



NATO STRATEGIC COMMUNICATIONS CENTRE OF EXCELLENCE

ANNUAL REPORT

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MANAGEMENT REPORT

General Information

Since 1 October 2014, the NATO Strategic Communications Centre of Excellence (Centre) in Latvia has held the status of an international organisation as defined by the 1952 Paris Protocol. Initially founded by seven nations, by 2017 that number had already grown to ten.

In October 2017, the Centre had its first Periodic Assessment visit since its establishment. The visit resulted in a positive outcome – the Centre continues to meet the accreditation requirements set by the NATO Military Committee (MC) and the Headquarters Supreme Allied Command Transformation (HQ SACT), and continues to provide a tangible enhancement of NATO capabilities.

2017 was the Centre's third full financial year of operation during which the Centre has achieved full operational capability. During the reporting period, the Centre implemented substantive activities in line with its Programme of Work for 2017 (POW 2017) and Budget for 2017 as approved by the Steering Committee at its 6th meeting on 16 December 2016.

The Centre's Mission and Tasks for 2017

The Centre's mission is to support NATO's capability development process, mission effectiveness, and interoperability by providing comprehensive and timely expertise in the field of strategic communications. The Centre's aim is to contribute substantially to the improvement of NATO's strategic communications capabilities through research and analysis, concept development, and experimentation, as well as through education and training.

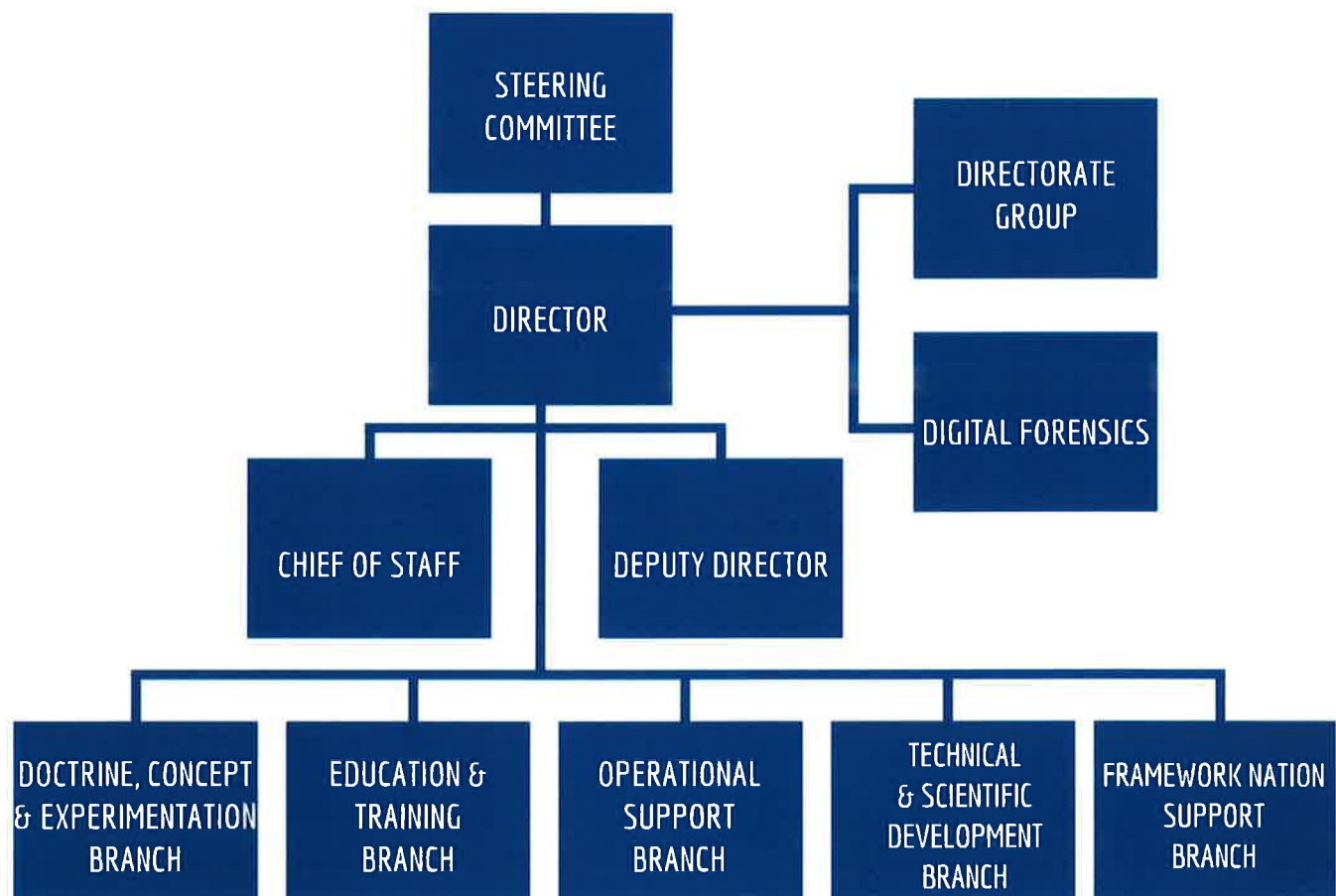
In 2017 the Centre's activities included various disciplines involved in strategic communications, such as Public Diplomacy, Public Affairs, Military Public Affairs, Information Operations, and Psychological Operations. The Centre was engaged in and contributed to many activities and events connected with these disciplines.

POW 2017 comprised 48 projects. The Sponsoring Nations and Contributing Partners tasked the Centre with 15 projects, while 27 projects were Requests for Support by NATO entities, and 6 projects were planned by the Centre itself.

Structure and Manning

The Centre consists of 5 branches: the Doctrine, Concept and Experimentation Branch; the Education and Training Branch; the Operational Support Branch; the Technical and Scientific Development Branch, and the Framework Nation Support Branch. The Directorate group, made up of the Legal Adviser, Financial Controller, Executive Assistant, and Security Officer, provides the necessary administrative and organisational support for the operation of the Centre. Two Digital Forensic Specialists continued their work at the Centre with the aim of uncovering disinformation and misinformation attempts in digital engagement spaces. They run projects in collaboration with the Atlantic Council, a Washington-based think tank. The Deputy Director is responsible for the substantive work of the Centre. The Chief of Staff is responsible for the coordination of the staff, and for managing communication and information flows within the Centre.

The Centre's highest decision-making body – the Steering Committee – consists of representatives of all Sponsoring Nations and is headed by a representative of the Framework Nation. Representatives from the Contributing Partners are always invited to share their views at the Steering Committee meetings in an advisory capacity. During its most recent meeting, the Steering Committee decided to increase the number of staff positions at the Centre. 92% of the approved manning table had been filled by the end of December 2017.



During 2017, four newcomers arrived at the Centre and five posts were rotated. The largest number of changes in personnel and rotations were conducted by the Framework Nation. In addition to the contributions of the Sponsoring Nations, Canada sent an officer to the Centre prior to the finalisation of its joining procedures.

Seven interns successfully completed their internships during 2017.

Main Achievements in 2017

In accordance with POW 2017, numerous studies were conducted and several research papers were finalised for publication.

The main publications on Centre's webpage in 2017 include:

- *StratCom Laughs: in Search of an Analytical Framework*
- *Strategic Communications: Insights from the Commercial Sector*
- *Robotrolling 2017/1*
- *Robotrolling 2017/2*
- *Digital Hydra: Security Implications of False Information Online*
- *Academic Journal Defence Strategic Communications, Vol. 2*
- *Academic Journal Defence Strategic Communications, Vol. 3*

The Centre organised and conducted numerous strategic communications related events in 2017:

- Conference "Strategic Communications in the 21st Century", organised jointly with King's College London; 8 March 2017, London, United Kingdom
- 2nd workshop of the Nordic Baltic countries (NB-8) StratCom experts on the Development of a Comparative Study on Russia's Influence Activities in the Region; 14 March 2017, Riga, Latvia
- Seminar "Trends in Social Media and their Further Development"; 20 March 2017, Riga, Latvia
- Course on Social Media Analysis, 21–24 March 2017, Riga, Latvia
- Seminar "Do's, Don'ts & Dangers in the Information Age", organised jointly with the Center for European Policy Analysis (CEPA); 24 March 2017, Washington DC, United States
- Seminar "NATO in the Disinformation Age: Understanding the Threat", organised jointly with the Center for European Policy Analysis (CEPA); 27 April 2017, Riga, Latvia
- Workshop for journalists: "Role of Media and Journalists in Strengthening National Resilience"; 5 May 2017, Tallinn, Estonia
- Workshop for Multinational Capability Development Campaign (MCDC) and Multinational Information Operations Experiment; 6–12 May 2017, Riga, Latvia.
- "Fake News Challenge" hackathon; 13 May 2017, Riga, Latvia
- Discussion "Post Truth–Post Expertise?"; 4 July 2017, Riga, Latvia
- Conference "The Riga StratCom Dialogue: Perception Matters"; 5–6 July 2017, Riga, Latvia
- 3rd workshop of the NB-8 experts on the Development of a Comparative Study on Russia's Influence Activities in the Region; 12 September 2017, Riga, Latvia
- One-day workshop for journalists "Role of Media and Journalists in Strengthening National Resilience"; 6 October 2017, Riga, Latvia
- Seminar "How NATO as Organisation and its Members can Counter Hostile Influence"; 26–27 October 2017, Brussels, Belgium
- StratCom Seminar for Senior Officials; 3 November 2017, Vilnius, Lithuania
- Launch of the quarterly Robotrolling report and the study "Digital Hydra: Security Implications of False Information Online"; 8 November, Riga, Latvia

- Seminar “Public and Private Storytelling: The Future of Strategic Communications”; 6 December 2017, Riga, Latvia
- StratCom Course for Practitioners; 11–15 December 2017, Tbilisi, Georgia
- StratCom Seminar for Senior Officials; 14 December 2017, Tbilisi, Georgia


Substantial work has also been done on several enduring large-scale projects:

- The methodology for the study “How NATO as Organisation and its Members Can Counter Hostile Influence” was finalised in May. Approximately 200 case studies representing potential threats to national security have been collected. Numerous specialists were contracted to analyse 26 of the case studies. A new developer was contracted to improve the functionality and design of the database used for the study. The study will be carried forward into 2018, when several of the case studies will be published.
- The Centre has been active in NATO StratCom policy and doctrine development. The NATO Military Committee’s (MC) Policy on Military Strategic Communications was approved in July. The Centre will continue to contribute to the implementation of a new MC Policy. With the endorsement of the StratCom doctrine proposal the Centre was named as a future custodian.
- The Centre has become a core member of NATO Tiger Team for Information Environment Assessment capability building. The audience characterisation tool for NATO has been presented in different formats. The effort will be continued in 2018 with primary focus on activities of the NATO Tiger Team.

The Centre provided support for the NATO exercises Trident Jaguar 2017, Trident Javelin 2017, Steadfast Pinnacle 2017, Steadfast Pyramid 2017, and for the highest-level NATO Crisis Management Exercise. The Centre’s subject matter experts were fully committed and involved in numerous projects designated for the development of NATO StratCom capabilities, such as the US-led project Multinational Capability Development Campaign (MCDC), the German-led project Multinational InfoOps Experiment (MNIOE), and events organised by the PSYOPS community of interest.

The Centre is continuing to develop its cooperation with other NATO Centres of Excellence (COEs). The Centre jointly conducted a conference in Riga, Latvia, with the NATO CIMIC COE entitled “Resilience & Collective Defense within a Hybrid Conflict Environment”. The Centre also provided support for a Table Top Exercise organised by the NATO Energy Security COE in Kiev, Ukraine.

The NATO School in Oberammergau was supported by lecturers, mentors, and experts from the Centre for the following courses: NATO Crisis Management Course, NATO Staff Officers’ Course, StratCom Public Affairs Officers’ Course, StratCom Familiarisation Course, and finally the Stratcom Practitioners Pilot Course. The Centre has also contributed by sending its experts to lecture at the NATO Defence College in Rome, the Baltic Defence College in Tartu, the Polish Military Academy, the Bundeswehr Command and Staff College, the Defence Against Terrorism COE, and numerous universities.



Jānis Sārts

Director of the NATO Strategic Communications Centre of Excellence

29 March 2018

FINANCIAL STATEMENTS

MANAGEMENT REPRESENTATION TO THE FINANCIAL STATEMENTS

We hereby take responsibility for the preparation of the financial statements of the NATO Strategic Communications Centre of Excellence set out on pages 8 to 16 and confirm that:

1. The accounting principles used in preparing the financial statements are in compliance with the generally accepted accounting principles of the Republic of Latvia and Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.
2. The financial statements give a true and fair view of the financial position of the organisation and the results of its operations and cash flows.
3. The organisation is able to continue as a going concern.



Jānis Sārts

Director of the NATO Strategic Communications Centre of Excellence

29 March 2018

BALANCE SHEET

	31.12.2017 Total EUR	31.12.2017 incl. Budget A (SH) EUR	31.12.2016 Total EUR	31.12.2016 incl. Budget A (SH) EUR	Notes
Intangible assets	38 873	14 988	42 085	14 168	2
Advance payments for intangible assets	10 459	1 800	0	0	3
Fixed assets	282 455	5 231	346 207	496	4
Advance payments for fixed assets	0	0	22 142	0	5
Office equipment	11 473	1 103	15 516	2 707	6
Total fixed assets	343 260	23 122	425 950	17 371	
Accounts receivable and prepayments	46 144	8 077	25 220	7 529	7
Cash and cash equivalents	3 224 202	248 421	2 884 264	253 470	8
Total current assets	3 270 346	256 498	2 909 484	260 999	
TOTAL ASSETS	3 613 606	279 620	3 335 434	278 370	
Accounts payable	157 195	31 611	70 846	2 882	9
Deferred income	3 456 411	248 009	3 264 588	275 488	10
Total current liabilities	3 613 606	279 620	3 335 434	278 370	
TOTAL LIABILITIES AND NET ASSETS	3 613 606	279 620	3 335 434	278 370	

STATEMENT OF FINANCIAL PERFORMANCE

	31.12.2017 Total EUR	31.12.2017 incl. Budget A (SH) EUR	31.12.2016 Total EUR	31.12.2016 incl. Budget A (SH) EUR	Notes
Contributions and related income	2 954 514	490 518	2 000 714	308 846	10
Other income	10 116	10 085	6 932	2 983	11
Total revenue	2 964 630	500 603	2 007 646	311 829	
Operating expenses	1 239 231	493 580	779 919	305 586	
Personnel expenses	1 601 926	0	1 125 244	0	
Depreciation of fixed assets and intangible assets	123 473	7 023	102 483	6 243	2, 4, 6
Total expenses	2 964 630	500 603	2 007 646	311 829	
Surplus from operating activities	0	0	0	0	
Surplus for the period	0	0	0	0	


Jānis Sārts, Director, 29 March 2018

CASH FLOW STATEMENT

	31.12.2017 Total EUR	31.12.2017 incl. Budget A (SH) EUR	31.12.2016 Total EUR	31.12.2016 incl. Budget A (SH) EUR	Notes
Surplus from operating activities	0	0	0	0	
Depreciation	123 473	7 023	102 483	6 243	2,4,6
Accrued expenses for unused vacations	23 589	0	1 547	0	
Change in accounts receivable	-20 924	-548	-2 674	-5 234	
Change in liabilities and prepayments	62 760	28 730	-967	-5 677	
Total cash flows from/(used in) operating activities	188 898	35 205	100 389	-4 668	
Fixed and intangible assets purchase	-40 783	-12 775	-231 379	-9 182	2,3,4,5,6
Total cash flows used in investment activities	-40 783	-12 775	-231 379	-9 182	
Receipt of contributions, other deferred income	3 064 958	445 866	2 476 178	141 582	10
Contributions, other deferred income used	-2 873 135	-473 345	-1 900 983	-294 953	10
Total cash flows from/(used in) financing activities	191 823	-27 479	575 195	-153 371	
Total cash flows	339 938	-5 049	444 205	-167 221	
Cash and cash equivalents at the beginning of the period	2 884 264	253 470	2 440 059	420 691	
Net increase/(decrease) in cash and cash equivalents	339 938	-5 049	444 205	-167 221	
Cash and cash equivalents at the end of the period	3 224 202	248 421	2 884 264	253 470	8



Jānis Sārts, Director, 29 March 2018

STATEMENT OF CHANGES IN NET ASSETS

	Retained earnings EUR	Surplus for the period Total EUR	Surplus for the period Budget A (SH) EUR	Total net assets EUR
Total net assets 01.10.2014	0	0	0	0
Surplus for 2014	0	1 981 763	595 880	1 981 763
Total net assets 31.12.2014	0	1 981 763	595 880	1 981 763
Total net assets 01.01.2015	0	1 981 763	595 880	1 981 763
Surplus/(decrease) for 2015	0	777 896	-158 463	777 896
Total net assets 31.12.2015	0	2 759 659	437 417	2 759 659
Total net assets 01.01.2016	0	2 759 659	437 417	2 759 659
Surplus/(decrease) for 2016	0	575 775	-159 047	575 775
Total net assets 31.12.2016	0	3 335 434	278 370	3 335 434
Surplus/(decrease) for 2017	0	278 172	1 250	278 172
Total net assets 31.12.2017	0	3 613 606	279 620	3 613 606



Jānis Sārts, Director, 29 March 2018

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 BASIS OF PREPARATION

The legal address of the Centre is Kalnciema 11 b, Riga, LV-1048. The Centre was established by seven member states – Estonia, Germany, Italy, Latvia, Lithuania, Poland, and the United Kingdom – that signed memorandums of understanding. In 2016 the Netherlands joined the Centre as a Sponsoring Nation and Finland joined as a Contributing Partner, and Sweden joined the Centre as a Contributing Partner in 2017. The Centre is registered with the Latvian State Revenue Service under the registration number 90010376683. Jānis Sārts is the Director of the Centre. PricewaterhouseCoopers SIA is the Centre's certified auditor. Certified auditor in charge Ms Lolita Čapkeviča conducted the audit.

The financial statements of Centre have been prepared in accordance with the Law on Accounting and Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia. Paragraph 4 of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia requires that the Annual Accounts should give a true and fair view of the financial position of the Centre. In view of the special status of the Centre, and in order to comply with the provisions of Paragraph 4, it should be noted that during the preparation of these Financial Statements a deviation from the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia Paragraph 5 and 7 was made. The mentioned deviation relates to the change of headings and layout of the Statement of Financial Performance and Balance Sheet Items in order to reflect the specific status of the Centre. The deviation has no effect on the total assets and liabilities, financial position of the Centre, or the overall result for the year in question.

The monetary unit used in the financial statements is the Euro (EUR).

The Cash Flow Statement has been prepared using the indirect cash flow method.

The period from 1 January 2017 to 31 December 2017 was the third full financial year during which the Centre operated.

The Financial Statements have been prepared using accruals-basis accounting, and the Budget Report has been prepared using cash-basis accounting.

Significant Accounting policies and Measurement Bases:

A. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand and balances of current accounts in the bank.

B. Foreign Currency

Foreign currency transactions have been converted into euros applying the exchange rate determined by the conversion procedure between the central banks of the European System of Central Banks and other central banks, and which is published on the European Central Bank's website.

C. Deferred Income

Deferred income comprises contributions received for the next financial year and other deferred income that has not been included in the revenue of the reporting period.

D. Property and Equipment

Assets are recognised as fixed assets if the Centre expects to use them for more than one year and if their cost exceeds 500 EUR. Assets that have a useful lifecycle extending beyond one year, but the cost of which is less than 250 EUR, are recognised as expenses upon implementation. The useful lifecycle for assets with an acquisition value of 250 to 500 EUR is two years.

Depreciation of fixed assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives using the following rates set by management:

Depreciation rates for classes of property and equipment are as follows:	% per annum
• Intangible assets (software)	25%
• Communication and IT equipment	25%
• Vehicles	20%
• Other fixed assets	20%
• Furniture, office equipment	10%

E. Tax Refunds

The Centre submits a quarterly application to the Ministry of Foreign Affairs of the Republic of Latvia for refunding value added tax (VAT), attaching invoice copies to the application. The Ministry of Foreign Affairs shall certify the right of the applicant to apply for the VAT refund. The Ministry of Foreign Affairs shall submit the application together with the documents to the Latvian State Revenue Service. The Tax Administrator shall make the decision concerning the validity of the application and transfer the sum of the refund to the bank account specified in the application.

F. Financial Liabilities

A financial liability is classified as current when it is due to be settled within twelve months after the reporting period.

G. Revenue and Expenses

Revenue is comprised of contributions received and used during the reporting period to ensure the operations of the Centre. Revenues and expenses are recognised on an accrual basis. Revenues and expenses are represented the net of discounts and VAT. The expenses for the reporting period are covered by contributions.

H. Accruals

The amount of accruals for unused annual leave is determined by multiplying the average daily wage of employees for the last six months of the reporting period by the amount of accrued but unused annual leave at the end of the reporting period. Accruals have been recorded for the audit based on the agreement concluded in 2018. Accruals for vendors are calculated based on reliably-estimated liabilities.

I. Budgets

The Centre has two main sources of funding – Framework Nation Support funding (Framework Nation Support Budget), which ensures the functioning of the Centre, and Sponsoring Nations funding (Shared Budget), which supports the Centre's substantive activities. In the Tables below the Framework Nation Support Budget is referred to as 'Budget B' and the Shared Budget is referred to as 'Budget A'.

NOTE 2 INTANGIBLE ASSETS

	Budget A (SH) intangible assets	Budget B (FN) intangible assets	Total intangible assets		Budget A (SH) intangible assets	Budget B (FN) intangible assets	Total intangible assets
Net book value 01.01.2017	14 168	27 917	42 085	Net book value 01.01.2016	11 107	33 942	45 049
Purchases in 2017	5 229	6 000	11 229	Purchases in 2016	6 290	3 062	9 352
Depreciation for 2017	-4 409	-10 032	-14 441	Depreciation for 2016	-3 229	-9 087	-12 316
Purchase cost 31.12.2017	22 862	44 632	67 494	Purchase cost 31.12.2016	17 633	38 632	56 265
Accumulated depreciation 31.12.2017	-7 874	-20 747	-28 621	Accumulated depreciation 31.12.2016	-3 465	-10 715	-14 180
Net book value 31.12.2017	14 988	23 885	38 873	Net book value 31.12.2016	14 168	27 917	42 085

NOTE 3 ADVANCE PAYMENTS FOR INTANGIBLE ASSETS

	Budget A (SH)	Budget B (FN)	Total		Budget A (SH)	Budget B (FN)	Total
Net book value 01.01.2017	0	0	0	Net book value 01.01.2016	0	0	0
Purchases in 2017	1 800	8 659	10 459	Purchases in 2016	0	0	0
Reclassified to fixed assets in 2017	0	0	0	Reclassified to fixed assets in 2016	0	0	0
Purchase cost 31.12.2017	1 800	8 659	10 459	Purchase cost 31.12.2016	0	0	0

NOTE 4 FIXED ASSETS

	Budget A (SH) fixed	Budget B (FN)	Total		Budget A (SH)	Budget B (FN)	Total
Net book value 01.01.2017	496	345 711	346 207	Net book value 01.01.2016	681	214 967	215 648
Purchases in 2017	5 198	3 974	9 172	Purchases in 2016	0	186 954	186 954
Reclassified to fixed assets from advance payments	0	21 783	21 783	Reclassified to fixed assets from advance payments	0	20 264	20 264
Depreciation for 2017	-463	-94 244	-94 707	Depreciation for 2016	-185	-76 474	-76 659
Purchase cost 31.12.2017	5 941	464 853	470 794	Purchase cost 31.12.2016	743	439 096	439 839
Accumulated depreciation 31.12.2017	-710	-187 629	-188 339	Accumulated depreciation 31.12.2016	-247	-93 385	-93 632
Net book value 31.12.2017	5 231	277 224	282 455	Net book value 31.12.2016	496	345 711	346 207

NOTE 5 ADVANCE PAYMENTS FOR FIXED ASSETS

	Budget A (SH)	Budget B (FN)	Total		Budget A (SH)	Budget B (FN)	Total
Net book value 01.01.2017	0	22 142	22 142	Net book value 01.01.2016	0	20 264	20 264
Purchases in 2017	0	0	0	Purchases in 2016	0	22 142	22 142
Reclassified to fixed assets in 2017	0	-22 142	-22 142	Reclassified to fixed assets in 2016	0	-20 264	-20 264
Purchase cost 31.12.2017	0	0	0	Purchase cost 31.12.2016	0	22 142	22 142

NOTE 6 OFFICE EQUIPMENT

	Budget A (SH) equipment	Budget B (FN) equipment	Total equipment		Budget A (SH) equipment	Budget B (FN) equipment	Total equipment
Net book value 01.01.2017	2 707	12 809	15 516	Net book value 01.01.2016	2 644	13 449	16 093
Purchases in 2017	548	9 734	10 282	Purchases in 2016	2 891	10 040	12 931
Depreciation for 2017	-2 152	-12 173	-14 325	Depreciation for 2016	-2 828	-10 680	-13 508
Disposals in 2017	-434	0	-434	Disposals in 2016	0	0	0
Purchase cost 31.12.2017	7 170	36 817	43 987	Purchase cost 31.12.2016	7 056	27 083	34 139
Accumulated depreciation 31.12.2017	-6 067	-26 447	-32 514	Accumulated depreciation 31.12.2016	-4 349	-14 274	-18 623
Net book value 31.12.2017	1 103	10 370	11 473	Net book value 31.12.2016	2 707	12 809	15 516

NOTE 7 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	Budget A (SH) 31.12.2017	Budget B (FN) 31.12.2017	Total 31.12.2017	Budget A (SH) 31.12.2016	Budget B (FN) 31.12.2016	Total 31.12.2016
Prepaid taxes	0	0	0	0	3 392	3 392
Next period expenses	4 303	34 918	39 221	2 196	13 099	15 295
Prepayments for equipment	3 721	811	4 532	5 171	1 003	6 174
Accumulated VAT	0	2 218	2 218	56	86	142
Other receivables	53	120	173	106	111	217
Other prepayments	0	0	0	0	0	0
Total accounts receivable and prepayments*	8 077	38 067	46 144	7 529	17 691	25 220

*In December 2016 the Netherlands became a Sponsoring Nation and the payment for 2016 (25 000 EUR) was made in February 2017. 25 000 EUR were not included in Accounts Receivable balance due to Centre's specifics. Deferred revenue is recognised only when cash is received.

NOTE 8 CASH AND CASH EQUIVALENTS

	Budget A (SH) 31.12.2017	Budget B (FN) 31.12.2017	Total 31.12.2017	Budget A (SH) 31.12.2016	Budget B (FN) 31.12.2016	Total 31.12.2016
Cash on bank account	248 400	2 975 781	3 224 181	253 462	2 630 794	2 884 256
Cash in cash box	21	0	21	8	0	8
Total cash and cash equivalents	248 421	2 975 781	3 224 202	253 470	2 630 794	2 884 264

NOTE 9 ACCOUNTS PAYABLE

	Budget A (SH) 31.12.2017	Budget B (FN) 31.12.2017	Total 31.12.2017	Budget A (SH) 31.12.2016	Budget B (FN) 31.12.2016	Total 31.12.2016
Trade payables	16 059	36 680	52 739	393	722	1 115
Accrued liabilities	15 552	22 206	37 758	2 489	25 953	28 442
Vacation accruals	0	64 542	64 542	0	40 953	40 953
Calculated Income tax	0	2 156	2 156	0	336	336
Total accounts payable	31 611	125 584	157 195	2 882	67 964	70 846

NOTE 10 DEFERRED INCOME

	Budget A (SH) 2017	Budget B (FN) 2017	Total 2017		Budget A (SH) 2016	Budget B (FN) 2016	Total 2016
Net book value 01.01.2017	275 488	2 989 100	3 264 588	Net book value 01.01.2016	428 859	2 260 535	2 689 394
Contribution Latvia (for 2017)	172 696	2 619 092	2 791 788	Contribution Latvia (for 2016)	300	2 334 596	2 334 896
Contribution Latvia (for 2018)	63 825	0	63 825				
Contribution Poland (for 2017)	3 612	0	3 612	Contribution Poland (for 2016)	0	0	0
Contribution Poland (for 2018)	11 600	0	11 600				
Contribution Germany (for 2017)	26 796	0	26 796	Contribution Germany (for 2016)	30 427	0	30 427
Contribution Estonia (for 2017)	13 398	0	13 398	Contribution Estonia (for 2016)	15 214	0	15 214
Contribution Estonia (for 2018)	11 600	0	11 600				
Contribution Italy (for 2017)	13 398	0	13 398	Contribution Italy (for 2016)	15 214	0	15 214
Contribution Great Britain (for 2017)	13 398	0	13 398	Contribution Great Britain (for 2016)	15 214	0	15 214
Contribution Great Britain (for 2018)	11 600	0	11 600				

NOTE 10 DEFERRED INCOME (CONTINUED)

Contribution Lithuania (for 2017)	26 913	0	26 913	Contribution Lithuania (for 2016)	40 214	0	40 214
Contribution Finland (for 2017)	13 515	0	13 515	Contribution Finland (for 2016)	25 000	0	25 000
Contribution Netherlands (for 2016)	25 000	0	25 000				
Contribution Netherlands (for 2017)	13 515	0	13 515				
Contribution Sweden (for 2017)	25 000	0	25 000				
Received VAT reimbursement	17 173	63 626	80 799	Received VAT reimbursement	13 892	85 074	98 966
Received/calculated interest from saving account	0	580	580	Received/calculated interest from saving account	0	763	763
Received deferred income	463 039	2 683 298	3 146 337	Received deferred income	155 475	2 420 433	2 575 908
Used in 2017	-490 518	-2 463 996	-2 954 514	Used in 2016	-308 846	-1 691 868	-2 000 714
Total deferred income 31.12.2017	248 009	3 208 402	3 456 411	Total deferred income 31.12.2016	275 488	2 989 100	3 264 588

NOTE 11 OTHER INCOME

2016	Budget A (SH)	Budget B (FN)	Total
Other income	2 983	3 949	6 932
Total other income	2 983	3 949	6 932

2017	Budget A (SH)	Budget B (FN)	Total
Other income	10 085	31	10 116
Total other income	10 085	31	10 116

BUDGET REPORT

2017 BUDGET

SUMMARY

In total, the Centre's budget consists of the Shared Budget – the Sponsoring Nations (SN) and Contributing Partners (CP) funding to support Centre's substantive activities, and the Framework Nation Support (FNS) Budget – funding that ensures the functioning of the Centre. The budget report has been prepared on a cash basis.

1. SHARED BUDGET

During its 6th meeting, the Steering Committee agreed on SN contributions for 2017 in the amount of 575,000 EUR based on 23 paid position times 25,000 EUR for each position, and CP contributions in the amount of 50,000 EUR based on 2 paid positions times 25,000 EUR for each position. The Shared Budget for 2017 was approved in the amount of 640,255 EUR. From that amount 625,000 EUR were planned contributions from SN and CP, and 15,255 EUR were planned as revenue from value added tax reimbursements and collected conference fees.

Two Calls for Funds were issued for contributions for the financial year 2017, resulting in a total of 321,530 EUR. The Calls for Funds were reduced by surpluses from previous years and lapsed funds from 2016 in the amount of 278,470 EUR:

<i>First Call for Funds 2017</i>	<i>245,000</i>
<i>Second Call for Funds 2017</i>	<i>76,530</i>
<i>Surpluses from Previous Financial Years and Lapsed funds 2016</i>	<i>278,470</i>
TOTAL (EUR)*	600,000

*A Call for Funds (25,000 EUR) was not issued for France as the joining process has not been completed.

As of 31 December 2017, the total amount of expenditures was 478,211 EUR; in addition 67,044 EUR were carried forward to complete commitments and projects from FY 2017. Executed and carried-forward funds represent more than 85% of planned expenditures.

Budget Chapter 716000 Personnel was amended with the approval of the Steering Committee, as fees for the three planned training courses at the NATO school in Oberammergau for the Centre's staff were covered by the school, resulting in budgetary savings for the Centre.

In the Budget Chapter 720000 Contractual Supplies and Services the following main budget positions resulted in savings – Administration, Hospitality, AIS (Information Systems), and Travel:

- Savings in Administration funds are due to the fact that several projects from POW 2017 will be finalised in 2018 and respective reports and research papers will be printed in 2018;
- Savings in Hospitality funds are mainly due to the fact that fewer events took place during 2017 than initially planned;
- Savings in AIS are due to the fact that the purchase of ArcGis software, initially planned for POW 2017 Project No. 17-10, was not needed because all necessary technical infrastructure and software was already available and being used by the NATO Geospatial Section (SITCEN) to visualise geographical information for NATO needs.

- Savings in Travel are due to the fact that expenses for a significant number of business trips were covered by the inviting side, and that several planned business trips requiring transatlantic flights weren't executed since no requests were made by the project initiators.

Budget from the Chapter 730000 Capital and Investments was used for two projects:

- A web-based visualisation tool for the POW 2017 Project No.17-4;
- The development of the data base capable of inputting, storing, processing, and outputting data for the POW 2017 Project No.17-3 (in POW 2018 Project No.18-3).

In 2017, the budget within Chapter 720000 was amended (transfers of budget credits) mainly to ensure necessary funding for conference room rental and conference equipment rental, and to fund the purchase of the new mobile phones (in order to replace devices bought in 2014 and early 2015).

During the 8th SC meeting it was approved to carry forward into 2018:

1) appropriate funds that were committed and required by legal obligation, but for which the payments were not executed by the end of the FY 2017. Such funds came to a total of 42,044 EUR, including:

- 33,694 EUR for the contractors completing research and analysis of case studies for POW 2017 Project No.17-3 (Study "How NATO as Organisation and its Members can Counter Hostile Influence");
- 4,170 EUR for editing, layout design, printouts for research papers for POW 2017 Projects No.17-1, 17-4, 17-8, and 17-11;
- 1,400 EUR for the development of web-based visualisation tool for POW 2017 Project No.17-4;
- 1,873 EUR for the representational items and 907 EUR office supplies.

2) and 25,000 EUR for the implementation of POW 2017 Project No. 5 "Interpretation of WWII Related Events in Russia's Narratives, Actions and Politics" to cover contracts with researchers and to ensure editing, proofreading and printing of the project report.

The lapsed amounts will be offset against the SN and CP contributions in the upcoming years based on the participation of each country in 2017 (posts assigned and contributions paid), after the joining process of France will be finalised and contributions received, unless the SC decides on a different course of action.

*Refer to **Appendix 1 and Appendix 2** for further details.*

2. FRAMEWORK NATION SUPPORT BUDGET

The FNS Budget for 2017 was planned in the amount of 5,250,596 EUR to cover the costs of remuneration for the Centre's FN staff, the Centre's hired foreign experts, travel costs (according to the Operational MoU), administrative expenses, maintenance of the premises, and the purchase of equipment and supplies. 2,630,794 EUR of the aforementioned amount were carried forward from 2016 to continue the process of equipping the Centre's permanent premises and to support the Centre's substantive activities.

As of 31 December 2017, the total amount of expenditures was 2,339,135 EUR. 331,000 EUR were spent from budget item 2500 to support the Centre's substantive activities, such as "The Riga StratCom Dialogue: Perception Matters" conference in July 2017; rental of the event registration system service – Cvent; internships; services of the Editor-in-Chief of the Centre's academic journal Defence Strategic Communications; development of the Fake News Game; the Public opinion survey carried out in

Estonia, Latvia, Finland, Lithuania, and Sweden regarding the impact of Russia's political narratives on their societies; translation of research into English and Russian; and others.

During 2017, the FNS budget within a Chapter 3000 was amended (transfers of budget credits) to ensure the purchase and implementation of software for detecting disinformation. The implementation of the aforementioned software will be completed in 2018.

Unused funding and contributions are carried forward to the next financial year for continued support of the Centre's activities and for possible solutions of the new premises, as the current building is not suitable to accommodate the prospective personnel growth from future joining nations.

*Refer to **Appendix 3** and **Appendix 4** for further details.*

APPENDICES TO THE BUDGET REPORT

APPENDIX 1 BUDGET EXECUTION TABLE – 2016 SHARED BUDGET

Chapter	Item	Sub-Item	Sub-Sub-Item	Description	Approved Budget	Transfer of Budget Credits	Final Budget	Spent/Received in 2016	Lapsed
710000				PERSONNEL	2 250		2 250	495	1 755
	716000			Training	2 250		2 250	495	1 755
720000				CONTRACTUAL SUPPLIES AND SERVICES	560 890		560 890	317 523	243 367
	721000			General Support	100 300		104 220	88 865	15 355
		721100		Administration	52 165		55 265	46 273	8 992
			721110	Printing/Photocopying/Visual/Graphics/Publications Supplies and Services	28 565		28 565	26 080	2 485
			721120	Office Supplies and Minor Office Equipment	17 000		17 000	14 654	2 346
			721130	Reference Materials	4 100		4 100	2 653	1 447
			721140	Postal/Shipping/Banking Services	2 500	3 100	5 600	2 886	2 714
		721200		Hospitality	39 825		39 825	34 541	5 284
		721500		Furniture and Equipment	5 040		5 040	4 181	859
		721800		Non NATO StratCom COEs Facilities	3 270	820	4 090	3 870	220
	722000			Mission Support	28 780		34 510	26 082	8 428
		722100		Fuel/Oil/Gases and Fluids	2 000		2 000	0	2 000
		722300		AIS	3 520		9 050	6 562	2 488
			722310	Purchase/Rental and Operational Lease	1 520	5 530	7 050	6 327	723
			722320	Supplies and Consumables	2 000		2 000	235	1 765
			722330	Services and Maintenance	0		0	0	0
		722400		Communications	20 760		20 980	19 465	1 495
			722410	Purchase/Rental and Operational Lease	2 400	200	2 600	2 563	37
			722420	Supplies and Consumables	0		0	0	0
			722430	Telephone/Telefax/Internet/Services and Maintenance	18 360		18 360	16 902	1 458
		722500		Mission Carriers	2 500		2 500	55	2 445
			722510	Rental and Operational Lease	2 500		2 500	55	2 445
			722520	Services and Maintenance	0		0	0	0
	723000			Travel	148 550		148 550	79 931	68 619
		723100		Transportation for Business Trips	142 500		142 500	76 619	65 881
		723200		Transportation for Training	2 750		2 750	870	1 880
		723300		Fees	3 300		3 300	2 442	858
	725000			Miscellaneous Costs	1 500		1 500	251	1 249
	726000			Consultants/Contractors	281 760		272 110	122 394	149 716
		726100		Consultants	0		0	0	0
		726200		Contractors	281 760	-9 650	272 110	122 394	149 716
730000				CAPITAL AND INVESTMENTS*	20 000		20 000	7 611	12 389
	731000			AIS	20 000		20 000	7 611	12 389
	732000			Communications	0		0	0	0
	733000			Furniture and Equipment	0		0	0	0
TOTAL EXPENDITURES					583 140		583 140	325 629	257 511
740000				REVENUE	8 140		8 140	14 790	-6 650
	741000			Revenue/from StratCom COE organised conference, course, workshop, etc. fees	3 100		3 100	2 890	210
	742000			Revenue/Value added tax reimbursement**	5 040		5 040	11 899	-6 859
	743000			Revenue/Other	0		0	0	0
TOTAL REVENUE					8 140		8 140	14 790	-6 650
CONTRIBUTIONS PLANNED/RECEIVED***					575 000		575 000	550 000	25 000
TOTAL NET-EXPENDITURES					550 000		550 000	310 839	239 161
REVENUE FROM FY 2016									
740000				REVENUE****	0		0	2 337	-2 337

* Credits required for the procurement of the equipment at cost of more than 50% Level A (Level A - 5 000 EUR)

** For the first three quarters of FY 2016

*** 525 000 EUR were approved contributions from Sponsoring Nations and 50 000 EUR were contributions from Finland and the Netherlands as Contributing Partners. In December 2016 the Netherlands became a Sponsoring Nation and the payment for 2016 (25 000 EUR) was made in February 2017

**** 325 EUR reimbursement from Lufthansa for flight tickets bought in FY 2015; 15 EUR bank interest from FY 2015; 1 994 EUR VAT reimbursement for the 4th quarter of FY 2015; 3 EUR bank interest from carried forward funds (from 2014 to 2015) received in FY 2016

APPENDIX 2 BUDGET EXECUTION TABLE – 2017 SHARED BUDGET

Chapter	Item	Sub-Item	Sub-Sub-Item	Description	Approved Budget	Transfer of Budget Credits	Final Budget	Spent/Received in 2017	Committed/Carried Forward to 2018	Lapsed
710000				PERSONNEL	1 650		0	0		0
	716000			Training	1 650	-1 650	0	0		0
720000				CONTRACTUAL SUPPLIES AND SERVICES	628 605		630 255	471 182	65 644	93 429
	721000			General Support	144 295		145 945	99 435	8 891	37 619
		721100		Administration	60 825		62 475	37 756	7 018	17 701
			721110	Printing/Photocopying/Visual/Graphics/Publications Supplies and Services	32 855	1 650	34 505	23 691	6 111	4 703
			721120	Office Supplies and Minor Office Equipment	17 970		17 970	8 370	907	8 693
			721130	Reference Materials	4 400		4 400	3 479		921
			721140	Postal/Shipping/Banking Services	5 600		5 600	2 216		3 384
		721200		Hospitality	62 280	-3 600	58 680	37 333	1 873	19 474
		721500		Furniture and Equipment	11 330	3 000	14 330	14 020		310
		721800		Non NATO StratCom COEs Facilities	9 860	600	10 460	10 326		134
	722000			Mission Support	50 400		50 400	36 537		13 863
		722100		Fuel/Oil/Gases and Fluids	0		0	0		0
		722300		AIS	23 000		22 860	11 728		11 132
			722310	Purchase/Rental and Operational Lease	19 500	-140	19 360	9 029		10 331
			722320	Supplies and Consumables	500		500	158		342
			722330	Services and Maintenance	3 000		3 000	2 541		459
		722400		Communications	26 400		26 400	23 672		2 728
			722410	Purchase/Rental and Operational Lease	2 400	3 800	6 200	6 087		113
			722420	Supplies and Consumables	0		0	0		0
			722430	Telephone/Telefax/Internet/Services and Maintenance	24 000	-3 800	20 200	17 585		2 615
		722500		Mission Carriers	1 000		1 140	1 137		3
			722510	Rental and Operational Lease	1 000	140	1 140	1 137		3
			722520	Services and Maintenance	0		0	0		0
	723000			Travel	140 750		140 350	99 341		41 009
		723100		Transportation for Business Trips	135 950	-1 100	134 850	94 256		40 594
		723200		Transportation for Training	1 500		1 500	1 339		161
		723300		Fees	3 300	700	4 000	3 746		254
	725000			Miscellaneous Costs	800		800	348		452
	726000			Consultants/Contractors	292 360		292 760	235 521	56 753	486
		726100		Consultants	0		0	0		0
		726200		Contractors	292 360	400	292 760	235 521	56 753	486
730000				CAPITAL AND INVESTMENTS*	10 000		10 000	7 029	1 400	1 571
	731000			AIS	10 000		10 000	7 029	1 400	1 571
	732000			Communications	0		0	0		0
	733000			Furniture and Equipment	0		0	0		0
TOTAL EXPENDITURES					640 255		640 255	478 211	67 044	95 000
740000				REVENUE	15 255		15 255	23 550		-8 295
	741000			Revenue/from StratCom COE organised conference, course, workshop, etc. fees	7 000		7 000	10 795		-3 795
	742000			Revenue/Value added tax reimbursement**	8 255		8 255	12 755		-4 500
	743000			Revenue/Other	0		0	0		0
TOTAL REVENUE					15 255		15 255	23 550		-8 295
CONTRIBUTIONS PLANNED/RECEIVED***					625 000		625 000	600 000		25 000
TOTAL NET-EXPENDITURES					600 000		600 000	454 661	67 044	78 295
REVENUE FROM FY 2016										
740000				REVENUE****	0		0	4 456		-4 456

* Credits required for the procurement of the equipment at cost of more than 50% Level A (Level A - 5 000 EUR)

** For the first three quarters of FY 2017

*** 625 000 EUR were approved contributions from Sponsoring Nations and Contributing Partners. As the joining process of France in 2017 is not yet complete, the contribution (25 000 EUR) wasn't received

**** 38 EUR in reimbursements for payments made in FY 2016; 4 418 EUR VAT reimbursement for the 4th quarter of FY 2016

APPENDIX 3**BUDGET EXECUTION TABLE – 2016 FRAMEWORK NATION SUPPORT BUDGET**

Chapter	Item	Sub-Item	Sub-Sub-Item	Description	Approved Budget	Transfer of Budget Credits	Final Budget	Spent/Received in 2016	Carried Forward to FY 2017
1000				PERSONNEL	1 506 766		1 506 766	1 120 939	385 827
	1100			Salaries, Employee's Personal Income Tax, Employee's State Social Insurance Mandatory Contributions	1 219 166		1 219 166	898 631	320 535
	1200			Employer's State Social Insurance Mandatory Contributions, Benefits and Allowances	287 600		287 600	222 308	65 292
2000				SUPPLIES AND SERVICES	2 474 697		2 474 697	484 466	1 990 231
	2100			Travel Expenses	79 740		79 740	39 124	40 616
	2200			Services	396 367		396 367	282 022	114 345
		2210		Communications	31 055		31 055	9 071	21 984
		2220		Utilities	53 880		53 880	40 108	13 772
		2230		Administrative Expenditure	38 010		38 010	18 761	19 249
		2240		Renovation and Maintenance of Institution	248 630		248 630	199 073	49 557
			2241	Renovation of Buildings and Premises	25 000		25 000	504	24 496
			2242	Maintenance and Repair of Vehicles	8 650		8 650	1814	6 836
			2243	Repair and Technical Services of Equipment and Inventory	14 350		14 350	1 543	12 807
			2244	Maintenance of Buildings and Premises	200 630		200 630	195 212	5 418
		2250		Information Technologies Maintenance	15 832		15 832	11 082	4 750
		2260		Rental	2 550		2 550	1 096	1 454
		2270		Other Services	6 410		6 410	2 831	3 579
	2300			Stocks, Materials, Office Supplies	115 435		110 435	88 382	22 053
		2310		Office Supplies, Minor Office Equipment and Furniture, Information Technologies and Communications/up to 10% of level A*	21 380	15 000	36 380	30 420	5 960
		2320		Inventory, Equipment, Furniture, Information Technologies and Communications/from 10% to 50% of level A*	35 400	20 000	55 400	49 998	5 402
		2330		Materials for Renovation and Maintenance of Institution	25 500	-20 000	5 500	1 487	4 013
		2340		Other	33 155	-20 000	13 155	6 477	6 678
	2400			Periodicals	8 000	5 000	13 000	9 927	3 073
	2500			Other (FN Voluntary Contributions for Centre's Substantive Activities)	1 875 155		1 875 155	65 011	1 810 144
3000				CAPITAL AND INVESTMENTS/ Credits required for the procurement of the equipment at cost of more than 50% Level A*	372 800		372 800	205 809	166 991
	3100			Intangible Assets	138 400	-60 000	78 400	0	78 400
	3200			Fixed Assets	234 400		294 400	205 809	88 591
		3210		Information Technologies	88 000		88 000	28 389	59 611
		3220		Communications	65 000	60 000	125 000	116 077	8 923
		3230		Other Investments	81 400		81 400	61 343	20 057
TOTAL EXPENDITURES					4 354 263		4 354 263	1 811 214	2 543 049
4000				REVENUE			0	87 745	87 745
	4100			Revenue/Value added tax reimbursement **			0	85 075	85 075
	4200			Revenue/Other reimbursement			0	1 920	1 920
	4300			Revenue/Other			0	750	750
TOTAL REVENUE ***							0	87 745	87 745
TOTAL NET-EXPENDITURES ****					4 354 263		4 354 263	1 811 214	2 543 049

* Level A - 5 000 EUR

** 24 147 EUR for the 4th quarter FY 2015 and 60 928 EUR for first three quarters of FY 2016

*** 87 745 EUR was incorporated into the FNS Budget for 2017

**** 2 543 049 EUR was incorporated into the FNS Budget for 2017

APPENDIX 4

BUDGET EXECUTION TABLE – 2017 FRAMEWORK NATION SUPPORT BUDGET

Chapter	Item	Sub-Item	Sub-Sub-Item	Description	Approved Budget	Transfer of Budget Credits	Final Budget	Spent/Received in 2017	Carried Forward to FY 2018
1000				PERSONNEL	1 642 102		1 642 102	1 574 407	67 695
	1100			Salaries, Employee's Personal Income Tax, Employee's State Social Insurance Mandatory Contributions	1 318 555		1 318 555	1 266 832	51 723
	1200			Employer's State Social Insurance Mandatory Contributions, Benefits and Allowances	323 547		323 547	307 575	15 972
2000				SUPPLIES AND SERVICES	3 557 494		3 557 494	761 002	2 796 492
	2100			Travel Expenses	79 740		79 740	78 268	1 472
	2200			Services	513 343		513 343	298 865	214 478
		2210		Communications	21 000		21 000	9 115	11 885
		2220		Utilities	53 880		53 880	37 143	16 737
		2230		Administrative Expenditure	38 170		38 170	23 833	14 337
		2240		Renovation and Maintenance of Institution	292 743		292 743	194 827	97 916
		2241		Renovation of Buildings and Premises	15 000		15 000	1 636	13 364
		2242		Maintenance and Repair of Vehicles	5 000		5 000	3 337	1 663
		2243		Repair and Technical Services of Equipment and Inventory	5 500		5 500	1 182	4 318
		2244		Maintenance of Buildings and Premises	267 243		267 243	188 672	78 571
		2250		Information Technologies Maintenance	85 550		85 550	32 226	53 324
		2260		Rental	15 000		15 000	360	14 640
		2270		Other Services	7 000		7 000	1 361	5 639
	2300			Stocks, Materials, Office Supplies	76 000		76 000	44 216	31 784
		2310		Office Supplies, Minor Office Equipment and Furniture, Information Technologies and Communications/up to 10% of level A*	31 000		31 000	19 277	11 723
		2320		Inventory, Equipment, Furniture, Information Technologies and Communications/from 10% to 50% of level A*	25 000		25 000	18 003	6 997
		2330		Materials for Renovation and Maintenance of Institution	10 000		10 000	1 104	8 896
		2340		Other	10 000		10 000	5 832	4 168
	2400			Periodicals	15 000		15 000	8 481	6 519
	2500			Other (FN Voluntary Contributions for Centre's Substantive Activities)	2 873 411		2 873 411	331 172	2 542 239
3000				CAPITAL AND INVESTMENTS/ Credits required for the procurement of the equipment at cost of more than 50% Level A*	51 000		51 000	3 726	47 274
	3100			Intangible Assets	0	4 840	4 840	3 726	1 114
	3200			Fixed Assets	51 000		46 160	0	46 160
		3210		Information Technologies	21 000	- 4 840	16 160	0	16 160
		3220		Communications	15 000		15 000	0	15 000
		3230		Other Investments	15 000		15 000	0	15 000
TOTAL EXPENDITURES					5 250 596		5 250 596	2 339 135	2 911 461
4000				REVENUE			0	64 320	64 320
	4100			Revenue/Value added tax reimbursement **			0	63 626	63 626
	4200			Revenue/Other reimbursement			0	31	31
	4300			Revenue/Other (interest from saving account)			0	663	663
TOTAL REVENUE ***							0	64 320	64 320
TOTAL NET-EXPENDITURES ****					5 250 596		5 250 596	2 339 135	2 911 461

* Level A - 5 000 EUR

** 51 457 EUR for the 4th quarter of FY 2016 and 12 169 EUR for the first three quarters of FY 2017

*** 64 320 EUR will be incorporated into the FNS Budget for 2018

**** 2 911 461 EUR will be incorporated into the FNS Budget for 2018

Jānis Sārts, Director, 29 March 2018



INDEPENDENT AUDITOR'S REPORT

To the Founders of NATO Strategic Communications Centre of Excellence

Our Opinion

In our opinion, the accompanying financial statements set out on pages 7 to 16 of the accompanying annual report give a true and fair view of the financial position of NATO Strategic Communications Centre of Excellence (Organization) as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

What we have audited

The financial statements comprise:

- the balance sheet as at 31 December 2017,
- the statement of financial performance for the year then ended,
- the statement of changes in net assets for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Organization in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements and auditor's independence rules that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Reporting on Other Information Including the Management Report

Management is responsible for the other information. The other information comprises:

- the Management Report as set out on pages 3 to 6 of the accompanying annual report,
- the Management Representation to the Financial Statements as set out on page 7 of the accompanying annual report,
- the Budget Report as set out on pages 17 to 23 of the accompanying annual report,

but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the Management Report.



In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

In addition, in light of the knowledge and understanding of the entity and its environment obtained in the course of our audit, we are required to report if we have identified material misstatements in the Management Report and other information. We have nothing to report in this respect.

We have issued a separate independent auditor's report on the Budget Report contained in the other information.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 the Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

A handwritten signature in blue ink, appearing to read 'Lolita Čapkeviča'.

Lolita Čapkeviča
Certified auditor in charge
Certificate No. 120
Member of the Board

Riga, Latvia
29 March 2018



INDEPENDENT AUDITOR'S REPORT ON THE BUDGET REPORT

To the Founders of NATO Strategic Communications Centre of Excellence

Our Opinion

In our opinion, the accompanying Budget report of NATO Strategic Communications Centre of Excellence (Organisation) set out on pages 17 to 23 of the accompanying annual report has been prepared, in all material respects, in accordance with the basis of preparation set out in Summary to the Budget report on pages 17 to 19 of this annual report.

What we have audited

The Budget report comprise:

- Budget execution table – 2017 Shared Budget,
- Budget execution table – 2017 Framework Nation Support Budget, and
- Summary to the Budget report which includes the basis of preparation.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Budget report* section of our report.

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

Independence

We are independent of the Organization in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements and auditor's independence rules that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Emphasis of Matter

We draw attention to the Summary to the Budget report which describes the basis of preparation. The accounting policies used and disclosures made are not intended to, and do not comply with all the requirements of Law of the Republic of Latvia on Annual Reports and Consolidated Annual Reports. Our opinion is not modified in respect of this matter.



Responsibilities of Management and Those Charged with Governance for the Budget report

Management is responsible for the preparation of the Budget report in accordance with the basis of preparation as set out in Summary to the Budget report on pages 18 to 24 of the annual report, and for such internal control as management determines is necessary to enable the preparation of Budget report that is free from material misstatement, whether due to fraud or error.

In preparing the Budget report, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Budget report

Our objectives are to obtain reasonable assurance about whether the Budget report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Budget report.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Budget report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 the Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Budget report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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