

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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03 January 2019

DOCUMENT
C-M(2018)0072-AS1

**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF THE NATO HELICOPTER
FOR THE 1990S DESIGN AND DEVELOPMENT, PRODUCTION AND LOGISTICS
MANAGEMENT ORGANISATION (NAHEMO)**

ACTION SHEET

On 21 December 2018, under the silence procedure, the Council noted the IBAN report on the 2017 financial statements of NAHEMO attached to C-M(2018)0072, endorsed the RPPB report, and agreed to the public disclosure of the report, the IBAN audit report and associated 2017 financial statements of NAHEMO (with the exception of pages 2 and 3 of the financial statement Annex).

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2018)0072.

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14 December 2018

DOCUMENT
C-M(2018)0072
Silence Procedure ends:
21 Dec 2018 15:30

**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF THE NATO HELICOPTER
FOR THE 1990S DESIGN AND DEVELOPMENT, PRODUCTION AND LOGISTICS
MANAGEMENT ORGANISATION (NAHEMO)**

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2017 financial statements of NAHEMO. The IBAN audit produced qualified opinions on both the financial statements and compliance for NAHEMO.
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex 1).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 21 December 2018**, I shall assume the Council noted the IBAN report on the 2017 financial statements of NAHEMO, endorsed the RPPB report, and agreed to the public disclosure of this report, the IBAN audit report and associated 2017 financial statements of NAHEMO (with the exception of pages 2 and 3 of the financial statement Annex).

(Signed) Jens Stoltenberg

**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF NATO HELICOPTER FOR
THE 1990S DESIGN AND DEVELOPMENT, PRODUCTION AND LOGISTICS
MANAGEMENT ORGANISATION (NAHEMO)**

Report by the Resource Policy and Planning Board (RPPB)

References:

- | | |
|--------------------|--|
| A. IBA-A(2018)0091 | IBAN Audit on the 2017 Financial Statements of NAHEMO |
| B. CM(2015)0025 | NATO Financial Regulations (NFRs) |
| C. PO(2015)0052 | Wales Summit tasker on transparency and accountability |

BACKGROUND

1. This report by the RPPB addresses the IBAN audits of the 2017 financial statements and compliance of NAHEMO. The IBAN audits set out qualified opinions on the financial statements and on compliance of NAHEMO in 2017 (reference A).

DISCUSSION

2. The IBAN issued three observations and recommendations in 2017. Incorrect presentation of the budget execution statement for the operational budget and internal control deficiencies over financial reporting resulted in qualified opinions on the financial statements and on compliance. Improvements required in the area of risk management, internal control, and internal audit did not impact the audit opinion. The IBAN also followed up on observations from previous years' audits and noted that one was settled, one was partially settled, and two remained outstanding.

3. The RPPB acknowledges the issues highlighted in the audit report have been discussed and have been dealt with by the participating Nations represented on the appropriate governing bodies of NAMEHO. The RPPB is 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 the budget execution statement for the operational budget was not presented in a clear manner. The IBAN recommendations to improve internal controls over financial reporting, including management reviews of calculations and reconciliations, have been agreed by NAHEMO.

5. Observation 2 – internal control deficiencies over financial reporting: The IBAN found material weaknesses in internal controls over financial reporting that resulted in misstatements, errors and incorrect disclosures in the financial statements. The IBAN recommendations to strengthen its system of internal controls over financial reporting, specifically those involving the preparation of the financial statements, have been agreed by NAHEMO.

6. Observation 3 – risk management, internal control and internal audit: The IBAN found that NAHEMO continues to make progress towards full compliance with the NFRs, particularly those articles relating to internal control and risk management. However, the IBAN highlighted that NAHEMA did not take any steps to address the 2016 observation and recommendation related to NAHEMA's Head of Internal Audit. The IBAN asserted the Head of Internal Audit had and has a conflict of interest in his function as the Deputy General Manager (DGM) that compromises his independence. The RPPB acknowledges NAHEMO's Steering Committee appointed the DGM as the Head of Internal Audit, taking into consideration and mitigating some risks of the conflict of interest. However, the IBAN maintains its position that the appointment results in NAHEMO being non-compliant with NFR Article 13.2 (reference B). The RPPB expects the IBAN's observation to persist as long as the DGM is also acting as Head of Internal Audit or until a deviation request is submitted to and approved by the Council.

7. Prior year outstanding observations: The first outstanding observation concerns compliance with the principles of segregation of duties especially for accounting and disbursing functions. NAHEMO took some corrective action in 2017, but payments are still initiated by staff members with accounting responsibilities. NAHEMO will take into consideration the IBAN recommendation in 2018 within NAHEMO's current available resources. The second outstanding observation relates to the high level of cash holdings. The IBAN recommends NAHEMA restrict its total currency holdings to the minimum required to meet forecasted payments prior to receipt of the following contribution instalment. NAHEMO will take into account the IBAN recommendation in accordance with the national budget rules of the participating nations.

CONCLUSION

8. The IBAN issued a qualified audit opinion on the 2017 financial statements and on compliance of NAHEMO. The RPPB notes many observations were repeated from the prior year, but highlights that the Steering Committee and management are making progress on each observation. The RPPB notes the current year recommendations by the IBAN and the positive response by NAHEMO and expects changes to be implemented in 2018.

RECOMMENDATIONS

9. The RPPB recommends the Council:
- 9.1. note the IBAN report at reference A;
 - 9.2. endorse the conclusion at paragraph 8; and,
 - 9.3. agree to the public disclosure of this report, the IBAN audit and the associated 2017 financial statements of NAHEMO (with the exception of pages 2 and 3 of the financial statement Annex) in line with the agreed policy in reference C.



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES

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IBA-A(2018)0091
29 August 2018

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

Cc: Chairman, NATO Helicopter for the 1990s (NH 90) Design and Development, Production and Logistics Management Organisation (NAHEMO) Steering Committee
General Manager, NATO Helicopter for the 1990s (NH 90) Design and Development, Production and Logistics Management Agency (NAHEMA)
Division Leader, Administrative Division, NAHEMA
Chairman, Resource Policy & Planning Board (RPPB)
Branch Head, Plans and Policy Branch, NATO Office of Resources (NOR)
Private Office Registry

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the audit of the NATO Helicopter for the 1990s (NH 90) Design and Development, Production and Logistics Management Organisation (NAHEMO) Financial Statements for the year ended 31 December 2017 – IBA-AR(2018)0023***

The Board herewith submits its approved Auditor's Report and a Letter of Observations and Recommendations with a Summary Note for distribution to the NATO Council.

The Board's report sets out a qualified opinion on the Financial Statements of the NAHEMO and on compliance for financial year 2017.

Yours sincerely,

Hervé-Adrien Metzger
Chairman

Attachments: As stated above.



**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 2017**

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 2017, the NAHEMO operational and administrative budgets' expenses were EUR 986 million and EUR 10.8 million, respectively.

The Board issued a qualified opinion on the financial statements and on compliance for the year ended 31 December 2017.

During the audit, the Board made three observations with recommendations. These findings are in the Letter of Observations and Recommendations (Annex 3).

The main findings are listed below. Observation one and two impact the audit opinion on both the financial statements and on compliance.

1. Material mistakes in the presentation of the budget execution statement for the operational budget.
2. Internal control deficiencies over financial reporting led to misstatements, errors and incorrect disclosure of information in the financial statements.
3. Improvements required in the area of risk management, internal control and internal audit.

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

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to NAHEMO, whose comments have been included, with the Board's position on those comments where necessary, see the Appendix to Annex 3.

29 August 2018

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 2017

**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 2017, and the Statement of Financial Performance, Statement of Changes in Net Assets 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 2017.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, due to fraud or error. In making those risk assessments, internal control relevant to the entity's preparation and presentation of financial statements is considered in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion on the Financial Statements

We found that the 2017 Budget Execution Statement for the Operational Budget was materially misstated and cannot be relied upon for decision making purposes. Budgetary expenses disclosed were understated by EUR 131 million. Also the balance of commitments, credits carried forward and lapsed credits were materially misstated. As a result, the Budget Execution Statement for the Operational Budget does not fairly and accurately present the budgetary activities of NAHEMO thereby not meeting the objectives of general purpose financial statements.

In addition, the Budget Execution Statement for the Operational Budget for 2016 and 2015 disclosed in the NAHEMO 2017 Financial Statements were also materially misstated and could not be relied on. In the 2015 Budget Execution Statement for the Operational Budget, the disclosure of the Initial Budget was understated by EUR 452 million and the Budget Adjustments were overstated by EUR 452 million. In the 2016 Budget Execution Statement for the Operational Budget, the balances of commitments, credits carried forward and lapsed credits were materially misstated due to incorrect calculations of the balances.

Finally, the disclosure of the value of accruals in Note 13 to the financial statements was understated by EUR 15.4 million.

Qualified Opinion on the 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 NAHEMO as at 31 December 2017, 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 audit opinion.

Basis for Qualified Opinion on Compliance

The NATO Financial Regulations require the establishment of a system of internal control. We 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, despite the recommendations made on these matters by the Board during the last two years' audits.

Qualified Opinion on Compliance

In our opinion, except for the effects and possible effects of the matters described in the section *Basis for Qualified Opinion on Compliance*, 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, 29 August 2018



Hervé-Adrien Metzger
Chairman

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ANNEX 3
IBA-AR(2018)0023

29 August 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

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

FOR THE YEAR ENDED 31 DECEMBER 2017

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Introduction

The International Board of Auditors for NATO (Board) audited the NAHEMO Financial Statements for the year ended 31 December 2017 and issued a qualified opinion on the financial statements and on compliance.

Observations and Recommendations

The Board's audit resulted in three observations and recommendations.

Two observations impact the audit opinion on both the financial statements and compliance:

1. Material mistakes in the presentation of the budget execution statement for the operational budget.
2. Internal control deficiencies over financial reporting led to misstatements, errors and incorrect disclosure of information in the financial statements.

The remaining observation does not impact the audit opinion:

3. Improvements required in the area of risk management, internal control and internal audit.

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

The Board also issued a Management Letter (reference IBA-AML(2018)0015) to the NATO Helicopter Management Agency (NAHEMA) General Manager with five observations for management's attention.

This Letter of Observations and Recommendations was formally cleared with NAHEMA, and the formal comments are included, with the Board's position on those comments where necessary (Appendix, Annex 3)

OBSERVATIONS AND RECOMMENDATIONS

1. MATERIAL MISTAKES IN THE 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 The NATO Financial Regulations (NFRs) includes several aspect related to internal financial and budgetary control. Article 6 states that Heads of NATO bodies shall have a Financial Controller who exercises in their name responsibilities for the budgeting, accounting and reporting activities of the NATO body. Article 12.2 states that in order to meet the desired internal control standards, the Financial Controller shall establish a system of internal financial and budgetary control, embracing all aspects of financial management.

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

1.4 A Budget Execution Statement shall present a clear comparison of the budget authorized, budget amendments, funds committed, actual expenses and lapses. International Public Sector Accounting Standards (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”.

Observation

1.5 NAHEMA prepares Budget Execution Statements on a cash basis of accounting for both the Operational and Administrative budget. In the 2017 Financial Statements, NAHEMA presented the Budget Execution Statements for the Operational Budget following the layout recommended by the Board in previous year’s audit.

1.6 However, we found that the balances of commitments, expenses, carry forwards and lapses credits were materially misstated in the Budget Execution Statement for the Operational Budget:

- Total expenses disclosed as of 31 December 2017 amounts to EUR 855,178,995. However, this figure is incorrect. The correct amount of

expenses is EUR 986,512,080. Therefore, expenses are understated by EUR 131,333,085.

- Total commitments disclosed amount to EUR 1,044,748,940. However, this amount is incorrect. From the total balance of commitments, NAHEMA incorrectly deducted 2017 commitments related to goods and services delivered in 2017 but not yet paid, and presented them as lapsed credits. We conclude that commitments are understated by an amount of up to EUR 50.7 million.
- Credits carried forward disclosed amounts to EUR 189,569,945. NAHEMA presented this amount by calculating the difference between commitments and expenses. No analysis was done to identify if credits committed should be carried forward or lapsed. Also, NAHEMA does not maintain a detailed list of credits carried forward. As an example, the balance of carry forwards was presented as a negative figure for two Nations. By nature, carry forwards cannot have a negative figure and thus the balances are incorrectly presented. The Board concludes that the balance of credits carried forward is materially misstated. The mistake in credits carried forward is also impacted by the above understatements in commitments and expenses.
- Lapsed credits amount to EUR 50,783,344. As a result of the above mistake in commitments, impacting also lapses, lapses are overstated.

1.7 The Board stresses that the Operational Budget expenses are not disclosed in the Statement of Financial Performance because NAHEMA is acting as an agent on behalf of nations. Therefore, the entity's principal activity, funded by the Operational Budget, is only disclosed in the Budget Execution Statement. As a result, information provided in the Budget Execution Statement is essential for the readers understanding of the entity's operations and activities.

1.8 The errors and misstatements we found relate to incorrect calculations and wrong financial reporting. This resulted in a Budget Execution Statement that is inaccurate and thus it cannot be relied upon for decision making purposes.

Recommendations

1.9 The Board recommends NAHEMA to perform the necessary calculations, checks, reconciliations and reviews to ensure that the Budget Execution Statement presents the correct balances for each budgetary concept and can be relied upon by the Nations for decision making purposes.

1.10 Further, the Board recommends NAHEMA to strengthen internal controls over financial reporting, including management reviews, to ensure that financial statement presentation weaknesses are prevented or detected before the issuance of the financial statements.

2. INTERNAL CONTROL DEFICIENCIES OVER FINANCIAL REPORTING LED TO MISSTATEMENTS, ERRORS AND INCORRECT DISCLOSURE OF INFORMATION IN THE FINANCIAL STATEMENTS

Reasoning

2.1 The NFRs require the Financial Controller to exercise the responsibility of budgeting, accounting and reporting activities of the NATO entity. This includes being responsible for the financial internal control system established, and for the preparation of the financial statements in accordance with the NATO Accounting Framework.

2.2 Financial Statements shall be free of misstatements, mathematical errors, non-reconciling items, or any other errors or omissions caused by lack of control during preparation. Entities should have proper internal controls, including reviews and reconciliations in place to ensure the consistency and the accuracy of information presented in the Financial Statements.

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

2.4 International Public Sector Accounting Standards (IPSAS) 1 states that the presentation and classification of items in the financial statements shall be retained from one period to the next. When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified unless the reclassification is impracticable. When comparative amounts are reclassified, an entity shall disclose: (a) The nature of the reclassification; (b) The amount of each item or class of items that is reclassified; and (c) The reason for the reclassification.

Observations

2.5 We found material weaknesses in internal controls over financial reporting and little evidence of management review of the financial statements. This resulted in misstatements, errors and incorrect disclosure of information in the financial statements.

2.6 Below we present the errors found, distinguishing between those impacting the Operational Budget and those impacting the Administrative Budget:

Errors impacting the Operational Budget:

a) Material errors in the Budget Execution Statements for the years 2016 and 2015

2.7 The NAHEMO 2017 Financial Statements include the Budget Execution Statement for the Operational budget for the years 2015 and 2016, although not required by IPSAS 24. These Budget Execution Statements were prepared according to the

modified lay-out as recommended by the Board. Therefore, these Budget Execution Statements did not reconcile and agree to the original Budget Execution Statements as presented in the NAHEMO 2016 and 2015 Financial Statements. The Budget Execution Statements presented re-calculated balances for the initial budget, commitments, carry forwards and lapses. We found material errors in the presentation of the Budget Execution Statements for 2016 and 2015 as set out below:

2.8 The Budget Execution Statement for 2015 disclosed correct balances for the final budget and expenses. The remaining balances presented were significantly misstated:

- Initial budget is disclosed as EUR 452,633 although the correct amount is EUR 452,638,204.
- Budget adjustments is disclosed as EUR 1,076,830,211 but the correct amount is EUR 624,644,640.

2.9 The balances of commitments, carry forwards and lapsed credits were incorrectly calculated due to the same mistakes found in the 2017 Budget Execution Statement, see Observation 1 of this report:

- Commitments of the year relating to goods and services received but not yet paid were incorrectly deducted from the total balance of commitments, and presented as lapsed credits.
- Credits carried forward were the result of calculating the difference between commitments and expenses without an analysis to identify if credits committed should be carried forward or lapsed. As an example, the carry forward balance for Chapter 2 reads EUR -56,314,491. By nature, carry forwards cannot be a negative figure.
- Lapses were overstated by the same amount as commitments were understated.

2.10 The 2016 Budget Execution Statement correctly disclosed the initial budget, budget adjustments, final budget and expenses. However, the amount of commitments, carry forwards and lapses were incorrectly calculated due to the same mistakes found in the 2017 Budget Execution Statement, see Observation 1 of this report.

2.11 Further, we found that the Financial Statements did not include an explanatory note about the reclassification of the budgetary information for the years 2015 and 2016. This disclosure is required by IPSAS 1 and it is essential to understand why the Budget Execution Statements present different balances than those reported in the NAHEMO 2016 and 2015 Financial Statements.

b) Disclosure of the value of milestones achieved and certified at year end is understated by EUR 15.4 million

2.12 NAHEMO acts as an agent on behalf of nations for the Operational Budget and as a result, the entity's activities related to the Operational Budget is not disclosed in the Statement of Financial Performance. Therefore, the value of milestones achieved by industry and certified but where invoices have not yet been received (accruals), are disclosed in a note to the financial statements. In 2017, the Note 13 of the Financial Statements presents the value of milestones achieved but not yet invoiced as EUR 34,584,931.

2.13 We found that this amount was understated by EUR 15.4 million corresponding to certified milestones achieved in 2017 but not disclosed in the financial statements. This figure is the sum of an invoice received and paid in April 2018 for EUR 5.1 million and seven milestones achieved for a total of EUR 10.3 million where invoices are not received yet.

2.14 We conclude that the correct amount of accruals to be disclosed in the financial statements therefore is EUR 49,984,202.

Errors impacting the Administrative Budget:

a) Net value of Property, Plant and Equipment (PP&E) understated by EUR 26,040

2.15 We found that assets acquired by NAHEMA in 2017 were not capitalised and reported in the Statement of Financial Position. Intangible Computer Information System assets (software license) were acquired in 2017 for an amount of EUR 36,056. As a result, non-current assets net value is understated by EUR 26,040. Depreciation expenses are understated by EUR 10,016.

b) Incorrect disclosure of credits carried forward and lapses for the Administrative Budget

2.16 NAHEMA discloses credits carried forward into 2018 for a total of EUR 252,686, in the Budget Execution Statement for the Administrative budget. However, we found that no legal obligation existed for commitments amounting to EUR 79,576. Therefore, these commitments should have been cancelled and presented as lapses in the Budget Execution Statement.

2.17 As a result, commitments carried forward are overstated by EUR 79,576 and lapses are understated by the same amount.

c) Inaccuracies in year-end accruals

2.18 The measurement of accrued liabilities reported in the financial statements is based on an analysis of invoices received by NAHEMA after year end related to goods and services delivered in the financial year. The amount disclosed in the Financial

Statements as accrued expense amounts to EUR 113,273. However, we found errors resulting in an understatement of accrued liabilities by EUR 41,833.

2.19 The errors we found in accruals are because the Agency lacks a formalised procedure for measuring accruals or a pre-determined cut-off date.

d) Errors in the presentation of the Statement of Cash Flow

2.20 We found several presentation errors in the 2017 Statement of Cash Flow:

- The depreciation of the year is a non-cash movement. It was not included in the cash flow from operating activities.
- The increase in net assets is incorrectly presented as a cash outflow.
- The purchase of PP&E is incorrectly presented as a cash inflow.

2.21 Further, the Board highlights that the entity did not take any steps to strengthen its internal controls over financial reporting in the last years, despite the Board finding deficiencies in internal controls over financial reporting in both 2015 and 2016 Financial Statements.

Recommendations

2.22 The Board recommends NAHEMA strengthens 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. Review procedures are necessary to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the applicable financial reporting framework as well as prevent and detect errors before their issuance.

2.23 The Board recommends NAHEMA ensures that the presentation and classification of items in the financial statements shall be retained from one period to the next. When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified, including a disclosure of the nature of the reclassification, the amount of each item or class of items that is reclassified, and the reason for the reclassification.

3. IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT

Reasoning

3.1 According to Article 11 of the NFRs, the Heads of NATO bodies shall ensure effective, efficient and economical risk management procedures are in place to support the achievement of objectives as set by the Nations.

3.2 Article 12 of the NFRs requires that the Heads of NATO bodies shall ensure the necessary internal management functions are in place to support effective internal control and internal control activities shall include periodic assessment and review of the risk and the sound functioning of the internal control system. In order to meet the desired internal control standards the Financial Controller shall establish a system of internal financial and budgetary control, embracing all aspects of financial management.

3.3 According to the paragraph 13.1 of the NFRs, all NATO bodies shall undertake internal audit activities in order to evaluate risk exposures and the effectiveness of internal controls in managing risk within the organisation's governance, operations and information systems. Article 13.2 of NAHEMA Financial Regulations states that NAHEMA shall have access to a permanent, adequately resourced, internal audit function that is compliant with internationally accepted Internal Auditing Standards.

Observation

3.4 NAHEMA continued to make progress towards achieving full compliance with the revised NFRs. We note the steps taken by NAHEMA to implement the entity's Internal Control and Risk Management Framework based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Framework. However, we found that improvements are still needed as reported below.

Risk Management

3.5 NAHEMA does not yet have an approved Risk Management Plan although a draft was prepared in 2018 and is currently in the approval process. In addition, the entity selected and is currently formalizing the acquisition of a risk management tool called "Active Risk Management" (ARM). Implementation of ARM is scheduled to start in September 2018 including training of staff members. It is expected to be fully implemented by the end of 2018.

3.6 The Head of the Management Cell, designated as risk manager, maintains an entity-wide risk register which was last updated in January 2018. The risk register includes a description, a risk assessment and a mitigation plan for each of the risks. However, NAHEMA has not formally set the risk appetite for the identified risks. In practice, the risk appetite is applied on a case by case basis. The absence of a clear risk appetite for the main risks might lead to either a micromanagement of all type of risks by

top management or to the acceptance of some risks by risks owners based on their own tolerance levels.

Internal Controls

3.7 A system of internal financial and budgetary control is operating through policies, procedures and standing instructions at NAHEMA. However, formal mapping of critical processes, associated risks and existing internal controls has not yet been initiated. Documentation of specific internal controls is essential in order to ensure and to clearly demonstrate to others that a complete system of internal control is in place.

3.8 Until this assessment and documentation is completed, we are not in a position to state that there is a full system of internal control, including risk management, in place in accordance with Articles 11 and 12 of the NFRs.

3.9 We highlight that the Board's audits of NAHEMO Financial Statements since 2015 revealed material weaknesses in internal control over financial reporting which led to audit qualifications in respect of compliance with the internal control requirements of the NFRs.

Internal Audit

3.10 We found that NAHEMA did not take any steps to address the previous years' recommendations from the Board related to the Internal Audit function. Despite the fact that NAHEMA developed an Internal Audit Management Procedure, we found that NAHEMA did not comply with some of the principles stated in this document, mainly independence. It also does not comply with generally accepted standards for internal auditing. For example, as NAHEMA lacks a specific dedicated position of Internal Auditor, the Deputy General Manager was appointed as the Head of the Internal Audit Function, in addition to his normal responsibilities. This created conflict of interest and compromised his independence, since he also held key management responsibilities in the internal control system.

3.11 Further, we found that the internal audit activities were very limited in volume and substance. In 2017, an audit was conducted by an audit team composed by the Finance and Administrative Committee (FAC) members and another was performed by NAHEMA's staff prior to an inspection by the NATO Office of Security. In both cases, the generally accepted standards for internal audit, mainly independence, professionalism and experience, were not complied with.

3.12 Acknowledging the limitation of resources for the internal audit activity that NAHEMA faces, we note that NAHEMA did not seek alternative solutions, such as outsourcing or sharing internal audit function with other NATO entities. As a result, it cannot be stated that NAHEMA undertook internal audit activities to fully evaluate, 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.

Recommendations

3.13 The Board recommends that NAHEMA:

- a) Ensure approval and implementation of the Risk Management Plan.
- b) Determine the risk appetite taking three steps: 1) Define and set the risk appetite, 2) Communicate the risk appetite, 3) Monitor and update the risk appetite on an on-going basis. In doing so, NAHEMA should ensure the NAHEMO Governing Body's review and concurrence.
- c) 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.
- d) 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 internal control framework.
- e) End the role of the Deputy General Manager as Head of Internal Audit and implement an effective internal audit activity either through outsourcing or sharing internal audit function with other NATO entities, ensuring independence both in fact and in appearance and compliance with generally accepted professional standards for internal audit.

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) NAHEMO FY 2016 IBA-AR(2017)29, paragraph 1</p> <p>INCORRECT PRESENTATION OF THE BUDGET EXECUTION STATEMENT FOR THE OPERATIONAL BUDGET</p> <p>Board's Recommendation 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.</p> <p>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.</p>		<p>Observation Superseded by current year Observation 1 and 2.</p>
<p>(2) NAHEMO FY 2016 IBA-AR(2017)29, paragraph 2</p> <p>LACK OF RELIABLE AND COORDINATED PROCESSES FOR CAPITALISING ASSETS AND UPDATING ASSET REGISTERS</p> <p>Board's Recommendation 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.</p> <p>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.</p>	<p>NAHEMA approved a directive for assets management in 2018 that describes, among others, some processes related to asset management including processes for capitalising assets and updating assets register.</p> <p>However, the Board found that the assets registers are not yet fully complete and accurate.</p>	<p>Observation Partially Settled.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(3) NAHEMO FY 2016 IBA-AR(2017)29, paragraph 3</p> <p>INADEQUATE SEGREGATION OF DUTIES IN FINANCE PROCESSES</p> <p>Board's Recommendation 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.</p>	<p>NAHEMA introduced a new control mechanism in the payments process. The Administration Section Leader now authorizes payments.</p> <p>However, the payments are still initiated by the same staff members having also accounting responsibilities. As a consequence, adequate segregation of duties is not ensured.</p>	<p>Observation Outstanding.</p>
<p>(4) NAHEMO FY 2016 IBA-AR(2017)29, paragraph 4</p> <p>INSUFFICIENT JUSTIFICATION FOR CHILD ALLOWANCE FOR CHILDREN ABOVE 18 YEARS OLD</p> <p>Board's Recommendation 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.</p>	<p>No cases of non-compliance with rules for child allowance was found.</p>	<p>Observation Settled.</p>
<p>(5) NAHEMO FY 2016 IBA-AR(2017)29, paragraph 5</p> <p>SOME PROGRESS BEING MADE TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</p> <p>Board's Recommendation The Board recommends that:</p> <p>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.</p>		<p>Observation Superseded by current year Observation 3.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>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.</p> <p>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.</p> <p>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.</p> <p>d) NAHEMA ensures the completion of the establishment and functioning of the Audit Advisory Panel, in line with its Terms of Reference.</p>		
<p>(6) NAHEMO FY 2015 IBA-AR(2016)22, paragraph 3</p> <p>LACK OF REVIEW ON THE FINANCIAL STATEMENTS REVEALED MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING</p> <p>Board's 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>Observation Superseded by current year observations 1 and 2.</p>
<p>(7) NAHEMO FY 2011 IBA-AR(2013)15, paragraph 6.3</p> <p>LEVEL OF CASH HOLDINGS</p> <p>Board's Recommendation The Board recommends that NAHEMA only call for funds when funding requirements cannot be</p>	<p>The Board still recommends NAHEMA to restrict total</p>	<p>Observation Outstanding.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
covered by existing cash holdings of respective member nations as required by the NATO and NAHEMO Financial Regulations.	currency holdings to the minimum required to meet forecast payments prior to receipt of the following contribution instalment.	

**NATO HELICOPTER MANAGEMENT ORGANISATION (NAHEMA) FORMAL
COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS
AND THE INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS**

**OBSERVATION 1:
MATERIAL MISTAKES IN THE PRESENTATION OF THE BUDGET EXECUTION
STATEMENT FOR THE OPERATIONAL BUDGET**

NAHEMA's Formal Comments

NAHEMA acknowledges the miscalculation that had led to the material misrepresentation of the Budget Execution Statement.

Notwithstanding that this miscalculation did not lead to any misconduct or misuse of funds, NAHEMA will follow the recommendation of the Board and will perform the necessary calculations, checks, reconciliations and reviews to ensure that the Budget Execution Statement presents the correct balances for each budgetary concept.

With respect to internal control over financing reporting, NAHEMA will strengthen its internal control system in order to be compliant with the applicable financial reporting framework. This will include regular management reviews in order to detect and prevent weaknesses as soon as possible.

NAHEMA will establish a more intense and complete use of the OEBS system so as to avoid miscalculations due to frequent manual entries.

In addition, newly assigned personnel will be trained on the specific matters to avoid and detect possible discrepancies.

**OBSERVATION 2:
INTERNAL CONTROL DEFICIENCIES OVER FINANCIAL REPORTING LED TO
MISSTATEMENTS, ERRORS AND INCORRECT DISCLOSURE OF INFORMATION IN
THE FINANCIAL STATEMENTS**

NAHEMA's Formal Comments

Refer to comments on above recommendation 1.

Errors impacting the Operational Budget:

NAHEMA will comply with the IBAN recommendation

Errors impacting the Administrative Budget:

NAHEMA will comply with the IBAN recommendation

**OBSERVATION 3:
IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL
CONTROL AND INTERNAL AUDIT**

NAHEMA's Formal Comments

NAHEMA is fully aware that a functioning Risk management is very essential for managing a project like NH90. In recognition of this, NAHEMA has already started in beginning of 2018 a process to introduce the relevant Risk Management Strategy to the Agency. According to current plans, the Agency will be able to use the RM approach in its day to day business by the end of 2018. As a necessary tool to integrate such approach, a Risk management Strategy (RMS) and a Risk Management Plan (RMP) are in the process of final approval.

In addition, the necessary training of Staff members in the field of RM has already started with the help of external experts.

A report about the first experience with the established RM system will be provided during the Steering Committee of June 2019.

Internal Audit

According to the Steering Committee decision SC69/07, DGM is in charge of conducting Internal Audits and acts as Head of 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 forming ad-hoc teams. The IBAN suggestion to share internal audit functions with other NATO Entities will be taken into consideration on a case by case basis.

In addition, the Internal Audit plan for each year is approved at Steering Committee level.

Board's Position

We maintain our position related to risk management, internal controls and Internal Audit. With the Steering Committee's decision to appoint the DGM as Head of Internal Audit Function, NAHEMA is not compliant with the NFRs Article 13.2 which states that internal audit functions should be compliant with internationally accepted Internal Auditing Standards. The Steering Committee do not have authority to deviate from the NFRs, unless specifically approved by Council. Therefore, we recommend NAHEMA to end the role of the Deputy General Manager as Head of Internal Audit. An effective internal audit activity should be implemented

either by ensuring a specific dedicated position as internal auditor or through outsourcing or sharing internal audit function with other NATO entities, ensuring independence both in fact and in appearance and compliance with generally accepted professional standards for internal audit.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(2) NAHEMO FY 2016

IBA-AR(2017)29, paragraph 2

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

NAHEMO's Formal Comments

NAHEMA acknowledges the IBAN statement and intends to improve the accuracy of property registers and the compliance with the directive recently approved.

As an additional improvement to the registers consistency, NAHEMA will check the possibility to use a dedicated OEBS module for capitalizing assets and updating asset registers.

(3) NAHEMO FY 2016

IBA-AR(2017)29, paragraph 3

INADEQUATE SEGREGATION OF DUTIES IN FINANCE PROCESSES

NAHEMO's Formal Comments

NAHEMA will take into consideration the IBAN recommendation within the current available resources.

Control mechanisms are implemented to avoid that personnel with double functions can complete payments processes, so as to avoid possibilities of abuses.

(7) NAHEMO FY 2011

IBA-AR(2013)15, paragraph 6.3

LEVEL OF CASH HOLDINGS

NAHEMO's Formal Comments

NAHEMO Nations will take into account the IBAN recommendation in accordance with their national budget rules.



NAHEMA

"UNITE TO SUCCEED"

NATO HELICOPTER D&D PRODUCTION AND LOGISTICS
MANAGEMENT AGENCY



NAHEMO FINANCIAL STATEMENTS FOR **FINANCIAL YEAR 2017**

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NAHEMO Financial Statements 2017

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ANNEX

Statement of Budget Execution

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 modification to the General MOU dealing with the same issue was brought in force on October 2017.

The 2015 NATO Financial Regulations are the basis of NAHEMO financial and administrative processes and procedures. The NAHEMO Financial Regulations have been approved on July, 27th 2017.

The main goals of NAHEMO for 2017 and following years are:

- To ensure the delivery of serviceable and sustainable H/Cs (production and retrofits);
- To put into service the contracted capacities and to develop new operational capabilities;
- To put in place an effective and affordable in-service support with the aim to increase the overall availability of the NH90 fleet;
- To optimize the efficiency of the NH90 programme organization;

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In 2017, 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;
- 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 2018.


Uwe Fialkowski
General Manager




Adrianus van de Geijn
Financial Controller

Statement of Financial Position				
As of 31 December 2017 (in € '000)				
	2017	2016	Note	
Assets				
Current assets				
Cash and cash equivalents	485,578	609,753	1	
Short term investments (over 3 month)	0	0		
Receivables	22,261	229,984	2	
Prepayments	0	0	3	
Other current assets	0	0		
Inventories	0	0		
	507,839	839,737		
Non-current assets				
Receivables	0	0		
Property, plant & equipment	166	67	4	
Intangible assets	138	201	5	
Other non-current assets	0	0		
	304	268		
Total assets	508,143	840,005		
Liabilities				
Current liabilities				
Payables to suppliers	572	134,167	6	
Payables to nations in respect of AB	3,152	1,533	6	
Payables to nations in respect of OB	503,088	701,299	6	
Unearned revenue	139	99	7	
Advances	887	2,639	7	
Short term provisions	1	0		
Other current liabilities	0	0	6	
	507,839	839,737		
Non-current liabilities				
Payables	0	0		
Long term provisions	0	0		
Deferred revenue	0	0		
Other non-current liabilities	0	0		
Total liabilities	507,839	839,737		
Net assets				
Capital contributions	0	0		
PP&E intangible assets reserves	403	324	8	
Accumulated surpluses / (deficits)	(99)	(56)	11	
Total net assets / equity	304	268		

Statement of Financial Performance				
For the year ended 31 December 2017				
(in € '000)				
	2017	2016	Note	
Revenue			9	
Other revenue	11,138	11,216		
Financial revenue		0		
Total revenue	11,138	11,216		
Expenses			10	
Personnel	(9,585)	(9,353)		
Operating	(1,102)	(1,213)		
Capital not capitalized	(152)	(303)		
Depreciation PP&E	(36)	(25)		
Depreciation Intangible Assets	(63)	(31)		
Provisions	0	0		
Value Added Tax	(185)	(247)		
Finance costs	0	0		
Accrued expenses	(113)	(100)		
Total expenses	(11,237)	(11,272)		
Surplus (Deficit) for the period	(99)	(56)	11	

Statement of Changes in Net Assets/Equity

For the year ended 31 December 2017				
(in € '000)				
	Capital contributions	Reserves	Accumulated surplus / (deficit)	Total
Balance at the beginning of the period 2016		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 2016		(56)	56	0
Balance at the end of the period 2016		269	0	269
Changes in accounting policy				
Restated balance				
Exchange difference on translating foreign operations				
Gain / (losses) on property revaluation				
Acquisition of property		135		135
Surplus /(deficit) for the period			(99)	(99)
Change in net assets/equity for the year ended 2017		(99)	99	0
Balance at the end of the period 2017		304	0	304

Statement of Cash Flows			
For the year ended 31 December 2017			
(in € '000)			
	2017	2016	Comments
Cash flow from operating activities			
Surplus / (Deficit)	(99)	(56)	
Non cash movements			
Impairment	0	0	
Increase / (decrease) in payables	(330,187)	41,131	
Increase / (decrease) in unearned revenue	41	(414)	
Increase / (decrease) in provisions	0	0	
(Gains) / losses on sale of property, plant and equipment	0	0	
Increase / (decrease) in net assets	(36)	(187)	
Decrease / (Increase) in receivables	207,723	175,178	
Increase / (decrease) in advances	(1,752)	810	
Adjustment of revenue recognition error 2014			
Net cash flow from operating activities	(124,310)	216,462	
Cash flow from investing activities			
Purchase of property plant and equipment / Intangible assets	135	243	
Proceeds from sale of property plant and equipment	0	0	
Net cash flow from investing activities	135	243	
Cash flow from financing activities	0	0	
	0		
Net cash flow from financing activities	0	0	
Net increase / (decrease) in cash and cash equivalents	(124,175)	216,705	
Cash and cash equivalent at the beginning of the period	609,753	393,048	
Cash and cash equivalent at the end of the period	485,578	609,753	

A. Accounting Policies

Accounting Period

These 2017 Financial Statements are based on the accounting records of NAHEMO as of 31 December 2017. 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.

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 2017 NAHEMO has no provisions.

Net Assets

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

Revenue and expense recognition

a. Revenue

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

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

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

b. Expenses

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

Surplus or Deficit for the Period

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

B. Significant Accounting Judgements and Estimates

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

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

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

	December 31, 2017	December 31, 2016
	€ '000	€ '000
Petty Cash	1	1
Current Bank Accounts	344,792	589,752
Cash equivalents	140,785	20,000
Total Cash and cash equivalents	485,578	609,753

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, 2017	December 31, 2016
	€ '000	€ '000
Contributions from Member Nations		
Receivable from Nations related to AB	851	309
Receivable from Nations related to OB	21,206	229,424
Other receivables		
Receivables VAT reimbursement	187	251
Receivable accrued interest	17	0
Total Receivables	22,261	229,984

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 2017, the NAHEMO Nations were invited to pay EUR 10,387,390, the NORDIC Nations share was EUR 1,352,400 and the share for Australia, New Zealand and the Kingdom of Spain was EUR 772,800.

Lapsed funds 2015 in the amount of EUR 594,133.08 were to be offset from call for funds in 2017 as per decision 33rd Financial Administrative Committee Meeting 20/21 October 2016. Respective credit memos were created and credited against the 2nd call for funds 2017.

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 886,625.63 for Budget Year 2018 in 2017 which were recorded as advances.

Receivables from Nations related to OB funding

At the end of Budget Year 2017, a total OB receivables of EUR 21,205,699.45 was recorded, of which EUR 5,300,000.00 had been called on request of one Nation for the 2018 Budget.

Receivables VAT reimbursement

These are receivables for outstanding VAT reimbursements from 2016 in the amount of EUR 2,928.32 and from 2017 in the amount of 184,539.81 from the French Minister of Finance for a total of EUR 187,468.13.

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 31/12/2016	Depreciation Years Depreciation %	2017 Depreciation €	Net book value € at 31/12/2017
Disk Publisher	A	1	1,772.24	4 25%	559.66	1,212.58
UPS	B	1	6,825.50	5 20%	1,606.00	5,219.50
VTC Conference Device	A	1	10,543.83	5 20%	2,480.90	8,062.93
Storage	B	1	2,614.48	5 20%	2,240.99	373.49
Storage	C	1	5,303.71	5 20%	4,546.02	757.69
Network	E	1	640.46	5 20%	284.65	355.81
Network	F	2	5,417.92	5 20%	1,805.97	3,611.95
Server	C	1	2,021.75	5 20%	933.12	1,088.63
Server	D	2	10,659.60	5 20%	3,553.20	7,106.40
UPS	A	16	1,770.93	5 20%	732.80	1,038.13
Printer	A	2	522.45	5 20%	179.12	343.33
Laptop	C	17	18,714.24	5 20%	4,981.00	13,733.24
			66,807.11		23,903.43	42,903.68
New Acquisitions 2017						
Desktop	A	30	43,818.60	5 20%	8,763.72	35,054.88
Storage	A	1	2,320.00	5 20%	425.33	1,894.67
Scanner	A	1	1,743.55	5 20%	203.41	1,540.14
Laptop	A	30	59,889.60	5 20%	1,996.32	57,893.28
Firewall	A	2	13,336.30	5 20%	222.27	13,114.03
Conference Device	B	1	13,610.00	5 20%	226.83	13,383.17
			134,718.05		11,837.88	122,880.17
			201,525.16		35,741.31	165,783.85

In 2017 NAHEMA purchased systems for EUR 134,718.05 that are capitalized on NAHEMO's Statement of Financial Position. The total depreciation for 2017 reads EUR 35,741.31 and results in a total net book value of EUR 165,783.85 for infrastructure, plant and equipment.

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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 31/12/2016	Depreciation Years Depreciation %	2017 Depreciation €	Net book value € at 31/12/2017
MS Software License	A	1	22,458.79	3 33%	11,229.40	11,229.39
VMWare License	A	1	13,133.97	3 33%	4,635.52	8,498.45
ORACLE Migration	OEBS R12	1	161,531.25	4 25%	43,075.00	118,456.25
Oracle Customization Adjustment OPSF module Cash based	OPSF module	1	4,375.00	4 25%	4,375.00	0.00
			201,499.01		63,314.92	138,184.09

In 2017 NAHEMA did not purchase new intangible assets to be capitalized on NAHEMO's Statement of Financial Position. The total depreciation for 2017 reads EUR 63,314.92 and results in a total net book value of EUR 138,184.09 for intangible assets.

Liabilities – Current Liabilities

6. Payables

	December 31, 2017	December 31, 2016
	€ '000	€ '000
Payables AB suppliers	129	165
Payables OB suppliers	443	134,002
Payables to suppliers	572	134,167
Payables to Nations in respect of AB	3,152	1,533
Payables to Nations in respect of OB	503,088	701,299
Payables to Nations	506,240	702,832
Other Payables	0	0
Total Payables	506,812	836,999

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Payables to AB Suppliers

In 2017 there are payables to AB suppliers for the purchase of goods and services of EUR 14,557.44 and to staff members for duty trips done in 2017 of EUR 719.23. Payables also contain liabilities for accrued expenses in the amount of EUR 113,273.77.

Payables to OB Suppliers

For 2017 there are payables to OB suppliers in the amount of EUR 443,333.91.

Payables to AB funding nations in respect of AB

This represents the net revenue containing interest, bank charges, lapses, and over/under call in 2017. The net result in the amount of EUR 3,152,453.55 has to be reimbursed to the nations following the MOU cost sharing agreement and NAHEMO SC decisions towards the NAHEMO AB funding.

Lapsed funds 2015 in the amount of EUR 180,064.69 and lapsed funds 2016 in the amount of EUR 1,430,722.50 will be offset from call for funds in 2018 as per decision 33rd Financial Administrative Committee Meeting 20/21 October 2016. Respective credit memos will be created and credited against the 2nd call for funds 2018.

Lapsed funds 2017 in the amount of EUR 1,535,392.74 will be offset from call for funds in 2019 as per decision 34th Financial Administrative Committee Meeting 18/20 October 2017. Respective credit memos will be created and credited against the 2nd call for funds 2019.

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 503,087,899.46 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 Nations. The amount of unused contributions (OB) includes FRA contributions in the amount of EUR 5,300,000.00 for next year's OB.

In the table below, the details of the total payables to Nations of EUR 3,152,453.55 (AB) and EUR 503,087,899.46 (OB) are explained.

Interest held on operational bank accounts have accumulated since 2007 to EUR 1,900,203.80.

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Payables to Nations at the end of 2017	
Payables to Nations in respect of AB	
	EURO € '000
Misc. Payables	6
Lapsed Funds related to Budget Year 2015	180
Lapsed Funds related to Budget Year 2016	1,431
Lapsed Funds related to Budget Year 2017	1,535
Total AB Related	3,152
Payables to Nations in respect of OB	
	EURO € '000
Interest	1,917
Lapsed Funds NSPA related to Budget Year 2011	105
Unallocated Contributions	5,900
Unused Contributions	495,163
Misc. Payables	3
Total OB Related	503,088

Due to miscalculated Commitment Carry Forward in previous years, lapsed funds coming from budget year 2016 have been corrected for an amount of EUR 110,712.80. Hence, the total amount of lapsed funds coming from the 2016 Budget reads as follows:

EUR 1,348,387.82 lapsed end of 2016 plus EUR 193,047.47 lapsed end of 2017 equals EUR 1,541,435.29. Minus correction in the amount of EUR 110,712.80 equals EUR 1,430,722.50

Other Payables

In 2017 there are no other payables.

7. Unearned Revenue and Advances

	December 31, 2017	December 31, 2016
	€ '000	€ '000
Unearned Revenue AB	139	99
Advances AB	887	2,639
Total	1,026	2,738

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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 2017 was EUR 139,412.82.

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 2016, contributions and revenue recognition in 2017 result in the unearned revenue 2017.

Advances AB

Advances related to the AB are contributions called in advance relating to the 2018 Budget. EUR 886,625.63 was an advanced contribution from Germany.

Net Assets

8. PP&E and Intangible Asset Reserve

Net assets of EUR 303,967.91 are represented by PP&E and intangible asset reserve of EUR 403,024.17 minus the depreciation for 2017 of EUR 99,056.23.

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 2016 and 2017.

	December 31, 2017	December 31, 2016
	€ '000	€ '000
<i>Revenue AB</i>		
Contributions	10,954	11,130
Revenue	10,954	11,130

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 2,737,552.73. The reversal for accrued expenses is EUR 99,731.94, the total amount called in 2016 reads EUR 10,760,796.77. EUR 86,470.72 was recorded for the VAT paid in 2016 to be reimbursed in 2017. EUR 184,539.81 was recorded for the VAT paid in 2017 to be reimbursed in 2018.

The revenue recognized in 2017 is EUR 10,954,315.57 for expenses and EUR 271,010.53 for VAT expenses; lapsed funds to be returned to Nations are for an amount of EUR 1,617,727.42. This results in unearned revenue of EUR 1,026,038.45 at the end of 2017.

Reconciliation of Unearned Revenue AB 2016 with 2017	
	EURO € '000
Unearned Revenue 31 December 2016	2,738
Reversal accruals 2016	99
Call for Funds 2017	9,874
Call for Funds 2018	887
VAT paid 2016 to be reimbursed in 2017	86
VAT paid 2017 to be reimbursed in 2018	185
Accrued Expenses 2017	(113)
Revenue earned 2017	(10,840)
Bank Charges	(1)
Receivable Adjustment	(0)
Revenue earned in 2017 for VAT 2017	(185)
Payable to Governments 31 December 2017	(1,618)
VAT 2016 reimbursed 2017	(86)
Total unearned revenue 31 December 2017	1,026

10. Expenses

Expense recognition for the 2017 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 2017 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 2020. The annual rent for the premises is EUR 475,450 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, 2017	December 31, 2016
	€ '000	€ '000
Personnel	9,585	9,353
Operating	1,102	1,213
Capital	152	303
VAT	185	247
Depreciation PP&E	36	25
Depreciation Intangible Assets	63	31
Accrued Expenses	113	100
Finance Costs	1	0
Total Expenses AB	11,237	11,272

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	69,625.06 EUR
Operating	32,227.53 EUR
Capital	11,421.18 EUR
Total	113,273.77 EUR

Reconciliation between Revenue and Expenses

The Revenue related to the AB that has been recognized in 2017 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 2017 for a total of EUR 11,237,443.43.

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 2017 of EUR 99,056.23.

11. Surplus or Deficit for the Period

In the Statement of Financial Performance the surplus/deficit of the period of EUR 99,056.23 represent the annual depreciation expense for PP&E and intangible assets.

12. Bank Charges / Negative Interest

In 2017 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 2017 three NAHEMO Nations were charged with negative interest on their operational bank accounts.

For one Nation, negative interest in the amount of EUR 57,455.25 was considered an expense charged on the OB in accordance with Nation's HoD decision.

For the other two Nations, negative interest in the amount of EUR 60,674.99 was offset from payable interest previous years in accordance with respective Nation's request.

13. OB Milestones achieved 2017

As of 31 December 2017 milestones in the amount of EUR 34,584,931.48 had been declared achieved but were not invoiced before closing of F.Y. 2017. Hence, they were not recognized as payables in F.Y. 2017.

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.

At the end of 2017, for one AB Call for Funds (CFF) out of 2016 there was a remaining amount of EUR 300,661.17 still unpaid. In accordance with respective Nation's decision, the CFF was cancelled and adjusted to 0 in January 2018.

At the end of 2017, two OB Call for Funds (CFF) out of 2017 for Chapter 3 were still partly unpaid. One CFF in the remaining amount of EUR 653,395.88 and one CFF in the remaining amount of EUR 148,303.72 were cancelled and adjusted to 0 in January 2018 in accordance with respective Nations' decisions.

There have been no other 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.

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, 2017	December 31, 2016
	€ '000	€ '000
Basic salaries	765	736
Allowances	129	129
Post-employment benefits	92	88
Employer's contribution to Insurance	82	97
TOTAL	1.068	1.050

The Salary adjustment was +1.6% in 2017.

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	December 31, 2017	December 31, 2016
Number of individuals on a full time equivalent basis		
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, 2017	December 31, 2016
	€ '000	€ '000
Employee benefits expense	9,027	8,772
Post-employment benefits		
for defined benefit pension scheme	0	0
for defined contribution pension scheme	742	791
Total employee benefits expense	9,769	9,563

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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.

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 18,821.22.

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

Statement of Budget Execution as of 31 December 2017 in EUR (Annex as per the NFRs para. 34)

The presentation of the Administrative Budget is in accordance with the NATO recommended layout.

ADM Bud 2017	Initial budget	Budget transfers	Final budget	Commitments	Expenses	Carry forward	Lapsed
Chapter 1	10,739,643.00	0.00	10,739,643.00	9,647,597.08	9,560,978.19	86,618.89	1,092,045.92
Chapter 2	1,628,147.00	0.00	1,628,147.00	1,236,759.02	1,082,281.01	154,478.01	391,387.98
Chapter 3	144,800.00	0.00	144,800.00	92,631.41	81,041.73	11,589.68	52,168.59
Total FY 2017	12,512,590.00	0.00	12,512,590.00	10,976,987.51	10,724,300.93	252,686.58	1,535,602.49
ADM Bud 2016	Initial budget	Budget transfers	Final budget	Commitments	Expenses	Carry forward	Lapsed
Chapter 1	30,776.47	0.00	30,776.47	24,467.38	24,467.38	0.00	6,309.09
Chapter 2	185,500.91	0.00	185,500.91	20,213.67	20,213.67	0.00	165,287.24
Chapter 3	32,971.09	0.00	32,971.09	11,519.95	11,519.95	0.00	21,451.14
Total FY 2016	249,248.47	0.00	249,248.47	56,201.00	56,201.00	0.00	193,047.47
ADM Bud 2015	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	0.00
Chapter 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Chapter 3	59,861.94	0.00	59,861.94	59,861.94	59,861.94	0.00	0.00
Total FY 2015	59,861.94	0.00	59,861.94	59,861.94	59,861.94	0.00	0.00
Total	12,821,700.41	0.00	12,821,700.41	11,093,050.45	10,840,363.87	252,686.58	1,728,649.96

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 113,273.77, the depreciation amount of EUR 99,056.23 and the VAT paid amount of EUR 184,539.81.

The following table represents this reconciliation.

BUDGET	EXPENSE IN BUDGET EXECUTION STATEMENT (including bank charges) € '000	Adjustments for Payables accrued Expenses € '000	Adjustments for VAT paid € '000	Adjustment s for Depreciatio n € '000	EXPENSE IN STATEMENT OF FINANCIAL PERFORMANCE € '000
ADMINISTRAT IVE BUDGET 2017	10,840,573.62	113,273.77	184,539.81	99,056.23	11,237,443.43
TOTAL	10,840,573.62	113,273.77	184,539.81	99,056.23	11,237,443.43

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 77 SC meeting in December 2016 except for France, Italy and Germany which approved ex-committee 16 December 2016, 19 January 2017 and 30 January 2017.

The AB COMMITMENTS 2017 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 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 2017, EUR 1,728,649.96 were lapsed, of which (due to an overrating of previous year's revenue recognition) EUR 1,617,727.42 will be given back to Nations. Hence, payable lapses to Nations add up as follows: Coming from Budget 2015: EUR 180,064.69, coming from Budget 2016: EUR 1,430,722.50 and coming from Budget 2017: EUR 1,535,392.74.

RECONCILIATION OF ADM BUDGET EXECUTION TO CASH FLOW STATEMENT

Expense (cash based) on AB	(10,890,007.81)
Cash received on AB	10,222,441.48
Net outflow on AB	(667,566.33)
Net cash flow as per cash flow statement	606,726.17
Difference	(60,840.16)

Represented by:

(184,539.81)	VAT paid
(132.00)	Bank Charges
(28,667.83)	Misc. Payments
30,058.08	Misc. Receipts
244,121.72	VAT reimbursed

In accordance with the new NAHEMO Financial Rules and Procedures, replacing the 5th issue of the NAHEMO Financial Rules and Regulations, 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 2017 has been approved during the 78 SC meeting in June 2017 except for Italy and France, which approved ex-committee in July 2017 respectively.

RECONCILIATION OF OP BUDGET EXECUTION TO CASH FLOW STATEMENT

Expense (cash based) on OB	(986,512,080.36)
Cash received on OB	863,073,019.98
Net outflow on OB	(123,439,060.38)
Net cash flow as per cash flow statement	123,568,697.16
Difference	129,636.78

Represented by:

8,479.41	Interest paid to Treasuries
1,040.40	Bank Charges
121,808.75	Negative Interest
(1,691.78)	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 2017		
(EUR)	STATEMENT OF CREDITS CARRIED FORWARD TO 2018	
CHAPTER		REMARKS
01 Personnel	86,618.89	Education allowances, overtime, removal, recruitment, home leave, medical examinations CEPMA costs to be finalized
02 SUPPLIES	154,478.01	Maintenance, travel missions, computerization technical assistance, leasing costs to be finalized
03 CAPITAL	11,589.68	Software, security costs to be finalized
TOTAL	252,686.58	

Statement of transfers

In accordance with the NATO Financial Regulations (NFR III Art. 12), a statement of budgetary transfers recorded in 2017 is presented in the following table.

NAHEMA ADMINISTRATIVE BUDGET 2017 TRANSFERS AUTHORISED BY THE FINANCE AND ADMINISTRATIVE COMMITTEE (FAC) IN ACCORDANCE WITH ARTICLE 12 OF NAHEMO FINANCIAL RULES AND REGULATIONS						
ORIGIN OF THE CREDITS			CREDITS NEEDED			GRAND TOTAL
BUDGET ITEM LINE	AMOUNT	TOTAL	BUDGET ITEM LINE	AMOUNT	TOTAL	
2110ADM	3,000.00 €	3,000.00 €	2610ADM	3,000.00 €	3,000.00 €	0.00 €
2110ADM	5,500.00 €	5,500.00 €	2610ADM	5,500.00 €	5,500.00 €	0.00 €
2811ADM	1,500.00 €	1,500.00 €	2311ADM	1,500.00 €	1,500.00 €	0.00 €
2811ADM	7,000.00 €	7,000.00 €	2910ADM	7,000.00 €	7,000.00 €	0.00 €
1410ADM	12,000.00 €	12,000.00 €	1116ADM	25,000.00 €	25,000.00 €	0.00 €
1410ADM	10,000.00 €	10,000.00 €	1215ADM	10,000.00 €	10,000.00 €	0.00 €
2110ADM	17,428.28 €	17,428.28 €	2112ADM	17,428.28 €	17,428.28 €	0.00 €
1211ADM	22,003.52 €	22,003.52 €	1215ADM	22,003.52 €	22,003.52 €	0.00 €
2811ADM	7,900.00 €	7,900.00 €	2810ADM	7,900.00 €	7,900.00 €	0.00 €
1410ADM	7,000.00 €	7,000.00 €	1116ADM	7,000.00 €	7,000.00 €	0.00 €
2211ADM	415.56 €	415.56 €	2311ADM	415.56 €	415.56 €	0.00 €
GRAND TOTAL		106,747.38 €			106,747.36 €	0.00 €

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 2017 was EUR 9,700.00 of which EUR 716.27 were expensed. Remaining commitments were closed and credits were lapsed. Expenses 2017 were as follows:

	December 31, 2017	December 31, 2016
	€	€
Rental supplement expenses	0.00	0.00
Hospitality expenses	716.27	666.80
Total	716.27	666.80