	NATO	NORTH ATLANTIC COUNCIL
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09 January 2018

DOCUMENT
C-M(2017)0081-AS1

**IBAN AUDIT ON THE 2016 FINANCIAL STATEMENTS OF THE NATO HELICOPTER
FOR THE 1990s (NH90) DESIGN AND DEVELOPMENT, PRODUCTION AND
LOGISTICS MANAGEMENT ORGANISATION (NAHEMO)**

ACTION SHEET

On 08 January 2018, under the silence procedure, the Council noted the IBAN report on the 2016 financial statements of NAHEMO and the conclusions of the RPPB attached to C-M(2017)0081 and approved the public disclosure of the redacted financial statements and the associated audit report.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2017)0081.

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20 December 2017

DOCUMENT
C-M(2017)0081
Silence procedure ends:
08 Jan 2018 17:30

**IBAN AUDIT ON THE 2016 FINANCIAL STATEMENTS OF THE NATO HELICOPTER
FOR THE 1990s (NH90) DESIGN AND DEVELOPMENT, PRODUCTION AND
LOGISTICS MANAGEMENT ORGANISATION (NAHEMO)**

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2016 financial statements of NAHEMO.
2. The IBAN report sets out a qualified opinion on the financial statements and a qualified opinion on compliance for 2016. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex).
3. I do not believe that this matter requires discussion in the Council. Consequently, **unless I hear to the contrary by 17:30 hrs on Monday 08 January 2018**, I shall assume that the Council has noted the IBAN report on the 2016 financial statements of NAHEMO and the conclusions of the RPPB and approved the public disclosure of the redacted financial statements and the associated audit report.

(Signed) Jens Stoltenberg

1 Annex
2 Enclosures

Original: English

NATO UNCLASSIFIED

-1-



**IBAN AUDIT ON THE 2016 FINANCIAL STATEMENTS OF THE NATO HELICOPTER
for the 1990s (NH90) DESIGN AND DEVELOPMENT, PRODUCTION AND LOGISTICS
MANAGEMENT ORGANISATION (NAHEMO)**

Report by the Resource Policy and Planning Board

References:

- A. IAB-AR(2017)29 - IBAN audit report
- B. C-M(2015)0025 - NATO Financial Regulations (NFRs)

INTRODUCTION

1. This report covers the audit of the 2016 financial statements of NAHEMO.

DISCUSSION

2. The IBAN have issued a qualified opinion on the financial statements of NAHEMO and on compliance for 2016. The IBAN identified five observations with recommendations. Incorrect presentation of the budget execution statement for the operational budget impacted the audit opinion on the financial statements and on compliance. The other four observations did not impact the audit opinion.

3. The Board acknowledges that the issues highlighted in the IBAN audit report will be/have already been dealt with by the participating Nations represented on the appropriate governing bodies of NAMEHO. That said, the RPPB is still mandated under Article 15 of the NFRs (reference B) to examine the audit report and to provide comments and recommendations as required.

4. Observation 1 – presentation of budget execution statement: The IBAN found that even though the figures disclosed were correct, the budget execution statement for the operational budget was not presented in a clear manner. The IBAN recommendations to improve the presentation of the operational budget have been agreed by NAHEMO and consequently this observation is expected to be resolved by the time of the audit of the 2017 financial statements.

5. Observation 2 – weaknesses in capitalising assets and updating registers: The IBAN found evidence of a lack of reliable and coordinated processes for the capitalisation of assets and the updating of asset registers and the need for improvements has been accepted by NAHEMO.

6. Observation 3 – inadequate segregation of duties: The IBAN found some of the financial processes carried out in NAHEMA did not fully comply with the principles of segregation of duties especially for accounting and disbursing functions. NAHEMO will take into consideration the IBAN recommendation to ensure adequate segregation of duties.

7. Observation 4 – procedural weaknesses in allocation of allowances: The IBAN found evidence that child allowance payments for children above 18 were not fully supported by the requisite educational enrolment certificates. NAHEMA believe that they are adhering

to the correct internal procedures and the RPPB underlines the need to ensure that NAHEMA properly adhered to the Civilian Personnel Regulations in this regard.

8. Observation 5 – implementation of the NFRs: The IBAN found that NAHEMA continues to make some progress towards implementation of the NFRs, particularly those articles relating to internal control, risk management and internal audit. The RPPB takes special note that in some instances NAHEMA does not comply with generally accepted standards for internal auditing and that some audit team members lacked the requisite professional competences and experience. The RPPB acknowledges that NAHEMA has sought assistance in forming ad hoc audit teams for member Nations and in addition to such outsourcing, supports the IBAN recommendation to share internal audit functions with other NATO entities.

9. Status of prior year observations: The IBAN reviewed the status of observations and recommendations from previous audits and found that three were settled, two were outstanding and one had been superseded. The first outstanding observation concerns material weaknesses in internal control over financial reporting where the IBAN had found some improvement but further progress is needed which NAHEMA recognise and are working on. The second outstanding observation relates to the high level of cash which had increased by 55% from 2015 to 2016. The IBAN found that NAHEMA has consistently overestimated the annual budget resulting in higher calls for contributions from member Nations. The RPPB notes that other NATO multinational procurement agencies had addressed similar audit observations by requesting a deviation in their financial regulations which Council had agreed to¹.

CONCLUSIONS

10. The IBAN have issued a qualified opinion on the NAHEMO financial statements and on compliance. The RPPB welcomes the changes made by NAHEMA in response to the adverse audit opinion on compliance on the 2015 financial statements and also the improvements which mean the current financial statements can be publicly disclosed with the need for redactions kept to a minimum. The RPPB notes the positive response by NAHEMA to the current audit observations and expects that these can be resolved by the time of the audit on the 2017 financial statements.

RECOMMENDATIONS

11. The RPPB recommends that the Council:
- a) note the IBAN report (reference A);
 - b) note the conclusions in paragraph 10; and,
 - c) approve the public disclosure of this report, the IBAN report and the associated redacted 2016 financial statements.

¹ See the financial regulations of the NATO AEW&C Programme Management Organisation (NAPMO) – ref. PO(2015)0751 and the financial regulations of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO) – ref. CM(2017)0011.

NATO UNCLASSIFIED

ANNEX 1

**Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Financial Statements of the
NATO Helicopter Management Organisation (NAHEMO)
for the year ended 31 December 2016**

The NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation (NAHEMO) is a NATO subsidiary body established with a view to meet the NH90 Helicopters requirements of France, Germany, Italy, The Netherlands and Belgium. NAHEMO consists of a Steering Committee (SC) composed of representatives of the Participants with the responsibility of the overall management of the programme and of the Agency called NAHEMA. The agency is located in Aix-en-Provence (France). For 2016, the NAHEMO operational and administrative budgets' expenses were EUR 693 million and EUR 10.8 millions, respectively.

During the audit, the Board identified five observations, and issued a qualified opinion on the NAHEMO Financial Statements and a qualified opinion on compliance for the year ended 31 December 2016 due to the following reasons:

Observation 1 impacts both the audit opinion on financial statements and the audit opinion on compliance:

1. Incorrect presentation of the Budget Execution Statement for the Operational Budget.

The other observations do not impact the audit opinion:

2. Lack of reliable and coordinated processes for capitalising assets and updating asset registers.
3. Inadequate segregation of duties in finance processes.
4. Insufficient justification for child allowances for children above 18 years old.
5. Some progress being made to achieve compliance with the NATO Financial Regulations, particularly those articles on internal control, risk management and internal audit.

These observations are summarised in the Letter of Observations and Recommendations (Annex 3). The Board also followed up on the status of observations from its previous years' audits and noted that three were settled, two were outstanding, and one was superseded by current year's observation number 5.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to NAHEMO, whose comments have been included.

The Board issued a Management Letter (reference IBA-AML(2017)16) to the NAHEMA General Manager with three observations for management's attention.

NATO UNCLASSIFIED

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ANNEX 2
IBA-AR(2017)29

22 August 2017

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF

THE NATO HELICOPTER MANAGEMENT ORGANISATION

(NAHEMO)

FOR THE YEAR ENDED 31 DECEMBER 2016

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 2
IBA-AR(2017)29

**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 NAHEMO, which comprised the Statement of Financial Position as at 31 December 2016, and the Statement of Financial Performance, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Board also audited the Statement of Budget Execution for the year ended 31 December 2016.

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. 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.

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 2
IBA-AR(2017)29

Basis for Qualified Opinion on the Financial Statements

The Board found that the Budget Execution Statement for the Operational Budget presents budget figures that do not correspond to the descriptions given in the Statement's column headings. As a result, the Budget Execution Statement for the Operational Budget does not fairly and accurately present the budgetary activities of NAHEMO in an understandable way, thereby not meeting the objectives of general purpose financial statements.

Qualified Opinion on Financial Statements

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion on the Financial Statements*, the financial statements present fairly, in all material respects, the financial position of NAHEMA as of 31 December 2016, and of its financial performance and its cash flows for the year then ended are 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 authorized by the North Atlantic Council.

Auditor's Responsibility

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

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

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 2
IBA-AR(2017)29

Basis for Qualified Opinion on Compliance

The NATO Financial Regulations require the establishment of a system of internal control. The Board found material weaknesses in internal control over financial reporting that led to the Budget Execution Statement not fairly and accurately presenting the budgetary activities of NAHEMO and other errors as stated in the *Basis for Qualified Opinion on the Financial Statements*. These were not prevented or detected by the existing internal controls over financial reporting, including management reviews.

Opinion on Compliance

In our opinion, except for the effects of the matters described above in the Basis for Qualified Opinion on Compliance paragraph, 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, 22 August 2017

A handwritten signature in black ink, appearing to read 'H. Metzger', with a large checkmark to its left.

Hervé-Adrien Metzger
Chairman

NATO UNCLASSIFIED

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ANNEX 3
IBA-AR(2017)29

22 August 2017

INTERNATIONAL BOARD OF AUDITORS FOR NATO

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

FOR THE YEAR ENDED 31 DECEMBER 2016

NATO UNCLASSIFIED

ANNEX 3
IBA-AR(2017)29

Introduction

The International Board of Auditors for NATO (Board) audited the NATO Helicopter Management Organization Financial Statements for the year ended 31 December 2016, and issued a qualified opinion on the financial statements and a qualified opinion on compliance.

Observations and Recommendations

During the audit, the Board identified the following five observations and provided recommendations:

1. Incorrect presentation of the Budget Execution Statement for the Operational Budget.
2. Lack of reliable and coordinated processes for capitalising assets and updating asset registers.
3. Inadequate segregation of duties in finance processes.
4. Insufficient justification for child allowances for children above 18 years old.
5. Some progress being made to achieve compliance with the NATO Financial Regulations, particularly those articles on internal control, risk management and internal audit.

The first observation impacts both the audit opinion on Financial Statements and the audit opinion on compliance. The other observations do not impact the audit opinion.

The Board followed up on the status of observations from its previous years' audits and found that three were settled, two were outstanding, and one was superseded by current year's observation number 5.

The Board also issued a Management Letter (reference IBA-AML(2017)16) to the NAHEMA General Manager.

NATO UNCLASSIFIED

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ANNEX 3
IBA-AR(2017)29

OBSERVATIONS AND RECOMMENDATIONS

1. INCORRECT PRESENTATION OF THE BUDGET EXECUTION STATEMENT FOR THE OPERATIONAL BUDGET

Reasoning

1.1 The objective of financial reporting by public sector entities is to provide information about the entity that is useful to users for accountability purposes and for decision-making purposes. In addition to the governing body of each NATO entity, users of the Financial Statements are all NATO Nations.

1.2 A Budget Execution Statement shall present a clear comparison of the budget authorized, budget amendments, funds committed, actual expenses and lapses. IPSAS 24 states that "the comparison of budget and actual amounts shall present separately: (a) The original and final budget amounts; (b) The actual amounts on a comparable basis (...). In addition, budgets may focus on, or include information about, commitments to expend funds in the future and changes in those commitments".

Observations

1.3 The NAHEMO Budget Execution Statement is cash based, both for the Operational and the Administrative budget. NAHEMA presents the Budget Execution Statement according to the layout recommended by the NATO Accounting Working Group.

1.4 However, the Board found that information of the Budget Execution Statement for the Operational budget is not presented in a clear manner. Even though the figures disclosed are correct, they do not correspond to the descriptions given in each of the Statement's columns. Specifically, the Budget Execution Statement should clearly disclose the seven following concepts:

- a) Initial budget should show the first budget approved (in 2016, the provisional budget used for the first half of the year). Instead, the amount presented is the mid-year authorized budget.
- b) Budget adjustments should show the changes made during the year in the budget authorizations, i.e., the difference between initial budget and final budget. Instead, the amount shows the sum of the commitments cancelled and funds lapsed.
- c) Final budget should show the budget authorized at mid-review by the Steering Committee. Instead, it discloses the budget used, i.e. payments.
- d) Commitments should present the total amount of funds entered into commitments for goods and services to be rendered during the financial year, as stated in Article 25.1 of NATO Financial Regulations. However, the amount

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 3
IBA-AR(2017)29

shown as commitments are only the commitments used, not including the total funds committed but cancelled at year-end.

- e) Expenses correctly show the payments of the year, since the Budget execution Statement is cash based.
- f) Carry forwards is zero, as NAHEMA does not carry forward but cancel the credits committed.
- g) Lapses should show appropriations which have not been committed at the end of the financial year. However, the amount shown is zero.

Recommendation

1.5 The Board recommends NAHEMA to improve the presentation of the Budget Execution Statement and clearly disclose separately the original budget authorization, budget amendments, final authorized budget, commitments for goods and services to be rendered during the financial year, actual budget expended, credits carried forward or cancelled, and funds lapsed.

1.6 The Board also recommends that internal controls over financial reporting, including management reviews, be improved to ensure that financial statement presentation weaknesses are prevented or detected before the issuance of the financial statements.

NAHEMO's Formal Comments

Figures shown in the current Budget Execution Statement are correct, but NAHEMA agrees to present the information according to IBAN recommendations, even though the issue wasn't addressed in the past.

Internal control of the financial reporting through the NAHEMA Financial Controller will be improved.

2. LACK OF RELIABLE AND COORDINATED PROCESSES FOR CAPITALISING ASSETS AND UPDATING ASSET REGISTERS

Reasoning

2.1 Article 12.1 of the NATO Financial Regulations (NFRs) stipulates that one of the objectives of a NATO Body is to safeguard assets and verify the accuracy and reliability of accounting data and records. Article 12.2 requires NATO bodies to establish and maintain comprehensive accounting records of all assets and liabilities.

NATO UNCLASSIFIED

ANNEX 3
IBA-AR(2017)29

2.2 The NATO Accounting Framework requires that Property Plant and Equipment (PP&E) controlled by the NATO body and purchased after 1 January 2013 should be capitalized in the Statement of Financial Position as PP&E.

2.3 The process of capitalising PP&E should be linked to the process of updating the asset registers in order to ensure the completeness and accuracy of the assets recorded.

Observations

2.4 The Board found cases where assets acquired by NAHEMA were not recorded in the asset register even though they were capitalised as PP&E or as Intangible Assets in the Statement of Financial Position. This shows that the process for asset capitalisation is not linked to the process for updating the asset registers.

2.5 For example, intangible Communications and Information Systems (CIS) assets acquired in 2016 for a total amount of EUR 219,894 were capitalized as Intangible Assets, but were not included in the asset register. In addition, video surveillance equipment valued at EUR 100,000 that was purchased in 2017 was capitalized as PP&E was also not recorded in the asset register. In another case, 31 desktops computers and workstations acquired at the end of 2015 and paid in 2016 for a total amount of EUR 41,000 were neither capitalized nor included in the asset register.

2.6 These cases evidence the lack of reliable and coordinated processes for the capitalization of asset and the updating of asset registers. Such an absence results in:

- a) Non-current assets are understated by EUR 33,300 (gross value of EUR 41,000 minus accumulated depreciation of EUR 8,000). Depreciation expense is also understated by EUR 8,000.
- b) A lack of evidence that comprehensive accounting records of all property acquired by NAHEMO have been established and maintained as required by Article 12 of the NATO Financial Regulations.

Recommendations

2.7 The Board recommends NAHEMA to update and maintain complete and accurate asset registers, in line with Article 12 of the NFRs. These registers need to be properly controlled at the appropriate level and regular property counts should be performed to keep the registers accurate and reliable.

2.8 The Board also recommends NAHEMA to put in place reliable and coordinated processes to ensure that new assets acquired are capitalized as PP&E or Intangible Assets.

NATO UNCLASSIFIED

ANNEX 3
IBA-AR(2017)29

NAHEMA's Formal Comments

NAHEMA acknowledges the observations and will comply with IBAN recommendation 2.7.

3. INADEQUATE SEGREGATION OF DUTIES IN FINANCE PROCESSES

Reasoning

3.1 According to Article 12.3 of the NFRs, internal control activities shall include, among others, segregation of duties. Segregation of duties, where tasks for a specific business process are disseminated among multiple users, is a fundamental concept of internal control. The objective of segregation of duties is to minimize the risk of fraud and error.

3.2 Granting access in the accounting system based on the principle of adequate segregation of duties is a key preventive control against fraud and error.

Observations

3.3 The Board found that some of the financial processes carried out in NAHEMA do not fully comply with the principle of segregation of duties, especially for accounting and disbursing functions.

3.4 NAHEMA's accounting staff members are responsible for both accounting and bank payments. This is not in accordance with the principle of segregation of duties, as it is essential disbursing functions are fully separated from accounting functions.

3.5 Furthermore, the Board found that for the Administrative budget the same accounting staff member creates the commitments, creates the accounting batches for the expense and initiates the invoice payment through a payment order for the bank.

Recommendation

3.6 The Board recommends NAHEMA to ensure adequate segregation of duties assigning the responsibilities of initiating payments to a staff member different from those that have the accounting responsibilities.

NAHEMA's Formal Comments

NAHEMA will take into consideration the IBAN recommendation.

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 3
IBA-AR(2017)29

4. INSUFFICIENT JUSTIFICATION FOR CHILD ALLOWANCE FOR CHILDREN ABOVE 18 YEARS OLD

Reasoning

4.1 According to Article 29.2.2 of the NATO Civilian Personnel Regulations, "*Heads of NATO bodies shall also grant child allowance in respect of children between 18 and 24 years of age who are receiving a school or university education and who are dependent upon members of the staff or their household*".

4.2 As per NAHEMA's procedures, a certificate of enrolment for full-time studies issued by the educational establishment attended must be provided by the staff who claims a child allowance.

Observation

4.3 The Board found that NAHEMA did not fully follow their internal procedure to support the child allowance payments for children above 18 years old. The Board found in 7 cases out of the entire population of 15 cases, that staff members did not provide a certificate of enrolment for full-time studies issued by the educational establishment attended. In the absence of such a certificate of enrolment, the payment of these child allowances is to be considered an unsupported expenditure. Such an absence increases the risk of fraud.

Recommendation

4.4 The Board recommends NAHEMA to strictly adhere to its own procedures in ensuring that child allowance for children above 18 years old is fully supported by a reliable school certificate of enrolment for full time studies issued by the educational establishment.

NAHEMO's Formal Comments

NAHEMA is adhering to existing procedures and ensures that child allowances for children between 18 and 24 years of age will only be granted to staff members who present reliable proof of enrolment in a full-time study.

NAHEMA will continue to send all the entitlement for allowance declarations and related justification documents to the NATO HQ for further control (up to now declarations and justification have always been accepted by the NATO HQ HR).

Board's Position

The Board reiterates its position that NAHEMA did not adhere to existing NAHEMA procedures and its recommendation to obtain reliable school certificates of enrolment.

NATO UNCLASSIFIED

ANNEX 3
IBA-AR(2017)29

5. SOME PROGRESS BEING MADE TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT

Reasoning

5.1 The North Atlantic Council (Council) approved revised NFRs effective as from 4 May 2015. This was the first time in more than 30 years that the NFRs have been revised. While Article 36 of the revised NFRs states that "*the NFRs will take effect immediately (i.e. 4 May 2015)*", Council also agreed that full implementation was only expected by the end of 2015. Furthermore, Article 4 of the revised NFRs states that "*the finance committee shall approve a set of Financial Rules and Procedures (FRPs) that provide additional guidance to ensure the effective implementation of the revised NFRs.*"

5.2 The revised NFRs are more explicit than the previous version in the areas of Risk Management (Article 11), Internal Control (Article 12), Internal Audit (Article 13) and the establishment of an Audit Advisory Panel (Article 16). They require the establishment of effective, efficient and economical risk management procedures, that there are necessary management functions in place to support effective internal control, and that NATO bodies have access to a permanent, adequately resourced, internal audit function that is compliant with internationally accepted Internal Auditing Standards. They also require the establishment of an Audit Advisory Panel. Furthermore, Article 25.1 requires that, on approval of their annual and supplementary budget, the Heads of NATO Bodies, subject to the concurrence of the Financial Controller, are authorized to enter into commitments for goods and services to be rendered during the financial year.

5.3 The revised NFRs provide an opportunity for NATO bodies to solidify and codify their overall internal control frameworks, including risk management. They also provide internal audit functions with clear expectations that they must be in a position to fully evaluate the effectiveness and efficiency of operations and internal controls, including risk management. Importantly they also required a robust control environment in place around the preparation of Financial Statements to ensure the quality and accuracy of the financial information is of the highest standard as it is now publicly available.

Observations

5.4 The Board found that NAHEMA continues to make some progress towards achieving full compliance with all of the revised NFRs, but that more steps are still needed. This result, though, is not unexpected considering that the more detailed FRPs, which were required by Article 4 of the revised NFRs, have still not yet been approved as of July 2017. Furthermore, these changes to the NFRs are significant, and the Board understands that some time is needed to implement them properly. It is expected that doing so will increase the likelihood that the benefits accruing to NAHEMA will be real, rather than it just being an exercise to demonstrate compliance with the revised NFRs.

5.5 As a result, 2016 continues to be a transition year for NAHEMA. The Board expects compliance to be achieved in 2017. The Board has again chosen to report on

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 3
IBA-AR(2017)29

the progress against certain of these revised Articles of the NFRs, and to make recommendations against that progress. The compliance audit opinion will not be impacted in 2016 as a result of these observations.

5.6 The Board reports the status of the following areas:

Article 11 Risk Management and Article 12 Internal Control

5.6.1 The Board found that NAHEMA recently formally adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework as their Internal Control Framework. COSO includes a risk management element. A number of other NATO bodies, including Allied Command Operations, NATO Communications and Information Organisation and NATO EF 2000 and Tornado Development, Production and Logistics Management Agency NETMA, have also adopted COSO. The adoption of a specific and internationally recognised framework, one that is also being adopted by other NATO bodies, is an important step forward.

5.6.2 Since COSO was only recently been adopted by NAHEMA, the important work of assessing and documenting specific internal control procedures, including risk management procedures, remains to be completed. The Board expects to see more demonstrative progress on this in the coming year. Such documentation is essential in order to ensure and to clearly demonstrate to others that a complete system of internal control and risk management is in place. Until this assessment and documentation is completed, the Board will not be in a position to state that there is a full system of internal control, including risk management, in place that is in accordance with Articles 11 and 12 of the revised NFRs.

Article 13 Internal Audit

5.6.3 Despite the fact that NAHEMA recently developed an Internal Audit Management Procedure, the Board found that NAHEMA does not comply with some of the fundamental principles stated in that document, mainly independence. It also does not comply with generally accepted standards for internal auditing. For example, since NAHEMA does not have a specific dedicated position of Internal Auditor, the Deputy General Manager is appointed as Head of the Internal Audit Function in addition to his normal responsibilities. This creates a conflict of interest and compromises his independence, since he also holds key responsibilities on the internal control system. Furthermore, some audits have been conducted by audit teams composed by NAHEMA staff members (contracting officers, security officer, and management staff senior manager) or by the Finance and Administrative Committee (FAC) members, who do not possess the professional competences and experience that comply with internal audit standards.

5.6.4 The Board also found that NAHEMA Internal Audit has not yet fully evaluated, throughout the organisation, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13. Part of the reason for this is that NAHEMA, as already stated earlier, has not yet fully documented their internal control and risk management procedures.

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 3
IBA-AR(2017)29

Article 16 Audit Advisory Panel

5.6.5 The Board found that NAHEMA is in the process of establishing an Audit Advisory Panel as required by Article 16. According to the Terms of Reference, the permanent members will be NAHEMO Nations representatives and at least one external member. The first Audit Advisory Panel meeting is expected to take place by the end of 2017.

Recommendations

5.7 The Board recommends that:

- a) NAHEMA perform a systematic and detailed assessment and documentation of its internal control and risk management procedures to support compliance with its approved internal control framework, COSO. This includes ensuring that it fully embeds its entity-wide risk management policy throughout the organisation and that risk registers are developed and employed throughout all NAHEMA departments and operations.
- b) NAHEMA fully evaluate internal control and risk management throughout the agency and that this work be clearly documented so as to be able to conclude as to NAHEMA's compliance against COSO.
- c) NAHEMA seek alternative solutions for internal audit activity, such as outsourcing or sharing internal audit function with other NATO entities, ensuring independence and compliance with generally accepted professional standards for internal audit.
- d) NAHEMA ensures the completion of the establishment and functioning of the Audit Advisory Panel, in line with its Terms of Reference.

NAHEMO's Formal Comments

In line with the IBAN recommendation, NAHEMA is in the process of implementing its internal control framework. Part of this framework is the establishment of a proper Risk Management process.

As for Internal Audit, NAHEMA confirms that according to NAHEMA Deputy General Manager (DGM) job description as result of the Steering Committee decision SC69/07, DGM is in charge of conducting Internal Audits and acts as Head of the Internal Audit Function. On a case by case basis, he can also be supported by some NAHEMA staff members proposed by him and nominated by the General Manager (GM) always safeguarding the possible "conflicts"; in this case the DGM acts as "Audit Team Lead". However, for activities in which the DGM could be in a potential "conflict of interest" condition rising from the current NAHEMA organizational posture and functionalities, it is the responsibility of the GM to request qualified assistance to perform some specific internal audit activities. Such assistance has already been provided by the NAHEMO Nations

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX 3
IBA-AR(2017)29

forming ad-hoc audit teams. The IBAN suggestion to share internal audit functions with other NATO Entities will be taken in consideration on a case by case basis.

Furthermore, NAHEMA has established an Audit Advisory Panel, which will start to carry out its tasks in accordance with their Terms of Reference by the end of 2017.

Board's Position

The Board reiterates its position that the current Internal Audit structure does not comply with internal audit standards required by the NFRs, including the professional qualifications of internal auditors.

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ANNEX 3
IBA-AR(2017)29

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

The Board reviewed the status of the observations and recommendations arising from previous audits. The observations and their status are summarised in the table below.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>1. 2015 Financial Statements Audit Report IBA-AR(2016)22</p> <p>Contract Management Procedure does not comply with revised NATO Financial Regulations</p> <p>Recommendation The Board recommends that NAHEMA modify the Contracting Management Process to ensure the establishment of a sound internal financial control by the Financial Controller, in line with the NFRs. Invoices should be sent by suppliers directly to the Financial Controller's office, to ensure full visibility and full availability of data in the financial system. The receipt and rejection of invoices should be done under the supervision of the Financial Controller, who is responsible for the administration of financial and budgetary controls, in a transparent manner that includes traceability and appropriate documentation of other parties' participation to the process (Contract division and/or others).</p>	<p>NAHEMA developed and approved in November 2016 a new Contract Management Procedure. This new procedure addressed the Board's recommendation raised in 2015 audit report.</p>	<p>Observation Settled.</p>
<p>2. 2015 Financial Statements Audit Report IBA-AR(2016)22</p> <p>Payables to Suppliers in the Statement of Financial Position understated by at least EUR 26.9 million.</p> <p>Recommendation The Board recommends that all invoices are recorded, as first received by NAHEMA, in a central list in the financial system before the validation process done by different entity's Sections. At that moment, invoices shall be recorded as Payables to Suppliers, and at year-end all amounts of outstanding payables should be reported in the financial statements. Only invoices rejected for valid and documented reasons should be deducted from the payable balance.</p>	<p>NAHEMA addressed the Board's recommendation of recording the invoices, as first received by the entity, in a central list in the financial system before all the validation processes done by different entity Sections is completed. It is at that moment that invoices are now recorded as payables to suppliers.</p>	<p>Observation Settled.</p>

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ANNEX 3
IBA-AR(2017)29

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>3. 2015 Financial Statements Audit Report IBA-AR(2016)22</p> <p>Lack of review on the Financial Statements revealed material weaknesses in internal control over financial reporting</p> <p>Recommendation The Board recommends that NAHEMA strengthen its system of internal control by improving the preparation, review and reporting process of the Financial Statements. The Board highlights that management takes responsibility for the preparation and presentation of the entity's financial statements. The review procedures are necessary to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the applicable financial reporting framework.</p>	<p>The Board found some improvements in the reviewing of the financial statements. However, further progress is required. This assessment is based on the following findings:</p> <ul style="list-style-type: none"> - A misstatement of payables of EUR 75 million was found by the Board during the interim audit (it was corrected after the Board's recommendation and before issuance of the financial statements) - Weak process of review over journal postings made manually at year-end. - New observations raised this year in the Letter of Observations and in the Management Letter, especially observation 1. 	<p>Observation Outstanding.</p>
<p>NAHEMO's Formal Comments</p> <p><i>See comments related to Observation nr. 1 above.</i></p>		
<p>4. 2015 Financial Statements Audit Report IBA-AR(2016)22</p> <p>Return of a National contribution already received by NAHEMA does not comply with NAHEMO Financial Rules and Regulations</p> <p>Recommendation The Board recommends the NAHEMO Nations adhere to the regulations applicable and approved by them. Otherwise, if NAHEMO Nations consider that rules in force are not fit for purpose of the objectives of the program, they should assess and amend them accordingly.</p>	<p>The Board found in 2016 all calls for contributions were made in compliance with applicable rules and regulations.</p>	<p>Observation Settled.</p>

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ANNEX 3
IBA-AR(2017)29

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>5. 2015 Financial Statements Audit Report IBA-AR(2016)22</p> <p>Further steps are required to achieve full compliance with the revised NATO Financial Regulations, particularly those articles on internal control, risk management and internal audit</p> <p>Recommendations The Board recommends that:</p> <ul style="list-style-type: none"> a) NAHEMA prepare an entity-wide risk management policy and a risk management plan, and that risk register is further developed and employed throughout all of the NAHEMA departments and operations. In the Board's opinion, this should be coordinated to ensure consistent treatment across NATO Bodies. b) NAHEMA develop a specific, internationally accepted standards based Internal Control Framework, and that there be a systematic and detailed documentation of internal control procedures supporting the framework. In the Board's opinion, this should be coordinated to ensure that a consistent framework is chosen across NATO Bodies. c) NAHEMA, through outsourcing or sharing with other NATO entities if considered to be more cost effective, ensure internal audit activities are evaluating risk management and internal control. d) NAHEMA establish an Audit Advisory Panel. e) NAHEMA take the necessary steps to strengthen internal control, as stated in Observations 1 and 3. 	<p>The Board assessed the progress made by NAHEMA on full compliance with the mentioned articles of NATO Financial Regulations and raised a new observation.</p>	<p>Observation Superseded by Observation 5 of the 2016 Letter of Observations and Recommendations.</p>

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ANNEX 3
IBA-AR(2017)29

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>6. 2011 Restated Financial Statements Audit Report IBA-AR(2013)15</p> <p>Unnecessarily high holdings of cash</p> <p>Recommendation The Board recommends that NAHEMA only call for funds when funding requirements cannot be covered by existing cash holdings of respective member nations as required by the NATO and NAHEMO Financial Regulations.</p>	<p>The Board found that despite following the new budgetary approach based on expected milestones to be achieved and paid, the average level of cash on NAHEMA bank accounts has increased by 55% from 2015 to 2016.</p> <p>The Board found that in the last three years NAHEMA has consistently overestimated the annual budget, resulting in a higher level of budgetary appropriations needed (calls for contributions to the Nations). In 2016, the budget was overestimated by 40%; in 2015 by 16%, and in 2014 by 35%. As a result, cash level exceeded the limits as per Article 29.3 of the NATO Financial Regulations.</p> <p>The Board recommends NAHEMA to prepare the annual budget supported by a robust estimation methodology, in coordination with industry. Further, the Board recommends NAHEMA to restrict total currency holdings to the minimum required to meet forecast payments prior to receipt of the following contribution instalment.</p>	<p>Observation Outstanding.</p>
<p>NAHEMO's Formal Comments</p> <p><i>NAHEMO Nations will take into account IBAN recommendation in accordance with their national budget rules.</i></p>		



NAHEMA

"UNITE TO SUCCEED"

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



NAHEMO FINANCIAL STATEMENTS FOR
FINANCIAL YEAR 2016

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NAHEMO Financial Statements 2016

Table of Contents

GENERAL INFORMATION.....	4
NAHEMO STATEMENT OF FINANCIAL POSITION	6
NAHEMO STATEMENT OF FINANCIAL PERFORMANCE.....	7
NAHEMO STATEMENT OF CHANGES IN NET ASSETS/EQUITY	8
NAHEMO 2015 CASH FLOW STATEMENT.....	9
A. ACCOUNTING POLICIES.....	10
<i>Accounting Period.....</i>	<i>10</i>
<i>Reporting Currency.....</i>	<i>10</i>
<i>Basis of preparation.....</i>	<i>10</i>
<i>Changes in accounting policy</i>	<i>11</i>
<i>Assets – Current Assets</i>	<i>11</i>
<i>Assets – Non - Current Assets.....</i>	<i>12</i>
<i>Current liabilities</i>	<i>13</i>
<i>Non-Current liabilities</i>	<i>14</i>
<i>Net Assets</i>	<i>14</i>
<i>Revenue and expense recognition</i>	<i>14</i>
<i>Surplus or Deficit for the Period.....</i>	<i>15</i>
B. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES	15
C. NOTES TO STATEMENT OF FINANCIAL POSITION	15
ASSETS – CURRENT ASSETS	15
1. <i>Cash and cash equivalents.....</i>	<i>15</i>
2. <i>Accounts receivable</i>	<i>16</i>
3. <i>Prepayments.....</i>	<i>17</i>
ASSETS – NON-CURRENT ASSETS	18
4. <i>Property, plant and equipment</i>	<i>18</i>
5. <i>Intangible Assets</i>	<i>19</i>
LIABILITIES – CURRENT LIABILITIES.....	20
6. <i>Payables.....</i>	<i>20</i>
7. <i>Unearned Revenue and Advances</i>	<i>21</i>
NET ASSETS.....	22
8. <i>PP&E and Intangible Asset Reserve</i>	<i>22</i>
D. NOTES TO STATEMENT OF FINANCIAL PERFORMANCE.....	22
9. <i>Revenue</i>	<i>22</i>
10. <i>Expenses</i>	<i>23</i>
11. <i>Surplus or Deficit for the Period</i>	<i>25</i>
12. <i>Bank Charges.....</i>	<i>25</i>
13. <i>OB Milestones achieved.....</i>	<i>25</i>

NATO UNCLASSIFIED

NATO UNCLASSIFIED

E. EVENTS AFTER REPORTING DATE.....	25
F. RELATED PARTIES DISCLOSURE.....	25
G. EMPLOYEE DISCLOSURE	27
H. FINANCIAL INSTRUMENTS DISCLOSURE/PRESENTATION.....	28
I. BANK GUARANTEES.....	28

ANNEX

Statement of Budget Execution

NATO UNCLASSIFIED

GENERAL INFORMATION

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

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

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

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

On 17th July 2004 the NH90 Community MOU (CMOU) between NAHEMO Nations and Nordics Standard Helicopter Programme (NSHP) Nations (Finland, Norway and Sweden) has been signed with the aim that NAHEMA provides support in standardisation, qualification and interoperability to the Nordics. Australia and Belgium were admitted to the CMOU in 2008/2009.

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

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

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

In the year 2014 Portugal decided to withdraw from the NH90 programme. The Addendum 6 to the NAHEMO Charter dealing with Portugal withdrawal from the NH90 programme was brought in force on 16th January 2015. The current MOU has been updated and submitted to the Nations for the final approval.

The 2015 NATO Financial Regulations are the basis of NAHEMO financial and administrative processes and procedures. The NAHEMO Financial Regulations are in the process of being aligned accordingly.

The main goals of NAHEMO for years 2016 and after are:

- To ensure the delivery of serviceable and sustainable H/C (production and retrofits)
- To put into service the contracted capacities and to develop new operational capabilities
- To put in place an effective and efficient In-service support
- To develop the affordability and cost efficiency of the programme
- To optimize the efficiency of the NH90 programme organization

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In 2016, in order to support the above mentioned goals, the following main operational activities have been performed:


- Preparation and signature of International agreements (MoU,...) amongst Nations
- Preparation of budgets
- Preparation of Statements of Work, negotiation and awarding of contracts (fifty eight (58) operational contract vehicles - new contracts, amendments to existing contracts, purchase orders...- have been awarded to Industry in 2016)
- Assessment of the achievement of the technical Milestones of the awarded contracts
- Assessment of Invoices and execution of payments
- Development of Internal directives and guidance to streamline and improve procedures
- Management of the execution of the NH90 programme, including qualification of the NH90 variants, configuration management, quality assurance, production of helicopters, logistic support, risks management.
- Management of the NAHEMA agency

On a financial point of view, NAHEMA is maintaining two different budget types:

- The Administrative Budget (AB) for the administrative costs of NAHEMA;
- The Operational Budget (OB), composed of the following three chapters:
 - Chapter 1: expenditures related to Design and Development activities for FRA, DEU, ITA, and NLD, under the legal framework of the D&D MOU;
 - Chapter 2: expenditures related to Production Investment, Production, Integrated Logistics Support and Initial In-Service Support for FRA, DEU, ITA, NLD under the legal framework of the PI/P MOU and for BEL under the BEL Prod MOU;
 - Chapter 3: expenditures related to In-Service Support activities for all NH90 Community Nations (NAHEMO and non-NAHEMO) under the legal framework of the CMOU.

The Financial Statements on pages 1 to 28 and the Annex hereto were issued to the International Board of Auditors for NATO on 31 March 2017.

Fortunato di Marzio
General Manager


Marius van Zeijts
Financial Controller

NATO UNCLASSIFIED

Statement of Financial Position

As of 31 December 2016
(in € '000)

	2016	2015	Note
Assets			
Current assets			
Cash and cash equivalents	609,753	393,048	1
Short term investments (over 3 month)	0	0	
Receivables	229,984	405,163	2
Prepayments	0	0	3
Other current assets	0	0	
Inventories	0	0	
	839,737	798,211	
Non-current assets			
Receivables	0	0	
Property, plant & equipment	67	69	4
Intangible assets	201	13	5
Other non-current assets	0	0	
	268	82	
Total assets	840,005	798,293	
Liabilities			
Current liabilities			
Payables to suppliers	134,167	12,535	6
Payables to nations in respect of AB	1,533	594	6
Payables to nations in respect of OB	701,299	782,739	6
Unearned revenue	99	515	7
Advances	2,639	1,828	7
Short term provisions	0	0	
Other current liabilities	0	0	6
	839,737	798,211	
Non-current liabilities			
Payables	0	0	
Long term provisions	0	0	
Deferred revenue	0	0	
Other non-current liabilities	0	0	
	0	0	
Total liabilities	839,737	798,211	
Net assets			
Capital contributions	0	0	
PP&E intangible assets reserves	324	114	8
Accumulated surpluses / (deficits)	(56)	(32)	11
	268	82	
Total net assets / equity	268	82	

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Statement of Financial Performance

For the year ended 31 December 2016

(In € '000)

	2016	2015	Note
Revenue			9
Other revenue	11,216	10,797	
Financial revenue	0	0	
Total revenue	11,216	10,797	
Expenses			10
Personnel	(9,353)	(9,311)	
Operating	(1,213)	(1,237)	
Capital not capitalized	(303)	(55)	
Depreciation PP&E	(25)	(24)	
Depreciation Intangible Assets	(31)	(8)	
Provisions	0	0	
Value Added Tax	(247)	(194)	
Finance costs	0	0	
Accrued expenses	(100)		
Total expenses	(11,272)	(10,829)	
Surplus (Deficit) for the period	(56)	(32)	11

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Statement of Changes in Net Assets/Equity

For the year ended 31 December 2016

(in € '000)

	Capital contributions	Reserves	Accumulated surplus / (deficit)	Total
Balance at the beginning of the period 2015		89		89
Changes in accounting policy				
Restated balance				
Exchange difference on translating foreign operations				
Gain / (losses) on property revaluation				
Acquisition of property		25		25
Surplus /(deficit) for the period			(32)	(32)
Change in net assets/equity for the year ended 2014		(32)	32	0
Balance at the end of the period 2015		82	0	82
Changes in accounting policy				
Restated balance				
Exchange difference on translating foreign operations				
Gain / (losses) on property revaluation				
Acquisition of property		243		243
Surplus /(deficit) for the period			(56)	(56)
Change in net assets/equity for the year ended 2015		(56)	56	0
Balance at the end of the period 2016		269	0	269

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Statement of Cash FlowsFor the year ended 31 December 2016
(in € '000)

	2016	2015	Comments
Cash flow from operating activities			
Surplus / (Deficit)	(56)	0	
Non cash movements			
Impairment	0	0	
Increase / (decrease) in payables	41,131	(127,349)	
Increase / (decrease) in unearned revenue	(414)	(1,395)	
Increase / (decrease) in provisions	0	0	
(Gains) / losses on sale of property, plant and equipment	0	0	
Increase / (decrease) in net assets	(187)	8	
Decrease / (Increase) in receivables	175,178	(126,459)	
Increase / (decrease) in advances	810	1,828	
Adjustment of revenue recognition error 2014		(44)	IBA-A(2015)182, 04/11/2016, Observation 4.2
Net cash flow from operating activities	216,462	(253,411)	
Cash flow from investing activities			
Purchase of property plant and equipment / Intangible assets	243	(8)	
Proceeds from sale of property plant and equipment	0	0	
Net cash flow from investing activities	243	(8)	
Cash flow from financing activities	0	0	
Net cash flow from financing activities	0	0	
Net Increase / (decrease) in cash and cash equivalents	216,705	(253,419)	
Cash and cash equivalent at the beginning of the period	393,048	646,467	
Cash and cash equivalent at the end of the period	609,753	393,048	

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A. Accounting Policies

Accounting Period

These 2016 Financial Statements are based on the accounting records of NAHEMO as of 31 December 2016. In accordance with Article 2 of the NFR, the financial year at NAHEMO begins on 1 January and ends on 31 December of the year.

Reporting Currency

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

Basis of preparation

The financial statements have been prepared in accordance with NATO Accounting Framework (NAF) which is based upon International Public Sector Accounting Standards (IPSAS). In addition, where certain financial reporting requirements are required by the NATO Financial Regulations (NFR), these were also met. The financial statements are prepared on a going-concern basis, which means that those in charge with governance of NAHEMA believe NAHEMA will continue in existence for at least a year from the date the financial statements are issued.

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

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

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

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

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

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

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

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

Changes in accounting policy

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2016 Financial Statements the accounting policies have been applied consistently throughout the reporting period.

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

Assets – Current Assets

The entity holds the following types of current assets:

a. Cash and cash equivalents

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

b. Receivables

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

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

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

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c. Inventories

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

d. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of advance payments made to third parties. NAHEMO acts as an agent on behalf of member states. It makes prepayments on behalf of member nations to industry. However, these prepayments are not considered assets of NAHEMO (they are assets of the member nations) and as such are not shown as assets in the Statement of Financial Position.

Assets – Non - Current Assets

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

a. Property, Plant and Equipment

Basic Principles

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

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

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

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Category	Capitalisation Threshold	Useful life	Depreciation method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight line
Other infrastructure	€200,000	40 years	Straight line
Installed equipment	€30,000	10 to 20 years depending on the sub-category	Straight line
Machinery	€30,000	10 years	Straight line
Vehicles	€10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment (e.g. deployable assets)	€50,000	3 to 10 years	Straight line
Furniture	€30,000	10 years	Straight line
Communication systems	€1,000	3 to 5 years	Straight line
Automated information systems	€1,000	3 to 5 years	Straight line

Impairment of tangible assets

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate that they may be not recoverable. In 2016 no indication existed to review the values of fixed assets for impairment.

b. Intangible assets

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

Current liabilities***a. Payables***

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

b. Unearned revenue, advances and amounts owing to nations

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

Advances are contributions received related to future years' ABs.

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

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c. Employee benefits

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

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

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

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

Non-Current liabilities

Provisions

Provisions are recognised when the entity has a legal or constructive obligation as a result of past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made. In 2016 NAHEMO has no provisions.

Net Assets

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

Revenue and expense recognition

a. Revenue

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

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

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

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b. Expenses

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

Surplus or Deficit for the Period

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

B. Significant Accounting Judgements and Estimates

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

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

C. Notes to Statement of Financial Position**Assets – Current Assets****1. Cash and cash equivalents**

	December 31, 2016	December 31, 2015
	€ '000	€ '000
Petty Cash	1	1
Current Bank Accounts	589,752	293,047
Cash equivalents	20,000	100,000
Total Cash and cash equivalents	609,753	393,048

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

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

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

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

2. Accounts receivable

	December 31, 2016	December 31, 2015
	€ '000	€ '000
Contributions from Member Nations		
Receivable from Nations related to AB	309	(1,287)
Receivable from Nations related to OB	229,424	406,067
Other receivables	251	383
Total Receivables	229,984	405,163

Contributions from Member Nations

Contributions receivables from Member Nations are recognised when called.

Receivables from Nations related to the AB funding

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

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

With Programme Arrangement No. 1 to the NH90 Community MOU an additional ceiling amount of EUR 750,000 on economic conditions of 01/01/1999 has been fixed for the NAHEMA activities in favour of the NORDIC Nations depending on the agreed scope of work. The NORDIC Nations contribute to the AB starting from the financial year 2005.

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

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

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

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All expenses including salaries and associated costs within the scope of the AB are considered as administrative expenses.

In 2016, the NAHEMO Nations were invited to pay EUR 10,637,580, the NORDIC Nations share was EUR 958,300 and the share for Australia, New Zealand and the Kingdom of Spain was EUR 191,660 each (= EUR 574,980).

Lapsed funds 2014 in the amount of EUR 1,320,599.75 were to be offset from call for funds in 2016 as per decision 32nd Financial Administrative Committee Meeting 22/23 October 2015. Respective credit memos were created and credited against the 2nd call for funds 2016.

Lapsed funds 2015 in the amount of EUR 594,133.08 are to be offset from future call for funds as per decision 32nd Financial Administrative Committee Meeting 22/23 October 2015. Respective credit memos were created to be credited against call for funds accordingly.

PRT shares will not be returned to PRT. The funds will remain in NAHEMA until the MOU related to the PRT withdrawal has been signed. After signature of this MOU it will be determined how the remaining PRT funds will be used.

Germany contributed EUR 929,031.06 and Italy contributed EUR 1,709,621.90 for Budget Year 2017 In 2016 which were recorded as advances.

Receivables from Nations related to OB funding

At the end of Budget Year 2016, a total OB receivables of EUR 229,424,089.03 was recorded, of which EUR 226,000,000.00 had been called on request of one Nation for the 2017 Budget.

Other receivables

These are receivables for outstanding VAT reimbursements from 2015 In the amount of EUR 3,855.51 and from 2016 in the amount of 247,050.04 from the French Minister of Finance for a total of EUR 250,905.55.

According to the MOUs, VAT is payable by the country levying it, which is France in the case of the NH90 Programme. The Finance and Administrative Committee (FAC) decided that the AB is to be submitted exclusive of VAT. VAT payments are kept in a specific expense account and will be reimbursed by the French Ministry of Finance (MoF). VAT payments not reimbursed by MoF due to French internal regulations will be compensated by the French Ministry of Defence (MoD). This practise was confirmed per decision 33rd Financial Administrative Committee Meeting 20/21 October 2016.

3. Prepayments

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

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Assets – Non-current Assets**4. Property, plant and equipment**

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

Description	Model	Quantity	Net book value € at 31/12/2015	Depreciation Years Depreciation %	2016 Depreciation €	Net book value € at 31/12/2016
Laptop	B	30	2,247.50	4 25%	2,247.50	0.00
Storage	B	1	4,855.47	5 20%	2,240.99	2,614.48
Storage	C	1	9,849.73	5 20%	4,546.02	5,303.71
Network	E	1	925.11	5 20%	284.65	640.46
Network	F	2	7,223.89	5 20%	1,805.97	5,417.92
Server	C	1	2,954.87	5 20%	933.12	2,021.75
Server	D	2	14,212.80	5 20%	3,553.20	10,659.60
UPS	A	16	2,503.73	5 20%	732.80	1,770.93
Printer	A	2	701.57	5 20%	179.12	522.45
Laptop	C	17	23,695.24	5 20%	4,981.00	18,714.24
			69,169.91		21,504.37	47,665.54
New Acquisitions 2016						
Disk Publisher	A	1	2,238.62	4 25%	466.38	1,772.24
UPS	B	1	8,030.00	5 20%	1,204.50	6,825.50
VTC Conference Device	A	1	12,404.50	5 20%	1,860.67	10,543.83
			22,673.12		3,531.55	19,141.57
					25,035.92	66,807.11

In 2016 NAHEMA purchased systems for EUR 22,673.12 that are capitalized on NAHEMO's Statement of Financial Position. The total depreciation for 2016 reads EUR 25,035.92 and results in a total net book value of EUR 66,807.11 for Infrastructure, plant and equipment. According to the production contract specific PI-work tooling developed, manufactured or purchased by Industry shall be accounted on national level. This means that Nations control the tooling and they are not shown as NAHEMO's assets on its Statement of Financial Position.

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5. Intangible Assets

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

Description	Model	Quantity	Net book value € at 31/12/2015	Depreciation Years Depreciation %	2016 Depreciation €	Net book value € at 31/12/2016
Oracle Customization Adjustment OPSF module	OPSF module	1	2,781.95	4 25%	2,781.95	0.00
Oracle Customization Adjustment OPSF module Cash based	OPSF module	1	9,625.00	4 25%	5,250.00	4,375.00
			12,406.95		8,031.95	4,375.00
New Acquisitions 2016						
MS Software License	A	1	33,688.19	3 33%	11,229.40	22,458.79
VMWare License	A	1	13,906.56	3 33%	772.59	13,133.97
ORACLE Migration	OEBS R12	1	172,300.00	4 25%	10,768.75	161,531.25
			219,894.75		22,770.74	197,124.01
					30,802.69	201,499.01

In 2016 NAHEMA purchased intangible assets for EUR 219,894.75 that are capitalized on NAHEMO's Statement of Financial Position. The total depreciation for 2016 reads EUR 30,802.69 and results in a total net book value of EUR 201,499.01 for Intangible assets.

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Liabilities – Current Liabilities

6. Payables

	December 31, 2016	December 31, 2015
	€ '000	€ '000
Payables AB suppliers	165	82
Payables OB suppliers	134,002	12,453
Payables to suppliers	134,167	12,535
Payables to Nations In respect of AB	1,533	594
Payables to Nations In respect of OB	701,299	782,739
Payables to Nations	702,832	783,333
Other Payables	0	0
Total Payables	836,999	795,868

Payables to AB Suppliers

In 2016 there are payables to AB suppliers for the purchase of goods and services of EUR 63,960.14 and staff members for duty trips done in 2016 of EUR 960.48. Payables also contain liabilities for accrued expenses in the amount of EUR 99,731.94.

Payables to OB Suppliers

For 2016 there are payables to OB suppliers in the amount of EUR 134,002,603.45.

Payables to AB funding nations in respect of AB

This represents the net revenue containing interest, bank charges, lapses, and over/under call in 2016. The net result in the amount of EUR 1,533,258.13 has to be reimbursed to the nations following the MOU cost sharing agreement and NAHEMO SC decisions towards the NAHEMO AB funding.

Payables to OB funding nations in respect of OB

This represents the net revenue containing interest, bank charges, lapses, contributions from other Nations for compensation, unallocated contributions, miscellaneous receipts and unused contributions.

The amount of EUR 701,298,861.82 represents balances held by NAHEMO or owed from member Nations which are in turn owed to nations until they are expensed on the OB. Due to a change in accounting policy in 2013, contributions for next year's OB are shown as payables to

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Nations. The amount of unused contributions (OB) includes FRA contributions in the amount of EUR 226,000,000.00 for next year's OB.

In the table below, the details of the total payables to Nations of EUR 1,533,258.13 (AB) and EUR 701,298,861.82 (OB) are explained.

Interest held on operational bank accounts have accumulated since 2007 to EUR 1,896,541.51.

Lapsed funds 2016 in the amount of EUR 1,528,452.51 will be offset from 2nd call for funds in 2018 as per decision 33rd Financial Administrative Committee Meeting 20/21 October 2016.

Payables to Nations 2015	
Payables to Nations in respect of AB	
	EURO € '000
Misc. Payables	5
Lapse 2016	1,528
Total AB Related	1,533
Payables to Nations in respect of OB	
	EURO € '000
Interest	1,897
Lapse NSPA 2011	105
Unallocated Contributions	5,900
Unused Contributions	693,397
Total OB Related	701,299

Other Payables

In 2016 there are no other payables.

7. Unearned Revenue and Advances

	December 31, 2016	December 31, 2015
	€ '000	€ '000
Unearned Revenue AB	99	515
Advances AB	2,639	1,828
Total	2,738	2,343

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Unearned Revenue AB

Unearned revenue AB consists of contributions and other transfers received or receivable, but for which corresponding charges will be incurred after the reporting date. The unearned revenue liability as of 31 December 2016 was EUR 98,899.77.

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

In note 9, it is explained how the unearned revenue 2015, contributions and revenue recognition in 2016 result in the unearned revenue 2016.

Advances AB

Advances related to the AB are contributions received in advance relating to the 2017 Budget. EUR 929,031.06 was advanced contribution from Germany. EUR 1,709,621.90 was advanced contribution from Italy.

Net Assets

8. PP&E and Intangible Asset Reserve

Net assets of EUR 268,306.12 are represented by PP&E and Intangible asset reserve of EUR 324,144.73 minus the depreciation for 2016 of EUR 55,838.61.

D. Notes to Statement of Financial Performance

9. Revenue

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

The table below shows the revenue from exchange transactions for the AB 2015 and 2016.

	December 31, 2016	December 31, 2015
	€ '000	€ '000
Revenue AB		
Contributions	11,130	10,797
Revenue	11,130	10,797

The revenue recognition is matched with the recognition of expenses.

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Reconciliation between Revenue and Unearned Revenue

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

The starting balance of the unearned revenue at the beginning of 2015 is EUR 2,342,137.06. The reversal for accrued expenses is EUR 14,830.17, the total amount called in 2016 reads EUR 13,146,724.44. EUR 247,050.04 was recorded for the VAT paid in 2016 to be reimbursed in future of which 160,579.32 have been called for reimbursement in 2016 and EUR 86,470.72 will be called for reimbursement in 2017.

The revenue recognized in 2016 is EUR 10,969,150.83 for expenses and EUR 355,006.32 for VAT expenses; lapsed funds to be returned to Nations are for an amount of EUR 1,528,452.51. This results in unearned revenue of EUR 2,737,552.73 at the end of 2016.

Reconciliation of Unearned Revenue AB 2015 with 2016	
	EURO € '000
Unearned Revenue 31 December 2015	2,342
Reversal accruals 2015	15
Call for Funds 2016	10,508
Call for Funds 2017	2,639
VAT paid 2 nd half 2016 to be reimbursed	86
Revenue earned in 2016	(10,969)
Revenue earned in 2016 for VAT paid 1 st half 2016	(161)
Payable to Governments 31 December 2016	(1,528)
VAT 2015 reimbursed 2016	(194)
Total unearned revenue 31 December 2016	2,738

10. Expenses

Expense recognition for the 2016 AB and previous years carried forward budgets activities are based upon actual payments made together with accrued expenses which are based on value of work completed by contractors or duty trips performed where Invoices are not yet received. Depreciation for PP&E and Intangible Assets for 2016 is reflected as expense.

AB Expenses are recognized by nature within the following groups.

Personnel

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

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Contractual Supplies and Services

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

Operating Leases

NAHEMA rents premises and photocopiers on an operating lease. The costs of the lease are expensed in the year. The lease for buildings A and B will terminate in 2017. If the leases are cancelled by NAHEMA before the maturity of the contract, NAHEMA will be liable to pay the rental fees until the end of the contracts. The annual rent for the premises is EUR 543,400 inclusive accessory charges. The annual rent for the photocopiers is EUR 43,620.

Capital & Investment

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

The table below shows the breakdown of the expense from AB exchange transactions:

	December 31, 2016	December 31, 2015
	€ '000	€ '000
Personnel	9,353	9,311
Operating	1,213	1,237
Capital	303	55
VAT	247	194
Depreciation PP&E	25	24
Depreciation Intangible Assets	31	8
Accrued Expenses	100	
Total Expenses AB	11,272	10,829

AB expenses are recognized when occurred. Accruing of expenses is based on the concept of accruing when goods and services are received. The accrued expenses are composed as follows:

Personnel	24,467.38 EUR
Operating	5,898.89 EUR
Capital	69,365.67 EUR
Total	99,731.94 EUR

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Reconciliation between Revenue and Expenses

The Revenue related to the AB that has been recognized in 2016 relates directly to the expenses that can be attributed to the AB. For the AB the total revenue incurred is matched with the total expenses recognized in 2016 for a total of EUR 11,272,039.48.

The depreciation for PP&E and Intangible assets are reflected as expense and cannot be matched with the Revenue and therefore result in a net surplus/deficit for the year 2016 of EUR 55,838.61.

11. Surplus or Deficit for the Period

In the Statement of Financial Performance the surplus/deficit of the period of EUR 55,838.61 represent the annual depreciation expense for PP&E and Intangible assets.

12. Bank Charges / Negative Interest

In 2016 bank charges exceeded the interest earned.

For the AB, charges were expensed and recognized as revenue in accordance with 76th NH90 Steering Committee decision.

For the OB, charges were offset from payable interest previous years in accordance with respective Nations' requests.

In 2016 two NAHEMO Nations were charged with negative interest on their operational bank accounts.

For one Nation, negative interest in the amount of EUR 344,803.95 was considered an expense charged on the OB in accordance with Nation's HoD decision.

For the other Nation, negative interest in the amount of EUR 37,657.74 was offset from payable interest previous years in accordance with respective Nation's request.

13. OB Milestones achieved 2016

As of 31 December 2016 milestones in the amount of EUR 24,780,374.18 had been declared achieved but were not invoiced before closing of F.Y. 2016. Hence, they were not recognized as payables in F.Y. 2016.

E. Events after Reporting Date

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

There have been no events between reporting date and the date when the financial statements were authorized for issue that would affect the amounts recognized in these financial statements.

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F. Related Parties Disclosure

Under IPSAS 20 Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 requires the disclosure of the existence of related party relationships, where control exists, and the disclosure of Information about transactions between the entity and its related parties. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.

The key management personnel of NAHEMA have completed a declaration stating that they have no related party relationships that could affect the operation of this reporting entity. Also National Heads of Delegations as well as Joint Executive Committee Members have completed a declaration stating that they have no related party relationships that could affect the operation of this reporting entity.

NAHEMA senior management is remunerated in accordance with published NATO pay scales and does not receive loans that are not available to all staff.

Key Management Personnel

GENERAL MANAGER, grade A7
DEPUTY GENERAL MANAGER, grade A6
ADM DIVISION LEADER, grade A6
SYS DIVISION LEADER, grade A6
LOG DIVISION LEADER, grade A6

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

	December 31, 2016	December 31, 2015
	€ '000	€ '000
Basic salaries	736	715
Allowances	129	124
Post-employment benefits	88	86
Employer's contribution to Insurance	97	99
TOTAL	1.050	1.024

The Salary adjustment was +1.7% in 2016.

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Number of individuals on a full time equivalent basis	December 31, 2016	December 31, 2015
General Manager	1	1
Deputy General Manager	1	1
Other key management personnel (Division Leaders)	3	3
TOTAL	5	5

In addition NAHEMA management has assessed that there are no related party transactions between the nations which are members of NAHEMO and the Industrial contractors used to implement NAHEMO programmes. However, France and Germany have shareholdings of 11.1% each of the Airbus Group Corporation (formerly known as EADS) of which Airbus Helicopters (formerly known as Eurocopter) is one of three business divisions.

G. Employee Disclosure

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

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

The costs in Chapter 1 are for staff members hired under the NATO Civilian Personnel Regulations as well as for consultants and contractors. The figures represent the costs of personnel including basic salary, allowances, insurance and pension plan contributions.

	December 31, 2016	December 31, 2015
	€ '000	€ '000
Employee benefits expense	8,772	7,153
Post-employment benefits		
for defined benefit pension scheme	0	2
for defined contribution pension scheme	791	668
Total employee benefits expense	9,563	7,823

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

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H. Financial Instruments Disclosure/Presentation

NAHEMA uses only non-derivative financial instruments as part of its normal operations. These financial instruments include, cash, bank accounts, deposit accounts, and accounts receivable. All the financial instruments are recognised in the statement of financial position at their fair value.

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

- Foreign currency exchange risk: NAHEMA is not exposed to foreign currency exchange risk because all contributions and payments are made in EURO
- Liquidity risk: The liquidity risk is based on the assessment whether the organisation will encounter difficulties in meeting its obligation associated with financial liabilities. There is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions in relation to approved budgets. The limited risks are primarily the validity of forecasts that result in the calls for contributions.
- Credit Risk: There is a low credit risk as the contributing nations have high or sufficient credit ratings. NAHEMA's management does not believe that its customers' credit positions will directly impact on their ability to meet NAHEMA's funding commitments.
- Price Risk: There is a low price risk to NAHEMA due to programme price increases because Nations are contractually bound to meet such price changes and NAHEMA itself is not exposed to this price risk.

I. Bank Guarantees

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

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

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ANNEX

NAHEMO FINANCIAL STATEMENTS 2016

Statement of Budget Execution as of 31 December 2016 in EUR (Annex as per the NFRs para. 34)

ADM Bud 2016	Initial budget	Budget transfers	Final budget	Commitments	Expenses	Carry forward	Lapsed
Chapter 1	10,401,800.00	0.00	10,401,800.00	9,374,953.96	9,344,177.49	30,776.47	1,024,546.04
Chapter 2	1,539,260.00	(70,000.00)	1,469,260.00	1,279,571.27	1,094,070.36	185,500.91	191,988.73
Chapter 3	229,800.00	70,000.00	299,800.00	167,899.01	134,927.92	32,971.09	131,900.99
Total FY 2016	12,170,860.00	0.00	12,170,860.00	10,822,424.24	10,573,175.77	249,248.47	1,348,435.76

2015	Initial budget	Budget transfers	Final budget	Commitments	Expenses	Carry forward	Lapsed
Chapter 1	162,221.44		162,221.44	9,443.43	9,092.53	350.90	152,778.01
Chapter 2	162,744.08		162,744.08	135,457.40	118,457.37	17,000.03	27,286.68
Chapter 3	237,565.28		237,565.28	237,565.28	168,645.26	68,920.00	0.00
Total FY 2015	562,530.80		562,530.80	382,466.11	296,195.18	86,270.93	180,064.69

ADM Bud 2014	Initial budget	Budget transfers	Final budget	Commitments	Expenses	Carry forward	Lapsed
Chapter 1	0.00		0.00	0.00	0.00	0.00	0.00
Chapter 2	0.00		0.00	0.00	0.00	0.00	0.00
Chapter 3	0.00		0.00	0.00	0.00	0.00	0.00
Total FY 14	0.00		0.00	0.00	0.00	0.00	0.00

Total	12,733,390.80	0.00	12,733,390.80	11,204,890.35	10,869,370.95	335,519.40	1,528,500.45
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ANNEX

OP Bud 2016	Initial budget	Budget adjustments	Final budget	Commitments	Expenses	Carry forward	Lapsed
Chapter 1							
FRA							
DEU							
ITA							
NLD							
Chapter 2							
FRA							
DEU							
ITA							
NLD							
BEL							
Chapter 3							
FRA							
DEU							
ITA							
NLD							
BEL							
NOR							
SWE							
FIN							
AUS							
NZL							
Total FY 16							

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ANNEX

	Initial budget	Budget adjustments	Final budget	Commitments	Expenses	Carry forward	Lapsed
Chapter 1							
<i>FRA</i>							
<i>DEU</i>							
<i>ITA</i>							
<i>NLD</i>							
Chapter 2							
<i>FRA</i>							
<i>DEU</i>							
<i>ITA</i>							
<i>NLD</i>							
<i>BEL</i>							
Chapter 3							
<i>FRA</i>							
<i>DEU</i>							
<i>ITA</i>							
<i>NLD</i>							
<i>BEL</i>							
<i>NOR</i>							
<i>SWE</i>							
<i>FIN</i>							
<i>AUS</i>							
<i>NZL</i>							
Total FY 15							

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ANNEX

OP Bud 2014	Initial budget	Budget adjustments	Final budget	Commitments	Expenses	Carry forward	Lapsed
Chapter 1							
Chapter 2							
Chapter 3							
Total FY 14							

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ANNEX

Notes to the Statement of Budget Execution

Comparison of Budget Execution and Statement of Financial Performance

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

The difference between the Budget Execution Statement for the AB and the accrual based inputs in the Statement of Financial Performance is based on the payables accrued expenses amount of EUR 99,731.94, the depreciation amount of EUR 55,838.61 and the VAT paid amount of EUR 247,050.04.

The following table represents this reconciliation.

BUDGET	EXPENSE IN BUDGET EXECUTION STATEMENT € '000	Adjustments for Payables accrued Expenses € '000	Adjustments for VAT paid € '000	Adjustments for Depreciation € '000	EXPENSE IN STATEMENT OF FINANCIAL PERFORMANCE € '000
ADMINISTRATIVE BUDGET 2015	10,869	100	247	56	11,272
TOTAL	10,869	100	247	56	11,272

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

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

The ORIGINAL AB is based on estimates and has been approved by the NAHEMO Steering Committee during the 75 SC meeting in December 2015 except for Germany that approved ex-committee 14 December 15.

The AB COMMITMENTS 2016 are mainly based on personal cost for the NAHEMA employees and purchase and service contracts signed in order to run the agency. In the "Statement of

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ANNEX

Budget Execution", the column "Carry forward" shows the remaining commitments at year end to be carried forward to the next year. Committed credits carried forward are allowed to be carried forward for two years. At the end of the third year, they will be finally cancelled. The column "Expenses" shows the total amount expensed during the year. The column "Lapsed" shows the difference between the total amount of credits minus the total amount committed, lapsed at year end and to be given back to Nations.
At the end of 2016, lapsed credits in the amount of EUR 1,528,500.45 are to be given back to Nations.

RECONCILIATION OF ADM BUDGET EXECUTION TO CASH FLOW STATEMENT

Expense (cash based) on AB	(10,871,368.15)
Cash received on AB	10,791,180.79
Net outflow on AB	(80,187.36)
Net cash flow as per cash flow statement	(54,409.99)
Difference	25,777.37

Represented by:

(247,050.04)	VAT paid
(37.94)	Bank Charges
(215.87)	Misc. Payments
3,035.38	Misc. Receipts
270,045.57	VAT reimbursed

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

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

The OB 2016 has been approved during the 76 SC meeting in June 2016 except for Italy, Belgium and France, which approved ex-committee in July 2016 and June 2016 respectively.

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ANNEX

RECONCILIATION OF OP BUDGET EXECUTION TO CASH FLOW STATEMENT

Expense (cash based) on OB	(693,703,396.90)
Cash received on OB	910,834,884.32
Net outflow on OB	217,131,487.42
Net cash flow as per cash flow statement	216,759,978.08
Difference	(371,509.34)

Represented by:

(29,732.77)	Interest paid to Treasuries
(5,516.17)	Transfer unallocated Contribution
(338.75)	Bank Charges
(352,377.38)	Negative Interest
16,455.73	Interest earned

Statement of Credits carried forward

The following table shows credits carried forward with a brief explanation of the unexpended balances at year end for which there is a legal liability.

NAHEMA AB 2016		
(EUR)	STATEMENT OF CREDITS CARRIED FORWARD TO 2017	
CHAPTER		REMARKS
01 Personnel	31,127.27	Installation / education allowances, removal, recruitment, home leave, computer training costs to be finalized
02 SUPPLIES	202,500.94	Maintenance, travel missions, computerization technical assistance, leasing costs to be finalized
03 CAPITAL	101,891.09	Software, security costs to be finalized
TOTAL	335,519.40	

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ANNEX

Statement of transfers

In accordance with the NATO Financial Regulations (Section V, Article 26.2), a statement of budgetary transfers recorded in 2016 is presented in the following table.

NAHEMA ADMINISTRATIVE BUDGET 2016 TRANSFERS AUTHORISED BY THE FINANCE AND ADMINISTRATIVE COMMITTEE (FAC) IN ACCORDANCE WITH ARTICLE 18 OF NAHEMO FINANCIAL RULES AND REGULATIONS						
ORIGIN OF THE CREDITS			CREDITS NEEDED			GRAND TOTAL
BUDGET ITEM LINE	AMOUNT	TOTAL	BUDGET ITEM LINE	AMOUNT	TOTAL	
1110ADM	7,000.00 €	7,000.00 €	1712ADM	7,000.00 €	7,000.00 €	0.00 €
1110ADM	10,000.00 €	10,000.00 €	1215ADM	10,000.00 €	10,000.00 €	0.00 €
1110ADM	6,000.00 €	6,000.00 €	1116ADM	6,000.00 €	6,000.00 €	0.00 €
1410ADM	2,300.00 €	2,300.00 €	2610ADM	2,300.00 €	2,300.00 €	0.00 €
1410ADM	12,000.00 €	12,000.00 €	1116ADM	12,000.00 €	12,000.00 €	0.00 €
1410ADM	40,000.00 €	40,000.00 €	1119ADM	40,000.00 €	40,000.00 €	0.00 €
1410ADM	1,000.00 €	1,000.00 €	1712ADM	1,000.00 €	1,000.00 €	0.00 €
2110ADM	70,000.00 €	70,000.00 €	3214ADM	70,000.00 €	70,000.00 €	0.00 €
2110ADM	1,231.80 €	1,231.80 €	2813ADM	1,231.80 €	1,231.80 €	0.00 €
2110ADM	9,571.36 €	9,571.36 €	2117ADM	9,571.36 €	9,571.36 €	0.00 €
2310ADM	400.96 €	400.96 €	2311ADM	400.96 €	400.96 €	0.00 €
2910ADM	8,646.56 €	8,646.56 €	2116ADM	8,646.56 €	8,646.56 €	0.00 €
GRAND TOTAL		168,150.68 €			168,150.68 €	0.00 €

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ANNEX

Representation allowance

The NAHEMA General Manager is entitled to representation allowance to cover expenses associated with establishing and maintaining business relationships of value to NATO (e.g. hosting of functions such as dinners, luncheons and receptions). As per EM-HR(PSC)(2014)0008 dated 5 March 2014, including PO(2013)0154, the total entitlement to representation allowance for 2016 was EUR 9,602.52 of which EUR 666.80 were expensed. Remaining commitments were closed and credits were lapsed. Expenses 2016 were as follows:

	December 31, 2016
	€
Rental supplement expenses	0.00
Hospitality expenses	666.80
Total	666.80

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