

	<b>NATO</b>	NORTH ATLANTIC COUNCIL
	<b>OTAN</b>	CONSEIL DE L'ATLANTIQUE NORD

**NATO UNCLASSIFIED**

25 April 2016

**DOCUMENT**  
C-M(2016)0022-AS1

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF  
NAMMO FOR 2014**

**ACTION SHEET**

On 22 April 2016, under the silence procedure, the Council noted the IBAN report IBA-AR(2015)26 attached to C-M(2016)0022 and agreed the RPPB recommendation regarding public disclosure.

(Signed) Alexander Vershbow  
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0022.

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18 April 2016

**DOCUMENT**  
C-M(2016)0022  
**Silence Procedure ends:**  
**22 Apr 2016 16:00**

**IBAN REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS OF  
NAMMO FOR 2014**

**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 Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation (NAMMO) for the year ended 31 December 2014. The audit report sets out an unqualified opinion.
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB). In line with PO(2015)0052, the RPPB report, agreed on 11 March 2016, recommends to Council that the subject audit report, together with the related 2014 financial statements, be made available to the public (Annex).
3. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 16:00 hours on Friday, 22 April 2016**, I shall assume that the Council has noted the IBAN report IBA-AR(2015)26 and agreed the RPPB recommendation regarding public disclosure.

(Signed) Alexander Vershbow

4 Annexes  
Enclosure

Original: English

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**IBAN REPORT ON THE AUDIT OF THE NAMMO FINANCIAL STATEMENTS FOR 2014**

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

References: (A) IBA-A(2015)168 & IBA-AR(2015)26  
(B) N/8001000N/08800812/158086/16/NU, dated 17 February 2016

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 2014 NAMMO Financial Statements. The unqualified audit report (reference (A)) will be forwarded to Council for notation, as per agreed procedures.
3. In reference (B), the entity concludes that the 2014 NAMMO Financial Statements can be disclosed.
4. With regard to public disclosure, the RPPB concludes that the subject IBAN report does not contain information which, according to NATO Policy on Disclosure of NATO Information, shall be withheld from public disclosure, and in line with the agreed policy in PO(2015)0052, therefore recommends that the Council agree to the public disclosure of the subject IBAN report and the related financial statements.

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**Summary Note for Council  
by the International Board of Auditors for NATO (Board)  
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 2014**

NAMMO is a NATO Production and Logistic Organisations. 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) manage this programme and the related budget.

The Board audited the NAMMO Financial Statements for the year ended 31 December 2014. Expenditure from the operational budget amounted to EUR 409 million.

The Board issued an unqualified opinion on the NAMMO Financial Statements and on compliance for the year ended 31 December 2014. There are no current year observations.

During the audit, the Board followed up on the status of one observation from previous years' audits related to High level of Cash and Cash Equivalents which continues to remain relevant and is summarised in the Letter of Observations and Recommendations (Annex 4).

For the NETMA General Manager's formal comments, see Annex 4.

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ANNEX 3  
C-M(2016)0022  
IBA-AR(2015)26

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S 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 2014**

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**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 Financial Statements of NAMMO, which comprised the Statement of Financial Position as at 31 December 2014, and the Statement of Financial Performance, the Cash Flow Statement and the Statement of Changes in Net Assets/Equity for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies. The Board also audited the Statement of Comparison of Budget and Actual Amounts for the year ended 31 December 2014.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these 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 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 financial statements present fairly, in all material respects, the financial position of NAMMO as of 31 December 2014, 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 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 authorised by the North Atlantic Council (NAC).

*Auditor's Responsibility*

In addition to the responsibility to express an opinion on the 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 authorised 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 financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 30 October 2015

Lyn Sachs  
Chairman

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ANNEX 4  
C-M(2016)0022  
IBA-AR(2015)26

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

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

**(NAMMO)**

**FOR THE YEAR ENDED 31 DECEMBER 2014**

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## **Introduction**

The International Board of Auditors for NATO (Board) audited the NAMMO Financial Statements for the year ended 31 December 2014, and issued an unqualified opinion on the financial statements and on compliance.

## **Observations and Recommendations**

There are no current year observations.

The Board also followed up on the status of one observation from previous years' audits and noted that it remains outstanding.

The NETMA General Manager provided comments on 8 October 2015, confirming that NETMA would seek to address the observations made by the Board.

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

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><b>Audit Report 2011 Financial Statements</b> <b>C-M(2013)0010 &amp; IBA-AR(2012)32</b></p> <p><b>Audit Report 2013 Financial Statements</b> <b>IBA-AR(2014)33</b></p> <p><b>High level of Cash and Cash Equivalents</b></p> <p>The Board recommended that, as stated in the notes to the NAMMO financial statements, the agency continue to work with the Nations to reduce cash holdings in line with expected expenditure in accordance with the NETMA Financial Regulations, section 11, paragraph 91.1.</p>	<p>As in previous years the Tornado programme is holding a significant amount of cash. In 2014, following management efforts to address this recommendation, cash and cash equivalents were reduced from EUR 431 million at year-end 2013 to EUR 374 million at year-end 2014, while expenditures remained at EUR 409 million. Although during 2014 there was a significant reduction in cash holdings by EUR 57 million, there is still 90% cash coverage of operational expenditures for the year equating to over 325 days of expenditure covered. It remains the case that cash holdings compared to expected expenditure exceed the levels prescribed in the NATO Financial Regulations.</p>	<p>Observation <b>Outstanding.</b></p>

# NAMMO

## FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 31 DECEMBER 2014



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## NAMMO

NATO Multi-Role Combat Aircraft Development, Production and In Service Support Management Organisation (NAMMO) is a subsidiary body created within the framework of NATO for the implementation of tasks arising out of that Treaty, and established by the North Atlantic Council pursuant of Article 9 of the North Atlantic Treaty and within the meaning of the Agreement on the Status of the North Atlantic Treaty Organisation, National Representatives and International Staff, signed in Ottawa on 20<sup>th</sup> September 1951. NAMMO is based in Unterhaching, Germany and is a NATO Production and Logistics Organisation (NPLO) formed by the nations of Germany, Italy and United Kingdom to develop, produce and support the Tornado aircraft.

Each Nation within NAMMO undertakes to fulfil the provisions and intentions laid down in the General Memorandum of Understanding between the Ministers of Defence of the Federal Republic of Germany, the Republic of Italy and United Kingdom of Great Britain and Northern Ireland on the joint development, production and in-service support of Tornado dated 14 May 1969 and in subsequent Memoranda of Understanding.

As an integral part of NATO, NAMMO will exercise those rights and privileges possessed by NATO by virtue of Article 4 of the Ottawa Agreement within the limits and subject to the terms and conditions specified by the present Charter, taking into account of the Agreement between NATO and the Government of the Federal Republic of Germany, dated 30<sup>th</sup> November 1961.

A NAMMO Board of Directors (BoD), comprising of representatives from the three NAMMO nations, provides strategic direction and governance to the Tornado Programme and NETMA provides support in the delivery of this direction. In this activity, NAMMO is acting as a principal and these accounts are put together on this basis. The NAMMO BoD directs NETMA in its management of the programme including approval of the NAMMO Operational Budget after review by the associated Legal Financial and Contractual Committee (LFCC).

Funding for NAMMO is wholly through contributions made by the three NATO member nations the Federal Republic of Germany, the Republic of Italy and the United Kingdom of Great Britain and Northern Ireland. As a NATO organisation two 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.



## FINANCIAL REPORT

### Introduction

The NAMMO Financial Statements have been produced in accordance with the NATO Accounting Framework which is based on International Public Sector Accounting Standards (IPSAS) tailored as permitted by the North Atlantic Council.

For the purposes of IPSAS, NAMMO is regarded as a support authority and accounting policies have been applied as they would to a construction manager. NAMMO is under the direct control of the contributing nations who direct the Agency in the use of the assets resulting from the programme and also have the risks and benefits of ownership. Where the nations gain beneficial use of the assets all costs are regarded as in-service costs incurred to maintain Tornado front line capability either through the procurement of spares or, at the direction of nations, contracting for post design tasks.

As NAMMO is regarded as a construction manager NATO Owned Repairable Stores (Tornado) – NORS (T) – are the property of Nations and are treated as an expense in the NAMMO Statement of Financial Performance.

### Highlights

NAMMO adopted a new accounting framework through the decision of the North Atlantic Council in August 2013 backdated to January 1<sup>st</sup> 2013. This framework is based on IPSAS standards but with limited tailoring to address NATO specific issues. The NATO Accounting Framework allows Property, Plant and Equipment (PP&E) assets acquired prior to 1<sup>st</sup> January 2013 to be treated as fully expensed. PP&E that meets the capitalisation threshold and was acquired on or after 1<sup>st</sup> January 2013 is capitalised. For NAMMO there remains no new assets that meet this criteria.

### Revenue

Revenue is generated through contributions from Nations. Other minor revenue items include bank interest, loan fees, levies and proceeds from the disposal of NATO Assets.

### Costs

Programme costs are currently for in service support only and can be identified by Nation. Other costs recognised within the financial statements include foreign currency gains and losses.

### Accounting and Control

The budget for NAMMO is constructed on a cash basis and funds are generally called for quarterly in advance. Interest generated on the programme bank accounts is either returned to the National Treasury or retained within the programme and shown as part of the Unearned Revenue balance within the financial statements.

The Annual Financial Statements are constructed on an accruals basis and reconciled against the cash outturn accordingly.



**Conclusion**

The Annual Financial Statements represent a true and fair view of the organisation's activities for 2014.



## FINANCIAL STATEMENTS

## Schedule 1

## STATEMENT OF FINANCIAL POSITION AS AT 31 December 2014

(all amounts stated in thousands of Euros)

	Notes	2014	2013	Variance CY-PY	%age
<b>ASSETS</b>					
<u>Current Assets</u>					
Cash and Cash Equivalents	B01	374,385	431,018	(56,633)	(13.14)
Inter Entity Current Accounts	B02	0	0	0	0.00
Receivables	B03	0	970	(970)	(100.00)
Prepayments	B04	0	0	0	0.00
Inventories	B05	0	0	0	0.00
Financial Assets	B06	0	0	0	0.00
		<b>374,385</b>	<b>431,988</b>	<b>(57,603)</b>	<b>(13.33)</b>
<u>Non Current Assets</u>					
Property, Plant and Equipment	B07	0	0	0	0.00
Intangible Assets	B08	0	0	0	0.00
		<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00</b>
<b>TOTAL ASSETS</b>		<b>374,385</b>	<b>431,988</b>	<b>(57,603)</b>	<b>(13.33)</b>
<b>LIABILITIES</b>					
<u>Current Liabilities</u>					
Short Term Borrowings	B09	0	0	0	0.00
Payables	B10	31,925	31,030	895	2.88
Advances	B11	342,460	400,958	(58,498)	(14.59)
		<b>374,385</b>	<b>431,988</b>	<b>(57,603)</b>	<b>(13.33)</b>
<u>Non Current Liabilities</u>					
Long Term Borrowings	B12	0	0	0	0.00
Provisions	B13	0	0	0	0.00
<b>TOTAL LIABILITIES</b>		<b>374,385</b>	<b>431,988</b>	<b>(57,603)</b>	<b>(13.33)</b>
<b>TOTAL ASSETS LESS LIABILITIES</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00</b>
<b>NET ASSETS</b>					
Accumulated Surplus / (Deficit)	B14	0	0	0	0.00
Reserves	B15	0	0	0	0.00
<b>TOTAL NET ASSETS</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00</b>



## FINANCIAL STATEMENTS

## Schedule 2

STATEMENT OF FINANCIAL PERFORMANCE FOR THE PERIOD ENDED 31  
December 2014

(all amounts stated in thousands of Euros)

	Notes	2014	2013	Variance CY-PY	%age
<b>OPERATING ACTIVITIES</b>					
<u>Revenue</u>					
Operating Revenue	C01	409,314	410,549	(1,235)	(0.30)
		<b>409,314</b>	<b>410,549</b>	<b>(1,235)</b>	<b>(0.30)</b>
<u>Expenses</u>					
Operating Expenses	C02	408,683	410,326	(1,643)	(0.40)
		<b>408,683</b>	<b>410,326</b>	<b>(1,643)</b>	<b>(0.40)</b>
<b>SURPLUS / (DEFICIT) FROM OPERATING ACTIVITIES</b>		<b>631</b>	<b>223</b>	<b>408</b>	<b>182.96</b>
<b>GENERAL &amp; ADMINISTRATIVE COSTS</b>					
Personnel	C03	0	0	0	0.00
Operations and Maintenance	C04	0	0	0	0.00
IT Services	C05	0	0	0	0.00
Depreciation & Amortization	C06	0	0	0	0.00
		<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00</b>
<b>NET SURPLUS / (DEFICIT) FROM OPERATING ACTIVITIES</b>		<b>631</b>	<b>223</b>	<b>408</b>	<b>182.96</b>
<b>FINANCIAL INCOME &amp; COSTS</b>					
Foreign Exchange Gains & Losses	C07	(740)	(376)	(364)	(96.81)
Other Financial Income & Costs	C08	109	153	(44)	(28.76)
		<b>(631)</b>	<b>(223)</b>	<b>(408)</b>	<b>(182.96)</b>
<b>NET SURPLUS / (DEFICIT) FOR THE PERIOD</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00</b>



## FINANCIAL STATEMENTS

## Schedule 3

## INDIRECT CASH FLOW STATEMENT FOR THE PERIOD ENDED 31 December 2014

(all amounts stated in thousands of Euros)

	Notes	2014	2013	Variance	
				CY-PY	%age
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
<u>Cash Flow from Operating &amp; Other Activities</u>					
Surplus / (Deficit) from Op Activities	D01	631	223	408	182.96
Depreciation & Amortization	D02	0	0	0	0.00
Financial Income & Costs	D03	109	153	(44)	(28.76)
		<b>740</b>	<b>376</b>	<b>364</b>	<b>96.81</b>
<u>Decrease / (Increase) in Current Assets</u>					
Receivables	D04	970	(970)	1,940	(100.00)
Prepayments	D05	0	0	0	0.00
Inventories	D06	0	0	0	0.00
Financial Assets	D07	0	0	0	0.00
		<b>970</b>	<b>(970)</b>	<b>1,940</b>	<b>(100.00)</b>
<u>Increase / (Decrease) in Current Liabilities</u>					
Short Term Borrowings	D08	0	0	0	0.00
Payables	D09	895	9,185	(8,290)	(90.26)
Advances	D10	(58,498)	44,230	(102,728)	(232.26)
		<b>(57,603)</b>	<b>53,415</b>	<b>(111,018)</b>	<b>(207.84)</b>
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>(55,893)</b>	<b>52,821</b>	<b>(108,714)</b>	<b>(205.82)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Decr / (Incr) Fixed Assets	D11	0	0	0	0.00
Decr / (Incr) Financial Assets	D12	0	0	0	0.00
		<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00</b>
<b>NET INCREASE / (DECREASE) CASH &amp; CASH EQUIVALENTS</b>		<b>(55,893)</b>	<b>52,821</b>	<b>(108,714)</b>	<b>(205.82)</b>
<b>CASH &amp; CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		<b>431,018</b>	<b>378,573</b>	<b>52,445</b>	<b>13.85</b>
Effect of Exchange Rate Changes	D13	(740)	(376)	(364)	96.81
<b>CASH &amp; CASH EQUIVALENTS AT END OF PERIOD</b>		<b>374,385</b>	<b>431,018</b>	<b>(56,633)</b>	<b>(13.14)</b>



## FINANCIAL STATEMENTS

## Schedule 4

## STATEMENT OF CHANGES IN NET ASSETS / EQUITY FOR THE PERIOD ENDED 31 December 2014

(all amounts stated in thousands of Euros)

	Notes	PP&E Asset Reserve	Revaluation Reserve	Translation Reserve	Accumulated Surplus / (Deficit)	TOTAL
<b>Balance at 31 December 2012</b>		0	0	0	0	0
Changes in Accounting Policy	E01	0	0	0	0	0
<b>RESTATED BALANCE</b>		0	0	0	0	0
Surplus / (Deficit) on Revaluation of Prop, Plant & Equip	E02	0	0	0	0	0
Surplus / (Deficit) on Revaluation of Financial Assets	E03	0	0	0	0	0
Currency Translation Differences	E04	0	0	0	102	102
<b>NET INCREASE / DECREASE OF RESERVES</b>		0	0	0	102	102
Revenue	E05	0	0	0	410,700	410,700
Expenses	E06	0	0	0	(410,803)	(410,803)
<b>NET SURPLUS / (DEFICIT) FOR THE PERIOD</b>		0	0	0	0	0
<b>Balance at 31 December 2013</b>		0	0	0	0	0
Changes in Accounting Policy	E01	0	0	0	0	0
<b>RESTATED BALANCE</b>		0	0	0	0	0
Surplus / (Deficit) on Revaluation of Prop, Plant & Equip	E02	0	0	0	0	0
Surplus / (Deficit) on Revaluation of Financial Assets	E03	0	0	0	0	0
Currency Translation Differences	E04	0	0	0	(301)	(301)
<b>NET INCREASE / DECREASE OF RESERVES</b>		0	0	0	(301)	(301)
Revenue	E05	0	0	0	409,421	409,421
Expenses	E06	0	0	0	(409,121)	(409,121)
<b>NET SURPLUS / (DEFICIT) FOR THE PERIOD</b>		0	0	0	(0)	(0)
<b>Balance at 31 December 2014</b>		0	0	0	(0)	(0)



## FINANCIAL STATEMENTS

## Schedule 5

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 31 December 2014

(all amounts stated in thousands of Euros)

	Notes	Budgeted Amounts			Commitments	Expenses	Credits Carried Forward	Lapsed Credits
		Original	Adjustments	Final				
All Nations	F01	394,235	41,219	435,454	401,856	401,856	0	(33,598)
		394,235	41,219	435,454	401,856	401,856	0	-33,598





## ANNEX A

### Accounting Policies & Definitions

#### *Basis of Preparation*

The financial statements have been produced on a going concern basis. NATO Agency reform, which was approved by the Heads of State and Government at the Lisbon Summit in 2010, continues to mature. A new integrated NATO Procurement entity will be established to meet the needs of new procurement programmes, but none of the existing NATO agencies intend to integrate into this new organisation. In addition, at this stage, there is no intent to merge additional NATO agency support activity into the NATO Support Agency (NSPA). The route to implement shared services across NATO continues to develop, with the decision to implement shared services for some Human Resource and General Procurement activities. Like other similarly funded NATO Agencies NETMA as the management agency for NAMMO has agreed to integrate with this activity when a proven benefits case for the specific entity can be demonstrated. In the light of the anticipated impact of these initiatives on the programme it is considered that there are no impediments to continuing on a going concern basis for the foreseeable future

The NAMMO financial statements have been prepared on the accruals basis of accounting in accordance with the accounting requirements of the NATO Accounting Framework which is based on International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board (IPSASB) and relevant to NAMMO as decided by the North Atlantic Council in 2013. A list of standards issued by the IPSAS Board can be found on the following website [www.ifac.org](http://www.ifac.org).

The financial statements have been prepared in accordance with the accounting requirements of the NATO Financial Regulations (NFR) and the Financial Rules and Procedures (FRP).

#### *Application of IPSAS and Tailoring*

NAMMO adopted all IPSAS standards issued by the IPSAS Board that were effective prior to 31 December 2014 and, where relevant, the adapted standards within the NATO Accounting Framework have been applied. As encouraged by the IPSAS Board, and to increase transparency and accountability, IPSAS standards that are available for early adoption have also been adopted. There is no material impact in the opening balances resulting from early adoption. A summary of standards adopted is provided in Annex G.

#### *Use of Estimates*

In accordance with generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions by management, based on the most reliable information available. Estimates include accrued revenue and expenses. Actual results could differ from those estimates and changes are reflected in the period in which they become known.



*Consolidation*

The NAMMO financial statements are not consolidated.

*Changes in Accounting Policy*

There has been no changes to accounting policy during 2014.

***Significant Accounting Policies****Foreign Currency Transactions*

Foreign currency transactions are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies were translated into Euro using the NATO rates of exchange that were applicable at 31 December 2014. Realised and unrealised gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Financial Performance.

*Financial Instruments*

The costs of activities in the NAMMO Operational Budget are borne by Nations in accordance with the formula specified in the Memorandum of Understanding (MOU) Supplement 4. Contributions are assessed on the basis of approved budget authorisations and called for in accordance with the budgeted cash requirements of NAMMO, therefore financial instruments play a more limited role in creating risk than would apply to a non-public sector organisation of a similar size.

NAMMO uses only non-derivative financial instruments as part of its normal operations. This includes the following financial assets and liabilities:

- Cash and cash equivalents (i.e. cash, bank accounts, deposit accounts),
- Accounts receivable,
- Accounts payable.

In accordance with IPSAS 29, Financial Instruments are recognised at the contract date and initially measured at fair value. Their subsequent measurement depends on their classification. Cash, receivables and other liabilities are not revalued (except for changes in exchange rates which are included in the statement of financial performance). Financial Instruments are derecognised on expiry or when all contractual obligations are transferred.

IPSAS 30 – Financial Instruments: Disclosures, requires the organisation to provide disclosures in respect of the role of financial instruments on the financial position and performance, the nature and extent of the risks to which the organisation is exposed and how these risks are managed. Management is aware of the risks associated with financial instruments and is bound by NETMA Financial Rules and Regulations to keep these risks very low.



- Currency risk: To limit the exposure to foreign currency risk, NAMMO forecasts yearly expected expenditures in foreign currencies where it is material (i.e. GBP). In order to have the required funding, NAMMO asks the Nations to provide their contributions in either EUR or GBP. Therefore the currency risk is deemed to be minimal and hedging the foreign currency exposure is not considered necessary. The transactions in foreign currencies are denominated in the functional currency at the date of the transaction.
- 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.
- Credit risk: There is very limited credit risk as the contributing Nations generally have a high credit rating. At the time of submitting these financial statements, Italy recently experienced a downgrade in their credit rating, however, 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.
- Interest rate risk: NAMMO is restricted from entering into borrowings and investments, and therefore there is no significant interest rate risk identified.

#### *Current Assets*

Cash and cash equivalents are carried in the Statement of Financial Position at fair value and comprise deposits held within nominated programme bank accounts. Foreign currency balances are translated using the NATO rate applicable as at 31 December 2014.

Accounts receivable consist of outstanding Calls for Funds from Nations for the 2014 financial year and any other receivables from external sources in relation to loan agreements, levies, etc.

#### *Non Current Assets*

In accordance with IPSAS 17, Property, Plant and Equipment (PPE) are considered as tangible assets when it is probable that future economic benefits or service potential associated with the item will flow to the entity and only recognised in the financial statements when the cost or fair value can be measured reliably.

NAMMO-owned assets includes such items as rigs, jigs, Special to Type Test Equipment (STTE) and general tooling procured under NAMMO contracts and are held within industry. The Tornado programme is some forty-five years old and there is little available historical cost information for assets held by industry and due to the specialist nature of the assets, there is no market-based fair value available. As neither the cost nor fair value could be measured reliably, legacy assets acquired in previous



years were not recognised on the Statement of Financial Position. This position is sustained by the NATO Accounting Framework which allows assets acquired prior to 1<sup>st</sup> January 2013 to be treated as fully expensed.

Aircraft, government owned in-service equipment or nationally modified equipment are not included within NAMMO PP&E as these are National Assets owned by the benefiting Nation and are included within National Financial Statements and Accounts accordingly.

NAMMO's capitalisation threshold is €200,000. Items acquired after 1<sup>st</sup> January 2013 with a cost on acquisition above this threshold are capitalised, items falling below this threshold are fully expensed in the year of procurement. Presently there are no Assets that meet this criteria.

There are no Intangible Assets to be capitalised for NAMMO, as they are not separately identifiable costs and are deemed to be integral part of the production equipment construction costs. Development costs associated with the aircraft are delivered and accounted for as part of aircraft delivered and therefore owned by the Nations.

As there are no assets on the Asset register for 2014 there has been no need to conduct an impairment review.

The gross value of a new asset will be capitalised as PP&E on the Statement of Financial Position. The revenue for the full amount of the asset is accounted for in the year of purchase on the Statement of Financial Performance. Therefore a surplus on the Statement of Financial Performance is generated in the first year of purchase and transferred to the PP&E Asset Reserve account to increase accumulated asset reserves.

Depreciation would be charged each year on a straight-line basis over the asset's useful life and 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.

Tangible assets are derecognised either on disposal or when no future economic benefit or service potential is expected from their use or disposal.

#### *Liabilities*

NAMMO liabilities include amounts payable to suppliers for work undertaken but not yet paid, amounts owing to Nations in respect of miscellaneous revenue that is to be returned in accordance with instructions from Nations, and advance contributions and unearned revenue.

#### *Advances and Unearned Revenue*

Advance contributions are those funds received for future years' budgets. Unearned revenue represents contributions received from Nations and third parties that have been called for in the current or prior years that have not been recognised as revenue.



Funds are called for in advance of their need because NAMMO has no capital that would allow it to pre-finance any of its activities. Unearned revenue also includes miscellaneous income earned that Nations have instructed remain on the programme accounts rather than be returned to the respective National Treasuries.

#### *Provisions and contingent liabilities*

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

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

#### *Revenue*

NAMMO is funded by the three contributing Nations Germany, Italy and United Kingdom. Contributions are usually called for quarterly in advance. Other revenue earned during a financial period includes loan fees, levies and bank interest.

#### *Expenses*

NAMMO operates comparable to a construction manager for the purposes of IPSAS and payments made to industry are expensed accordingly. All expenses incurred on the Tornado Weapons System Programme are for the in-service support of the aircraft.

#### *Related Parties Disclosure*

The key management personnel of NAMMO have no significant related party relationships that could affect the operation of NAMMO. Board members and senior management are remunerated in accordance with published NATO pay scales. Neither receives loans that are not available to all staff.



## ANNEX B

### Notes to the Statement of Financial Position

	2014	2013	Variance CY-PY	%age
<b>B01: Cash and Cash Equivalents</b>	374,385	431,018	(56,633)	(13.14)

The Tornado Weapons System Program has a number of bank accounts relating to the various funding offices from which payments are made and contributions received. With the exception of one account held in GBP all others are held in Euros.

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 clearing accounts is zero.

The overall levels of cash holdings have decreased over the year as NETMA actively worked with Nations to lower cash holding following previous audit comment.

	2014	2013	Variance CY-PY	%age
<b>B02: Inter Entity Current Accounts</b>	0	0	0	-

Any balances that exist on these accounts represent amounts owed to or from either NEFMO or the NETMA Administration Budget.

	2014	2013	Variance CY-PY	%age
<b>B03: Receivables</b>	0	970	(970)	(100.00)

National Contributions receivable represent the outstanding amounts from budgeted Calls for Funds and Commercial Exploitations Levies for the financial year. There are no outstanding amounts from Call for Funds as Calls that were made and not fully met by Nations by the end of the year are accounted for as contributions for the next period.

	2014	2013	Variance CY-PY	%age
<b>B04: Prepayments</b>	0	0	0	0.00

NAMMO does not make prepayments to industry.

	2014	2013	Variance CY-PY	%age
<b>B05: Inventories</b>	0	0	0	0.00

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.

	2014	2013	Variance CY-PY	%age
<b>B06: Financial Assets</b>	0	0	0	0.00

NAMMO does not hold any financial assets other than cash and receivables that have been separately reported on within the Annual Financial Statements.

	2014	2013	Variance CY-PY	%age
<b>B07: Property, Plant and Equipment</b>	0	0	0	0.00

The ownership of all Turbo Union assets has been handed over to industry and for PANAVIA an assessment has



been made on information available. The asset base of PANAVIA and its sub-contractors is large and consists of rigs, jigs, tools and test equipment. At the request of Nations, the NAMMO Cost Reduction and Asset Rationalisation Programme was set up to develop a disposal strategy for rigs and tooling to reduce costs and identify rigs and tooling that are required to meet Nations requirements up to the individual Out of Service Dates (OSD). The assets to be retained are those required to support the remaining aircraft configurations and reduced fleet size.

Due to the age of these special type assets and the evidence available as to their value, either initially or currently, it was not possible to establish reliable values for them and as such, in line with IPSAS 17 and the NATO Accounting Framework, the organisation has not recognised any assets acquired prior 1<sup>st</sup> January 2013 on the financial statements. There were no new asset additions or modifications acquired during 2014 that meet the capitalisation criteria.

The major rigs, jigs and test equipment that are retained to support the programme are identified as part of the rigs disposal strategy. The NAMMO tooling strategy and implementation plan is still being developed with industry to determine the range and scale of tooling that is required to be retained to meet Repair and Overhaul (R&O) and aircraft support tooling requirements of each Nation. Given the age and value of tooling assets, it is assumed that the asset pool has been fully depreciated over the production period and any remaining residual value is negligible. When the tooling strategy and implementation plans have been agreed with Nations, a reassessment will be made and adjustment included in future financial statements if considered material.

#### Asset Write Offs

NETMA Financial Rules and Regulations ensure that all asset write offs are tracked and held on a central database managed by the NETMA Audit Section.

	2014	2013	Variance CY-PY	%age
<b>B08: Intangible Assets</b>	0	0	0	0.00

NAMMO does not hold any intangible assets. Development costs are expensed by NAMMO and the intangible assets are held on the Statement of Financial Position of the benefiting Nations.

	2014	2013	Variance CY-PY	%age
<b>B09: Short Term Borrowings</b>	0	0	0	0.00

NAMMO does not have any short term loans from any organisation with all funds being provided by Nations and the generation of miscellaneous revenue such as Commercial Exploitation Levies.

	2014	2013	Variance CY-PY	%age
<b>B10: Payables</b>	<b>31,925</b>	<b>31,030</b>	<b>895</b>	<b>2.88</b>
Payable to Suppliers	2,861	1,412	1,449	102.65
Manual Accrual	24,374	20,349	4,025	19.78
Other Payables	4,689	9,269	(4,580)	(49.41)

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 NAMMO on a monthly basis. The manual accrual has been assessed by analysing invoices accounted for in January and February 2015 with 2014 (and earlier) invoice dates. Also the process has been improved as all January and February CADPs invoices and other material invoices dated January and February 2015 were reviewed to ensure they were accrued in the correct year.

Other Payables include bank interest, gains on disposals and levy's generated from defence programmes.

	2014	2013	Variance CY-PY	%age
<b>B11: Advances</b>	<b>342,460</b>	<b>400,958</b>	<b>(58,498)</b>	<b>(14.59)</b>
Advance Contributions:	0	19,321	(19,321)	(100.00)
Unearned Revenue	342,460	381,637	(39,177)	(10.27)

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



The movement on Unearned Revenue can be reconciled as follows:

	2014	2013
<b>Unearned Revenue b/f</b>	<b>381,637</b>	<b>324,347</b>
National Contributions	366,806	467,839
Miscellaneous Revenue (excl Bank Interest)	7,304	0
Bank Interest	300	255
<i>Less:</i>		
Operational Expenditure	(410,667)	(410,326)
Other Operational Revenue	(1,989)	0
Bank Interest returned to Nations	(193)	(103)
<i>Add:</i>		
Miscellaneous Financial Charges / (Income)	2	2
Foreign Exchange Gains / (Losses)	(740)	(376)
<b>Unearned Revenue c/f</b>	<b>342,460</b>	<b>381,637</b>

	2014	2013	Variance CY-PY	%age
<b>B12: Long Term Borrowings</b>	0	0	0	0.00

NAMMO does not have any long term loans from any organisation with all funds being provided by Nations and the generation of miscellaneous revenue such as Commercial Exploitation Levies.

	2014	2013	Variance CY-PY	%age
<b>B13: Provisions</b>	0	0	0	0.00

NAMMO has no provisions or contingent liabilities.

	2014	2013	Variance CY-PY	%age
<b>B14: Accumulated Surplus / (Deficit)</b>	0	0	0	0.00
- PP&E Additions	0	0	0	0.00
- Depreciation charge	0	0	0	0.00

NAMMO does not accumulate surpluses or deficits as all expenditure is funded by Nations' contributions. Any surplus or deficit that may occur is treated as unearned revenue.

	2014	2013	Variance CY-PY	%age
<b>B15: Reserves</b>	0	0	0	0.00

NAMMO does not have any reserves at this time. If there are PP&E assets capitalised then these are transferred to the PP&E Assets Reserve in the following year and reflects Nations Equity in PP&E Assets.





## ANNEX C

### Notes to the Statement of Financial Performance

	2014	2013	Variance CY-PY	%age
<b>C01: Operating Revenue</b>	<b>409,314</b>	<b>410,549</b>	<b>(1,235)</b>	<b>(0.30)</b>
National Contributions:	366,806	467,839	(101,033)	(21.60)
Movement on Unearned Revenue	39,177	(57,290)	96,467	(168.38)
Other	3,331	0	3,331	-

National contributions represent the funds provided by Nations to support NAMMO in fulfilling its objectives.

The movement on unearned revenue represents the excess of revenue over expenditure in the financial year. The practice is to adjust revenue to reduce it accordingly and account for it on the Statement of Financial Position within advances.

Other revenue includes items such as levies, loan agreement fees and gains on. Where revenue has been generated from one nation undertaking work on behalf of another those revenues have been excluded in accordance with IPSAS 23.

	2014	2013	Variance CY-PY	%age
<b>C02: Operating Expenses</b>	<b>408,683</b>	<b>410,326</b>	<b>(1,643)</b>	<b>(0.40)</b>
Operating Expenses	408,683	410,326	(1,643)	(1.00)
PP&E Capitalised In Year	0	0	0	0.00

Expenditure on the NAMMO program is booked upon the validation of invoices received from industry and identified by funding office.

Where expenses has been generated from one nation undertaking work on behalf of another those expenses have been excluded in accordance with IPSAS 23.

	2014	2013	Variance CY-PY	%age
<b>C03: Personnel</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00</b>

All of the personnel costs for NAMMO are accounted for in the NETMA Administration Budget

	2014	2013	Variance CY-PY	%age
<b>C04: Operations and Maintenance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00</b>

The costs for operating the Agency's headquarters are accounted for in the NETMA Administration Budget

	2014	2013	Variance CY-PY	%age
<b>C05: IT Services</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00</b>

All IT Services costs are accounted for in the NETMA Administration Budget

	2014	2013	Variance CY-PY	%age
<b>C06: Depreciation and Amortization</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0.00</b>

NAMMO hold no assets thus have no depreciation charges.



			<b>CY-PY</b>	<b>%age</b>
<b>C07: Foreign Exchange Gains and Losses</b>	<b>(740)</b>	<b>(376)</b>	<b>(364)</b>	<b>(96.81)</b>
Translation Gains / (Losses)	(301)	102	(403)	(394.83)
Realised Gains / (Losses)	(439)	(478)	39	(8.06)

Translation gains and losses occur when assets and liabilities held in foreign currencies are converted to a Euro value at the closing NATO-promulgated exchange rates for the financial period. Translation adjustments have been applied to the bank balance held in GBP and outstanding liabilities and advances.

Realised gains and losses occur when currency transactions are paid or received at a different rate to that which the expense or income was accounted when accrued for.

	<b>2014</b>	<b>2013</b>	<b>Variance</b>	
			<b>CY-PY</b>	<b>%age</b>
<b>C08: Other Financial Income and Costs</b>	<b>109</b>	<b>153</b>	<b>(44)</b>	<b>(28.76)</b>
Bank Interest Earned:	300	254	46	18.13
Bank Interest Returned to Treasury:	(193)	(103)	(90)	87.05
Bank Charges & Errors	2	2	0	1.28

Bank interest is earned on the accounts held to fund the NAMMO program, where nations don't chose to have this refunded to national treasury's the remaining balance is treated as unearned revenue.



## ANNEX D

### Notes to the Cash Flow Statement

	2014	2013	Variance CY-PY	%age
<b>D01: Surplus / (Deficit) from Operating Activities</b>	631	223	408	182.96

This represents the surplus or deficit from normal operating activities before interest, depreciation and financial charges such as exchange differences arising from transactions.

	2014	2013	Variance CY-PY	%age
<b>D02: Depreciation and Amortisation</b>	0	0	0	0.00

There are no depreciation costs for this financial period as there were no new assets acquired during 2014 meeting capitalisation criteria.

	2014	2013	Variance CY-PY	%age
<b>D03: Financial Income and Costs</b>	109	153	(44)	(28.76)

This represents the bank interest earned for the financial year net of that returnable to Italy under the current agreement with that nation.

	2014	2013	Variance CY-PY	%age
<b>D04: Receivables</b>	970	(970)	1,940	(200.00)
Contributions Due	0	0	0	0.00
Receivables	970	(970)	1,940	(200.00)

The movement on Contributions Due represents the change in the nations' debt to the programme from one financial year to the current one.

The movement on receivables represents the change in debt to the programme from sources other than the nations.

	2014	2013	Variance CY-PY	%age
<b>D05: Prepayments</b>	0	0	0	0

NAMMO does not make prepayments to industry.

	2014	2013	Variance CY-PY	%age
<b>D06: Inventories</b>	0	0	0	0.00

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.

	2014	2013	Variance CY-PY	%age
<b>D07: Financial Assets</b>	0	0	0	0.00

NAMMO does not hold any financial assets other than cash and receivables that have been separately reported on within the Annual Financial Statements.



	2014	2013	Variance CY-PY	%age
D08: Short Term Borrowings	0	0	0	0.00

NAMMO does not have any short term loans from any organisation with all funds being provided by Nations and the generation of miscellaneous revenue such as Commercial Exploitation Levies.

	2014	2013	Variance CY-PY	%age
D09: Payables	895	9,185	(8,290)	(90.26)
Payable to Suppliers	5,474	6,449	(975)	(15.11)
Other Payables	(4,580)	2,736	(7,316)	(267.38)

Payables to suppliers represent validated invoices presented but not yet paid.

Other Payables include bank interest, gains on disposals and levy's generated from defence programmes.

	2014	2013	Variance CY-PY	%age
D10: Advances	(58,498)	44,230	(102,728)	(232.26)
Advance Contributions	(19,321)	(13,060)	(6,261)	47.94
Unearned Revenue	(39,177)	57,290	(96,467)	(168.38)

Advance contributions represent the funds received from nations for the next financial year.

The movement on Unearned Revenue represents the accumulated excess of contributions over expenditure for the financial year.

	2014	2013	Variance CY-PY	%age
D11: Decrease / (Increase) Prop, Plant & Equipment Assets	0	0	0	0.00

There has been no PPE additions in year for NAMMO.

	2014	2013	Variance CY-PY	%age
D12: Decrease / (Increase) Financial Assets	0	0	0	0.00

NAMMO does not hold any financial assets other than cash and receivables that have been separately reported within the Annual Financial Statements.

	2014	2013	Variance CY-PY	%age
D13: Effect of Exchange Rate Changes	(740)	(376)	(364)	96.81
Translation Gains and (Losses)	(301)	102	(403)	(394.83)
Realised Gains and (Losses)	(439)	(478)	39	(8.06)

Translation gains and losses occur when assets and liabilities held in foreign currencies are converted to a Euro value at the closing NATO-promulgated exchange rates for the financial period. Translation adjustments have been applied to the bank balance held in GBP and outstanding debtors, liabilities and advances.

Realised gains and losses occur when currency transactions are paid or received at a different rate to that which the expense or income was accounted when accrued for.



## ANNEX E

### Notes to the Statement of Changes in Net Assets / Equity

	2014	2013	Variance CY-PY	%age
E01: Changes in Accounting Policy	0	0	0	0.00

There have been no changes in accounting policy applied in 2014.

	2014	2013	Variance CY-PY	%age
E02: Surplus / (Deficit) on Revaluation of Prop, Plant & Equip	0	0	0	0.00

NAMMO has not generated any revaluations at this time. Following the cost model method under IPSAS 17 for measuring asset values, after recognition as an asset an item of PP&E is carried at its cost less any accumulated depreciation and any accumulated impairment losses. Under this method revaluations are not expected.

	2014	2013	Variance CY-PY	%age
E03: Surplus / (Deficit) on Revaluation of Financial Assets	0	0	0	0.00

NAMMO does not hold any financial assets other than cash and receivables that have been separately reported within the Annual Financial Statements and do not incur any revaluation.

	2014	2013	Variance CY-PY	%age
E04: Currency Translation Differences	(301)	102	(403)	(394.83)

Translation gains and losses occur when assets and liabilities held in foreign currencies are converted to a Euro value at the closing NATO-promulgated exchange rates for the financial period.

	2014	2013	Variance CY-PY	%age
E05: Revenue	409,421	410,700	(1,279)	(0.31)

All revenue items are included here and cover national contributions, bank interest, levies, loan fees, etc.

	2014	2013	Variance CY-PY	%age
E06: Expenses	(409,121)	(410,803)	1,682	(0.41)

All expenditure items are included here and cover program expenditure, depreciation and miscellaneous financial charges, etc. Translation differences on currency balances are disclosed above in note E04.



## ANNEX F

### Notes to the Budget Execution Statement

	2014	2013	Variance CY-PY	%age
<b>F01: All Nations</b>	<b>435,454</b>	<b>496,938</b>	<b>(61,484)</b>	<b>(12.37)</b>

Overall there is an underspend of €37,493 when comparing actual Expenses to Operational Budget for all nations within NAMMO, this is mainly caused by delayed delivery on items such as Spares and Ammunition as well as lower levels of expenditure than initially forecast on goods and services.

### **F02: Reconciliation between Cashflow Statement and Statement of Budget and Actual Amounts for the Period Ended 31 December 2014:**

	2014	2013	Variance CY-PY	%age
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>(55,893)</b>	<b>52,821</b>	<b>(108,714)</b>	<b>(205.82)</b>
- Cash Contributions received in year	(347,485)	(454,779)	107,294	(23.59)
- Bank Interest in year	(300)	(255)	(45)	17.67
- Other Reimbursements	(6,218)	(2,958)	(3,260)	110
<b>GROSS CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	<b>(409,896)</b>	<b>(405,171)</b>	<b>(4,725)</b>	<b>1</b>
- Bank Interest returned to treasury	0	428	428	-
- Other disbursements	(8,035)	725	7,310	1,008
<b>EXPENSES PRE EXCHANGE RATE VARIATIONS</b>	<b>(401,862)</b>	<b>(404,018)</b>	<b>2,156</b>	<b>(1)</b>
- FX Gains & Losses	(740)	(376)	(364)	97
- Operational Budget v Actual Exchange Gains & Losses	1,674	(1,667)	3,341	(200)
<b>PREDICTED EXPENSES</b>	<b>(400,928)</b>	<b>(406,061)</b>	<b>5,133</b>	<b>(1)</b>
<b>SCHEDULE 5: EXPENSES</b>	<b>(401,856)</b>	<b>(405,987)</b>	<b>4,131</b>	<b>(1)</b>
Residual Variance	928	(74)		

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. The budget 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. No carry forward from 2013 was included in the estimate and no unused budget will be carried into 2014 with credits lapsing accordingly.

In accordance with IPSAS 24 - Presentation of Budget Information in Financial Statements the above reconciliation has been carried out for the financial year ending 31 December 2014. Under IPSAS 24 the reconciliation is carried out between the Cash Flow Statement (Net Cash Outflow from Operating Activities) and the Statement of Comparison of Budget and Actual. To present Budgeted and Actual amounts on a comparable basis, as required under the IPSAS, Actual amounts have been converted using the Operational Budget rates for the comparison with Budgeted Amounts. The difference between Expenses stated at the Operational Budget and the Actual Exchange rate is included as a reconciling movement. The residual variance between predicted expenses and budget is less than 0.25% and results from timing differences in payments.



**F03: Reconciliation between Statement of Financial Performance and the Statement of Comparison of Budget and Actual Amounts for the Period Ended 31 December 2014:**

	2014	2013	Variance CY-PY	%age
<b>SCHEDULE 2: OPERATING EXPENSES</b>	<b>408,683</b>	<b>410,326</b>	<b>(1,643)</b>	<b>(0.40)</b>
Add: Opening Payables and Accruals	21,760	15,312	6,448	42.11
Less: Closing Payables and Accruals	(27,235)	(21,760)	(5,475)	25.16
Exchange Rate difference (OB v Corporate)	(1,674)	1,667	(3,341)	(200.39)
Foreign Exchange Gains and Losses	740	376	364	96.81
<b>PREDICTED CASH PAYMENTS</b>	<b>402,274</b>	<b>405,921</b>	<b>(3,647)</b>	<b>(0.90)</b>
<b>SCHEDULE 5: EXPENSES</b>	<b>401,856</b>	<b>405,987</b>	<b>(4,131)</b>	<b>(1.02)</b>
Residual Variance	418	(66)	484	(733.25)

The above reconciliation is carried out between the Statement of Financial Performance and the Statement of Comparison of Budget and Actual Amounts for the financial year ending 31 December 2014. This reconciles accrual based expenditure that is reported on the Statement of Financial Position and cash based expenditure reported as expenses on the Budget Statement. The residual variance between cash and budget is less than 0.10% and results from timing differences in payments.



## ANNEX G

### Application of IPSAS

IPSAS	Status
IPSAS 1: Presentation of Financial Statements	Implemented
IPSAS 2: Cashflow Statement	Implemented
IPSAS 3: Accounting Policies, Changes on Accounting Estimates and Errors	Implemented
IPSAS 4: The Effects of Changes in Foreign Exchange Rates	Implemented
IPSAS 5: Borrowing Costs	Not relevant
IPSAS 6: Consolidated and Separate Financial Statements	Not relevant
IPSAS 7: Investments in Associates Statements	Not relevant
IPSAS 8: Interests in Joint Ventures	Not relevant
IPSAS 9: Revenue from Exchange Transactions	Implemented
IPSAS 10: Financial Reporting in Hyperinflationary Economies	Not relevant
IPSAS 11: Construction Contracts	Implemented
IPSAS 12: Inventories	Not relevant
IPSAS 13: Leases	Not relevant
IPSAS 14: Event after the Reporting Date	Implemented
IPSAS 15: Financial Instruments (Disclosure and Presentation)	Replaced by IPSAS 28,29,30
IPSAS 16: Investment Property	Not relevant
IPSAS 17 Adapted: Property, Plant and Equipment (as adapted by the North Atlantic Council)	Implemented
IPSAS 18: Segment Reporting	Not relevant
IPSAS 19: Provisions, Contingent Liabilities and Contingent Assets	Implemented
IPSAS 20: Related Party Disclosures	Implemented
IPSAS 21: Impairment of non-cash generating assets	Implemented
IPSAS 22: Disclosure of Financial Information about General Government Sector	Not relevant
IPSAS 23: Revenue from Non-Exchange Transactions	Implemented
IPSAS 24: Presentation of Budget Information in Financial Statements	Implemented
IPSAS 25: Employee Benefits	Not relevant
IPSAS 26: Impairment of Cash-Generating Assets	Not relevant
IPSAS 27: Agriculture	Not relevant
IPSAS 28: Financial Instruments : Presentation	Implemented
IPSAS 29: Financial Instruments : Recognition and Measurement	Implemented
IPSAS 30: Financial Instruments: Disclosures	Implemented
IPSAS 31: Intangible Assets	Implemented
IPSAS 32: Service Concession Arrangements: Grantor	Not relevant





