to Payment & Banking processes.

**NETMA Expenditure Breakdown 2023**

The total expenditure to deliver the Administration Budget, as reported in the NETMA financial statements, was €51.4m in 2023. The majority (83%) of this expenditure is related to the staffing costs of the agency, with the remainder spent on the rent and running costs of the NETMA headquarters at Hallbergmoos and the provision and support of IT and communications equipment and infrastructure.

In total, the costs of running the agency equate to circa 0.9% of all spend on the NETMA programmes, representing good value to our customer nations.





## NETMA Statement of Internal Control



As General Manager of NETMA, I have responsibility for maintaining an effective system of internal control that supports the achievement of my Agency's policies, aims and objectives, set by NETMA's Four Nations and the Board of Directors. I am personally responsible for safeguarding the funds and assets.

The Board has established appropriate structures, reporting lines and responsibilities to support the delivery of objectives. These responsibilities are set out in the NETMA Financial Rules and Regulations (NFRR) as governed by the NATO Financial Regulations (NFR) and Financial Rules and Procedures (FRP).

The system of internal control is based on an ongoing evidence based process designed to identify the principle risks to the achievement of my Agency's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently and effectively on a continual year round basis.

I have responsibility for reviewing the effectiveness of the system of internal control. The processes in place to achieve this are summarised below:

- NETMA has an annual Management Plan which identifies NETMA's strategic priorities, objectives & the associated performance metrics. The Management Plan focuses on agency planning and improvements, including identification of key business risks which are mitigated and owners appointed to monitor and report on these on a regular basis as part of NETMA's wider Risk Management system.
- Management checks are undertaken and the internal audit function performs a range of audit activities, based on an annual audit plan agreed by the Audit Advisory Panel and approved by the Audit Committee. NETMA Audit Team also conduct audits on our Industry Partners, which involve the checking of property held in industry, and Self-Certified Milestones to ensure appropriate internal controls are in place and adhered to. The Internal Audit process complies with the International Standards for the Professional Practice of Internal Auditing in accordance with previous IBAN recommendations.
- The Agency operates the integrated framework for internal control developed by the Committee of Sponsoring Organisations of the Treadway commission (COSO Framework) as a mechanism for formally documenting the internal control system and providing assurance that it is functioning effectively. It is well established and part of our normal internal control system. The annual COSO review was undertaken as scheduled for the year 2023, with the Directors confirming we meet those requirements.

My review of the effectiveness of the system of internal control is informed by the work of the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, comments made by the Internal Audit Reports, and external auditors in their management letters together with the results of the annual COSO review.

I am content that the processes in place within the organisation provide reasonable assurance of the effectiveness and efficiency of the organisation's operations, the reliability of its financial information and its integrity with regards to application and compliance to applicable rules and regulations. Whilst we always seek to improve our processes each year there were no material internal control weaknesses identified that need specific intervention from Senior Management in 2023.

SIMON ELLARD CB FREng  
General Manager

WENDY BRADBURY  
Financial Controller

Overview

**2023 Financial Statements**

Notes to the NETMA Accounts

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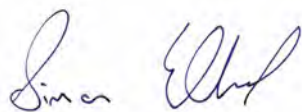
NATO UNCLASSIFIED  
**STATEMENT OF FINANCIAL POSITION**

AS AT 31 DECEMBER 2023

(in thousands of Euros)

	Note	2023	2022
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	B1	7,076	5,843
Short term investments		0	0
Receivables	B2	14,056	516
Prepayments	B3	302	0
Inventories		0	0
		21,433	6,359
<b>Non-current assets</b>			
Property, plant & equipment	B4	80	114
Intangible assets	B4	5	14
		85	128
<b>Total assets</b>		<b>21,518</b>	<b>6,487</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables	B5	3,203	2,073
Deferred revenue	B6	4,822	3,976
Advances	B7	13,397	0
		21,421	6,049
<b>Non-current liabilities</b>			
Provisions		0	0
Other Long Term Liabilities	B8	9	307
		9	307
<b>Total liabilities</b>		<b>21,430</b>	<b>6,356</b>
Surplus / (deficit)	B9	(43)	56
Reserves	B10	131	75
<b>Total net assets</b>		<b>88</b>	<b>131</b>

The financial statements on pages 10 to 14 and their associated notes were issued to the International Board of Auditors for NATO on 31<sup>st</sup> March 2024.



SIMON ELLARD CB FREng  
General Manager



WENDY BRADBURY  
Financial Controller

NATO UNCLASSIFIED  
**STATEMENT OF FINANCIAL PERFORMANCE**

FOR THE YEAR ENDED 31 DECEMBER 2023

(in thousands of Euros)	Note	2023	2022
<b>Revenue</b>			
Revenue	C1	51,761	50,501
Financial revenue		0	0
Other revenue		0	0
<b>Total revenue</b>		<b>51,761</b>	<b>50,501</b>
<b>Expenses</b>			
Personnel	C2	43,552	42,244
Contractual supplies and services - Buildings & Maintenance	C3	3,003	2,878
Contractual supplies and services - IT Services	C4	5,159	5,225
Depreciation and amortisation	C5	80	87
Impairment		0	0
Provisions		0	0
Other expenses		0	0
Finance costs	C6	10	12
<b>Total expenses</b>		<b>51,804</b>	<b>50,446</b>
<b>Surplus / (deficit) for the period</b>		<b>(43)</b>	<b>56</b>

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NATO UNCLASSIFIED  
**STATEMENT OF CASH FLOW**

FOR THE YEAR ENDED 31 DECEMBER 2023

(in thousands of Euros)	Note	2023	2022
<b>Cash flow from operating activities</b>			
Surplus / (deficit)	D1	(43)	56
<b>Non-cash movements</b>			
Depreciation / amortisation	D2	80	87
Impairment		0	0
Increase / (decrease) in payables	D3	1,130	(100)
Increase / (decrease) in advances	D4	13,397	(12,410)
Increase / (decrease) in other liabilities	D5	(298)	(160)
(Increase) / decrease in prepayments		(302)	1
Increase / (decrease) in deferred revenue	D6	846	36
(Increase) / decrease in receivables	D7	(13,540)	9,595
<b>Net cash flow from operating activities</b>		<b>1,270</b>	<b>(2,896)</b>
<b>Cash flow from investing activities</b>			
Purchase of property plant and equipment / intangible assets	D8	(36)	(140)
Proceeds from sale of property plant and equipment		0	0
<b>Net cash flow from investing activities</b>		<b>(36)</b>	<b>(140)</b>
<b>Cash flow from financing activities</b>			
		0	0
<b>Net cash flow from financing activities</b>		<b>0</b>	<b>0</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>1,233</b>	<b>(3,036)</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>5,843</b>	<b>8,879</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>7,076</b>	<b>5,843</b>

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## STATEMENT OF CHANGE IN NET ASSETS / EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	PP&E Asset Reserve	Revaluation Reserves	Accumulated Surplus / (Deficit)	Total
(in thousands of Euros)				
<b>Balance at the beginning of the period 2022</b>	<b>144</b>	<b>0</b>	<b>(69)</b>	<b>75</b>
Changes in accounting policy	0	0	0	0
<b>Restated balance</b>	<b>144</b>	<b>0</b>	<b>(69)</b>	<b>75</b>
Transfer from accumulated surplus / (deficit)	(69)	0	69	0
Surplus / (deficit) for the period	0	0	56	56
<b>Balance at the end of the period 2022</b>	<b>75</b>	<b>0</b>	<b>56</b>	<b>131</b>
Changes in accounting policy	0	0	0	0
<b>Restated balance</b>	<b>75</b>	<b>0</b>	<b>56</b>	<b>131</b>
Transfer from accumulated surplus / (deficit)	56	0	(56)	0
Surplus / (deficit) for the period	0	0	(43)	(43)
<b>Balance for the period ended 2023</b>	<b>131</b>	<b>0</b>	<b>(43)</b>	<b>88</b>

## STATEMENT OF BUDGET EXECUTION

FOR THE YEAR ENDED 31 DECEMBER 2023

		Initial Budget	Transfers	Final Budget	Expenditure	Accrued Expenses 2022	Accrued Expenses 2023	Total Expenditure	Carry Forward	Lapsed
	<b>Note</b>									
	(in thousands of Euros)									
<b>Budget 2023</b>										
<b>Chapter 1</b>										
Personnel costs	E1	44,273	-205	44,068	42,926	0	26	42,952	17	1,099
<b>Chapter 2</b>										
Agency support costs	E1	3,547	0	3,547	3,275	0	37	3,312	15	220
<b>Chapter 3</b>										
Process and IT management	E1	5,795	205	6,000	5,165	0	246	5,412	222	365
<b>Chapter 4</b>										
(Income) and Bank Charges	E1	-118	0	-118	-228	0	0	-228	0	110
14										
<b>Total FY 2023</b>		<b>53,496</b>	<b>0</b>	<b>53,496</b>	<b>51,137</b>	<b>0</b>	<b>310</b>	<b>51,447</b>	<b>254</b>	<b>1,795</b>
Chapter 1 c/o from 2022		-	-	-	71	(71)	-	-	-	-
Chapter 2 c/o from 2022		-	-	-	145	(145)	-	-	-	-
Chapter 3 c/o from 2022		-	-	-	389	(389)	-	-	-	-
Chapter 4 c/o from 2022		-	-	-	-	-	-	-	-	-
Historical c/o		-	-	-	-	-	-	-	-	-
<b>Total prior financial years c/o</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>605</b>	<b>(605)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>		<b>53,496</b>	<b>-</b>	<b>53,496</b>	<b>51,742</b>	<b>(605)</b>	<b>310</b>	<b>51,447</b>	<b>254</b>	<b>1,795</b>

The table above presents the budget vs spend calculated on an accruals basis. The total lapse calculated in 2023 is €1,795k. There is an additional €1.7k remaining balance from the previous years lapse to be returned to nations. This means the total payable to nations is €1,797k.

Overview

2023 Financial Statements

**Notes to the NETMA Accounts**

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## A. Significant Accounting Policies

### *Basis of preparation*

The financial statements of NETMA have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and based on International Financial Reporting Standards (IFRS/IAS), as adopted by the North Atlantic Council (NAC) in 2002. In 2013, the NAC adopted an adaptation to IPSAS to better suit the specific requirements of the Alliance and an associated NATO accounting framework, applicable for financial reporting periods beginning on 1 January 2013.

The financial statements comply with the accounting requirements of the NATO Financial Regulations (NFRs) and the relevant NETMA directives and policies. In instances where there is a conflict between IPSAS and the NFRs this will be noted.

The financial statements have been prepared on a going concern basis and it is considered that there are no impediments to continuing with this assumption for the foreseeable future.

The financial statements have been prepared on a historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The principal accounting policies are set out below and have been applied consistently to all periods presented. The accounting principles recognised as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting system using historical costs have been applied consistently throughout the reporting period.

In accordance with Article 2.1 of the NFRs, the financial year of NETMA is 1 January to 31 December.

### *Accounting estimates and judgements*

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

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

### *Changes in accounting policy and standards*

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2023 Financial Statements the accounting policies have been applied consistently throughout the reporting period. There have been no changes to NETMA accounting policy for 2023.

### *Changes in pronouncements*

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards. The following 2023 issued IPSAS standards have been reviewed and are not relevant for the NETMA Financial Statements 2023: IPSAS 43 (Leases), IPSAS 44 (Non-current Assets Held for Sale and Discontinued Operations), IPSAS 45 (Property, Plant & Equipment), IPSAS 46 (Measurement) and IPSAS 48 (Transfer Expense). IPSAS 47 (Revenue) will be assessed for the future statements and included if required prior to the 2026 adoption date.

### *Restatements and prior period adjustments*

For the 2023 Financial Statements, NETMA has not revised any of the figures presented in the 2022 Financial Statements.

### *Changes in financial rules and regulations*

During 2015 NATO adopted new financial rules and regulations and there were no additional changes during 2023. These financial statements have been produced in line with these financial rules and regulations. NETMA updated its Financial Rules and Regulations in 2022, to ensure that they were in line with NATO NFRs. Only minor adjustments were made in the NETMA FRRs, and none of these changes affected the process in the preparation of the NETMA Financial Statements.

### Foreign currency

These financial statements are presented in Euros, which is the NETMA functional and reporting currency. Foreign currency transactions are translated into Euros at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Euros using the NATO exchange rates applicable at 31 December 2023, with the resulting realised and unrealised gains and losses are recognised in the Statement of Financial Performance.

NETMA used the following NATO-promulgated exchange rates as at 31<sup>st</sup> Dec 2023:

EUR – GBP = 1 : 0.86805

EUR – USD = 1 : 1.0983

### Consolidation

The NETMA financial statements are not consolidated.

IPSAS 6 has been adapted by NATO and in accordance with Council decision (PO(2018)0329) Financial Reporting of Morale and Welfare Activities (MWA), these activities have not been consolidated into the NETMA Annual Financial Statements.

### Financial instruments disclosure / presentation

NETMA uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, accounts receivable, liabilities, provisions and loans between NATO entities. Financial instruments are recognised in the statement of financial position at fair value.

### Financial risk factors

#### Credit risk

There is very limited credit risk as the contributing nations generally have a high credit rating. The risk of financial loss due to a participating nation's failure to raise funds is still assessed as very low. In the event that there is a shortage of funds by one or more nations to meet financial obligations, other nations will be expected to provide the necessary funding.

#### Liquidity risk

The liquidity risk is based on the assessment of whether the organisation will encounter difficulties in meeting its obligations associated with financial liabilities. There is limited exposure to liquidity risk because of the budget mechanism that guarantees contributions for the total approved budget. The accuracy of forecasts that result in the calls for contributions as well as the delay in receiving payments represent the main liquidity risks.

#### Currency risk

The majority of transactions associated with the administrative budget are contracted in Euros and in order to have the required funding, NETMA also asks nations to provide their contributions in Euros. Therefore the exposure of financial instruments to foreign currency exchange risk associated with the administrative budget is considered negligible.

#### Interest rate risk

NETMA is restricted from entering into borrowings and investments, and therefore there is no significant interest rate risk identified.

### Assets

NETMA holds the following types of current assets:

#### Cash and cash equivalents

Cash and cash equivalents include cash on hand and current bank accounts.

## Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. It can also include amounts due by other NATO entities. Contributions receivable are recognised when a call for contribution has been issued to the member nations. Other receivables include those from staff and external sources such as German MoD in relation to VAT receivable.

## Property, plant and equipment

The categories of Property, Plant and Equipment (PP&E) relevant for NETMA are detailed below:

Land and Buildings: The agency's office accommodation is subject of a building lease and therefore not capitalised as PP&E. In accordance with IPSAS 13 - Leases, it is expensed on a straight-line basis over the lease term. In 2015 this resulted in the creation of a long term liability due to a rent free period at the start of the contract on the new premises in Hallbergmoos. This liability was being unwound against rental payments on a straight-line basis over the original 10 year duration of the lease. In 2022 an option to extend the current lease by 5 years to 2029 was agreed. This has resulted in a reassessment of the lease liability in the 2023 accounts.

Office Furniture and Equipment: This includes items of non-aggregated office furniture and other miscellaneous office items (i.e. lamps, fans, projectors, printing equipment). Items in this category are depreciated on a straight-line basis over a ten year period which equates to their useful life. It is assumed an item is fully depreciated with nil residual value at the end of its useful life.

IT and Communications Equipment: This consists of Commercial-Off-The-Shelf (COTS) purchase of computer systems (hardware only), and communications equipment (i.e. telephones, faxes and accessories). Items in this category are depreciated on a straight-line basis over a three year period. It is assumed an item is fully depreciated with nil residual value at the end of its useful life.

In accordance with IPSAS 17, PP&E are recognised as tangible assets when it is probable that future economic benefits or service potential associated with the item will flow to the entity and the cost or fair value can be measured reliably. All PP&E, with the exception of land, are stated at cost less accumulated depreciation and accumulated impairment losses. NETMA's capitalisation threshold is €15,000, items with a purchase cost or fair value on acquisition above this threshold are capitalised and items falling below this threshold are fully expensed in the year of procurement.

For new asset additions during the year, the gross value of an asset is capitalised as PP&E on the Statement of Financial Position. The revenue for the gross asset value is accounted for in the year of purchase on the Statement of Financial Performance with a surplus on the Statement of Financial Performance being generated in the first year of purchase and transferred to the PP&E asset reserve account to increase accumulated asset reserves. A full months depreciation is only charged if the item is purchased in the first half of the month (i.e. before 15<sup>th</sup> Month), otherwise the first month of depreciation starts from the following period.

Depreciation is recognised so as to write off the cost of the assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation is accounted for as an expense which generates a deficit on the Statement of Financial Performance. This deficit is transferred to PP&E Asset Reserves at the end of each year to reduce the accumulated asset reserve.

An item of PP&E is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of PP&E is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Statement of Financial Performance. NETMA has no assets purchased prior to 2013 that would still have an economic life still in active use within the agency.

During 2023 there were 175 items approved for disposal through the NETMA Internal Audit section in accordance with NETMA delegated authorities.

## Intangible assets

The only categories of Intangible Assets relevant to NETMA are computer software and software development costs, which entails costs for licences over a period longer than 1 year and consultancy costs incurred for IT system change requests which meet the recognition criteria outlined below. NETMA intangible assets are amortised on a straight-line basis over a three year period. It is assumed an item is fully amortised with nil residual value at the end of its useful life.

In accordance with IPSAS 31, intangible assets are recognised as an identifiable non-monetary asset without physical substance, where it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. In line with its treatment of PP&E IT Equipment, the capitalisation threshold is €15,000 and all intangible assets are initially measured at cost less accumulated amortisation and accumulated impairment losses.

The estimated useful lives, residual values and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. NETMA has no assets purchased prior to 2013 that would still have an economic life still in active use within the agency.

**Leases**

As stated above, the office accommodation has been determined as an operating lease and, in accordance with IPSAS 13 - Leases, is expensed on a straight-line basis over the lease term.

**Liabilities****Payables**

Payables (including amounts due to other NATO entities) are amounts due to third parties for goods and services received that remain unpaid as of the reporting date. They are recognised at their fair value. This includes estimates of accrued obligations for goods and services received at year-end but not yet invoiced.

**Unearned revenue**

Unearned revenue represents contributions from member nations and/or third parties that have been called for in current or prior years' budgets and that have not yet been recognised as revenue. Unearned revenue also includes miscellaneous income and double entry adjustments for lapsed credits which are now shown as a payable to nations.

**Advances**

Advances are contributions from member nations called for or received related to future years' budgets. Funds are called for in advance of the relating financial period as NETMA has no capital that would allow it to pre-finance any of its activities.

**Revenue and expenses recognition****Revenue**

Revenue comprises of contributions from the four contributing nations: Germany, Italy, Spain and United Kingdom and other revenue earned during the period. Contributions from the four nations are called for in advance on a quarterly basis, while other revenue earned during a financial period includes bank interest and miscellaneous recoveries from staff for car parking and telephone calls.

Revenue is recognised to the extent that it is probable that economic benefits will flow to NETMA and revenue can be measured reliably. Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, NETMA recognises a liability until the condition is filled.

National contributions to the administrative budget are recognised as revenue on the statement of financial performance when such contributions are used for their intended purpose as envisioned within the approved budget.

**Expenses**

The NETMA financial statements cover the running costs of the agency and of the NAMMO and NEFMO programmes. These costs cover pay and personnel, utilities, rental payments and those costs associated with information management support. Expenses are recognised on an accruals basis.

**Cash flow statement**

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

## B. Notes to Statement of Financial Position

(in thousands of Euros)

### Assets

#### 1. Cash and cash equivalents

	2023	2022
Cash accounts	7,073	5,839
Clearing cash accounts	0	0
Petty cash and advances	3	3
Current bank accounts	0	0
Cash equivalents	0	0
Bank accounts interest	0	0
<b>Total</b>	<b>7,076</b>	<b>5,843</b>

NETMA operate one bank account into which all contributions are received and payments to suppliers are made. Interest earned on the account is recognised in year as revenue. The petty cash accounts enable small, essential purchases to be made quickly and are reconciled on a monthly basis.

The reason for the variance between 2023 and 2022 is a higher underspend in 2023 compared to 2022. The Statement of Budget Execution shows that the 2023 Final Budget compared to Expenditure before accruals is an underspend of €1,754k, compared to €658k in the 2022 Annual Finance Statements. This results in a €1,096k variance between the 2022 and 2023 year end cash position. In addition to this there are minor non-budgetary cash movements which impact on the EOY Cash position shown in Table 1.

#### 2. Receivables

	2023	2022
Receivables from non-consolidated entities	613	497
Contributions receivable from nations following year	13,397	0
Receivables from staff members	42	18
Other receivables	4	1
<b>Total</b>	<b>14,056</b>	<b>516</b>

#### Receivables from non-consolidated entities

This value represents receivables recoverable from MoD Germany with regards to VAT charged in 2023.

#### Contributions receivable from nations following year

This represents receivables from nations that have been called for in 2023 for the first quarter of 2024 but not yet received as at 31<sup>st</sup> December 2023.

#### Receivables from staff members

Receivables from staff members relate to the outstanding recoveries from advances of salaries and overpaid allowances. This account has been reconciled with payroll records at year end.

#### Other Receivables

Other receivables include accrued credits from third parties relating to the period but still outstanding at the period end.

**3. Prepayments**

	2023	2022
Suppliers	302	0
Staff	0	0
<b>Total</b>	<b>302</b>	<b>0</b>

In 2023 prepayment liabilities were recognised for services/licences purchased in advance which relate to 2024. No prepayments were made to suppliers in 2022.

**4. Non-current assets**

	2023	2022
PP&E	80	114
Intangible Assets	5	14
<b>Total</b>	<b>85</b>	<b>128</b>

As highlighted on page 18 under the Significant Accounting Policies: Property, Plant and Equipment section, the office accommodation in Hallbergmoos is treated as an operating lease arrangement and therefore is not capitalised. The Agency controls two types of PP&E and is responsible for replacement and maintenance of these assets: Office Furniture & Equipment, and IT & Communications Equipment. Additionally, NETMA controls intangible assets relating to computer software licences and capitalised consultancy support to an approved system change. The capitalisation threshold for all PP&E and intangible assets is €15,000. Upon moving to Hallbergmoos, the Agency took a view that integrated purchases (Cabling, Air Con Units, Security enhancements, etc.) were not to be capitalised due to no clear future ownership lines being in place and the ability to use such items if the Agency were to move premises in the future.

As at 31 December 2023 only items within IT and Communications met the criteria for capitalisation. This consists of Commercial Off The Shelf (COTS) computer systems (hardware and software), communications equipment (e.g. telephones, faxes and accessories) and capitalised IT consultancy costs for changes to NETMA IT applications. IT and Communications assets are measured at cost less depreciation or amortisation. Both depreciation and amortisation are calculated on a straight-line basis over the useful life of IT and Communications Equipment. During 2023 two new items of tangible IT servers, valued at €18K each, were purchased that met the capitalisation criteria and have been added to the asset register.

In accordance with IPSAS 17, below is a reconciliation of the carrying amounts for NETMA non-current assets:

	2023	2022
<b>Opening Balance</b>	<b>128</b>	<b>75</b>
Additions	36	140
Disposals	0	0
Depreciation	(80)	(87)
Closing Balance	<b>85</b>	<b>128</b>
Gross Carrying Amount	1,829	1,793
Accumulated Depreciation	(1,744)	(1,665)
<b>Net Carrying Amount</b>	<b>85</b>	<b>128</b>

**Liabilities****5. Payables**

	2023	2022
Payables to suppliers	0	0
Payables to non-consolidated entities	0	0
Payables to staff members	0	0
Lapsed Credits to be offset from future CFFs	1,797	798
Other payables	1,407	1,275
<b>Total</b>	<b>3,203</b>	<b>2,073</b>

**Payables to suppliers**

Amounts payable to suppliers represents invoices for work undertaken but not yet paid. This account is reconciled to the payables sub-ledger within the financial system operated by NETMA on a monthly basis.

**Lapsed Credits to be offset from future CFFs**

These values align to the value reported in the Statement of Budget Execution, representing budget called for but not spent that will be offset from the following years call for funds. There has been a larger underspend in 2023 compared to 2022 creating the majority of the payables variance. The lapsed credits figure includes a residual amount of €1.7k from 2022 which will be returned to nations in 2024.

**Other payables**

Other payables consist of manual accruals for goods and services, unpaid leave, deferred expenses and duty travel. The Goods and services accrual estimate as at 31st December 2023 is €407k, which is based on a review of invoices paid/received in 2024 up to mid-February. The Goods and Services accrual for 2023 is €225k lower than the 2022 accrual. The unpaid leave estimated accrual is based on the untaken leave carried forward as at 31 December 2023 multiplied by the average salary costs per day. This results in an unpaid leave accrual of €591K, as reduction of €7K compared to 2022. In addition to this, there is a new manual accrual for deferred expenses in year of €68k plus a new duty travel payment accrued in 2023 and paid in Jan 2024 for €296k, bringing the total variance for 2023 Other Payables to €132k.

**6. Deferred Revenue**

	2023	2022
Unearned Revenue	4,822	3,976
<b>Total</b>	<b>4,822</b>	<b>3,976</b>

Deferred Revenue represents accumulated unearned revenue which is the excess of national contributions and miscellaneous revenue over expenditure on the NETMA program to date. The movement on unearned revenue can be reconciled as follows:

	2023	2022
<b>Unearned Revenue b/f</b>	<b>3,976</b>	<b>3,940</b>
National Contributions	53,317	49,641
Miscellaneous Revenue (excl Bank Interest)	717	583
Receivable for Following Year (movement)	48	42
Less:		
Operational Expenditure	51,417	50,608
Movement in Lapsed Credits	999	(309)
Movement in IT Duty Travel/SP Tel Line/Misc Advances	606	39
Movement in CFF called for but not received		
Other Expenses / (Income)	214	(108)
Foreign Exchange (Gains) / Losses	1	2
<b>Unearned Revenue c/f</b>	<b>4,822</b>	<b>3,976</b>

**7. Advances**

	2023	2022
Advance contributions	13,397	0
<b>Total</b>	<b>13,397</b>	<b>0</b>

**Advance contributions**

Advance contributions reflects the first quarter Call for Funds for all Nations for 2024 that were raised in 2023.

**8. Other long term liabilities**

	2023	2022
Operating lease liability	9	307
<b>Total</b>	<b>9</b>	<b>307</b>

In May 2015 the agency moved into new office accommodation in Hallbergmoos. Due to delays in this move, rent was not charged until September 2016, despite the lease being signed from 1st December 2014. Therefore in accordance with IPSAS 13, a liability for rental payments over the rent free period has been created and will be unwound against actual payments over the life of the lease. During 2022 an option to extend the lease to 2029 was agreed resulting in a reassessment of the lease liability.

**Net Assets****9. Accumulated surpluses / (deficits)**

	2023	2022
PP&E Additions / Revaluations	36	140
PP&E Depreciation and amortisation	(80)	(87)
2021 adjustment carried forward into 2022 balance		3
<b>Accumulated surpluses / (deficits)</b>	<b>(43)</b>	<b>56</b>

The accumulated surplus balance represents in year movements relating to PP&E and operational activities. The deficit for 2023 results from in year depreciation and amortisation charges totalling €80K against asset purchases totalling €36K. This surplus / (deficit) is transferred to reserves at the close of each financial year.

**10. Reserves**

	2023	2022
Non-current asset reserve	131	75
<b>Total</b>	<b>131</b>	<b>75</b>

The non-current asset reserve represents the nation's equity in PP&E and intangible assets. IT & Communications equipment assets are capitalised and accounted for at their net carrying amount (i.e. gross historical purchase costs less accumulated depreciation / amortisation). At the end of 2023, the asset reserve increased by the accumulated surplus of €56K, resulting in an opening Net Assets balance as at 1<sup>st</sup> January 2024 of €131K.



## C. Notes to Statement of Financial Performance

(in thousands of Euros, unless otherwise stated)

### 1. Revenue

	2023	2022
National contributions	53,317	49,641
National contributions to be called for	0	0
Other reimbursements	(1,556)	860
<b>Total</b>	<b>51,761</b>	<b>50,501</b>

National contributions represents the funds provided by nations to support NETMA in fulfilling its objectives under the administrative budget. Funding is normally called for in advance on a quarterly basis.

Other reimbursements includes recoveries from nations in support of the overall NETMA Programme, the movement on unearned revenue representing the surplus or deficit of revenue over expenditure in the financial year and recoveries from staff employed by the agency.

### Expenses

#### 2. Personnel

	2023	2022
Pay and Overtime	27,997	27,357
Allowances	5,425	5,329
Pension	3,346	3,281
Medical and Insurance	4,903	4,852
Travel	1,744	1,255
Other	136	171
<b>Total</b>	<b>43,552</b>	<b>42,244</b>

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

NATO introduced the Defined Contribution Pension Scheme (DCPS) on 1st July 2005. The scheme is a money purchase pension scheme which is funded by NETMA and the staff member. This pension scheme is compulsory for all new entrants. NETMA's contribution is 12% (Staff contribution is 8% of Basic Salary and the Additional Voluntary Contribution AVC (up to 5% of Basic Salary). Pension costs are predominantly for those members in the DCPS. The scheme is administered and accounted for centrally by NATO IS.

Travel costs include duty travel, home leave travel, removals and travel for interviews and repatriation.

At the year-end, NETMA has 253 established posts. A breakdown of wages, salaries and employee benefits is provided below. Costs remained largely consistent in 2023.

	2023	2022
Employee benefits expense	37,734	36,939
Post employee benefits		
For defined contribution pensions scheme	3,346	3,281
Untaken leave accrued	591	599
<b>Total employee benefits expense</b>	<b>41,671</b>	<b>40,818</b>

**Untaken leave**

Untaken leave at year-end may be carried over to the following year. Under normal circumstances, NETMA takes measures to ensure all carried over leave is taken by 30<sup>th</sup> April of the following year in accordance with the CPRs. Following on from the past travel and movement restrictions as a result of the COVID-19 outbreak, NETMA has a larger than normal untaken leave accrual. However, there is a minor reduction from the figure presented in 2022.

**Key Management Remuneration**

NETMA is led by four directors, one for each participating Nation. They are remunerated in line with NATO pay scales as are all other NETMA staff.

	2023	2022
Key management remuneration	<b>1,085</b>	<b>993</b>

The figure for 2023 is higher than 2022 mainly owing to the Deputy General Manager gapped post for four months between May-22 and Aug-22.

**Representation allowance**

(stated in Euros)

Representation Allowance has been utilised by the GM in line with the post entitlement. As per EM(2023)0225 dated 17th July 2023 expenditure on the representation allowance by the qualifying officials totalled €8,403 and is broken out below.

	2023	2022
Rent supplement	3,173	3,173
Hospitality expenses	5,230	9,517
<b>Total</b>	<b>8,403</b>	<b>12,690</b>

**Contractual supplies and services****3. Buildings and maintenance**

	2023	2022
Building costs	1,871	1,895
Security costs	805	665
Other costs	328	318
<b>Total</b>	<b>3,003</b>	<b>2,878</b>

Building costs include rent of the Agency's accommodation, utilities and cleaning. Security costs are predominantly those of the contracted out guard service. Other costs include office supplies, the rental of reprographic equipment and the costs for the canteen services that have been outsourced.

For the current accommodation at Hallbergmoos, NETMA signed a contract on 27<sup>th</sup> September 2013 to lease the new office building to 30<sup>th</sup> November 2024. Although a firm price was agreed, the contract incorporates a clause whereby a rental increase or reduction can be triggered after the first three years if inflation in Germany varies by more than 5% based on the consumer price index. Utility payments are subject to an annual review and can vary on the basis of actual usage of the previous year. The contract included an option to extend the lease for a further two periods of 5 years. During 2022 the first option to extend the lease to 2029 was agreed.

In accordance with IPSAS 13 – Leases, the table below details obligations under the Operating Leases as at 31 December 2023 (for the new building both building and garage costs are combined).

	2023	2022
<b>Buildings: (Includes Garage Charges)</b>		
Not later than one year	1,143	264
Later than one year and not later than five years	4,572	3,892
Later than five years	1,048	4,784
<b>Utilities:</b>		
Not later than one year	356	290
Later than one year and not later than five years	1,425	1,159
Later than five years	327	1,424
<b>Total</b>	<b>8,871</b>	<b>11,813</b>

#### 4. IT services

	2023	2022
Communication	107	161
Information technology support	5,052	5,064
<b>Total</b>	<b>5,159</b>	<b>5,225</b>

The major cost elements in this category are for consultancy and outsourced support costs for the Agency's information systems.

#### 5. Depreciation and amortisation

	2023	2022
Depreciation	71	76
Amortisation	9	12
<b>Total</b>	<b>80</b>	<b>87</b>

PP&E and intangible assets are depreciated/amortised on a straight-line basis over the useful life of the asset. The depreciation charge relates to IT and Communication Equipment assets capitalised by NETMA.

#### 6. Finance costs

	2023	2022
Foreign exchange gain / (loss)	(0)	(0)
Other charges	10	12
<b>Total</b>	<b>10</b>	<b>12</b>

Translation gains and losses occur when assets held in foreign currencies are converted to a Euro value at the closing NATO-promulgated exchange rates for the financial period. While some Euro : GBP exchange rate fluctuations were experienced in 2023, due to the low value of GBP transactions made only immaterial values were incurred in 2023.

Other charges include bank charges that are now being incurred on to NETMA bank accounts for transactions mainly attributed to cross border payroll allotments (€10k).

## D. Notes to Statement of Cash Flow

(in thousands of Euros)

*Cash flow from operating activities**1. Surplus / (deficit)*

	2023	2022
Surplus / (deficit)	(43)	56
<b>Total</b>	<b>(43)</b>	<b>56</b>

This represents the surplus/deficit from normal operating activities after interest, depreciation and financial charges such as exchange differences arising from transactions. The previous year's balance is transferred from surplus/deficit into Nation Reserves in the following year.

*Non-cash movements**2. Depreciation / amortisation*

	2023	2022
Depreciation and amortisation	80	87
<b>Total</b>	<b>80</b>	<b>87</b>

This represents the annual depreciation/amortisation on NETMA Assets which is calculated on a straight-line basis.

*3. Increase / (decrease) in payables*

	2023	2022
Payables to suppliers	(0)	0
Other payable	1,131	(100)
<b>Total</b>	<b>1,130</b>	<b>(100)</b>

The movement on payables in 2023 represents an increase in the outstanding liabilities for 2023. The increase in other payables is attributable to a higher lapsed credit value to be returned to nations in 2024 compared to the 2023 Statement of Budget Execution.

*4. Increase / (decrease) in advances*

	2023	2022
Advance contributions	13,397	(12,410)
<b>Total</b>	<b>13,397</b>	<b>(12,410)</b>

The movement in advance contributions year on year shows advances from 2021 being satisfied in 2022 and advances in 2023 expected to be satisfied in 2024. There were no advance contributions raised in 2022 for the 2023 budget.

**5. Increase / (decrease) in other liabilities**

	2023	2022
Operating lease liability	(298)	(160)
<b>Total</b>	<b>(298)</b>	<b>(160)</b>

This reflects the movement created by the operating lease liability explained at Note B8.

**6. Increase / (decrease) in unearned revenue**

	2023	2022
Unearned revenue	846	36
<b>Total</b>	<b>846</b>	<b>36</b>

Unearned revenue represents the excess of national contributions and miscellaneous revenue over expenditure on the NETMA program to date.

**7. (Increase) / decrease in receivables**

	2023	2022
National contributions	(13,397)	9,648
VAT	(117)	(50)
Other receivables	(26)	(3)
<b>Total</b>	<b>(13,540)</b>	<b>9,595</b>

The decrease in national contributions receivable is explained in both Note B2 and D4, it relates to the value of national contributions called for the administration budget for 2023. The 2022 receivable is lower than the 2022 advance seen in note D4, because Italy paid the advance in 2021 — the same year it was raised. The increase in VAT receivable relates to monies owed to the Agency from the German VAT office regarding VAT reclaimable expenditure in 2023. Other receivables relate to monies owed from NETMA Staff members.

**Cash flow from investing activities****8. Purchase of property plant and equipment / intangible assets**

	2023	2022
Asset additions	(36)	(140)
<b>Total</b>	<b>(36)</b>	<b>(140)</b>

Asset additions represents the expenditure relating to hardware, software and consultancy costs which met the required criteria for capitalisation in line with IPSAS 17 & 31. The 2023 addition is attributed to the purchase of two tangible assets.

## E. Notes to Statement of Budget Execution

### 1. Budget analysis - 2023

	2023 Budget	2023 Expenditure
Chapter 1	44,068	42,952
<b>Total</b>	<b>44,068</b>	<b>42,952</b>

There was an underspend of €1,116K against the budget for 2023 because of vacancies of NETMA staff posts or filling posts later than expected. This resulted in the salaries, allowances and removal costs to be lower than expected.

	2023 Budget	2023 Expenditure
Chapter 2	3,547	3,312
<b>Total</b>	<b>3,547</b>	<b>3,312</b>

In 2023 for Chapter 2, NETMA spent 6.6% less than budget due to lower than expected electricity costs and a tight cost control for running costs.

	2023 Budget	2023 Expenditure
Chapter 3	6,000	5,412
<b>Total</b>	<b>6,000</b>	<b>5,412</b>

In 2023 for Chapter 3, NETMA spent 9.8% less than budgeted for and was able to close almost all projects and one-off investments. Due to ongoing supply difficulties in the hardware sector, procurement was sometimes not achievable in the allocated time and therefore was postponed to further budget years. Additionally NETMA was able to drive consultancy costs down through tight cost control.

	2023 Budget	2023 Expenditure
Chapter 4	(118)	(228)
<b>Total</b>	<b>(118)</b>	<b>(228)</b>

In 2023 for Chapter 4, NETMA received bank interest again after years without interest on the bank accounts. Therefore the estimated income was greater than budgeted.

For all of the above the return of the lapsed credits will be agreed with nations in 2024.

### 2. Reconciliation between Statement of Financial Performance and Statement of Budget Execution:

	2023
<b>SCHEDULE 2: FINANCIAL PERFORMANCE EXPENSES</b>	<b>51,804</b>
- Movement in accruals including non-budget items	14
- Movement in deferred expenses	244
- Asset additions less depreciation/amortisation	(43)
- Finance costs: gains / (losses) translation adjustment	0
- Operating Lease Expense	298
<b>CASH PAYMENTS</b>	<b>52,318</b>
- Revenue received in year	(239)
- Non-common payments excl. from budget	(633)
<b>ACTUAL BUDGET CASH PAYMENTS</b>	<b>51,447</b>

## F. Contingent Liabilities / Provisions

NETMA has no contingent liabilities or provisions.

## G. Related Parties Disclosure

The key management personnel of NETMA have no significant related party relationships that could affect the operation of NETMA. Board members receive no remuneration and senior management is remunerated in accordance with the published NATO pay scales. Both do not receive loans that are not available to all staff.

## H. Write-Off and Donations

In accordance with the NATO Financial Regulations, where a global statement of write-offs and donations shall be reported in the Annual Financial Statements NETMA can report that 175 items were submitted and approved for write-off/strike-off through the NETMA Internal Audit section in 2023 in accordance with NETMA delegated authorities. These write-offs/strike-offs are effected when items are deemed surplus to requirements, obsolete, damaged beyond economic repair or lost.

## I. Morale and Welfare Activities (MWA)

In line with the requirements of C-M(2019)0099, the following disclosures regarding the MWA are made:

Cash and Cash Equivalents: €42,444.92

Liabilities: €0.00

Full-time equivalent personnel directly supporting MWA as of year-end: Zero

The statement of Internal Control within these Annual Financial Statements includes MWA activities.





