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|  | NATO | NORTH ATLANTIC COUNCIL |
| | OTAN | CONSEIL DE L'ATLANTIQUE NORD |

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1 October 2015

DOCUMENT
C-M(2015)0067-AS1

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NATO
HELICOPTER FOR THE 1990S (NH 90) DESIGN AND DEVELOPMENT,
PRODUCTION AND LOGISTICS MANAGEMENT ORGANISATION (NAHEMO) FOR
THE YEAR 2013**

ACTION SHEET

On 30 September 2015, under the silence procedure, the Council noted the IBAN report IBA-AR(2014)31 attached to C-M(2015)0067 and agreed the RPPB recommendation regarding public disclosure contained in the RPPB note.

(Signed) Alexander Vershbow
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2015)0067.

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24 September 2015

NOTICE

C-M(2015)0067

Silence Procedure ends:

30 Sep 2015 18:00

IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NATO HELICOPTER FOR THE 1990S (NH 90) DESIGN AND DEVELOPMENT, PRODUCTION AND LOGISTICS MANAGEMENT ORGANISATION (NAHEMO) FOR THE YEAR 2013

Note by the Deputy Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the financial statements of the NATO Helicopter for the 1990s (NH 90) Design and Development, Production and Logistics Management Organisation (NAHEMO) for the year ended 31 December 2013. The audit report sets out an unqualified opinion for NAHEMO for 2013.
2. In line with the agreed policy in PO(2015)0052, the RPPB recommends to Council that the IBAN report, together with the related financial statements, be made available to the public.
3. The recommendation for public disclosure of the 2013 NAHEMO financial statements is based on the adapted financial statements which were provided by NAHEMA following their concerns expressed regarding publication of the original version. The IBAN has reviewed the adapted version and confirmed that the findings reflected in their original audit report remain valid.
4. I consider that no further discussion regarding this report is required. Consequently, unless I hear to the contrary **by 18:00 hours on Wednesday, 30 September 2015**, I shall assume that the Council has noted the IBAN report IBA-AR(2014)31 and agreed the RPPB recommendation regarding public disclosure contained in the enclosed RPPB note.

(Signed) Alexander Vershbow

3 annexes

Original: English

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RESOURCE POLICY AND PLANNING BOARD

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NAHEMO
FOR THE YEAR ENDED 31 DECEMBER 2013
ACTION SHEET**

Note by the Secretary

On 4 September 2015, under the silence procedure, the RPPB agreed the report to Council (AC-335-N(2015)0031-REV1).

(Signed) R. Strasser

Note: This Action Sheet should be attached to the subject notice as the top sheet.

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20 August 2015

NOTICE

AC/335-N(2015)0031-REV1

Silence Procedure ends:

4 Sep 2015 15:00

RESOURCE POLICY AND PLANNING BOARD

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NAHEMO
FOR THE YEAR ENDED 31 DECEMBER 2013**

Note by the Chairman

1. I attach a RPPB report regarding the International Board of Auditors for NATO (IBAN) Report on the 2013 NAHEMO Financial Statements.

2. The recommendation for public disclosure of the 2013 NAHEMO financial statements is based on the adapted financial statements which were provided by NAHEMA following their concerns expressed regarding publication of the original version. The IBAN has reviewed the adapted version and confirmed that the findings reflected in their original audit report remain valid.

3. In line with the agreed procedure for handling of unclassified IBAN reports, the document is being issued for agreement under the silence procedure. Unless I receive comments to the contrary **by 15.00, Friday 4 September 2015**, I assume that the RPPB has agreed the report to Council.

(signed) Giorgio Romano

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**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF THE NAHEMO
FOR THE YEAR ENDED 31 DECEMBER 2013**

REPORT BY THE RESOURCE POLICY AND PLANNING BOARD

References: (a) IBA-A(2014)266
(b) IBA-AR(2014)31
(c) NH/MGT/1583/2015, dated 26 March 2015
(d) NH/MGT/MS-I/02804/2015, dated 5 June 2015

1. Council agreed with PO(2015)0052 that, in principle, unclassified IBAN audit reports, together with any related financial statements, should be made publicly available after they have been dealt with by Council.
2. The IBAN issued an unqualified audit opinion on the 2013 audit of the Financial Statements of NAHEMO. The unqualified audit report will be forwarded to Council for notation, as per agreed procedures.
3. The NAHEMA Financial Controller has reviewed the financial statements in accordance with agreed policies (C-M(2008)0116 and PO(2015)0052) as well the IBAN report and NAHEMA raised some objections with regard to public disclosure.
4. The NAHEMA General Manager, in Reference (c), outlined his concerns with regard to the disclosure of information contained in the Financial Statements which is either of a commercially sensitive nature (NATO exemptions 3 and 7) or causes security concerns (NATO exemption 10).
5. In an effort to allay the concerns laid out in paragraphs 3 and 4, NAHEMA have provided an abstract of their financial statements for public disclosure (Reference (d)).
6. After due consideration of the arguments presented by NAHEMO, and in consultation with the IBAN, the RPPB, in line with PO(2015)0052, recommends to Council the publication of the provided abstract of the 2013 NAHEMO financial statements and the associated IBAN report.

**Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Restated Financial Statements of the
NATO Helicopter Management Organization (NAHEMO)
for the year ended 31 December 2013**

The "NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organization" (NAHEMO) is a NATO subsidiary body established with a view to meet the NH90 Helicopters requirements of France, Germany, Italy, The Netherlands, Belgium and Portugal.

NAHEMO consists of a Steering Committee (SC) composed of representatives of the Participants with the responsibility of the overall management of the programme and of the Agency called NAHEMA. The agency is located in Aix-en-Provence (France).

For 2013, NAHEMO operational and administrative budgets amounted respectively EUR 1 309 million and EUR 11.4 million (including brought forward).

The Board issued an unqualified opinion on the NAHEMO Restated Financial Statements and on compliance for the year ended 31 December 2013.

During the audit, the Board also made one observation and one recommendation related to the internal audit activities. These findings are summarised in the Letter of Observations and Recommendations (Annex 3). The Board also followed up on the status of four outstanding observations from its previous year's audit and noted that two of them have been settled.

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19 December 2014

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE RESTATED FINANCIAL STATEMENTS OF

THE NATO HELICOPTER MANAGEMENT ORGANIZATION

(NAHEMO)

FOR THE YEAR ENDED 31 DECEMBER 2013

REPORT OF THE INTERNATIONAL BOARD OF AUDITORS FOR NATO TO THE NORTH ATLANTIC COUNCIL

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying Restated Financial Statements of NAHEMO, which comprised the Statement of Financial Position as at 31 December 2013, and the Statement of Financial Performance, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Board also audited the Statement of Budget Execution for the year ended 31 December 2013.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these restated financial statements in accordance with the NATO Accounting Framework and the requirements of the NATO Financial Regulations as authorized by the North Atlantic Council (NAC). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these restated financial statements based on our audit, which is conducted in accordance with our Charter and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, due to fraud or error. In making those risk assessments, internal control relevant to the entity's preparation and presentation of financial statements is considered 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion on Financial Statements

In our opinion, the restated financial statements present fairly, in all material respects, the financial position of NAHEMO as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

Report on Compliance

Management's Responsibility for Compliance

In addition to the responsibility for the preparation and presentation of the restated financial statements described above, management is also responsible for ensuring that the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations as authorized by the North Atlantic Council (NAC).

Auditor's Responsibility

In addition to the responsibility to express an opinion on the restated financial statements described above, our responsibility includes expressing an opinion on whether the financial transactions and information reflected in the financial statements are, in all material respects, in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. This responsibility includes performing procedures to obtain reasonable assurance about whether the funds have been used for the settlement of authorized expenditure and whether their operations have been carried out in compliance with the financial and personnel regulations in force. Such procedures include the assessment of the risks of material non-compliance.

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

Opinion on Compliance

In our opinion, in all material respects the financial transactions and information reflected in the restated financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 19 December 2014

Dr Charilaos Charisis
Chairman

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS
FOR THE NATO HELICOPTER MANAGEMENT ORGANIZATION
(NAHEMO)**

FOR THE YEAR ENDED 31 DECEMBER 2013

Introduction

The International Board of Auditors for NATO (Board) audited the NAHEMO Restated Financial Statements for the year ended 31 December 2013, and issued an unqualified opinion on those financial statements and on compliance.

Observations and Recommendations

During the audit, the Board identified one observation and provided one recommendation related to the limited amount of internal audit activities. This observation and recommendation does not impact the audit opinion.

The Board also followed up on the status of observations from previous years' audits and noted that two were settled and two are still outstanding.

The Board also issued a separate management letter (IBA-AML(2014)11) to NAHEMA with observations related to operational budget presentation and preparation processing issues and compliance with NAHEMA's internal travel policies.

1. LIMITED INTERNAL AUDIT ACTIVITIES

Reasoning

1.1 An adequately funded, properly trained and clearly mandated internal audit function is an important element of internal control. Such a function will allow a body to better understand its own processes and identify areas of operational financial risk. Furthermore, as per NAHEMO's Financial Rules and Regulations (5th issue dated 04 December 2012), *"the internal audit of NAHEMA's account shall be performed by the internal auditor designated by and reporting to the General Manager."*

Findings

1.2 The Board found that there were no internal audit activities in 2013, missing opportunities to better understand its own processes and identify areas of operational and financial risk at NAHEMA. Separately, the Board found that NAHEMA is strengthening its internal controls by identifying the major objectives, its main risks and by issuing updated Standards Operating Procedures (SOP).

1.3 The Board encourages NAHEMA to continue these efforts with two main processes that should be mapped and assessed:

- The operational budget process (preparation, estimates, approval and execution).
- The financial reporting process.

1.4 Such a review of internal controls should include a review of the delegation of authorities in order to avoid a lack of segregation of duties or having too much authority assigned to an individual.

1.5 The Board found that the authorization table approved by the General Manager has not been updated since 2011. Nevertheless, the ORACLE System Administrator has been updating the privilege/user delegation based on staff turnover.

Recommendation

1.6 The Board recommends that NAHEMA ensure that there are annual internal audit plans and that these plans are followed. As part of this, the Board recommends that NAHEMA (i) go through a mapping and assessing exercise in the operational budget process and the financial reporting process and (ii) take the opportunity to review its ORACLE authorization delegations when updating its authorization table to be approved by the General Manager.

NAHEMA's formal comments

In paragraph 1.2 you make note no internal audit activities were found in 2013. Because of this lack I decided to improve Nahema internal control, proposing the Steering Committee (SC) to task the Financial Administrative Committee (FAC). The SC approved this way ahead. In September this year the first activity has been conducted by the FAC and the next will probably take place in spring 2015. As GM I identify the main objectives for the activity and the FAC is explicitly tasked to focus on those and to report to me.

In paragraph 1.5 you remarked that the authorization table in ORACLE has not been updated since 2011. On the one hand this remark is correct because names are used instead of post numbers. If the post numbers were used no update would be necessary because the organization and job descriptions didn't change. So in fact based on the related post numbers the table is still correct. In the table we will change the names in post numbers.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

The Board reviewed the status of the observation and recommendation arising from the previous audit. The observation and its status are summarised in the table below.

Status of previous years' observations

| OBSERVATION / RECOMMENDATION | ACTION TAKEN | STATUS |
|--|---|--|
| <p>1. 2011 Restated Financial Statement Audit Report IBA-AR(2013)15</p> <p>Recommendation In line with the new accounting policy considering the NAHEMO/NAHEMA are acting as agents on behalf of Nations, the Board recommends the agency to disclose detailed additional information on the core activities of the program including for example the cumulative and current amounts of contractual commitments with Industry, payments made to industry, and helicopter deliveries made to Nations. This can be done through an attached note or annex to its Financial Statements.</p> | <p>NAHEMA has added a summary status of the NH90 Helicopter program on page 20 of the NAHEMO 2013 Financial Statements.</p> | <p>Observation Settled.</p> |
| <p>2. 2011 Restated Financial Statement Audit Report IBA-AR(2013)15</p> <p>Recommendation The Board recommends that NAHEMO inform Council on the status of the intention of Portugal to withdraw from the program, including an assessment of the possible costs of such a withdrawal. Furthermore, NAHEMA should ensure that, in future, there is full consideration of and compliance with the requirements of IPSAS 14, Events after the Reporting Date.</p> | <p>On 9 July 2014, Portugal agreed to a settlement with the main contractor in respect to its withdrawal from the programme.</p> | <p>Observation Settled.</p> |
| <p>3. 2011 Restated Financial Statements Audit Report IBA-AR(2013)15</p> <p>Recommendation The Board recommends that NAHEMA only call for funds when funding requirement cannot be covered by existing cash holding of respective member nations as required by NATO and NAHEMO Financial</p> | <p>The Board notes that following the new budgetary approach based on expected milestones to be achieved and paid, the average level of cash on</p> | <p>Observation Outstanding.</p> |

| OBSERVATION / RECOMMENDATION | ACTION TAKEN | STATUS |
|---|--|--|
| Regulations. | <p>NAHEMA bank accounts has been reduced by 25% from 2012 to 2013 after a reduction of 20% from 2011 to 2012.</p> <p>However, the level still exceeds the limits as per the NATO and NAHEMO Financial Regulations.</p> | |
| <p>4. 2011 Restated Financial Statements Audit Report IBA-AR(2013)15</p> <p>Recommendation The Board recommends that only budgetary credits supported by a legal liability be carried forward in order to comply with NAHEMO's Financial Rules and Regulations related to the carry forward of its Administrative Budget commitments.</p> | <p>While administration budget carry forwards were smaller at 31 December 2013 compared to the prior year, they were still not all supported by legal liabilities.</p> | <p>Observation Outstanding.</p> |

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NAHEMA

"UNITE TO SUCCEED"

**NATO HELICOPTER D&D PRODUCTION AND LOGISTICS
MANAGEMENT AGENCY**



| | | | | | |
|-------|----------------|----------|--------|-------|------|
| From: | ADMINISTRATION | Drafter: | Teusch | Ext.: | 9241 |
|-------|----------------|----------|--------|-------|------|

NAHEMO FINANCIAL STATEMENTS FOR

FINANCIAL YEAR 2013

Public releasable version

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NAHEMO Financial Statements 2013

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GENERAL INFORMATION

OBJECTIVES OF THE ORGANISATION

The "NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation" (NAHEMO) is a NATO subsidiary body established with a view to meet the requirements of the French Republic, the Federal Republic of Germany, the Republic of Italy and the Kingdom of The Netherlands for the Design and Development, Production and In-Service Support of a NATO Helicopter for the 1990s (NH90). The NATO Council approved the NAHEMO Charter on 7th February 1992.

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

On 8th June 2000 the Memorandum of Understanding (MOU) for the Production (P) Phase of the NH90 including Production Investment (PI) and Initial In-Service Support (IISS) was signed.

With the signature of the Addendum No. 1 to the MOU on 21st June 2001 Portugal joined the Programme.

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

The Programme Arrangement No. 1 to the CMOU, signed on 6th December 2004, establishes the NSHP Participants' contribution to the NAHEMA Administrative Budget (AB) starting from 2005.

With the signature of the NH90 Belgian Production MOU on 12th June 2007 Belgium joined the Programme.

On 23rd December 2004 the NH 90 ISS (In-Service Support) MOU between NAHEMO Nations has been signed to set out the framework for the In-Service Support Phase of the NH90. With the signature of the amendment No. 1 Belgium on 25th October 2006 was admitted to the ISS MOU.

In June 2012, PRT has announced its wish to withdraw from the NH90 programme. Negotiation is on-going with Industry for implementing PRT effective withdrawal.

Since mid-September 2012 four representatives of Nordic Nations are at times allocated in NAHEMA and take part in certain dedicated activities in the frame of the ISS cooperation study.

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

NAHEMA is applying the NATO Financial Regulations (NFR). The NAHEMO Financial Rules and Regulations were approved in September 1994 by the SC and since then they are implemented (last issue dated 4th December 2012).

The SC approved the necessary amendment introducing the new Operational Budget (OB) on 4th December 2012.

NAHEMA is maintaining two different budget types:

The AB for the administrative costs of NAHEMA.

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The OB is composed of following 3 chapters:

- Chapter 1: expenditures related to Design and Development activities for FRA, DEU, ITA, and NLD, under the legal framework of the D&D MOU;
- Chapter 2: expenditures related to Production Investment, Production, Integrated Logistics Support and Initial In-Service Support for FRA, DEU, ITA, NLD, PRT under the legal framework of the PI/P MOU and for BEL under the BEL Prod MOU;
- Chapter 3: expenditures related to In-Service Support activities for all NH90 Community Nations (NAHEMO and non-NAHEMO) under the legal framework of the CMOU.

Financial Management and Reporting System

A Finance Management System was established in 2004 and implemented during 2005. Oracle e-Business suite is used for budget and commitment control and for the accounting records.

In January 2011 the Oracle e-Business suite module Cash Management was implemented and the customisation of the Oracle module Receivables and the improvement of the module Payables have been finished. The new functions were successfully tested and introduced. Senior Management has confirmed that the ORACLE system meets NAHEMA's objectives.

In February 2011 the NAHEMA General Manager established the ORACLE Project Board. In future for all ORACLE implementations, customisations and adjustments a risk assessment has to be performed by the NAHEMA management before the General Manager approves them as recommended by the Project Board.

In March 2011 the NAHEMA General Manager, in order to implement improved security controls, approved that the segregation of roles in the ORACLE system has to be changed in May 2011 and a split of access rights has to be implemented into the system.

In June 2012 NAHEMO SC decided to change the Budget Execution Statements for the OB for the Budget year 2013 in order to get a better understanding of the expected cash needs for the actual and future Budget years. The ORACLE contract commitment module has been adjusted in January 2013 in order to fulfil the SC decision.

NAHEMO Statement of Financial Position

As at December 31, 2013

| | <i>Note</i> | 2013 | 2012 |
|--------------------------------------|-------------|----------------|------------------|
| | | € '000 | € '000 |
| <u>ASSETS</u> | | | |
| <i><u>Current Assets</u></i> | | | |
| Cash and Cash Equivalents | 1 | 757,110 | 1,013,323 |
| Receivables | 2 | 39,633 | 143,647 |
| Prepayments | 3 | 0 | 0 |
| | | 796,743 | 1,156,970 |
| <i><u>Non-Current Assets</u></i> | | | |
| Infrastructure, Plant and Equipment | 4 | 65 | 72 |
| Intangible Assets | 5 | 68 | 102 |
| | | 133 | 174 |
| | | | |
| <u>Total Assets</u> | | 796,876 | 1,157,144 |
| | | | |
| <u>LIABILITIES</u> | | | |
| <i><u>Current Liabilities</u></i> | | | |
| Payables to suppliers | 6 | 68 | 14,097 |
| Payables to Nations in respect of AB | 6 | 1,504 | 1,361 |
| Payables to Nations in respect of OB | 6 | 792,022 | 1,129,054 |
| Other Payables | 6 | 0 | 11,399 |
| Advances | 7 | 487 | 453 |
| Unearned revenue | 7 | 2,662 | 606 |
| | | 796,743 | 1,156,970 |
| | | | |
| <u>Total Liabilities</u> | | 796,743 | 1,156,970 |
| | | | |
| <u>NET ASSETS</u> | | 133 | 174 |
| <i><u>Represented by:</u></i> | | | |
| PP&E Intangible Asset Reserve | 8 | 229 | 278 |
| Net surplus on revaluation | | | |
| Net surplus of the period | 11 | (96) | (104) |
| | | 133 | 174 |
| <u>Total Net Assets</u> | | | |

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NAHEMO Statement of Financial Performance

For the year ended December 31, 2013

| | <i>Note</i> | 2013 | 2012 |
|---|-------------|-----------------|-----------------|
| | | € '000 | € '000 |
| <u>REVENUE</u> | 9 | | |
| <i>Revenue from exchange transactions</i> | | | |
| Administration Budget | | 11,171 | 10,919 |
| Operational Budgets | | 0 | 0 |
| Total Revenue | | 11,171 | 10,919 |
| <u>EXPENSES</u> | 10 | | |
| <i>Administrative Budget</i> | | | |
| Personnel | | (9,601) | (9,361) |
| Operating | | (1,322) | (1,322) |
| Capital, non capitalized | | (46) | (47) |
| Value Added Tax | | (202) | (189) |
| Depreciation PP&E | | (41) | (40) |
| Depreciation Intangible Assets | | (55) | (64) |
| Total Expenses | | (11,267) | (11,023) |
| NET SURPLUS/(DEFICIT) FOR THE YEAR | 11 | (96) | (104) |

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NAHEMO Statement of Changes in NET ASSETS/EQUITY

For the year ended December 31, 2013

Amounts in € '000

| | Note | <i>Accumulated Surpluses/ (Deficits)</i> | <i>PP&E & Intangible Assets Reserve</i> | <i>Total net assets/ equity</i> |
|--|-------------|--|---|---|
| Balance at 31 December 2012 brought forward | | | 174 | 174 |
| Surplus for acquisition of property | 4,5 | | 55 | 55 |
| Surplus (deficit) for the period | 11 | (96) | | (96) |
| Transfer between funds | | 96 | (96) | 0 |
| Balance at 31 December 2013 | | 0 | 133 | 133 |

NAHEMO 2013 Cash Flow Statement (Indirect Method)

For the year ended December 31, 2013

| | 2013 | 2012 |
|--|------------------|------------------|
| | € '000 | € '000 |
| <u>Cash Flow from Operating Activities</u> | | |
| Surplus/ (deficit) from ordinary activities | 0 | 0 |
| Non-cash movements | | |
| Increase/Decrease in unearned revenue | 2,056 | 31 |
| Increase/Decrease in Net Assets | 41 | 65 |
| Increase/Decrease in payables | (362,317) | (305,641) |
| Increase/Decrease in receivables | 104,014 | 40,112 |
| Increase/Decrease in advances | 34 | (914) |
| Increase/Decrease in prepayments | 0 | 0 |
| <u>NET CASH FLOW FROM OPERATING ACTIVITIES</u> | (256,172) | (266,347) |
| <u>Cash Flow from Investing Activities</u> | | |
| Increase/Decrease in Non-Current Assets | (41) | (65) |
| <u>NET CASH FLOW FROM INVESTING ACTIVITIES</u> | (41) | (65) |
| NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENT | (256,213) | (266,412) |
| CASH AND CASH EQUIVALENT AT THE BEGINNING OF THE PERIOD | 1,013,323 | 1,279,735 |
| CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD | 757,110 | 1,013,323 |

Operating activities relate to cash flows on the
Administrative and Operational Budget

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SUMMARY BUDGET EXECUTION STATEMENT FOR NAHEMO ADMINISTRATIVE BUDGET (AB) 2013

| BUDGET TYPE | BUDGET | | | COMMITMENTS | | | | CASH BASED EXPENSES | CREDITS | |
|--|---------------|------------|---------------|---------------|------------|----------------|------------|---------------------|------------|------------|
| | ORIGINAL | TRANSFERS | FINAL | CFW | CFW | CFW | | | CFW | Lapsed |
| | From | 2012 | From 2012 | | | | | | | |
| CHAPTER | 2013 | 2013 | 2013 | 2013 | 2012 | Lapsed in 2013 | FINAL | | Next Year | 2013 |
| <u>ADMINISTRATIVE BUDGET (AB)</u> | | | | | | | | | | |
| CHAPTER 1: PERSONNEL | 9,787,345.00 | 320,000.00 | 10,107,345.00 | 9,579,819.51 | 585,076.21 | 551,396.11 | 33,680.10 | 9,637,515.93 | 20,781.47 | 566,408.12 |
| CHAPTER 2: OPERATING | 1,599,615.00 | 50,000.00 | 1,649,615.00 | 1,363,954.62 | 224,261.62 | 138,324.66 | 85,936.96 | 1,265,634.82 | 188,458.95 | 315,226.56 |
| CHAPTER 3: CAPITAL | 62,000.00 | 30,000.00 | 92,000.00 | 69,490.19 | 10,957.73 | 10,832.91 | 124.82 | 47,495.51 | 23,896.68 | 24,509.81 |
| VALUE ADDED TAX | | | | | | | | 204,970.03 | | |
| TOTAL (AB) | 11,448,960.00 | 400,000.00 | 11,848,960.00 | 11,013,264.32 | 820,295.56 | 700,553.68 | 119,741.88 | 11,155,616.29 | 233,137.10 | 906,144.49 |
| CASH RECEIVED FROM NATIONS AGAINST ADMINISTRATIVE BUDGET IN 2013 | | | | | | | | 11,071,132.55 | | |
| INTEREST RECEIVED FROM BANKS AGAINST ADMINISTRATIVE BUDGET IN 2013 | | | | | | | | 3,228.20 | | |
| VALUE ADDED TAX RECEIVED FROM FRANCE IN 2013 | | | | | | | | 188,480.24 | | |
| OTHER INCOME IN 2013 | | | | | | | | 0.00 | | |
| TOTAL CASH RECEIVED IN 2013 (AB) | | | | | | | | 11,262,840.99 | | |

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SUMMARY BUDGET EXECUTION STATEMENT FOR NAHEMO OPERATIONAL BUDGETS (OB) 2013

| BUDGET TYPE | BUDGET | | | COMMITMENTS | | | | CASH BASED EXPENSES | CREDITS | |
|-----------------------|-------------------------|-------------------------|-----------------------|-----------------------|-------------------------|--------------------------|-------------|---------------------------|-------------|-------------|
| | ORIGINAL | TRANSFERS | FINAL | CFW | | CFW | CFW | | CFW | Lapsed |
| | | | | From | 2012 | From 2012 | | | | |
| | 2013 | 2013 | 2013 | 2013 | 2012 | Adjusted in 2013 | FINAL | | Next Year | 2013 |
| CHAPTER 1 (OB) | | | | | | | | | | |
| FRANCE | 10,188,019.00 | (5,996,444.02) | 4,191,574.98 | 4,191,574.98 | 11,866,491.32 | (11,866,491.32) | 0.00 | 4,191,574.98 | 0.00 | 0.00 |
| ITALY | 7,278,016.00 | (5,152,773.15) | 2,125,242.85 | 2,125,242.85 | 10,111,441.41 | (10,111,441.41) | 0.00 | 2,125,242.85 | 0.00 | 0.00 |
| GERMANY | 3,872,853.00 | (2,496,125.52) | 1,376,727.48 | 1,376,727.48 | 4,974,928.95 | (4,974,928.95) | 0.00 | 1,376,727.48 | 0.00 | 0.00 |
| NETHERLANDS | 1,340,021.00 | (773,703.18) | 566,317.82 | 566,317.82 | 1,340,183.40 | (1,340,183.40) | 0.00 | 566,317.82 | 0.00 | 0.00 |
| TOTAL | 22,678,909.00 | (14,419,045.87) | 8,259,863.13 | 8,259,863.13 | 28,293,045.08 | -28,293,045.08 | 0.00 | 8,259,863.13 | 0.00 | 0.00 |
| CHAPTER 2 (OB) | | | | | | | | | | |
| FRANCE | 453,775,459.26 | (86,733,215.33) | 367,042,243.93 | 367,042,243.93 | 637,853,699.11 | (637,853,699.11) | 0.00 | 367,042,243.93 | 0.00 | 0.00 |
| ITALY | 392,115,554.35 | (155,995,387.78) | 236,120,166.57 | 236,120,166.57 | 1,130,188,760.42 | (1,130,188,760.42) | 0.00 | 236,120,166.57 | 0.00 | 0.00 |
| GERMANY | 145,089,155.59 | (71,081,336.21) | 74,007,819.38 | 74,007,819.38 | 1,232,599,361.54 | (1,232,599,361.54) | 0.00 | 74,007,819.38 | 0.00 | 0.00 |
| NETHERLANDS | 79,911,224.65 | (13,461,273.31) | 66,449,951.34 | 66,449,951.34 | 236,284,973.75 | (236,284,973.75) | 0.00 | 66,449,951.34 | 0.00 | 0.00 |
| PORTUGAL | 6,400,000.00 | (1,495,829.37) | 4,904,170.63 | 4,904,170.63 | 143,050,585.03 | (143,050,585.03) | 0.00 | 4,904,170.63 | 0.00 | 0.00 |
| BELGIUM | 69,398,664.36 | (17,780,125.46) | 51,618,538.90 | 51,618,538.90 | 80,683,136.98 | (80,683,136.98) | 0.00 | 51,618,538.90 | 0.00 | 0.00 |
| TOTAL | 1,146,690,058.21 | (346,547,167.46) | 800,142,890.75 | 800,142,890.75 | 3,460,660,516.83 | -3,460,660,516.83 | 0.00 | 800,142,890.75 | 0.00 | 0.00 |

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SUMMARY BUDGET EXECUTION STATEMENT FOR NAHEMO OPERATIONAL BUDGETS (OB) 2013

| BUDGET TYPE | BUDGET | | | COMMITMENTS | | | | CASH BASED EXPENSES | CREDITS | |
|-----------------------|-----------------------|------------------------|----------------------|----------------------|----------------------|-----------------------|-------------|----------------------|-------------|-------------|
| | ORIGINAL | TRANSFERS | FINAL | CFW | | CFW | CFW | | CFW | Lapsed |
| | 2013 | 2013 | 2012 | 2013 | 2012 | Adjusted in 2013 | From 2012 | | CASH BASED | 2013 |
| NATION | | | | | | | | | Next Year | |
| CHAPTER 3 (OB) | | | | | | | | | | |
| FRANCE (SIMMAD) | 30,662,070.76 | (23,017,692.27) | 7,644,378.49 | 7,644,378.49 | 15,278,530.82 | (15,278,530.82) | 0.00 | 7,644,378.49 | 0.00 | 0.00 |
| FRANCE (DGA) | 41,846,695.24 | (12,253,617.95) | 29,593,077.29 | 29,593,077.29 | 10,519,028.08 | (10,519,028.08) | 0.00 | 29,593,077.29 | 0.00 | 0.00 |
| ITALY | 31,608,587.00 | (30,857,963.35) | 750,623.65 | 750,623.65 | 420,311.52 | (420,311.52) | 0.00 | 750,623.65 | 0.00 | 0.00 |
| GERMANY | 14,999,687.00 | (13,812,922.52) | 1,186,764.48 | 1,186,764.48 | 829,529.17 | (829,529.17) | 0.00 | 1,186,764.48 | 0.00 | 0.00 |
| NETHERLANDS | 5,468,180.00 | (4,925,996.67) | 542,183.33 | 542,183.33 | 148,871.14 | (148,871.14) | 0.00 | 542,183.33 | 0.00 | 0.00 |
| BELGIUM | 8,655,652.00 | (6,979,262.45) | 1,676,389.55 | 1,676,389.55 | 0.00 | 0.00 | 0.00 | 1,676,389.55 | 0.00 | 0.00 |
| NORWAY | 1,650,918.00 | (467,148.76) | 1,183,769.24 | 1,183,769.24 | 1,321,307.84 | (1,321,307.84) | 0.00 | 1,183,769.24 | 0.00 | 0.00 |
| SWEDEN | 695,794.00 | (523,060.00) | 172,734.00 | 172,734.00 | 215,246.33 | (215,246.33) | 0.00 | 172,734.00 | 0.00 | 0.00 |
| FINLAND | 3,529,954.00 | (315,334.25) | 3,214,619.75 | 3,214,619.75 | 5,846,934.52 | (5,846,934.52) | 0.00 | 3,214,619.75 | 0.00 | 0.00 |
| AUSTRALIA | 1,009,737.00 | (886,703.00) | 123,034.00 | 123,034.00 | 123,034.00 | (123,034.00) | 0.00 | 123,034.00 | 0.00 | 0.00 |
| TOTAL | 140,127,275.00 | (94,039,701.22) | 46,087,573.78 | 46,087,573.78 | 34,702,793.42 | -34,702,793.42 | 0.00 | 46,087,573.78 | 0.00 | 0.00 |

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SUMMARY BUDGET EXECUTION STATEMENT FOR NAHEMO OPERATIONAL BUDGETS (OB) 2013

| BUDGET TYPE | BUDGET | | | COMMITMENTS | | | | CASH BASED EXPENSES | CREDITS | |
|--|------------------|------------------|----------------|----------------|------------------|-------------------|-------|---------------------------|-----------|--------|
| | ORIGINAL | TRANSFERS | FINAL | CFW | CFW | CFW | | | CFW | Lapsed |
| | From | 2012 | From 2012 | | | | | | | |
| NATION | 2013 | 2013 | 2013 | 2013 | 2012 | Adjusted in 2013 | FINAL | | Next Year | 2013 |
| <u>NSPA BUDGET (OB)</u> | | | | | | | | | | |
| FRANCE | 0.00 | 0.00 | 0.00 | 0.00 | 0.01 | (0.01) | 0.00 | 0.00 | 0.00 | 0.00 |
| ITALY | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| GERMANY | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| NETHERLANDS | 0.00 | 0.00 | 0.00 | 0.00 | 24,851.00 | (24,851.00) | 0.00 | 0.00 | 0.00 | 0.00 |
| PORTUGAL | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| BELGIUM | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| TOTAL | 0.00 | 0.00 | 0.00 | 0.00 | 24,851.01 | -24,851.01 | 0.00 | 0.00 | 0.00 | 0.00 |
| GRAND TOTAL (OB) | 1,309,496,242.21 | (455,005,914.55) | 854,490,327.66 | 854,490,327.66 | 3,523,681,206.34 | -3,523,681,206.34 | 0.00 | 854,490,327.66 | 0.00 | 0.00 |
| CASH RECEIVED FROM NATIONS AGAINST ALL OPERATIONAL BUDGETS IN 2013 | | | | | | | | 599,754,119.56 | | |
| INTEREST RECEIVED FROM BANK AGAINST OPERATIONAL BUDGET IN 2013 | | | | | | | | 1,117,379.22 | | |
| TOTAL CASH RECEIVED IN 2013 (OB) | | | | | | | | 600,871,498.78 | | |

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A. Accounting Policies

Accounting Period

These 2013 Financial Statements are based on the accounting records of NAHEMO as of 31 December 2013. In accordance with Article 2 of the NFR, the financial year at NAHEMO begins on 1 January and ends on 31 December of the year.

Reporting Currency

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

Basis of preparation

The financial statements have been prepared on a going-concern basis. NATO's structure is currently under review and there is no information available at the time of the authorising of these financial statements that would indicate an intention to cease NAHEMO's operations.

Financial Reporting Framework

The NAHEMO financial statements have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) issued by the IPSAS Board (IPSASB) and relevant to NAHEMO as decided by the North Atlantic Council in 2002. A list of standards issued by the IPSAS Board can be found on the following website www.ifac.org.

The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting using historical costs have been applied consistently throughout the reporting period to ensure that the financial statements provide information that is relevant to the decision-making and reliable, comparable, and understandable in light of the qualitative characteristics of financial reporting as well as the of the principle of the right balance between the benefits derived from the information and the costs of providing it as required by IPSAS 1.29 and further summarised in Appendix A of IPSAS 1.

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

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

NAHEMO financial statements have also been prepared in accordance with the accounting requirements of the NATO Financial Regulations (NFR) and the Financial Rules and Procedures (FRP) and the relevant entity directives and policies. In instances where there is a conflict between IPSAS and the NFR and FRP this has been noted.

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

NAMEMO considers that it is acting as an agent for its member states in relation to managing the NH90 programme. As NAHEMO is not exposed to the risks or rewards of the programme and is paying Industry on behalf of NAHEMO member states it considers that it should show the net consideration received from member states for running the programme and match this to expenditures; this revenue and expenditure is equivalent to NAHEMO's AB. NAHEMA's management considers that this information provides more reliable and transparent financial reporting to users of the financial statements. The change in accounting policy is in accordance with IPSAS 9: Revenue from Non-Exchange Transactions.

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

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

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

Changes in accounting policy

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2013 Financial Statements the accounting policies have been applied consistently throughout the reporting period.

The impacts of any other change to the entity accounting policy have been identified in the notes under the appropriate headings.

Assets – Current Assets

The entity holds the following types of current assets:

a. Cash and cash equivalents

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

b. Receivables

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

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

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

c. Inventories

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

d. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of advance payments made to third parties. NAHEMO acts as an agent on behalf of member states. It makes prepayments on behalf of member nations to Industry. However, these prepayments are not considered assets of NAHEMO (they are assets of the member Nations) and as such are no longer shown as assets in the Statement of Financial Position.

Assets – Non - Current Assets

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

a. Property, plant and Equipment

Basic Principles

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

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

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

| PPE Category | Description | Year Depreciation | Method |
|-------------------------------------|--|--------------------------|---------------|
| Land | | N/A | N/A |
| Structures | Buildings, Roads, Bridges | 40 | Straight line |
| Installed equipment | Equipment as part of structure such as Air conditioning units. | 10 | Straight line |
| Machinery | On board for production that can be displaced | 10 | Straight line |
| Transportation equipment | | 5 | Straight line |
| Mission equipment (military Assets) | Classes to be determined | TBD | Straight line |
| Furniture | | 10 | Straight line |
| Communication Systems | Communication equipment required for daily office operations | 3 to 5 | Straight line |
| Automated information systems | Hardware and software | 3 to 5 | Straight line |

Impairment of tangible assets

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate that they may be not recoverable. In 2013 no indication existed to review the values of fixed assets for impairment.

b. Intangible assets

According to IPSAS 31: Intangible Assets; NAHEMO recognized the set-up costs for the implementation of ORACLE modules as intangible assets. In the financial statements these set-up costs have been expensed. Depreciation is calculated using the straight line method to allocate the cost to the residual values over the estimated useful lives.

Current liabilities

a. Payables

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

b. Unearned revenue, advances and amounts owing to nations

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

Advances are contributions received related to future year's ABs.

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

c. Employee benefits

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

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- (1) Short term benefits which fall due wholly within twelve months after the end of the accounting period in which employees render the related service;
- (2) Post employment benefits; and
- (3) Termination benefits.

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

Certain employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme which is a funded defined benefit plan. Under the plans and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. No other post-retirement benefits are provided to these employees. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance.

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

Non-Current liabilities

Provisions

Provisions are recognised when the entity has a legal or constructive obligation as a result of past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made. In 2013 NAHEMO has no provisions.

Net Assets

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

Revenue and expense recognition

a. Revenue

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

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

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

b. Expenses

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

Surplus or Deficit for the Period

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

B. Significant Accounting Judgements and Estimates

In accordance with generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgements 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, revenues 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.

C. Notes to Statement of Financial Position

Assets – Current Assets

1. Cash and cash equivalents

| | December 31, 2013 | December 31, 2012 |
|--|----------------------|----------------------|
| | € '000 | € '000 |
| Petty Cash | 1 | 1 |
| Current Bank Accounts | 607,109 | 813,322 |
| Cash equivalents | 150,000 | 200,000 |
| Total Cash and cash equivalents | 757,110 | 1,013,323 |

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

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

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

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

2. Accounts receivable

| | December 31, 2013 | December 31, 2012 |
|--|----------------------|----------------------|
| | € '000 | € '000 |
| Contributions from Member Nations | | |
| Receivable from Nations related to AB | 2,275 | 176 |
| Receivable from Nations related to OB | 36,967 | 143,271 |
| Other receivables | 391 | 364 |
| Total Receivables | 39,633 | 143,647 |

Contributions from Member Nations

Contributions receivables from Member Nations are recognised when called.

Receivables from Nations related to the AB funding

The accounts receivable from Nations related to the NAHEMO AB are related to the NAHEMO Nations (France, Germany, Italy, The Netherlands, Portugal and Belgium), and the non NH 90 Programme Contributing Participants Finland, Norway and Sweden (the so called NORDIC Nations) and Australia.

Since the Amendment No. 1 to the Production MOU has been signed (21.06.2001) the new PI/P cost share considering the participation of Portugal has to be applied.

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

With Programme Arrangement No. 1 to the NH90 Community MOU an additional ceiling amount of EUR 750,000 on economic conditions of 01/01/1999 has been fixed for the NAHEMA activities in favour of the NORDIC Nations depending on the agreed scope of work.

The NORDIC Nations contribute to the AB starting from the financial year 2005.

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

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

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

All expenses including salaries and associated costs in the frame of the AB are considered as administrative expenses.

In 2013, the NAHEMO Nations were invited to pay EUR 10,532,586, the NORDIC Nations share was EUR 918,400 and Australia share was EUR 183,680. Due to the fact that the Kingdom of Spain and New Zealand got members in May 2013 the contribution was EUR 107,146.67 each.

At the end of April 2014, there were no unpaid calls.

Germany contributed EUR 487,092 for the Budget year 2014 in 2013 that has been recorded as advance.

Receivables from Nations related to AB funding

The first calls for funds for the AB 2014 were recorded in 2013 as AB receivables of EUR 2,275,292. During the first quarter 2014 EUR 1,543,266 were paid.

Receivables from Nations related to OB funding

During the first quarter 2014 EUR 31,096,590 of the total OB receivables of EUR 36,966,590 were paid.

Other receivables

These are receivables as outstanding VAT reimbursements from 2012 and 2013 from the French Minister of Finance for a total of EUR 209,519 and accrued interest from the banks for a total of EUR 181,526. The interest has been credited to the bank accounts in January 2014.

According to the MOUs, VAT is payable by the country levying it, which is France in the case of the NH90 Programme. The Finance and Administrative Committee (FAC) decided that the AB is to be submitted exclusive of VAT. VAT payments are kept in a specific expense account and will be reimbursed by the French Ministry of Finance (MoF). VAT payments not reimbursed by MoF due to French internal regulations will be reimbursed by the French Ministry of Defence (MoD).

3. Prepayments

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

Assets – Non-current Assets

4. Property, plant and equipment

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

| Net book value € at 31/12/2012 | Average Depreciation Years Depreciation % | 2013 Depreciation € | Net book value € at 31/12/2013 |
|-----------------------------------|---|------------------------|-----------------------------------|
| 71,775.28 | 4/5 20% - 25% | 35,252.57 | 36,522.71 |

New acquisitions 2013

| Net book value € at 31/12/2012 | Average Depreciation Years Depreciation % | 2013 Depreciation € | Net book value € at 31/12/2013 |
|-----------------------------------|---|------------------------|-----------------------------------|
| 33,935.06 | 4/5 20% - 25% | 5,655.84 | 28,279.22 |

Total

| Net book value € at 31/12/2012 | Average Depreciation Years Depreciation % | 2013 Depreciation € | Net book value € at 31/12/2013 |
|-----------------------------------|---|------------------------|-----------------------------------|
| 105,710.34 | 4/5 20% - 25% | 40,908.41 | 64,801.93 |

In 2013 NAHEMA purchased two data storage systems for EUR 33,935 that are capitalized on NAHEMO's Statement of Financial Position. The total depreciation for 2013 reads EUR 40,908 and results in a total net book value of EUR 64,801 for infrastructure, plant and equipment. According to the production contract specific PI-work tooling developed, manufactured or purchased by Industry shall be accounted on national level. This means that Nations control the tooling and they are not shown as NAHEMO's assets on its Statement of Financial Position.

5. Intangible Assets

Changes in intangible assets and related depreciation for the year were as follows:

| Net book value € at 31/12/2012 | Average Depreciation Years Depreciation % | 2013 Depreciation € | Net book value € at 31/12/2013 |
|-----------------------------------|---|------------------------|-----------------------------------|
| 102,334.55 | 4 25% | 52,065.13 | 50,269.42 |

New acquisitions 2013

| Net book value € at 31/12/2012 | Average Depreciation Years Depreciation % | 2013 Depreciation € | Net book value € at 31/12/2013 |
|-----------------------------------|---|------------------------|-----------------------------------|
| 21,000.00 | 4 25% | 3,062.50 | 17,937.50 |

Total

| Net book value € at 31/12/2012 | Average Depreciation Years Depreciation % | 2013 Depreciation € | Net book value € at 31/12/2013 |
|-----------------------------------|---|------------------------|-----------------------------------|
| 123,334.55 | 4 25% | 55,127.63 | 68,206.92 |

In 2013 NAHEMA adjusted the customization of the ORACLE OPSF module for EUR 21,000 that is capitalized on NAHEMO's Statement of Financial Position. The total depreciation for 2013 reads EUR 55,127 and results in a total net book value of EUR 68,206 for intangible assets.

Liabilities – Current Liabilities

6. Payables

| | December 31, 2013 | December 31, 2012 |
|--------------------------------------|----------------------|----------------------|
| | € '000 | € '000 |
| Payables AB suppliers | 68 | 231 |
| Payables OB suppliers | 0 | 13,866 |
| Payables to suppliers | 68 | 14,097 |
| Payables to Nations in respect of AB | 1,504 | 1,020 |
| Payables to Nations in respect of OB | 792,022 | 15,472 |
| Payables to Nations | 793,526 | 1,130,415 |
| Other Payables | 0 | 11,399 |
| Total Payables | 793,594 | 1,155,911 |

Payables to AB Suppliers

In 2013 there are payables to AB suppliers for the purchase of goods and services and staff members for duty trips done in 2013 of EUR 68,206. Payables also contain liabilities for accrued expenses. All payables have been paid in the first quarter 2014.

Payables to OB Suppliers

In 2013 there are no payables to OB suppliers. The OB payables from 2012 of EUR 13,865,602 have partly been paid in 2013 and partly been adjusted because some of the Portugal unpaid invoices were rejected to industry and will be incorporated in the final claim from industry that is still under negotiation.

Payables to AB funding nations in respect of AB

This represents the net revenue containing interest, bank charges, lapses, and over/under call in 2013. The net result has to be reimbursed to the nations following the MOU cost sharing agreement and NAHEMO SC decisions towards the NAHEMO AB funding. In 2014 EUR 1,503,827 of AB payables will be offset from call for funds against the AB 2014.

Payables to OB funding nations in respect of OB

This represents the net revenue containing interest, bank charges, lapses, contributions from other Nations for compensation, unallocated contributions and unearned revenue. The amount of EUR 792,021,885 represents balances held by NAHEMO or owed from member Nations which are in turn owing to nations until they are expensed on the OB.

In the table below, the details of the total payables to Nations of EUR 1,503,827 (AB) and EUR 792,021,885 (OB) are explained.

| Payables to Nations 2013 | |
|---|------------------------|
| Payables to Nations in respect of AB | |
| | EURO € '000 |
| Interest | 3 |
| Lapse 2011 | 70 |
| Lapse 2012 | 595 |
| Lapse 2013 | 836 |
| Total AB Related | 1,504 |
| Payables to Nations in respect of OB | |
| | EURO € '000 |
| Interest | 5,098 |
| Lapse NSPA 2011 | 105 |
| Contribution other Nations | 103 |
| Unallocated Contributions | 5,900 |
| Unearned Revenue | 780,816 |
| Total OB Related | 792,022 |

Other Payables

In 2013 there are no other payables.

7. Unearned Revenue and Advances

| | December 31, 2013 | December 31, 2012 |
|----------------------------|------------------------------|------------------------------|
| | € '000 | € '000 |
| Unearned Revenue AB | 2,662 | 606 |
| Advances AB | 487 | 453 |
| Total | 3,149 | 1,059 |

Unearned Revenue AB and OB

Due to the change in accounting policy, there is no longer unearned revenue in respect of the OB; such amounts are restated as payables to Nations in respect of the OB.

Unearned revenue AB consists of contributions and other transfers received or receivable, but for which corresponding charges will be incurred after the reporting date. The unearned revenue liability as of 31 December 2013 was EUR 2,662,185. It represents EUR 2,497,267 of budget calls for AB 2014 not received as of year-end and EUR 164,917 of received contributions not expended by year-end.

If the funds are not spent by the end of the second year following the year in which they have been approved, these funds will be returned to Nations.

In note 9, it is explained how the unearned revenue 2012, contributions and revenue recognition in 2013 result in the unearned revenue 2013.

Advances AB and OB

Advances related to the AB are contributions received in advance relating to the 2014 Budget. EUR 487,092 was advance contribution from Germany for 2014.

Due to a change in accounting policy, there are no longer advances in respect of the OB; such amounts are restated as payables to Nations in respect of OB.

Net Assets

8. PP&E and Intangible Asset Reserve

Net assets of EUR 133,008 are represented by PP&E and intangible asset reserve of EUR 229,044 minus the depreciation for 2013 of EUR 96,036.

D. Notes to Statement of Financial Performance

9. Revenue

The revenue recognition is matched with the recognition of expenses against the NAHEMO AB. Contributions when called are booked as an advance under unearned revenue and subsequently recognised as revenue when it is earned.

The table below shows the revenue from exchange transactions for the AB 2012 and 2013.

| | December 31, 2013 | December 31, 2012 |
|----------------------|----------------------|----------------------|
| | € '000 | € '000 |
| <i>Revenue AB</i> | | |
| Contributions | 11,171 | 10,919 |
| Revenue | 11,171 | 10,919 |

The revenue recognition is matched with the recognition of expenses.

Reconciliation between Revenue and Unearned Revenue

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

The starting balance of the unearned revenue at the beginning of 2013 is EUR 606,578. The reversal for accrued expenses is EUR 178,128, the total amount called in 2013 reads EUR 14,346,227. EUR 202,488 was recorded for the VAT paid in 2013 to be reimbursed in future. The revenue recognized in 2013 is EUR 10,968,088 for expenses and EUR 202,488 for VAT expenses; lapsed funds to be returned to Nations are for an amount of EUR 1,500,661. This results in unearned revenue of EUR 2,662,185 at the end of 2013.

| Reconciliation of Unearned Revenue AB 2012 with 2013 | |
|--|----------------|
| | EURO € '000 |
| Unearned Revenue 31 December 2012 | 606 |
| Reversal accruals 2012 | 178 |
| Call for Funds 2013 | 14,346 |
| VAT paid in 2013 to be reimbursed | 202 |
| Revenue earned in 2013 | -10,968 |
| Revenue earned in 2012 for VAT | -202 |
| Payable to Governments 31 December 2013 | -1,500 |
| Total unearned revenue 31 December 2013 | 2,662 |

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10. Expenses

Expense recognition for the 2013 AB and previous years carried forward budgets activities are based upon actual payments made together with accrued expenses which are based on value of work completed by contractors or duty trips performed where invoices are not yet received. Depreciation for PP&E and Intangible Assets for 2013 is reflected as expense.

AB Expenses are recognized by nature within the following groups.

Personnel

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

Contractual Supplies and Services

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

Operating Leases

NAHEMA rents premises and photocopiers on an operating lease. The costs of the lease are expensed in the year. The lease for building A will terminate in 2017 and for building B in 2014. If the leases are cancelled by NAHEMA before the maturity of the contract, NAHEMA will be liable to pay the rental fees until the end of the contracts. For the photocopiers NAHEMA is liable for the remaining unpaid amount of the total agreed lease plus 10% as a penalty. Until 30th June 2014 this would be an amount of EUR 212,939. The annual rent for the premises is EUR 413,152 inclusive accessory charges.

Capital & Investment

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

The table on the next page shows the breakdown of the expense from AB exchange transactions:

| | December 31, 2013 | December 31, 2012 |
|--------------------------------|----------------------|----------------------|
| | € '000 | € '000 |
| Personnel | 9,601 | 9,361 |
| Operating | 1,322 | 1,322 |
| Capital | 46 | 47 |
| VAT | 202 | 189 |
| Depreciation PP&E | 41 | 40 |
| Depreciation Intangible Assets | 55 | 64 |
| Total Expenses AB | 11,267 | 11,023 |

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

Reconciliation between Revenue and Expenses

The Revenue related to the AB that has been recognized in 2013 relates directly to the expenses that can be attributed to AB. For the AB the total revenue incurred is matched with the total expenses recognized in 2013 for a total of EUR 11,266,613.

The depreciation for PP&E and intangible assets are reflected as expense and cannot be matched with the Revenue and therefore result in a net surplus/ deficit for the year 2013 of EUR 96,036.

11. Surplus or Deficit for the Period

In the Statement of Financial Performance the surplus/deficit of the period of EUR 96,036 represent the annual depreciation expense for PP&E and intangible assets.

E. Events after Reporting Date

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

In June 2012 the PRT government decided to withdraw from the programme. Industry provided a claim early April 2013, which is being clarified. In August 2013 PRT approved to pay invoices of EUR 4,034,252 related to PI/P common activities and to reject invoices of EUR 12,698,782 related to non common activities (both were payables reported in the Financial Statements 2011 and 2012) based on the fact that they are subject to a settlement with

Industry and therefore will be incorporated into Industry's claim. Up to now the negotiations in respect of the final Industry claim are still not finalized.

In March 2013 the German Ministry of Defence and Eurocopter (now known as Airbus Helicopters) have signed a MOU on the non production of 40 NH90 army helicopters (GEAR) and the new production of 18 NH90 navy helicopters. 22 NH90 GEAR helicopters were transferred from committed helicopters to optional helicopters. NAHEMA has been tasked to draft the contract amendment incorporating what has been agreed in subject MOU. In March 2014 the draft contract has been sent to the NAHEMO Nations for approval.

In September 2013, FRA requested NAHEMA to rearrange the delivery schedule for the French TTH and NFH. The delivery of the last helicopter is planned to be in 2024 instead of 2020. In February 2014 the draft contract has been sent to NAHEMO Nations for approval.

F. Related Parties Disclosure

Under IPSAS 20 Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 requires the disclosure of the existence of related party relationships, where control 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 key management personnel of NAHEMA have completed a declaration stating that they have no related party relationships that could affect the operation of this reporting entity. NAHEMO Steering Committee members and senior management are remunerated in accordance with published NATO pay scales and do not receive loans that are not available to all staff.

Key Management Personnel:

**GENERAL MANAGER,
DEPUTY GENERAL MANAGER,
ADM DIVISION LEADER,
SYS DIVISION LEADER,
LOG DIVISION LEADER,**

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

| | December 31, 2013 | December 31, 2012 |
|--------------------------------------|------------------------------|------------------------------|
| | € '000 | € '000 |
| Basic salaries | 702 | 681 |
| Allowances | 171 | 172 |
| Post-employment benefits (DCPS) | 84 | 81 |
| Employer's contribution to Insurance | 102 | 102 |
| TOTAL | 1,059 | 1,036 |

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In addition NAHEMA management has assessed that there are no related party transactions between the nations which are members of NAHEMO and the industrial contractors used to implement NAHEMO programmes. However, France and Germany have shareholdings of about 12% of EADS who owns Airbus Helicopters (formerly known as Eurocopter).

G. Employee Disclosure

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

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

The costs in Chapter 1 are for staff members hired under the NATO Civilian Personnel Regulations as well as for consultants and contractors. The figures represent the costs of personnel including basic salary, allowances, insurance and pension plan contributions. It also includes accruals for entitlements to leaving allowance and loss of job indemnity.

| | December 31, 2013 | December 31, 2012 |
|---|----------------------|----------------------|
| | € '000 | € '000 |
| Employee benefits expense | 8,735 | 8,612 |
| Post-employment benefits | | |
| for defined contribution pension scheme | 11 | 13 |
| for defined benefit pension scheme | 656 | 648 |
| Total employee benefits expense | 9,402 | 9,273 |

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

CEPS provided certain administrative services for NAHEMA, for which a total fee of EUR 92,779 was charged and paid.

NATO IS performed certain administrative services for NAHEMA, for which a total fee EUR 35,879 was charged and paid.

H. Financial Instruments Disclosure/Presentation

NAHEMA uses only non-derivative financial instruments as part of its normal operations. These financial instruments include, cash, bank accounts, deposit accounts, and accounts receivable.

All the financial instruments are recognised in the statement of financial position at their fair value.

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

- Foreign currency exchange risk: NAHEMA is not exposed to foreign currency exchange risk because all contributions and payments are made in EURO
- Liquidity risk: The liquidity risk is based on the assessment whether the organisation will encounter difficulties in meeting its obligation associated with financial liabilities. There is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions in relation to approved budgets. The limited risks are primarily the validity of forecasts that result in the calls for contributions.

In December 2013 Portugal informed NAHEMA that for the Budget year 2013 the cash available on the bank account has to be used to pay non recurring invoices.

- Credit Risk: There is a low credit risk as the contributing nations have high credit ratings. NAHEMA's management does not believe that its customers' credit positions will directly impact on their ability to meet NAHEMA's funding commitments.
- Price Risk: There is a low price risk to NAHEMA due to programme price increases because Nations are contractually bound to meet such price changes and NAHEMA itself is not exposed to this price risk.

I. Comparison of Budget Execution and Statement of Financial Performance

Budget Execution

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

The difference between the Budget Execution Statement for the AB and the accrual based inputs in the Statement of Financial Performance is based on the expensed payables amount of EUR 23 the payables accrued expenses amount of EUR 68,219 the reversal of payable 2012 of EUR -53,368 and the depreciation of EUR 96,036.

The following table represents this reconciliation.

| BUDGET | EXPENSE IN BUDGET EXECUTION STATEMENT € '000 | Adjustments for Payable and Payables accrued Expenses € '000 | Adjustments for Payable 2012 | Adjustments for Depreciation € '000 | EXPENSE IN STATEMENT OF FINANCIAL PERFORMANCE € '000 |
|-------------------------------|--|--|---------------------------------------|--|--|
| ADMINISTRATIVE BUDGET 2012 | 11,156 | 68 | -53 | 96 | 11,267 |
| TOTAL | 11,156 | 68 | -53 | 96 | 11,267 |

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

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

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

The OB could not be approved by Italy at the 69th SC and 20th CSC meetings in December 2012. Therefore, in accordance with article 17 of the 5th issue of the NFRRs, NAHEMA provided an amount sufficient to cover estimated expenditure on the programme up to 30th June 2013 that has been approved by the JEC and CJEC "ex committee". The OB Chapter 3 Budget has been approved at the 21 CSC meeting in June 2013 and the OB 2013 has been approved during the 70 SC meetings in June 2013.

In February 2014 NAHEMA provided Nations with the FINAL OB figures that include the cash payments based on approved contracts/activities in the context of Basic Ordering Agreements (BOA's) and/or frame contracts. The difference between ORIGINAL OB and FINAL OB represent the difference between the estimated expected cash payments and the real cash payments and are shown in the column BUDGET TRANSFERS.

The huge amount of OB COMMITMENTS CFW From 2012 of EUR 3,523,681,206 consists of milestones that are contractually due but Industry did not achieve these milestones due to the slippage of delivery of helicopters for all Nations. NAHEMA estimated for all these milestones expected cash payment dates that are now the basis for the OB 2013 and future Budget years. Consequently, the OB COMMITMENTS CFW From 2012 have been incorporated into the Budget year 2013 and future Budget years. Therefore, the column OB COMMITMENTS CFW From 2012 FINAL shows zero amounts. Consequently the column OB CREDITS CFW Next Year show zero amounts as well.

Therefore, in 2013 the columns OB BUDGET FINAL 2013, COMMITMENTS 2013 and CASH BASED EXPENSES show the same figures.

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The ORIGINAL AB is based on estimates and has been increased by EUR 400,000 in accordance with a Financial Administrative Committee (FAC) decision from October 2012. The ORIGINAL AB, the increase and the FINAL AB has been approved by the NAHEMO Steering Committee in December 2012.

The AB COMMITMENTS 2013 are mainly based on personal cost for the NAHEMA employees and purchase and service contracts signed in order to run the agency. The column AB COMMITMENTS CFW from 2012 comes from the column CREDITS CFW Next Year from the year 2012. During the new budget year previous years commitments are closed and adjusted and the result is shown in the column COMMITMENTS CFW 2012 Lapsed in 2013. The column COMMITMENTS CFW From 2012 FINAL represents the real amount that is left over and therefore available for the budget 2013. In order to improve this functionality NAHEMA closed in December 2013 already as many estimated commitments as possible in order to present more realistic figures. Therefore, the column CREDITS CFW Next Year reads in 2013 EURO 233,137 only, what is much better compared to the amount from 2012 that was EUR 820,295. The CREDITS CFW Next Year amount is allowed to be carried forward for two years, at the end of the third financial year they will be finally cancelled.

The column CASH BASED EXPENSES shows the amount paid in cash in the year 2013 by NAHEMA.

The column CREDITS Lapsed 2013 consists of the difference between the BUDGET FINAL 2013 and COMMITMENTS 2013 and lapses from previous years.

As recommended by the Board in these financial statements NAHEMA provides detailed additional information at the new annex "Status of the NH90 programme as at 31/12/2013" on page 20. The cumulative helicopter production cost inclusive costs for customer change orders, agreement letters and data delivery package are shown in the column TOTAL € AMOUNT COMMITTED and the column TOTAL PENDING € AMOUNT TO BE PAID shows the remaining unpaid committed amount. The total number of helicopters ordered, delivered and pending deliveries are shown in separate columns and the € amounts paid in 2013 and the total € amounts paid as at 31/12/2013 are shown in separate columns as well.

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

RECONCILIATION OF BUDGET EXECUTION STATEMENT TO CASH FLOW STATEMENT

| | | |
|--|-----------------|-----------------------------------|
| Expense (cash based) on AB | -11,155,616.29 | See AB Budget Execution Statement |
| Cash received against AB | 11,262,840.99 | See AB Budget Execution Statement |
| Expense (cash based) on OB | -854,490,327.66 | See OB Budget Execution Statement |
| Cash received against OB | 600,871,498.78 | See OB Budget Execution Statement |
| Net cash outflow on AB and OB | -253,511,604.18 | |
| Net cash flow as per cash flow statement | -256,213,100.81 | Cash flow statement |

Difference **2,701,496.63** Represented by:

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| | |
|----------------------|------------------------------|
| -2,375,346.95 | OB interest paid to Treasury |
| -199,412.42 | OB proceeds paid to Treasury |
| -126,737.26 | OB PRT ADM contribution paid |
| -2,701,496.63 | Total |

Statement of Credits carried forward

As required by the NATO Financial Regulations (NFR part III, Art 11Bis), the following statement of credits carried forward gives a brief explanation of the unexpended balances at year end for which there is a legal liability.

| NAHEMA AB 2013 STATEMENT OF CREDITS CARRIED FORWARD (CASH BASED) TO 2014 | | | |
|---|----------------|------------------|---|
| CHAPTER | F.Y. | F.Y.-1 -2 | REMARKS |
| 01 Personnel | 20,781 | 0 | Installation/ education allowances, removal, recruitment, home leave, computer training costs to be finalized |
| 02 SUPPLIES | 188,459 | 0 | Maintenance, travel missions, computerization technical assistance, leasing costs to be finalized |
| 03 CAPITAL | 23,897 | 0 | Software, security costs to be finalized |
| TOTAL | 233,137 | 0 | |

Statement of transfers

In accordance with the NATO Financial Regulations (NFR III Art. 10), a statement of budgetary transfers recorded in 2013 is presented in the following table.

| NAHEMA ADMINISTRATIVE BUDGET 2013 TRANSFERS AUTHORISED BY THE FINANCE AND ADMINISTRATIVE COMMITTEE (FAC) IN ACCORDANCE WITH ARTICLE 18 OF NAHEMO FINANCIAL RULES AND REGULATIONS | | | | | | |
|---|-------------|--------------------|------------------|-------------|--------------------|-------------|
| ORIGIN OF THE CREDITS | | | CREDITS NEEDED | | | GRAND TOTAL |
| BUDGET ITEM LINE | AMOUNT | TOTAL | BUDGET ITEM LINE | AMOUNT | TOTAL | |
| 1410ADM | 5,000.00 € | 5,000.00 € | 1511ADM | 5,000.00 € | 5,000.00 € | 0.00 € |
| 1410ADM | 1,715.78 € | 1,715.78 € | 1413ADM | 1,715.78 € | 1,715.78 € | 0.00 € |
| 1410ADM | 18.81 € | 18.81 € | 1513ADM | 18.81 € | 18.81 € | 0.00 € |
| 1212ADM | 2,250.00 € | 2,250.00 € | 1610ADM | 2,250.00 € | 2,250.00 € | 0.00 € |
| 3111ADM | 12,400.00 € | 12,400.00 € | 3211ADM | 12,400.00 € | 12,400.00 € | 0.00 € |
| GRAND TOTAL | | 21,384.59 € | | | 21,384.59 € | - € |

J. Bank Guarantees

NAHEMA's building rental contracts include two bank guarantees ("cautionnement bancaire") with Credit Agricole Bank in favour of société GENEPIERRE for EUR 258,805 and in favour of société ATLANTIQUE MUR REGIONS S.C.P.I. of EUR 18,125.

Société GENEPIERRE is the owner of the building (Bâtiment A) and société ATLANTIQUE MUR REGIONS S.C.P.I. is the owner of the building (Bâtiment B, ground floor) that are rented by NAHEMA. Société GENEPIERRE and société ATLANTIQUE MUR REGIONS S.C.P.I. insisted on these bank guarantees. These guarantees do not elapse before the end of the rental contract.

STATEMENT ON INTERNAL CONTROL

To: International Board of Auditors for NATO

Subject: Statement on Internal Control

Date: 8 May, 2014

As General Manager, I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims and objectives, set by the NAHEMA Steering Committee, whilst safeguarding the funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

The Financial Controller of NAHEMA has responsibility for the administration of the NAHEMA financial and budgetary control system and for the correct use of funds made available to NAHEMA for which he has been assigned personal responsibility.

The system of internal control is designed to manage rather than to eliminate the risk of failure, to achieve the organization's policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of the internal control is based on the ongoing process designed to identify the principal 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, effectively and economically.

As General Manager, I also have responsibility for reviewing the effectiveness of the system of internal control. Essential elements are summarized below:

- NAHEMA has a Management Plan, which identifies NAHEMA's objectives and priorities including key business risks.
- These risks have to be regularly monitored, corrective actions taken and the Steering Committee is to be consequently informed.
- The procedures in use, the processes activated and the "cross-functions" posture of the Agency, allow a continuous, transparent and effective internal management control, fully consistent with the mission assigned by the NAHEMO Nations. For areas of high functional peculiarity, such as that relating to the safety of infrastructure, periodically the Agency makes use of external consultants with experience in the sector.

My review of the effectiveness of the system of internal control is supported by the work of the internal auditor and the executive managers within the organization, who have responsibility for the development and maintenance of the internal control framework, and comments made by external auditors in their management letters and other reports.

The logo consists of a red circle containing the word "NAHEMA" at the top and "NATO" at the bottom, separated by a horizontal line. A stylized red star is in the center. To the right of the logo is a blue ink signature.
Fortunato Mario Teodoro di MARZIO
General Manager

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