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TABLE OF CONTENTS

TABLE OF CONTENTS.....	2
MANAGEMENT REPORT.....	3
FINANCIAL STATEMENTS.....	7
MANAGEMENT REPRESENTATION TO THE FINANCIAL STATEMENTS.....	7
BALANCE SHEET.....	8
STATEMENT OF FINANCIAL PERFORMANCE.....	8
CASH FLOW STATEMENT.....	9
STATEMENT OF CHANGES IN NET ASSETS.....	10
NOTES TO THE FINANCIAL STATEMENTS.....	11
NOTE 1 BASIS OF PREPARATION.....	11
NOTE 2 INTANGIBLE ASSETS.....	13
NOTE 3 ADVANCE PAYMENTS FOR INTANGIBLE ASSETS.....	13
NOTE 4 FIXED ASSETS.....	13
NOTE 5 OFFICE EQUIPMENT.....	14
NOTE 6 ACCOUNTS RECEIVABLE AND PREPAYMENTS.....	14
NOTE 7 CASH AND CASH EQUIVALENTS.....	14
NOTE 8 ACCOUNTS PAYABLE.....	15
NOTE 9 DEFERRED INCOME.....	15
NOTE 10 OTHER INCOME.....	16
BUDGET REPORT.....	17
2018 BUDGET.....	17
APPENDICES TO THE BUDGET REPORT.....	19
APPENDIX 1 BUDGET EXECUTION TABLE – 2017 SHARED BUDGET.....	19
APPENDIX 2 BUDGET EXECUTION TABLE – 2018 SHARED BUDGET.....	20
APPENDIX 3 BUDGET EXECUTION TABLE – 2017 FRAMEWORK NATION SUPPORT BUDGET.....	21
APPENDIX 4 BUDGET EXECUTION TABLE – 2018 FRAMEWORK NATION SUPPORT BUDGET.....	22

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 2018 that number had already grown to eleven.

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 strategic communications capabilities for NATO, NATO Allies, and NATO Partner Nations.

2018 was the Centre's fourth full financial year of operation and third year at full operational capability. During the reporting period, the Centre implemented substantive activities in line with its Programme of Work for 2018 (POW 2018) and Budget for 2018 as approved by the Steering Committee at its 8th meeting.

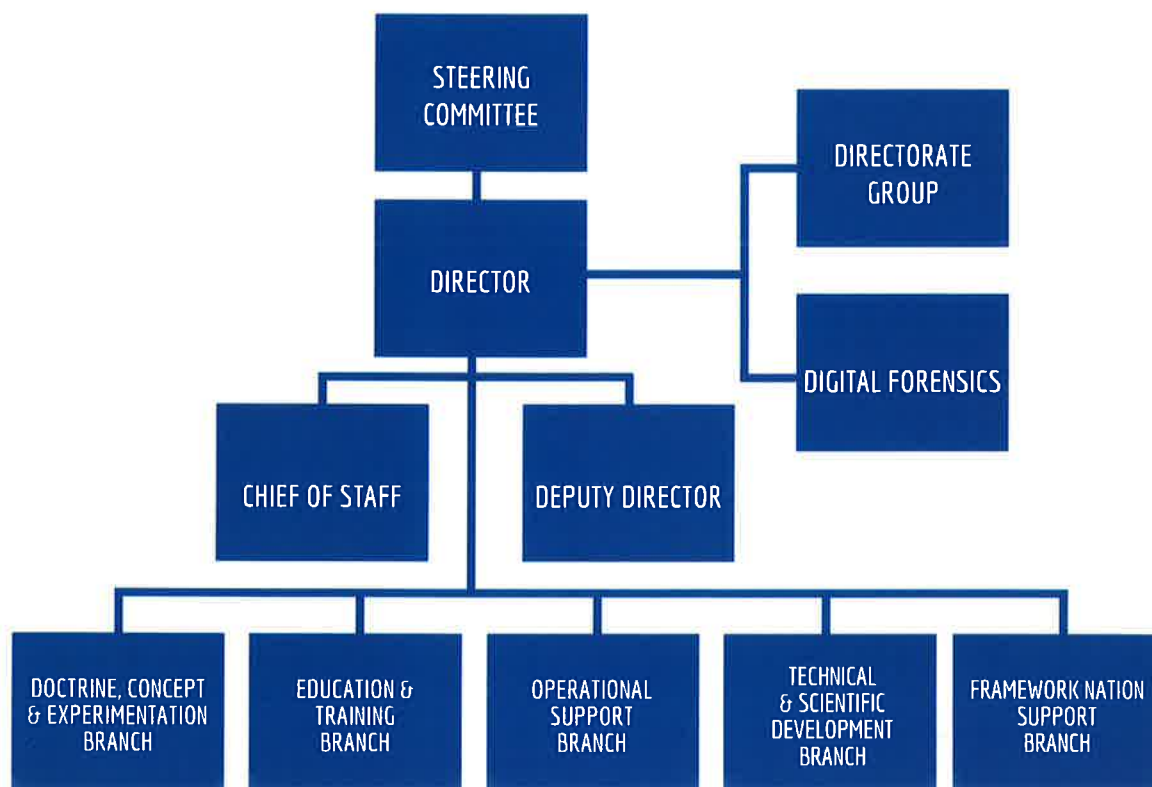
The Centre's Mission and Tasks for 2018

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, the Lessons Learned process, as well as through investing in the continuing development of strategic communications education and training. To provide a common understanding of strategic communications and the use of strategic communications within the traditional disciplines employed by NATO, NATO Allies, and Partner Nations, the Centre helps address any identified shortcomings and helps find contemporary solutions to existing challenges. This is done by pooling resources, sharing best practices, building networks of strategic communications experts, and providing platforms for debate, as well as by monitoring and evaluating the challenges of the modern information environment.

In 2018 the Centre was engaged in a wide range of activities and events connected to various strategic communications disciplines. The POW 2018 comprised 58 projects including tasks from Sponsoring Nations and Contributing Partners and Requests for Support by NATO entities. The Centre focused on issues related to StratCom doctrine development, information environment assessment, and data and technology projects. The total number of research projects, studies, and reports has increased from 7 to 13 in comparison to 2017.

Structure

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 of the Contributing Partners are always invited to share their views at Steering Committee meetings in an advisory capacity. 94% of the approved staff positions were filled by the end of December 2018.



During 2018, two newcomers arrived at the Centre and five posts were rotated. In addition to the contributions of the Sponsoring Nations and Contributing Partners, Hungary and the Czech Republic each sent a subject matter expert to the Centre as voluntary contribution. France, as a joining nation, continued to contribute with one officer.

Eleven interns and one fellow successfully completed their internships/fellowships during 2018, substantially contributing to the ongoing research and organisation of the Centre's conducted events.

Main Activities in 2018

The Centre has been supportive and active in NATO StratCom policy and doctrine development. Following ACT's proposal, the NATO Military Committee Joint Standardization Board decided to give custodianship of the Allied Joint Doctrine for Strategic Communications (AJP-10) to the Centre. The doctrine will be developed over the next two years. The Centre will continue to contribute to the implementation of the MC Policy on Military Strategic Communications and its related policies, doctrines, and handbooks. The Centre's subject matter experts were fully committed and involved in numerous projects designated for the development of the NATO StratCom mindset, processes, and related functions and capabilities, such as the US-led project Multinational Capability Development Campaign (MCDC), the German-led project Multinational InfoOps Experiment (MNIOE), as well as events organised by the StratCom, PA, PSYOPS, and InfoOps communities of interest.

The Centre was a core member of NATO Tiger Team for Information Environment Assessment (IEA) capability building. The Centre participated in an experiment for IEA capability building that took place during the NATO exercise Trident Juncture 18 LiveEx. The experiment tested a new methodology for IEA by assessing real information environment during the live phase of the exercise.

The Centre provided support for the NATO exercises Trident Juncture 2018 and Trident Jaguar 2018, and for the high-level NATO Crisis Management Exercise.

The Centre is continuing to develop its cooperation with other NATO Centres of Excellence (COEs), including NATO Defence Against Terrorism COE, NATO Crisis Management and Disaster Response COE, and NATO Cooperative Cyber Defence COE. The Centre supported the NATO Cooperative Cyber Defence COE's annual CyCon conference.

The NATO School Oberammergau was supported by lecturers, mentors, and experts from the Centre for the following courses – NATO StratCom Practitioners Course, NATO StratCom Familiarisation Course, NATO Crisis Management Course, NATO Staff Officers' Course and NATO Public Affairs Officers' Course.

The Centre also contributed by sending its experts to lecture at the Baltic Defence College in Tartu, the Polish Military Academy, the Bundeswehr Command and Staff College, and other universities.

The Centre provided support to the following NATO Partner Nations – to Sweden and Finland by supporting the organisation of a Joint Table Top Exercise for their government's communicators, to Ukraine by organising a seminar for its government's communicators, and to Georgia by organising Train the Trainers StratCom course.

In accordance with POW 2018, numerous studies were conducted and several research papers were finalised for publication.

The main publications on Centre's webpage in 2018 include:

- *Russia's Footprint in the Nordic-Baltic Information Environment*
- *Fake news: A Roadmap*
- *Robotrolling 2018/1*
- *Robotrolling 2018/2*
- *Robotrolling 2018/3*
- *Robotrolling 2018/4*
- *Social Media in Operations – a Counter-Terrorism Perspective*
- *Violent Extremism and Communications*
- *Virtual Russian World in Baltics*
- *Academic Journal Defence Strategic Communications, Vol. 4*
- *Arctic Narratives and Political Values*
- *Government Responses to Malicious Use of Social Media*
- *The Role of Communicators in Countering the Malicious Use of Social Media*
- *Industry Responses to the Malicious Use of Social Media*

The Centre organised and conducted numerous strategic communications related events in 2018:

- Presentation of Studies and Fourth Workshop: The Russian Information Campaign in the Nordic-Baltic Countries (NB-8). 25–6 January 2018, Riga, Latvia
- Publication and launch of the book *Fake News: A Roadmap* with King's College London. 28 February 2018, London, UK

- Seminar: Emerging Issues in Social Media. 19 March 2018, Riga, Latvia
- Course: Social Media Analysis. 18–23 March 2018, Riga, Latvia
- Cooperation Project between NATO StratCom COE and King's College London: GEN Stanley A. McChrystal Inaugural Lecture. 3 May 2018, London, UK
- Seminar: StratCom for Senior Officials. 22–26 May 2018, Kiev, Ukraine
- Conference: The Riga StratCom Dialogue. 12–13 June 2018, Riga, Latvia
- Seminar: Arctic Narratives and Political Values. 26 September 2018, Riga, Latvia
- Fifth Workshop: The Russian information campaign in the Nordic-Baltic countries. 27 September 2018, Riga, Latvia
- Seminar: StratCom for Senior Officials. 16 October 2018, Vilnius, Lithuania
- Workshop: The Role of Media and Journalists in Strengthening National Resilience. 22–23 November 2018, Ottawa, Canada
- StratCom Course: Train the Trainers. 19–30 November 2018, Tbilisi, Georgia
- Competition: How to Detect the Malicious Use of Video/Photographic Content Online? 10 December 2018, Riga, Latvia
- Seminar: Countering the Malicious Use of Social Media and Malicious Use of Data. 10 December 2018, Riga, Latvia



Jānis Sārts, Director, 28 March 2019

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, 28 March 2019

BALANCE SHEET

	31.12.2018 Total EUR	31.12.2018 incl. Budget A (SH) EUR	31.12.2017 Total EUR	31.12.2017 incl. Budget A (SH) EUR	Notes
Intangible assets	50 304	12 998	38 873	14 988	2
Advance payments for intangible assets	2 970	0	10 459	1 800	3
Fixed assets	188 086	4 455	282 455	5 231	4
Office equipment	11 417	4 047	11 473	1 103	5
Total fixed assets	252 777	21 500	343 260	23 122	
Accounts receivable and prepayments	47 602	9 189	46 144	8 077	6
Cash and cash equivalents	4 212 727	425 982	3 224 202	248 421	7
Total current assets	4 260 329	435 171	3 270 346	256 498	
TOTAL ASSETS	4 513 106	456 671	3 613 606	279 620	
Accounts payable	123 749	24 519	157 195	31 611	8
Deferred income	4 389 357	432 152	3 456 411	248 009	9
Total current liabilities	4 513 106	456 671	3 613 606	279 620	
TOTAL LIABILITIES AND NET ASSETS	4 513 106	456 671	3 613 606	279 620	

STATEMENT OF FINANCIAL PERFORMANCE

	31.12.2018 Total EUR	31.12.2018 incl. Budget A (SH) EUR	31.12.2017 Total EUR	31.12.2017 incl. Budget A (SH) EUR	Notes
Contributions and related income	3 027 843	425 482	2 954 514	490 518	9
Other income	14 711	9 127	10 116	10 085	10
Total revenue	3 042 554	434 609	2 964 630	500 603	
Operating expenses	1 273 812	425 563	1 239 231	493 580	
Personnel expenses	1 633 770	0	1 601 926	0	
Depreciation of fixed assets and intangible assets	134 972	9 046	123 473	7 023	2,4,5
Total expenses	3 042 554	434 609	2 964 630	500 603	
Surplus from operating activities	0	0	0	0	
Surplus for the period	0	0	0	0	

Jānis Sārts, Director, 28 March 2019

CASH FLOW STATEMENT

	31.12.2018 Total EUR	31.12.2018 incl. Budget A (SH) EUR	31.12.2017 Total EUR	31.12.2017 incl. Budget A (SH) EUR	Notes
Surplus from operating activities	0	0	0	0	
Depreciation	134 972	9 045	123 473	7 023	2,4,5
Accrued expenses for unused vacations	-2 622	0	23 589	0	
Change in accounts receivable	-1 458	-1 112	-20 924	-548	
Change in liabilities and prepayments	-30 824	-7 092	62 760	28 730	
Total cash flows from/(used in) operating activities	100 068	841	188 898	35 205	
Fixed and intangible assets purchase	-44 489	-7 423	-40 783	-12 775	2,3,4,5
Total cash flows used in investment activities	-44 489	-7 423	-40 783	-12 775	
Receipt of contributions, other deferred income	3 865 178	590 976	3 064 958	445 866	9
Contributions, other deferred income used	-2 932 232	-406 833	-2 873 135	-473 345	9
Total cash flows from/(used in) financing activities	932 946	184 143	191 823	-27 479	
Total cash flows	988 525	177 561	339 938	-5 049	
Cash and cash equivalents at the beginning of the period	3 224 202	248 421	2 884 264	253 470	
Net increase/(decrease) in cash and cash equivalents	988 525	177 561	339 938	-5 049	
Cash and cash equivalents at the end of the period	4 212 727	425 982	3 224 202	248 421	7



Jānis Sārts, Director, 28 March 2019

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
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
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
Surplus/(decrease) for 2018	0	899 500	177 051	899 500
Total net assets 31.12.2018	0	4 513 106	456 671	4 513 106


 Jānis Sārts, Director, 28 March 2019

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 BASIS OF PREPARATION

The legal address of the Centre is Kalnciema 11b, 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. The Netherlands joined the Centre as a Sponsoring Nation in 2016 as did Canada in 2018. Finland and Sweden joined the Centre as Contributing Partners in 2016 and 2017, respectively. The Centre is registered with the Latvian State Revenue Service under registration number 90010376683. Jānis Sārts is the Director of the Centre. PricewaterhouseCoopers SIA is the Centre's certified auditor. The audit for 2018 was conducted by certified auditor Ms Terēze Labzova-Ceicāne.

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 Profit and Loss Statement 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 2018 to 31 December 2018 was the fourth full financial year during which the Centre operated.

The Financial Statements have been prepared using accruals-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 Shared Budget is referred to as 'Budget A' and the Framework Nation Support Budget is referred to as 'Budget B'. Support for the competition by Latvijas Mobilais Telefons LTD is called 'Budget C'.

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 01.01.2018	14 988	23 885	38 873	Net book value 01.01.2017	14 168	27 917	42 085
Purchases in 2018	4 304	25 831	30 135	Purchases in 2017	5 229	6 000	11 229
Depreciation for 2018	-6 294	-12 410	-18 704	Depreciation for 2017	-4 409	-10 032	-14 441
Purchase cost 31.12.2018	27 166	70 463	97 629	Purchase cost 31.12.2017	22 862	44 632	67 494
Accumulated depreciation 31.12.2018	-14 168	-33 157	-47 325	Accumulated depreciation 31.12.2017	-7 874	-20 747	-28 621
Net book value 31.12.2018	12 998	37 306	50 304	Net book value 31.12.2017	14 988	23 885	38 873

NOTE 3 ADVANCE PAYMENTS FOR INTANGIBLE ASSETS

	Budget A (SH)	Budget B (FN)	Total		Budget A (SH)	Budget B (FN)	Total
Net book value 01.01.2018	1 800	8 659	10 459	Net book value 01.01.2017	0	0	0
Purchases in 2018	1 400	13 623	15 023	Purchases in 2017	1 800	8 659	10 459
Reclassified to fixed assets in 2018	-3 200	-19 312	-22 512	Reclassified to fixed assets in 2017	0	0	0
Purchase cost 31.12.2018	0	2 970	2 970	Purchase cost 31.12.2017	1 800	8 659	10 459

NOTE 4 FIXED ASSETS

	Budget A (SH) fixed assets	Budget B (FN) fixed assets	Total fixed assets		Budget A (SH) fixed assets	Budget B (FN) fixed assets	Total fixed assets
Net book value 01.01.2018	5 231	277 224	282 455	Net book value 01.01.2017	496	345 711	346 207
Purchases in 2018	874	10 451	11 325	Purchases in 2017	5 198	3 974	9 172
Reclassified to fixed assets from advance payments	0	0	0	Reclassified to fixed assets from advance payments	0	21 783	21 783
Depreciation for 2018	-1 650	-104 044	-105 694	Depreciation for 2017	-463	-94 244	-94 707
Purchase cost 31.12.2018	6 815	475 304	482 119	Purchase cost 31.12.2017	5 941	464 853	470 794
Accumulated depreciation 31.12.2018	-2 360	-291 673	-294 033	Accumulated depreciation 31.12.2017	-710	-187 629	-188 339
Net book value 31.12.2018	4 455	183 631	188 086	Net book value 31.12.2017	5 231	277 224	282 455

NOTE 5 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 01.01.2018	1 103	10 370	11 473	Net book value 01.01.2017	2 707	12 809	15 516
Purchases in 2018	4 045	6 472	10 517	Purchases in 2017	548	9 734	10 282
Depreciation for 2018	-1 101	-9 472	-10 573	Depreciation for 2017	-2 152	-12 173	-14 325
Disposals in 2018	-596	-1 602	-2 198	Disposals in 2017	-434	0	-434
Purchase cost 31.12.2018	10 619	41 687	52 306	Purchase cost 31.12.2017	7 170	36 817	43 987
Accumulated depreciation 31.12.2018	-6 572	-34 317	-40 889	Accumulated depreciation 31.12.2017	-6 067	-26 447	-32 514
Net book value 31.12.2018	4 047	7 370	11 417	Net book value 31.12.2017	1 103	10 370	11 473

NOTE 6 ACCOUNTS RECEIVABLE AND PREPAYMENTS

	Budget A (SH) 31.12.2018	Budget B (FN) 31.12.2018	Total 31.12.2018	Budget A (SH) 31.12.2017	Budget B (FN) 31.12.2017	Total 31.12.2017
Prepaid taxes	0	0	0	0	0	0
Next period expenses	7 698	36 032	43 730	4 303	34 918	39 221
Prepayments for equipment	782	1 666	2 448	3 721	811	4 532
Accumulated VAT	264	715	979	0	2 218	2 218
Other receivables	445	0	445	53	120	173
Other prepayments	0	0	0	0	0	0
Total accounts receivable and prepayments	9 189	38 413	47 602	8 077	38 067	46 144

NOTE 7 CASH AND CASH EQUIVALENTS

	Budget A (SH) 31.12.2018	Budget B (FN) 31.12.2018	Budget C (OH) 31.12.2018	Total 31.12.2018	Budget A (SH) 31.12.2017	Budget B (FN) 31.12.2017	Total 31.12.2017
Cash on bank account	425 974	3 781 745	5 000	4 212 719	248 400	2 975 781	3 224 181
Cash in cash box	8	0	0	8	21	0	21
Total cash and cash equivalents	425 982	3 781 745	5 000	4 212 727	248 421	2 975 781	3 224 202

NOTE 8 ACCOUNTS PAYABLE

	Budget A (SH) 31.12.2018	Budget B (FN) 31.12.2018	Budget C (OH) 31.12.2018	Total 31.12.2018	Budget A (SH) 31.12.2017	Budget B (FN) 31.12.2017	Total 31.12.2017
Trade payables	5 303	4 505	3 815	13 623	16 059	36 680	52 739
Accrued liabilities	18 135	24 987	0	43 122	15 552	22 206	37 758
Vacation accruals	0	61 920	0	61 920	0	64 542	64 542
Calculated Income tax	1 081	2 818	1 185	5 084	0	2 156	2 156
Total accounts payable	24 519	94 230	5 000	123 749	31 611	125 584	157 195

NOTE 9 DEFERRED INCOME

	Budget A (SH) 2018	Budget B (FN) 2018	Total 2018		Budget A (SH) 2017	Budget B (FN) 2017	Total 2017
Net book value 01.01.2018	248 009	3 208 402	3 456 411	Net book value 01.01.2017	275 488	2 989 100	3 264 588
Contribution Latvia (for 2018)	258 656	2 619 802	2 878 458	Contribution Latvia (for 2017)	171 986	2 619 802	2 791 788
Contribution Latvia (for 2019)	57 057	654 950	712 007	Contribution Latvia (for 2018)	63 825	0	63 825
Contribution Poland (for 2018)	13 206	0	13 206	Contribution Poland (for 2017)	3 612	0	3 612
				Contribution Poland (for 2018)	11 600	0	11 600
Contribution Germany (for 2018)	49 613	0	49 613	Contribution Germany (for 2017)	26 796	0	26 796
Contribution Estonia (for 2018)	13 206	0	13 206	Contribution Estonia (for 2017)	13 398	0	13 398
				Contribution Estonia (for 2018)	11 600	0	11 600
Contribution Italy (for 2018)	24 806	0	24 806	Contribution Italy (for 2017)	13 398	0	13 398
Contribution Great Britain (for 2018)	13 206	0	13 206	Contribution Great Britain (for 2017)	13 398	0	13 398
				Contribution Great Britain (for 2018)	11 600	0	11 600
Contribution Lithuania (for 2018)	49 613	0	49 613	Contribution Lithuania (for 2017)	26 913	0	26 913
Contribution Lithuania (for 2019)	12 000	0	12 000				
Contribution Finland (for 2018)	24 806	0	24 806	Contribution Finland (for 2017)	13 515	0	13 515
Contribution Netherlands (for 2018)	24 806	0	24 806	Contribution Netherlands (for 2016)	25 000	0	25 000
				Contribution Netherlands (for 2016)	13 515	0	13 515
Contribution Sweden (for 2018)	25 000	0	25 000	Contribution Sweden (for 2017)	25 000	0	25 000
Contribution Canada (for 2018)	25 000	0	25 000				

NOTE 9 DEFERRED INCOME (CONTINUED)

Received VAT reimbursement	18 100	76 962	95 062	Received VAT reimbursement	17 173	63 626	80 799
Received/calculated interest from saving account	0	0	0	Received/calculated interest from saving account	0	580	580
Received deferred income	609 075	3 351 714	3 960 789	Received deferred income	462 329	2 684 008	3 146 337
Used in 2018	-425 482	-2 602 361	-3 027 843	Used in 2017	-490 518	-2 463 996	-2 954 514
Conference fee 2018	550	-550	0	Conference fee 2017	710	-710	0
Total deferred income 31.12.2018	432 152	3 957 205	4 389 357	Total deferred income 31.12.2017	248 009	3 208 402	3 456 411

NOTE 10 OTHER INCOME

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

2018	Budget A (SH)	Budget B (FN)	Budget C (OH)	Total
Other income	9 127	584	5 000	14 711
Total other income	9 127	584	5 000	14 711

BUDGET REPORT

2018 BUDGET

SUMMARY

In total, the Centre's budget consists of the Shared Budget – the Sponsoring Nations (SN) and Contributing Partners (CP) funding in support of the 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 8th meeting, the Steering Committee agreed on SN contributions for 2018 in the amount of 600,000 EUR based on 24 paid positions 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 2018 was approved in the amount of 675,890 EUR. From that amount 650,000 EUR were planned as contributions from SN and CP, and 25,890 EUR were planned as revenue from value added tax reimbursements and collected conference fees.

Calls for Funds were issued for contributions for the financial year 2018:

<i>First Call for Funds 2018</i>	<i>278,400</i>
<i>Second Call for Funds 2018 (Reduced by surpluses from FY 2016)</i>	<i>317,144</i>
<i>Surplus from Financial Years 2016</i>	<i>4,456</i>
<i>Call for Funds for Canada 2018</i>	<i>25,000</i>
TOTAL (EUR)*	625,000

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

As of 31 December 2018, the total amount of expenditures was 390,978 EUR; in addition, 83,668 EUR were carried forward to complete commitments and projects from FY 2018. Executed and carried-forward funds represent 70% of planned expenditures.

In the Budget Chapter 720000 Contractual Supplies and Services the following main budget positions resulted in savings – Administration, Hospitality, Travel, and Contractors:

- Savings in Administration funds were due to the fact that several projects from POW 2018 will be finalised in 2019 and respective reports and research papers will be printed in 2019;
- Savings in Hospitality funds were mainly due to the fact that fewer events took place during 2018 than initially planned (including writing team sessions, results presentations, and WS/WG);
- Savings in Travel were due to the fact that fewer trips were executed than initially planned (transatlantic trips in particular), and a significant number of business trips were covered by the inviting side;
- Savings in Contractors funds were due to the fact that research for two projects was carried out without using outsourced contractors and for another two projects research was only partially carried out in 2018. Fewer events with guest speakers were carried out than initially planned.

In 2018, the budget within Chapter 720000 was amended (transfers of budget credits), mainly to ensure the funding necessary for conference equipment rental and database and visualisation tool maintenance.

From the funding (67,044 EUR) carried forward, 50,758 EUR were spent: 41,888 EUR were spent as planned to cover commitments and 8,870 EUR were spent for POW 2017 Project No. 5.

The SC approved carrying forward the following funds into 2019:

1) appropriate funds that were committed and required by legal obligations, but for which the payments were not executed by the end of the FY 2018. Such funds came to a total of 60,668 EUR, including:

- 55,837 EUR for contractors for POW 2018 Projects No.18-3, 18-5, 18-6, 18-14, 18-54, 18-56, 18-61;
- 3,118 EUR for editing and layout design of research papers for POW 2018 Projects No. 18-3, 18-4, 18-5, 18-6, 18-8, and 18-14;
- 1,521 EUR for events' expenses for POW 2018 Projects No.18-5, 18-56;
- 192 EUR for IT supplies.

2) 23,000 EUR for the implementation of POW 2018 Project No. 54 to cover contracts with researchers and to ensure editing, proofreading, and printing of the project report.

The lapsed amounts will be offset against SN and CP contributions in the upcoming years based on the participation of each country for particular financial years (posts assigned and contributions paid), 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 2018 was planned in the amount of 5,595,583 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. 2,975,781 EUR of the aforementioned amount were carried forward from 2017 to continue to support the Centre's substantive activities.

As of 31 December 2018, the total amount of expenditures was 2,546,713 EUR. 415,130 EUR were spent from budget item 2500 to support the Centre's substantive activities, including the Riga StratCom Dialogue: Perception Matters conference in June 2018; rental of the event registration system service – Cvent; internships; services of the Editor-in-Chief of the Centre's academic journal *Defence Strategic Communications*; delivery of the book *Fake News: A Roadmap* and the Fake News Game; terminology review; cooperation with King's College London; and others.

Unused funding and contributions are carried forward into the next financial year for continued support of the Centre's activities, and for possible solutions of the Centre's new premises.

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

3. SUPPORT FOR THE COMPETITION BY LATVIJAS MOBILAIS TELEFONS LTD

In 2018 the Centre received 5,000 EUR from Latvijas Mobilais telefons LTD to pay out as a prize to the winner of the competition "How to Detect the Malicious Use of Video/Photographic Content Online?" organised by the Centre.

APPENDICES TO THE BUDGET REPORT

APPENDIX 1 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					640 256		640 256	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 was not yet completed, the contribution (25 000 EUR) has not been received

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

APPENDIX 2 BUDGET EXECUTION TABLE – 2018 SHARED BUDGET

Chapter	Item	Sub-Item	Sub-Sub-Item	Description	Approved Budget	Transfer of Budget Credits	Final Budget	Spent/Received in 2018	Committed/Carried Forward to 2019	Lapsed
710000				PERSONNEL	0		0	0		0
	716000			Training	0		0	0		0
720000				CONTRACTUAL SUPPLIES AND SERVICES	675 890		675 890	390 978	83 668	201 244
	721000			General Support	148 009		148 009	92 929	4 526	50 554
		721100		Administration	61 609		62 609	45 898	3 020	13 691
			721110	Printing/Photocopying/Visual/Graphics/Publications Supplies and Services	42 259		42 259	30 972	3 020	8 267
			721120	Office Supplies and Minor Office Equipment	8 950		8 950	7 618		1 332
			721130	Reference Materials	4 800	1 000	5 800	4 737		1 063
			721140	Postal/Shipping/Banking Services	5 600		5 600	2 571		3 029
		721200		Hospitality	61 230	-1 000	60 230	29 240	596	30 394
		721500		Furniture and Equipment	6 300	6 700	13 000	11 035	160	1 805
		721800		Non NATO StratCom COEs Facilities	18 870	-6 700	12 170	6 756	750	4 664
	722000			Mission Support	47 000		52 750	38 583		13 975
		722100		Fuel/Oil/Gases and Fluids	0		0	0		0
		722300		AIS	15 590		21 340	19 206	192	1 942
			722310	Purchase/Rental and Operational Lease	14 740		14 740	12 840		1 900
			722320	Supplies and Consumables	850		850	649	192	9
			722330	Services and Maintenance	0	5 750	5 750	5 717		33
		722400		Communications	30 660		30 660	19 256		11 404
			722410	Purchase/Rental and Operational Lease	7 000		7 000	5 130		1 870
			722420	Supplies and Consumables	800		800	35		765
			722430	Telephone/Telefax/Internet/Services and Maintenance	22 860		22 860	14 091		8 769
		722500		Mission Carriers	750		750	121		629
			722510	Rental and Operational Lease	750		750	121		629
			722520	Services and Maintenance	0		0	0		0
	723000			Travel	176 000		176 000	82 095		93 905
		723100		Transportation for Business Trips	168 760		168 760	77 061		91 699
		723200		Transportation for Training	1 500		1 500	1 336		164
		723300		Fees	5 740		5 740	3 698		2 042
	725000			Miscellaneous Costs	800		800	489		311
	726000			Consultants/Contractors	304 081		298 331	176 882	78 950	42 499
		726100		Consultants	0		0	0		0
		726200		Contractors	304 081	-5 750	298 331	176 882	78 950	42 499
730000				CAPITAL AND INVESTMENTS*	0		0	0		0
	731000			AIS	0		0	0		0
	732000			Communications	0		0	0		0
	733000			Furniture and Equipment	0		0	0		0
TOTAL EXPENDITURES					675 890		675 890	390 978	83 668	201 244
740000				REVENUE	25 890		25 890	21 691		4 199
	741000			Revenue/from StratCom COE organised conference, course, workshop, etc. fees	15 650		15 650	9 483		6 167
	742000			Revenue/Value added tax reimbursement**	10 240		10 240	12 122		-1 882
	743000			Revenue/Other	0		0	86		-86
TOTAL REVENUE					25 890		25 890	21 691		4 199
CONTRIBUTIONS PLANNED/RECEIVED***					650 000		650 000	625 000		25 000
TOTAL NET-EXPENDITURES					625 000		625 000	369 287	83 668	172 045
CARRIED FORWARD FROM FY 2017										
	721000			General Support	8 891	1 227	10 118	7 662		2 456
	726000			Consultants/Contractors	56 753	-1 227	55 526	41 696		13 830
	731000			AIS	1 400		1 400	1 400		0
TOTAL EXPENDITURES CARRIED FORWARD FROM FY 2017					67 044		67 044	50 758		16 286
REVENUE FROM FY 2017										
740000				REVENUE****	0		0	6 630		-6 630
TOTAL NET EXPENDITURES					67 044		67 044	44 128		22 916

* 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 2018

*** 650 000 EUR were approved contributions from Sponsoring Nations and Contributing Partners. As the joining process of France in 2018 was not yet completed, the contribution (25 000 EUR) has not been received

**** 652 EUR in reimbursements for payments made in FY 2017; 4 582 EUR VAT reimbursement for the 4th quarter of FY 2017; 1 396 EUR VAT reimbursement for the funds carried forward from FY 2017

APPENDIX 3 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 is incorporated into the FNS Budget for 2018

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

APPENDIX 4 BUDGET EXECUTION TABLE – 2018 FRAMEWORK NATION SUPPORT BUDGET

Chapter	Item	Sub-Item	Sub-Sub-Item	Description	Approved Budget	Transfer of Budget Credits	Final Budget	Spent/Received in 2018	Carried Forward to FY 2019
1000				PERSONNEL	1 731 197		1 731 197	1 649 630	81 567
	1100			Salaries, Employee's Personal Income Tax, Employee's State Social Insurance, Mandatory Contributions	1 388 417		1 388 417	1 318 933	69 484
	1200			Employer's State Social Insurance Mandatory Contributions, Benefits and Allowances	342 780		342 780	330 696	12 082
2000				SUPPLIES AND SERVICES	3 826 771		3 826 771	888 960	2 937 820
	2100			Travel Expenses	97 460		97 460	74 197	23 263
	2200			Services	485 564		485 564	347 963	137 601
		2210		Communications	21 000		21 000	11 041	9 959
		2220		Utilities	53 880		53 880	38 716	15 162
		2230		Administrative Expenditure	46 892		46 892	46 221	671
		2240		Renovation and Maintenance of Institution	310 242		310 242	207 205	103 037
		2241		Renovation of Buildings and Premises	20 000		20 000	163	19 837
		2242		Maintenance and Repair of Vehicles	8 650		8 650	4 358	4 292
		2243		Repair and Technical Services of Equipment and Inventory	14 350		14 350	5 919	8 431
		2244		Maintenance of Buildings and Premises	267 242		267 242	196 765	70 477
		2250		Information Technologies Maintenance	45 550		45 550	39 212	6 338
		2260		Rental	3 000	-600	2 400	0	2 400
		2270		Other Services	5 000	600	5 600	5 565	35
	2300			Stocks, Materials, Office Supplies	89 800		89 800	44 477	45 323
		2310		Office Supplies, Minor Office Equipment and Furniture, Information Technologies and Communications/up to 10% of level A*	31 000		31 000	19 427	11 573
		2320		Inventory, Equipment, Furniture, Information Technologies and Communications/from 10% to 50% of level A*	44 300		44 300	18 794	25 506
		2330		Materials for Renovation and Maintenance of Institution	5 000		5 000	838	4 162
		2340		Other	9 500		9 500	5 418	4 082
	2400			Periodicals	15 000		15 000	7 184	7 816
	2500			Other (FN Voluntary Contributions for Centre's Substantive Activities)	3 138 947		3 138 947	415 130	2 723 817
3000				CAPITAL AND INVESTMENTS/Credits required for the procurement of the equipment at cost of more than 50% Level A*	37 616		37 616	8 132	29 483
	3100			Intangible Assets	13 115		13 115	6 672	6 443
	3200			Fixed Assets	24 500		24 500	1 460	23 040
		3210		Information Technologies	11 500		11 500	0	11 500
		3220		Communications	9 000		9 000	0	9 000
		3230		Other Investments	4 000		4 000	1 460	2 540
TOTAL EXPENDITURES					5 595 583		5 595 583	2 646 713	3 048 870
4000				REVENUE	0		0	77 925	77 925
	4100			Revenue/Value added tax reimbursement **	0		0	76 962	76 962
	4200			Revenue/Other reimbursement from FY 2017	0		0	378	378
	4300			Revenue/Other (book selling)	0		0	585	585
TOTAL REVENUE ***					0		0	77 925	77 925
TOTAL NET-EXPENDITURES ****					5 595 583		5 595 583	2 646 713	3 048 870

* Level A - 5 000 EUR

** 12 328 EUR for the 4th quarter FY 2017 and 64 634 EUR for first three quarters of FY 2018

*** 77 925 EUR will be incorporated into the FNS Budget for 2019

**** 3 048 870 EUR will be incorporated into the FNS Budget for 2019



 Jānis Sārts, Director, 28 March 2019



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 2018, 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 2018,
- 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) and the ethical requirements of the Law on Audit Services 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 the IESBA Code and the ethical requirements of the Law on Audit Services.

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 22 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
Member of the Board

A handwritten signature in blue ink, appearing to read "Terēze Labzova-Ceicāne".

Terēze Labzova-Ceicāne
Certified auditor in charge
Certificate No. 184

Riga, Latvia
28 March 2019



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 22 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 18 of this annual report.

What we have audited

The Budget report comprise:

- Budget execution table – 2018 Shared Budget,
- Budget execution table – 2018 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) and the ethical requirements of the Law on Audit Services 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 the IESBA Code and the ethical requirements of the Law on Audit Services.

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 17 to 18 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.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5

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

Lolita Čapkeviča
Member of the Board

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

Terēze Labzova-Ceicāne
Certified auditor in charge
Certificate No. 184

Riga, Latvia
28 March 2019