

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED
Releasable to Montenegro

21 November 2016

DOCUMENT
C-M(2016)0062-AS1 (INV)

**IBAN REPORT ON THE AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO
MULTI-ROLE COMBAT AIRCRAFT DEVELOPMENT PRODUCTION AND IN-SERVICE
SUPPORT MANAGEMENT ORGANISATION (NAMMO)**

ACTION SHEET

On 18 November 2016, under the silence procedure, the Council noted the IBAN report on the 2015 financial statements of NAMMO attached to C-M(2016)0062 (INV) and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0062 (INV).

NATO UNCLASSIFIED



NATO UNCLASSIFIED
Releasable to Montenegro

14 November 2016

DOCUMENT
C-M(2016)0062 (INV)
Silence Procedure ends:
18 Nov 2016 16:00

**IBAN REPORT ON THE AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE
NATO MULTI-ROLE COMBAT AIRCRAFT DEVELOPMENT PRODUCTION AND IN-
SERVICE SUPPORT MANAGEMENT ORGANISATION (NAMMO)**

Note by the Deputy Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2015 financial statements of the NATO Multi-Role Combat Aircraft Development, Production and In-Service Support Management Organisation (NAMMO).
2. The IBAN report on NAMMO sets out an unqualified opinion on the financial statements and an unqualified opinion on compliance.
3. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annexes) which has concluded that the unqualified audit opinion on the 2015 financial statements of NAMMO reflects the hard work by the Agency's management and staff to implement the range of measures approved by Council in recent years to improve financial and accounting regulations, governance, transparency and accountability.
4. I do not believe that this matter requires discussion in the Council. Consequently, **unless I hear to the contrary by 16:00 hours on Friday, 18 November 2016**, I shall assume that the Council has noted the IBAN report on the 2015 financial statements of NAMMO and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller

4 Annexes
1 Enclosure

Original: English

NATO UNCLASSIFIED

-1-



BLANK PAGE

**IBAN REPORT ON THE AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE
NATO MULTI-ROLE COMBAT AIRCRAFT DEVELOPMENT PRODUCTION AND IN-
SERVICE SUPPORT MANAGEMENT ORGANISATION (NAMMO)**

Report by the Resource Policy and Planning Board

References:

- a) IBA-A(2016)95 – IBAN report
- b) Letter from General Manager of NETMA dated 29 March 2016

Introduction

1. This report contains the RPPB's observations and recommendations on the IBAN audit of the 2015 financial statements of NAMMO (reference a)).

Discussion

2. The Board is pleased to note that the IBAN have issued an unqualified audit opinion on the financial statements of NAMMO and an unqualified opinion on compliance for the 2015 financial year.

3. The Board notes that there were no new observations on the NAMMO financial statements and recognises that, in response to the outstanding audit observation from previous years, the agency will continue to work with the member nations to minimise NAMMO cash holdings.

4. With regards to public disclosure the RPPB welcomes the clear recommendation from the General Manager of NETMA (reference b)) that the NAMMO financial statements can be publicly disclosed.

Recommendation

5. The RPPB recommends that Council:
- a) note the IBAN report (IBA-A(2016)95) along with the present report;
 - b) agree to the public disclosure of this report, the IBAN audit (reference a) and the associated 2015 financial statements of NAMMO, in line with the agreed policy in PO(2015)0052).

BLANK PAGE

**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 2015**

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 2015. Expenditure from the operational budget amounted to EUR 386 million.

The Board issued an unqualified opinion on the NAMMO Financial Statements and on compliance for the year ended 31 December 2015. 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.

NATO UNCLASSIFIED
Releasable to Montenegro

ANNEX 2
C-M(2016)0062 (INV)

BLANK PAGE

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 2015

**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 2015, 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 2015.

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 2015, 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, 23 August 2016

Lyn Sachs
Chairman

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 2015

Introduction

The International Board of Auditors for NATO (Board) audited the NAMMO Financial Statements for the year ended 31 December 2015, and issued an unqualified opinion on the financial statements and on compliance.

Observations and Recommendations

During the audit, the Board made 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 Board also issued a Management Letter (reference IBA-AML(2016)10) to the NETMA General Manager with observations for management's attention.

This Letter of Observations and Recommendations was formally cleared with NETMA, and the formal comments are included.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATION

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

STATUS OF PREVIOUS YEARS' OBSERVATIONS

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>Audit Report 2011 Financial Statements C-M(2013)0010 & IBA-AR(2012)32</p> <p>Audit Report 2013 Financial Statements IBA-AR(2014)33</p> <p>High level of Cash and Cash Equivalents</p> <p>Observation 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>In 2014 the Board noted that following management efforts to reduce cash balances there was a reduction in cash holdings at the end of that year. However the Tornado program was still holding a disproportionately high amount of cash compared to the level of annual expenditure. During 2015, the Tornado programme has continued to reduce NAMMO currency holdings in accordance with the audit observation, by a further EUR 97.7 million to EUR 276.6 million at the end of 2015, equating to 83% coverage of average monthly expenditure or 303 days expenditure coverage. Although an improvement on previous years, this balance is still significantly high and given this is a relatively stable declining annual expenditure pattern, further efforts should be made to reduce the level of currency holdings further.</p>	<p>Observation Outstanding.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
	The Board recommends continued efforts to work with nations to restrict the NAMMO currency holdings to the minimum required to meet forecast payments prior to receipt of the following contribution based on the number of cash calls i.e., if there were two cash calls average cash holdings were restricted to 50% of annual expenditure.	
<i>Comment of the General Manager, NETMA</i> <i>The agency notes the board's observation and will continue to work together with the relevant nations to minimise NAMMO cash holdings.</i>		

NAMMO ANNUAL FINANCIAL STATEMENTS

PERIOD ENDED 31 DECEMBER 2015



NETMA
NATO EF2000 AND TORNADO DEVELOPMENT, PRODUCTION
AND LOGISTICS MANAGEMENT AGENCY

NATO UNCLASSIFIED

PAGE INTENTIONALLY BLANK

Contents

NAMMO BACKGROUND	5
FINANCIAL STATEMENTS.....	7
STATEMENT OF FINANCIAL POSITION.....	7
STATEMENT OF FINANCIAL PERFORMANCE.....	8
STATEMENT OF CASH FLOW	9
STATEMENT OF CHANGES IN NET ASSETS/EQUITY.....	10
STATEMENT OF BUDGET EXECUTION	11
SIGNIFICANT ACCOUNTING POLICIES	13
NOTES TO STATEMENT OF FINANCIAL POSITION.....	17
NOTES TO STATEMENT OF FINANCIAL PERFORMANCE.....	19
NOTES TO STATEMENT OF CASH FLOW	20
NOTES TO STATEMENT OF BUDGET EXECUTION	21
CONTINGENT LIABILITIES / PROVISIONS	22
RELATED PARTY DISCLOSURE.....	22
WRITE OFF AND DONATIONS	22

NATO UNCLASSIFIED

PAGE INTENTIONALLY BLANK

NATO UNCLASSIFIED

NATO UNCLASSIFIED

NAMMO Background

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 20th September 1951. NAMMO is based at Hallbergmoos, Germany (having moved from Unterhaching, Germany in May 2015) 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 the Agreement between NATO and the Government of the Federal Republic of Germany, dated 30th 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.

NATO UNCLASSIFIED

NATO UNCLASSIFIED

PAGE INTENTIONALLY BLANK

NATO UNCLASSIFIED

NATO UNCLASSIFIED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

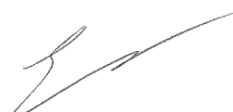
(in thousands of Euros)

	Notes	2015	2014
Assets			
Current assets			
Cash and cash equivalents	B1	276,647	374,385
Short term investments		0	0
Receivables		0	0
Prepayments		0	0
Inventories		0	0
		<u>276,647</u>	<u>374,385</u>
Non-current assets			
Property, plant & equipment		0	0
Intangible assets		0	0
		<u>0</u>	<u>0</u>
Total assets		<u>276,647</u>	<u>374,385</u>
Liabilities			
Current liabilities			
Payables	B2	32,218	31,925
Deferred revenue		0	0
Advances	B3	244,429	342,460
		<u>276,647</u>	<u>374,385</u>
Non-current liabilities			
Provisions		0	0
		<u>0</u>	<u>0</u>
Total liabilities		<u>276,647</u>	<u>374,385</u>
Surplus/deficit		0	0
Reserves		0	0
Total net assets		<u>0</u>	<u>0</u>

The financial statements on pages 7 to 11 and their associated notes were issued to the International Board of Auditors for NATO on 31st March 2016.



AVM GRAHAM FARNELL CB OBE RAF
General Manager



MR LESLIE MILLAR
Financial Controller

NATO UNCLASSIFIED

NATO UNCLASSIFIED

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of Euros)

	Notes	2015	2014
Revenue			
Revenue	C1	386,098	409,314
Financial revenue		0	0
Other revenue		0	0
Total revenue		386,098	409,314
Expenses			
Personnel		0	0
Contractual supplies and services	C2	(385,171)	(408,683)
Depreciation and amortisation		0	0
Impairment		0	0
Provisions		0	0
Other expenses		0	0
Finance costs	C3	(927)	(631)
Total expenses		(386,098)	(409,314)
Surplus/(deficit) for the period		0	0

NATO UNCLASSIFIED

NATO UNCLASSIFIED

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of Euros)

	Notes	2015	2014
Cash flow from operating activities			
Surplus/(deficit)	D1	0	0
Non-cash movements			
Depreciation/ amortisation		0	0
Impairment		0	0
Increase /(decrease) in payables	D2	293	895
Increase/ (decrease) in advances	D3	(98,031)	(58,498)
Increase/ (decrease) in other current liabilities		0	0
Increase/ (decrease) in provisions		0	0
(Gains)/losses on sale of property, plant and equipment		0	0
Decrease/ (increase) in receivables	D4	0	970
Net cash flow from operating activities		(97,738)	(56,633)
Cash flow from investing activities			
Purchase of property plant and equipment / Intangible assets		0	0
Proceeds from sale of property plant and equipment		0	0
Net cash flow from investing activities		0	0
Cash flow from financing activities		0	0
Net cash flow from financing activities		0	0
Net increase/(decrease) in cash and cash equivalents		(97,738)	(56,633)
Cash and cash equivalent at the beginning of the period		374,385	431,018
Cash and cash equivalent at the end of the period		276,647	374,385

NATO UNCLASSIFIED

NATO UNCLASSIFIED

STATEMENT OF CHANGE IN NET ASSETS/EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of Euros)

	PP&E Asset Reserve	Revaluation Reserves	Accumulated surplus/deficit	Total
Balance at the beginning of the period 2014	0	0	0	0
Changes in accounting policy	0	0	0	0
Restated balance	0	0	0	0
Transfer from Accumulated Surplus / Deficit	0	0	0	0
Surplus/(deficit) for the period	0	0	0	0
Balance at the end of the period 2014	0	0	0	0
Changes in accounting policy	0	0	0	0
Restated balance	0	0	0	0
Transfer from Accumulated Surplus / Deficit	0	0	0	0
Surplus/(deficit) for the period	0	0	0	0
Balance for the year ended 2015	0	0	0	0

NATO UNCLASSIFIED

NATO UNCLASSIFIED

STATEMENT OF BUDGET EXECUTION

FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of Euros)

Budget 2015

		Initial budget	Transfers	Bud Adj 1	Bud Adj 2	Final budget	Commitments	Expenses	Carry forward	Lapsed
All nations	E1	377,326	0	2,000	38,000	417,326	377,657	377,657	0	39,669
<hr/>										
Total FY 2015		377,326	0	2,000	38,000	417,326	377,657	377,657	0	39,669
<hr/>										

NATO UNCLASSIFIED

NATO UNCLASSIFIED

PAGE INTENTIONALLY BLANK

A. Significant Accounting Policies

Basis of preparation

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

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

The financial statements have been prepared on a going-concern basis. 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). It is considered that there are no impediments to continuing on a going concern basis for the foreseeable future.

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

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

Accounting estimates and judgments

In accordance with IPSAS and generally accepted accounting principles, the financial statements 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, revenue and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements.

Changes in accounting policy and standards

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2015 financial statements, the accounting policies have been applied consistently throughout the reporting period. There have been no changes to NAMMO accounting policy in 2015.

Restatements

NAMMO has not restated any balances in the 2014 financial statements.

Changes in financial rules and regulations

During 2015 NATO adopted new financial rules and regulations. These financial statements have been produced in line with these financial rules and regulations.

Foreign currency

These financial statements are presented in Euros, which is the NAMMO functional and reporting currency. Foreign currency transactions are translated into Euros at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Euros using the NATO exchange rates applicable at 31 December 2015, resulting realised and unrealised gains and losses are recognised in the Statement of Financial Performance.

Consolidation

The NAMMO financial statements are not consolidated.

Financial Instruments disclosure/presentation

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

Financial risk factors

Credit risk

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

Liquidity risk

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

Currency risk

To limit the exposure to foreign currency risk, NAMMO forecasts yearly expected expenditures in foreign currencies where it is material (i.e. Great British Pound - GBP). In order to have the required funding, NAMMO asks the nations to provide their contributions in either Euros or GBP. 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.

Interest rate risk

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

Assets

The entity holds the following types of current assets:

Cash and cash equivalents

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

Receivables

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

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

Inventories

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

Property, Plant and Equipment

In accordance with IPSAS 17, Property, Plant and Equipment (PP&E) are recognised as tangible assets when it is probable that future economic benefits or service potential associated with the item will flow to the entity and the cost or fair value can be measured reliably. PP&E with the exception of land are stated at cost less accumulated depreciation and accumulated impairment losses. NAMMO's capitalisation threshold is €200,000, items with a purchase cost or fair value on acquisition above this threshold are capitalised and items falling below this threshold are fully expensed in the year of procurement.

For new asset additions during the year, the gross value of an asset is capitalised as PP&E on the Statement of Financial Position. The revenue for the full amount of the asset is accounted for in the year of purchase on the Statement of Financial Performance with a surplus on the Statement of Financial Performance being generated in the first year of purchase and transferred to the PP&E asset reserve account to increase accumulated asset reserves.

NATO UNCLASSIFIED

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

An item of PP&E is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of PP&E is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Statement of Financial Performance.

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.

The ownership of all Turbo Union assets has been handed over to industry and for PANAIA an assessment has been made on information available. The asset base of PANAIA 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 out of service dates. 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 to 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 to 1st January 2013 on the financial statements. There were no new asset additions or modifications acquired during 2015 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 and aircraft support tooling requirements of each nation. Given the age and value of the majority 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, small quantities of in-use tooling continue to be replaced or refurbished as required. 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.

Leases

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

Intangible assets

There are no intangible assets to be capitalised for NAMMO under IPSAS 31 as they are not separately identifiable costs and are deemed to be an 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.

Impairment of tangible and intangible assets

At the end of each accounting period, NAMMO reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated, being the greater of the asset's fair value less costs to sell and value in use. Impairment losses, if any, are recognised in the statement of financial performance.

As there are no assets on the asset register for 2015 there has been no need to conduct an impairment review.

Liabilities

Payables

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

Deferred revenue

Deferred revenue represents contributions from member nations and/or third parties that have been called for current or prior years' budgets and that have not yet been recognised as revenue.

Advances

Advances are contributions from member nations called or received related to future years' budgets. 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 includes miscellaneous income that nations have instructed remain on the programme accounts rather than be returned to the respective National Treasuries.

Employee benefits

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

Provisions

Provisions are recognised when NAMMO has a legal or constructive obligation as a result of past events, 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.

Net assets

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

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

Revenue and expense recognition

Revenue

Revenue comprises contributions from member nations to fund NAMMO budgets. It is recognised in the year when these contributions are used for their intended purpose as envisioned by NAMMO budgets and is usually called for quarterly in advance. Revenue is recognised to the extent that it is probable that the economic benefits will flow to NAMMO and the revenue can be measured reliably. Unused contributions and other revenue that relate to future periods are deferred accordingly.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Bank interests earned and accrued as of 31 December 2015, exchange rate revenue due to transactions in foreign currency and realised exchange rate revenue in accordance with NAMMO Policy and IPSAS 4 – Effect of the foreign exchange rate are recognised as financial revenue.

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.

Cash-flow statement

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

NATO UNCLASSIFIED

B. Notes to Statement of Financial Position

(in thousands of Euros)

1. Cash and cash equivalents

	2015	2014
Cash accounts	0	0
Clearing cash accounts	0	0
Petty cash and advances	0	0
Current bank accounts	276,647	374,385
Cash equivalents	0	0
Clearing-bank accounts	0	0
Total	276,647	374,385

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 holdings following previous audit observations.

2. Payables

	2015	2014
Payables to suppliers	25,360	27,236
Payables to non-consolidated entities	0	0
Payables to staff members	0	0
Payables to governments	0	0
Other payables	6,858	4,689
Total	32,218	31,925

Payables to suppliers

Payables to suppliers include invoices received from commercial vendors not settled but accrued per reporting date. This account is reconciled to the payables sub-ledger within the financial system operated by NAMMO on a monthly basis. Any outstanding currency liabilities have been translated at the respective closing exchange rates as promulgated by NATO. The payable as at 31 December 2015 is €0.1M compared with the 2014 amount of €2.8M.

A manual accrual has been assessed by analysing PARMIS invoices paid in January and the first 2 weeks of February 2016 with 2015 (and earlier) invoice dates. Central Automatic Data Processing System (CADPS) invoices and other material invoices during the same period were also reviewed to ensure they were accrued in the correct year. The estimated accrual for goods and services as at 31 December 2015 is €25.2M compared with the 2014 accrual of €24.4M.

Other payables

Other payables include cash in transit invoices (€938K) that have been paid but not cleared from the bank. Such transactions have been shown as accrued expenditure and are consistent with prior years' accounting. It also includes bank interest payable to National Treasuries (€777K) and income generated from levies (€5.143M). Income generated from levies has increased by €1.387M since 2014.

NATO UNCLASSIFIED

NATO UNCLASSIFIED

3. Advances

	2015	2014
Advance contributions	0	0
Other advances	244,429	342,460
Total	244,429	342,460

Other advances

Other advances equal accumulated unearned revenue which 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:

	2015	2014
Unearned revenue b/f	342,460	381,637
National contributions	288,067	366,806
Miscellaneous revenue (excl bank interest)	12,290	7,304
Bank interest	16	300
<i>Less:</i>		
Operational expenditure	(387,266)	(410,667)
Other operational revenue	(10,195)	(1,989)
Bank interest returned to nations	(12)	(193)
<i>Add:</i>		
Miscellaneous financial charges / (income)	(2)	2
Foreign exchange gains / (losses)	(929)	(740)
Unearned revenue c/f	244,429	342,460

NATO UNCLASSIFIED

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

	2015	2014
National contributions	288,067	366,806
National contributions to be called for	0	0
Other reimbursements	98,031	42,508
Total	386,098	409,314

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

Other reimbursements are the movement on unearned revenue which 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.

2. Expenses**Personnel**

The costs for operating the Agency's headquarters are accounted for in the NETMA administration budget.

Contractual supplies and services

	2015	2014
Operating expenses	(385,171)	(408,683)
PPE movement	0	0
Total	(385,171)	(408,683)

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

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

3. Finance costs

	2015	2014
Foreign exchange gain / loss	(929)	(740)
Other financial income & charges	2	109
Total	(927)	(631)

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 or accrued for.

Other financial income includes bank interest earned on the accounts held to fund the NAMMO program. Where income has not been refunded to National Treasuries the remaining balance is treated as unearned revenue. The value of bank interest received is significantly lower in 2015 compared to 2014 due to lower rates and bank balances.

NATO UNCLASSIFIED

D. Notes to Statement of Cash Flow

1. Surplus / (deficit) from operating activities

	2015	2014
Surplus / (deficit)	0	0
Total	0	0

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

2. Increase / (decrease) in payables

	2015	2014
Payables to suppliers	(1,876)	5,475
Other payables	2,169	(4,580)
Total	293	895

Payables to suppliers represent validated invoices presented but not yet paid and the manual accruals identified.

Other payables include bank interest and levy's generated from defence programmes.

3. Increase / (decrease) in advances

	2015	2014
Advance contributions	0	(19,321)
Unearned revenue	(98,031)	(39,177)
Total	(98,031)	(58,498)

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.

4. (Increase) / decrease in receivables

	2015	2014
National contributions	0	0
Other receivables	0	970
Total	0	970

The movement on contributions due represents the change in the nations' debt to the programme from the previous financial year.

NATO UNCLASSIFIED

NATO UNCLASSIFIED

E. Notes to Statement of Budget Execution

1. Budget analysis - 2015

	2015	2014
All nations initial approved budget	377,326	394,235
In year budget adjustments	40,000	41,219
Total	417,326	435,454

The basis used for the budget and actual numbers in the budget execution statement is the cash basis and is therefore different to the accrual basis used to prepare the financial statements. The budget is compiled based on the advice and assistance of a number of sources including nations, commercial and technical staff within NETMA and industry. It has been based on the best information available and takes into account known payment plans and estimates of new work in line with advice on technical progress. No carry forward from 2014 was included in the estimate and no unused budget will be carried into 2016 with credits lapsing accordingly.

2. Reconciliation between Statement of Cash Flow and Statement of Budget Execution

	2015	2014
NET CASH INFLOW FROM OPERATING ACTIVITIES	(96,808)	(55,893)
- Cash contributions received in year	(288,067)	(347,485)
- Bank interest in year	(16)	(300)
- Other reimbursements	(11,320)	(6,218)
GROSS CASH OUTFLOW FROM OPERATING ACTIVITIES	(396,212)	(409,896)
- Bank interest returned to Italy in year	167	0
- Other disbursements	10,212	8,034
EXPENSES PRE EXCHANGE RATE VARIATIONS	(385,833)	(401,862)
- Foreign exchange gains and losses	(809)	(740)
- Operational budget vs actual exchange gains and losses	9,967	1,674
PREDICTED BUDGET CASH PAYMENTS	(376,675)	(400,928)
SCHEDULE 5: EXPENSES	(377,657)	(401,856)

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 2015. Under IPSAS 24 the reconciliation is carried out between the Statement of Cash Flow (net cash flow from operating activities) and the Statement of Budget Execution. To present budgeted and actual amounts on a comparable basis, as required under the IPSAS, actual amounts have been converted using the Operational Budget (OB) rates for the comparison with budgeted amounts.

The difference between expenses stated at the OB and the actual exchange rate is included as a reconciling movement. The residual variance between predicted expenses and budget is approximately 0.26% (€0.982M) and results from timing differences in payments.

NATO UNCLASSIFIED

NATO UNCLASSIFIED

3. Reconciliation between Statement of Financial Performance and the Statement of Budget Execution

	2015	2014
SCHEDULE 2: OPERATING EXPENSES	386,098	408,683
Add: opening payables and accruals	27,235	21,760
Less: closing payables and accruals	(26,297)	(27,235)
Exchange rate difference (OB v corporate)	(9,967)	(1,674)
Foreign exchange gains and losses	809	740
PREDICTED BUDGET CASH PAYMENTS	377,878	402,274
SCHEDULE 5: EXPENSES	377,657	401,856

The above reconciliation is carried out between the Statement of Financial Performance and the Statement of Budget Execution for the financial year ending 31 December 2015. This reconciles accrual based expenditure that is reported on the Statement of Financial Position and cash based expenditure reported as expenses on the Statement of Budget Execution. The residual variance between cash and budget is less than 0.10% (221K) and results from timing differences in payments.

F. Contingent Liabilities / Provisions

NAMMO has no contingent liabilities or provisions.

G. Related Parties Disclosure

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

H. Write Off and Donations

In accordance with the NATO Financial Regulations, where a global statement of write offs and donations shall be reported in the Annual Financial Statements NETMA can report that 4,215 items were submitted and approved for write off through the NETMA Internal Audit section in 2015 in accordance with NETMA delegated authorities. These write offs cover items that are obsolete, damaged beyond economic repair or lost.

NATO UNCLASSIFIED

NATO UNCLASSIFIED

PAGE INTENTIONALLY BLANK

NATO UNCLASSIFIED

