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Skoltech

Skolkovo Institute of Science and Technology

**Annual
Financial
Report**

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Management analysis

INTRODUCTION

This unaudited section of the Skoltech (hereinafter- “the Institute”, “the Group”) Annual Financial Report presents our analysis of the financial position and performance of the Institute and its Endowment Fund during the reporting year ended 31 December 2017 with comparative information as of 31 December 2016. This analysis has been

prepared by management based on the accompanying financial statements under IFRS and non-financial information such as enrollment levels, staff recruitment, expansion of research activities, the condition of the facilities and other. All financial information presented in RUB has been rounded to the nearest thousand.

STATEMENT OF FINANCIAL POSITION

Net assets

The Institute’s net position is one of the indicators of the Institute’s financial health. Net assets totaled RUB 5,387,458 thousand. They increased by RUB 260,356 thousand or 5%, due to the net effect of growth in total assets of RUB 1,690,679 thousand and growth in total liabilities of RUB 1,430,323 thousand. These positive dynamics were achieved through effective performance in both commercial and non-commercial activities including Endowment Fund operations.

As at 31 December 2017 the largest categories within the Institute’s current asset balance are financial investments

(see Endowment) and prepayments to suppliers. Prepayments to suppliers totaled RUB 1,202,700 thousand at 31 December 2017 (31 December 2016: RUB 1,180,131thousand). Skoltech is developing networks with top international and Russian universities and research teams in the areas identified as its research priorities. In this regard, a number of one- to six-year Master Research Agreements were executed and 21 of them were carried out during the period of 2015-2017. The prepayments primarily consist of advance payments to the partners under these Master Research Agreements.

Capital investments

As at 31 December 2017 the largest category within the Institute’s RUB 11,943,551 thousand total asset balance is Property, plant and equipment which represents 41% of the total.

In accordance with one of the Institute’s strategic goals it incurred significant capital expenditure, including the construction of the new state-of-the-art university Campus

at the Skolkovo Innovation Center and developing laboratory infrastructure, to assure the Institute’s future sustainability. The carrying amount for Property, plant and equipment (PPE) increased in 2017 by 35%, (Figure 1). In 2017, Skoltech spent RUB 1,832,884 thousand for PPE, including RUB 1,387,494 thousand for laboratory equipment.

Carring amount of Property, plant and equipment

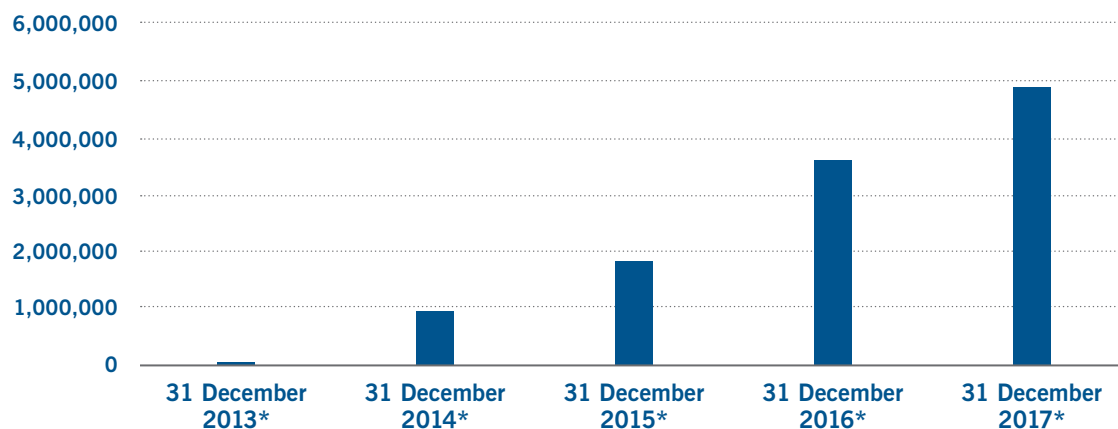


Figure 1. Institute's PPE growth

*Consolidated Financial Statement for the years 2013,2014,2017 are audited, for 2015-2016- non-audited.

Analysis of the 2017 structure of PPE by groups (Figure 2) shows that almost half of all PPE consists of Laboratory equipment which increased by 166% in comparison with 2016. In 2017, Skoltech invested

significantly into developing its laboratory infrastructure. A dozen new laboratories were opened or substantially refitted such as the Oil Recovery and Additive Manufacturing Labs.

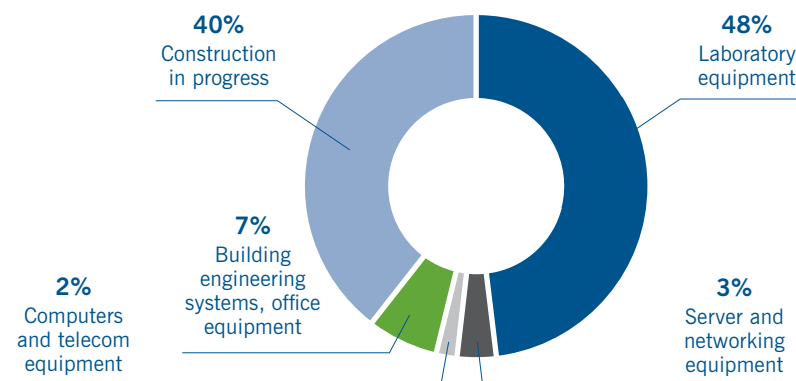


Figure 2. Institute's PPE by groups (2017)

As at 31 December 2017 Construction in progress represents 40% of the total for PPE. The largest component consists of advance payments in the amount RUB 1,016,873 thousand made for the construction of training and laboratory facilities in the new 135 584 sq. m. Campus. The new Campus, as designed by Herzog and de Meuron, provides a series of highly functional laboratory buildings. Skoltech plans to complete its move to

the new Campus during 2019.

The growth of investments in intangible assets in 2017 mainly related to purchasing of software. Intangible assets increased as at 31 December by 32% in comparison with at 31 December 2016. In 2017 software purchases included a budgeting IT system (IBM Cognos TM1) for the purposes of financial control and reporting on the Institute activities.

Endowment

The Group's Endowment Fund at 31 December 2017 amounts to RUB 3,772,043 thousand (31 December 2016: RUB 3,772,043 thousand) and was initially funded by one-off donations to the Subsidiary.

The Endowment Fund has a long-term endowment strategy designed to enhance the Institute's financial independence and support the implementation of its strategy. The primary goal of the Endowment Fund investment policy is to ensure the reliability, liquidity, yield and diversification of investments. According to the Investment Declaration approved by the Management Board of the Endowment Fund, investments can be made in the state bonds

of the Russian Federation, Russian corporate bonds (from a specified list) and Russian Ruble deposits with state-owned banks.

Analysis of the structure of the Endowment Fund portfolio as at 31 December 2017 (Figure 3) shows that Russian government bonds represent 45% of the total portfolio. Russian government bonds increased from RUB 1,916,189 thousand to RUB 2,138,398 thousand. Accordingly, the proportion of Corporate and Municipal bonds decreased. As a whole, the increase in fair value of the bond portfolios as at 31 December 2017 was insignificant when compared to 31 December 2016 (from RUB 3,847,723 thousand to RUB 3,890,525 thousand).

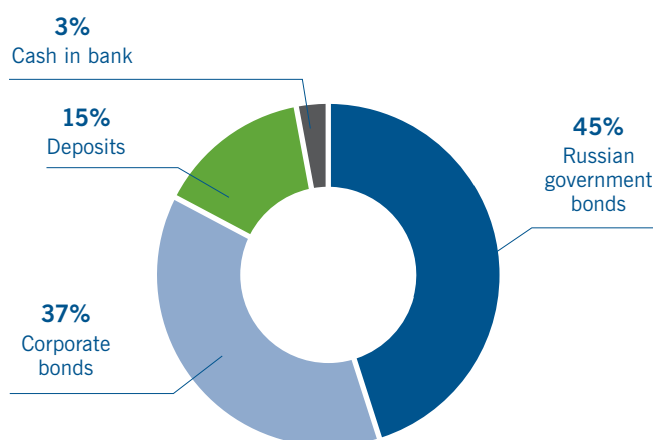


Figure 3. Structure of Endowment Fund portfolio (2017)

Endowment funds are managed by Management Company Alfa Capital and VTB Capital

Asset Management Company, both of which are professional asset management companies.

All bonds are measured at fair value. The movements in listed bonds in 2017-2016 were as follows:

	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2016 (UNAUDITED)
Carrying amount at 1 January	3,847,723	2,118,076
Net change of fair value	61,180	42,053
Interest income	342,613	269,291
Interest received	(322,585)	(232,610)
Additions	615,866	2,875,602
Disposals	(188,976)	(192,559)
Repayment on maturity and/or portion repayments	(465,296)	(1,032,130)
Carrying amount at 31 December	3,890,525	3,847,723

As a whole the Endowment Fund portfolio (including all assets) grew during the year to RUB 4,719,462 thousand,

an increase of RUB 161,516 thousand or 4% from December 31, 2016 (Figure 4).

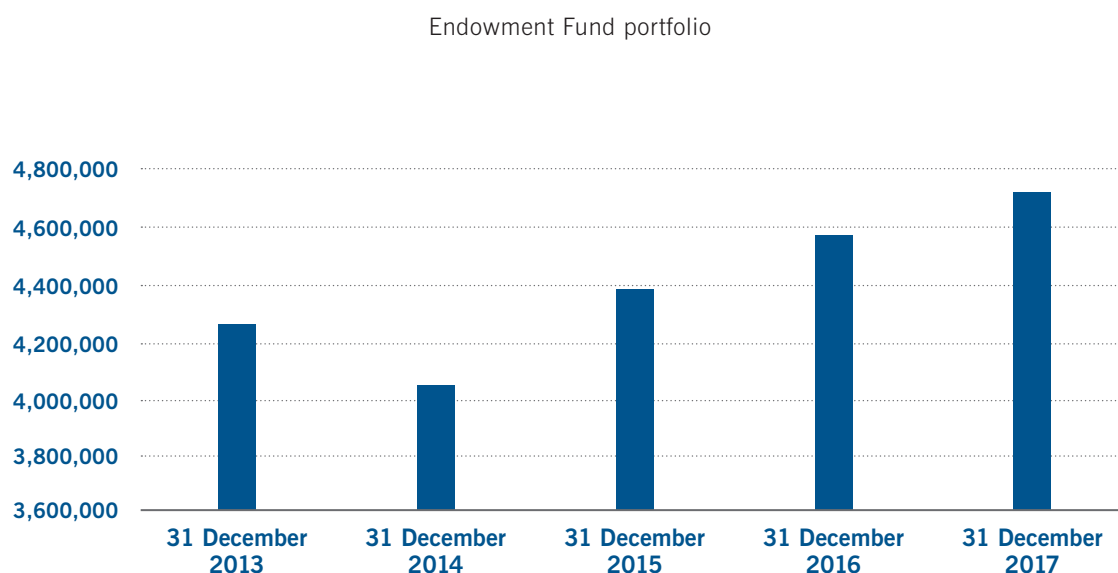


Figure 4. Endowment Fund portfolio

Liabilities

As at 31 December 2017 the largest category within the Institute's RUB 6,556,093 thousand liability balance is deferred grants, which represent 94% of the total (2016 – 97%). The Group's operations are financed by means of grants received from Skolkovo Foundation and other government institutions, such as the Russian Science Foundation and the Ministry of Education and Science. The majority of the grants are received from Skolkovo Foundation as part of the State Program on Innovation Development of the Russian Federation. The grants are provided to finance the development, ongoing operations

and activities of the Group. According to the grant agreements, Skolkovo Foundation and other donors have the right to control the use of the funds given to the Institute and may demand repayment of the grant if it is not applied towards the specified objectives.

Deferred grants are classified as non-current and current deferred grants. Non-current deferred grants represent the carrying amount of non-current assets purchased from grant funds. Current deferred grants represent the unused amount of grants intended for use in operational and research activities (Figure 5).

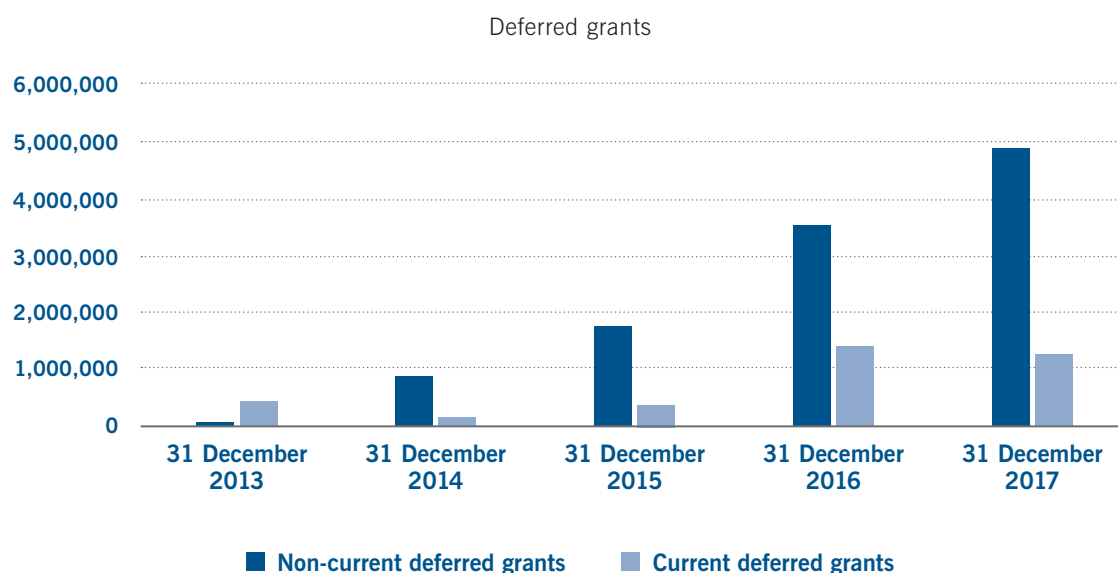


Figure 5. Institute's deferred grants

The movements in these current and non-current deferred grants in 2017 and 2016 were as follows:

	CURRENT DEFERRED GRANTS	NON-CURRENT DEFERRED GRANTS	TOTAL
Balance at 1 January 2016 (unaudited)	391,594	1,759,854	2,151,448
Grants received	5,547,542	-	5,547,542
Repayment of grants	(22,014)	-	(22,014)
Grants recognised in income to match related expenses	(2,404,995)	(322,239)	(2,727,234)
Reclassification to long-term grants	(2,172,980)	2,172,980	-
Balance at 31 December 2016 (unaudited)	1,339,147	3,610,595	4,949,742
Grants received	5,502,966	-	5,502,966
Repayment of grants	(53,793)	-	(53,793)
Grants recognised in income to match related expenses	(3,675,132)	(580,508)	(4,255,640)
Reclassification to long-term grants	(1,846,644)	1,846,644	-
Balance at 31 December 2017	1,266,544	4,876,731	6,143,275

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Income

In 2017, total income from all sources amounted to RUB 4,933,049 thousand,

RUB 1,421,354 thousand more than in 2016, a rise of 40% (Figure 6).

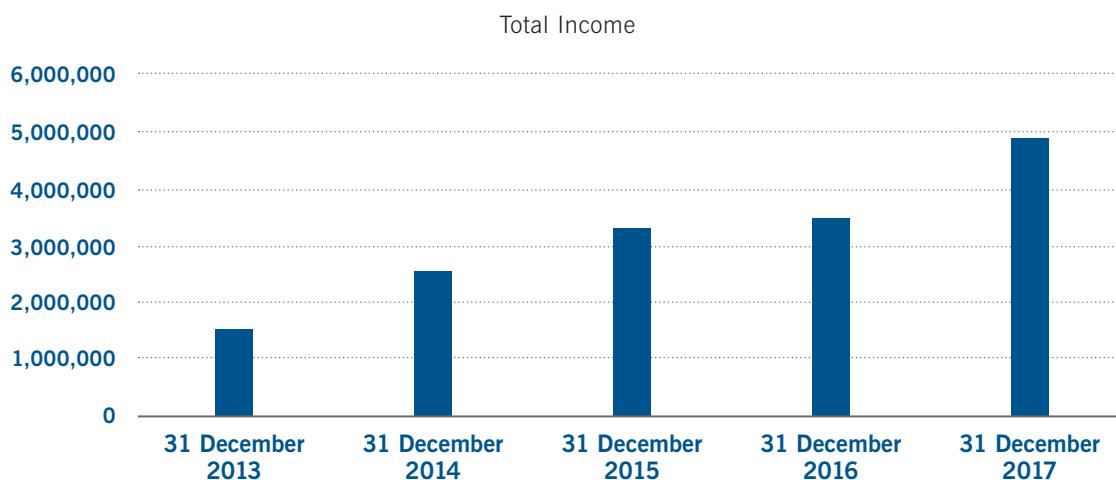


Figure 6. Group's total income

Total income consists of income from grants recognition, income from Endowment activity (including other comprehensive

income), revenue from commercial contracts, finance and other income (Figure 7).

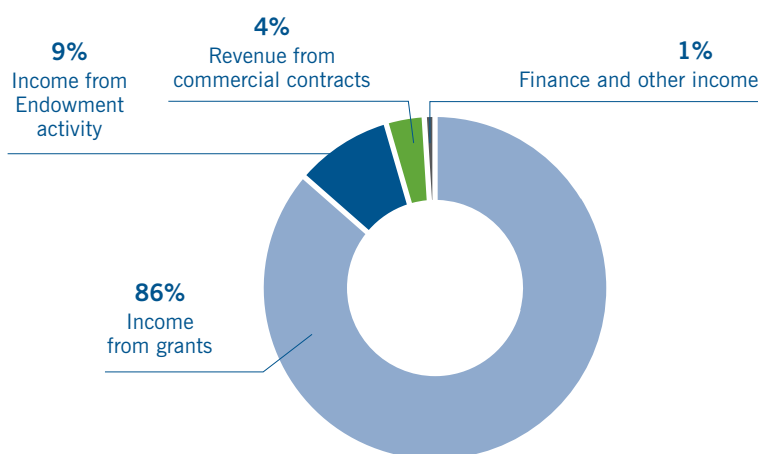


Figure 7. Group's income by sources (2017)

The increase in total income is mainly driven by an increase in the recognition of grants provided by the Skolkovo Foundation and other government institutions to finance the Institute's development, research and ongoing operations. Grants increased from RUB 2,727,234 thousand in 2016 to RUB 4,255,640 thousand in 2017. Income from grants is recognized in the amount of the corresponding incurred expenses.

There is a positive dynamic of revenue from commercial contracts: from RUB 186,748 thousand in 2016 to RUB 193,263 thousand in 2017. A key reason for the increase in operating

revenue was the expansion of industry-funded research. There were ongoing projects with more than 40 large and medium-sized companies (Gazprom Neft, Sberbank, Rusagro, Biocad, Soyuzsnab, Agrolazma, ISS Reshetnev and others), as well as negotiations on new potential R&D projects (Rostelecom, MMK, Severstal, S7, Atomstroieksport, Rosatom, IBS, Soyuzsnab, Data-advance, Yandex, Novostom, Slavneft, AKADO, UAC, Soevyy Kompleks, Generium, Doka Gene technologies, EN Energy and others).

Also in 2017 the Institute launched professional training programs. The Center for Computational

and Data-Intensive Science and Engineering delivered a professional training course in Data Analysis to two groups of Sberbank employees this year. The Space Center, with the Moscow Aviation Institute (MAI), presented an advanced course in Systems Engineering for engineers from leading Russian industrial corporations, including United Aircraft Corporation, United Engine Corporation and

United Shipbuilding Corporation. It is planned to significantly expand such activities in 2018.

Income from Endowment activity regarding the bonds and deposit portfolio in 2017 dipped slightly by 3%. Finance and other income includes interest income on cash in bank and sponsorship contributions. It decreased in 2017 as a consequence of reduced level of cash in bank during the year.

Expenditure

In 2017, total expenditure amounted to RUB 4,664,989 thousand, RUB 1,655,786

thousand more than in 2016, a rise of 55% (Figure 8).

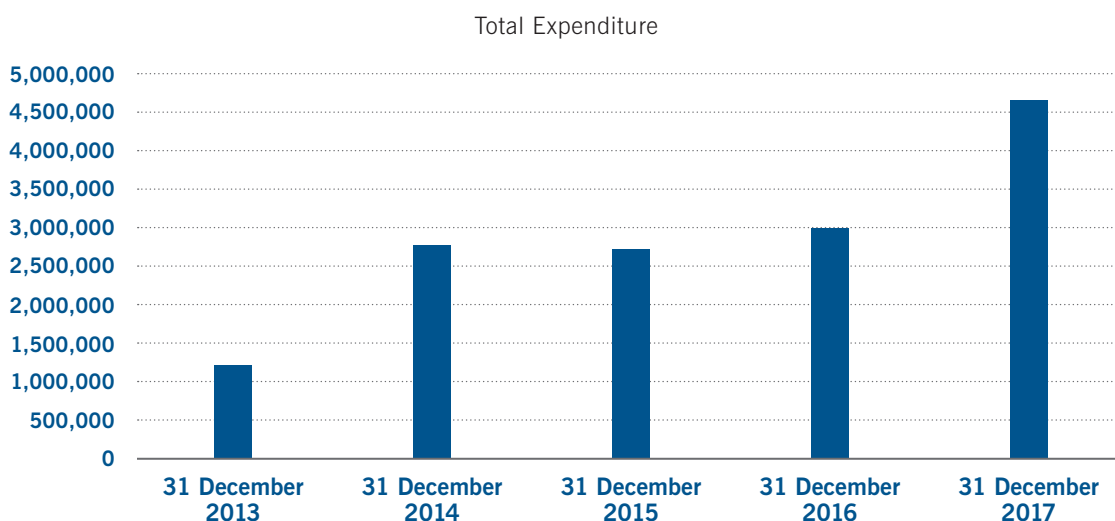


Figure 8. Group's total expenditure

During the year Skoltech incurred expenses related to the following primary activities: research, education, admin-

istrative support, campus development, Skolkovo ecosystem and entrepreneurship (Figure 9).

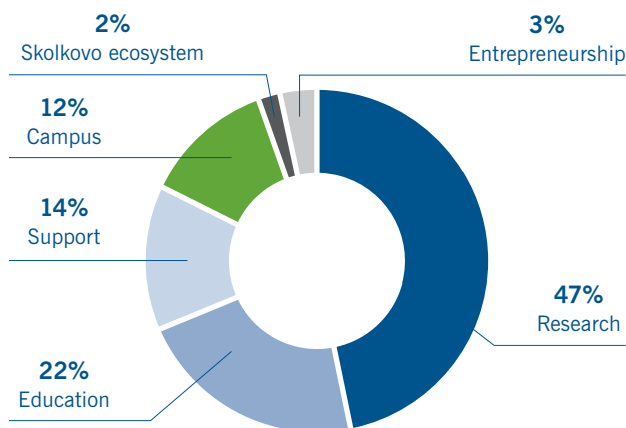


Figure 9. Expenditure on Group activities (2017)

The Institute's expenditures for 2017 can also be analyzed by the nature of the expenses (Figure 10).

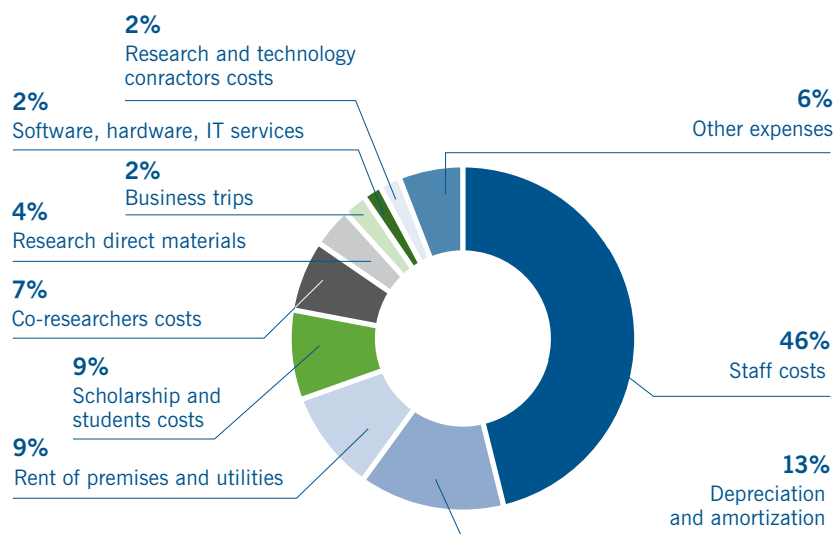


Figure 10. Expenditure by cost categories (2017)

The Institute's expenditure includes staff costs, depreciation and amortization, rent of premises and utilities, scholarship and student costs and other. In 2017, staff costs represent 46% of total. They consist of costs on salaries, compulsory social security contributions, medical insurance, reimbursement of accommodation, and benefits in kind provided to employees. Staff costs grew from RUB 1,622,099 thousand in 2016 to RUB 2,156,008 thousand in 2017, a rise of 33%. This increase is mainly due to higher staff numbers recruited in order to improve teaching effectiveness, overall research capability, to support the increased contract activities. In 2017, 24 faculty members and 72 researchers joined Skoltech, as well as other staff involved in supporting activities.

Depreciation and amortization represent 13% of total. They grew significantly by 75% from RUB 359,979 thousand to RUB 629,047 thousand as a consequence of the increasing level of capital expenditure this year. In 2017, rent of premises and utilities increased by RUB 168,420 thousand, or 63% as compared to 2016. It includes costs for the rental, design, renovation and interior fit-outs of laboratories. This growth was primary driven by the increase in the number of laboratories. Scholarships and student costs grew by RUB 135,850 thousand, or 52% in comparison to 2016. Growth was also connected with the increase in student enrollment from 481 to 706. There was also higher spending in 2017 for co-researchers, which are partner institutions under joint research programs. They grew from RUB 70,825 thousand in 2016 to RUB 310,695 thousand in 2017.

Independent auditor's report



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INDEPENDENT AUDITOR'S REPORT

To the members of the Board of Trustees of the Autonomous non-profit educational organisation of higher education "Skolkovo Institute of Science and Technology"

Opinion

We have audited the consolidated financial statements of the Autonomous non-profit educational organisation of higher education "Skolkovo Institute of Science and Technology" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in surplus and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial statements, our responsibility is to read the other information 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.

When we read the Annual report, if, based on the work we perform, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2016 are unaudited.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRSs"), and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

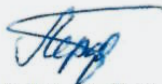
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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.


Vladimir Perfiliev
Team leader



27 August 2018



The Entity: Autonomous educational organisation of higher education "Skolkovo Institute of Science and Technology"

Certificate of state registration of non-profit organisation was issued by Moscow Region department of the Ministry of Justice of Russian Federation at 03.04.2013.

Primary State Registration Number: 1115000005922.

Certificate of registration in the Unified State Register: № 50 013059389 of 25.10.2011, issued by Federal Tax Service for Moscow region.

Address: Russia, 143025, Moscow region, Odintsovsky district, Skolkovo village, Novaya st., bld. 100.

Audit Firm: AO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

(in thousands of Russian Roubles)

	NOTES	31 DECEMBER 2017	31 DECEMBER 2016 (UNAUDITED)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	3	4,897,188	3,640,961
Intangible assets	4	151,695	114,620
Deferred tax assets		8,321	6,719
Total non-current assets		5,057,204	3,762,300
CURRENT ASSETS			
Inventory		145	14,470
Accounts receivable		84,493	74,515
Income tax prepayment		20,806	17,542
Prepayments and other current assets		1,366,116	1,243,710
Financial investments	1	3,922,022	3,847,723
Deposits	2	687,606	663,215
Cash and cash equivalents		805,159	629,397
Total current assets		6,886,347	6,490,572
Total assets		11,943,551	10,252,872
ACCUMULATED SURPLUS AND LIABILITIES			
ACCUMULATED SURPLUS AND OTHER COMPREHENSIVE INCOME			
Endowment Fund		3,772,043	3,772,043
Accumulated surplus		1,595,968	1,429,329
Accumulated other comprehensive income/(loss)		19,447	(74,270)
Total accumulated surplus and other comprehensive income		5,387,458	5,127,102
NON-CURRENT LIABILITIES			
Deferred grants		4,876,731	3,610,595
Total non-current liabilities		4,876,731	3,610,595
CURRENT LIABILITIES			
Accounts payable		382,520	162,632
Advances received		30,298	13,396
Deferred grants		1,266,544	1,339,147
Total current liabilities		1,679,362	1,515,175
Total liabilities		6,556,093	5,125,770
Total accumulated surplus and liabilities		11,943,551	10,252,872

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of Russian Roubles)

	NOTES	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2016 (UNAUDITED)
INCOME			
Grants		4,255,640	2,727,234
Income from Endowment Fund		357,450	355,810
Revenue from research contracts and other income		195,016	202,401
Total income		4,808,106	3,285,445
EXPENDITURE			
Staff costs		(2,156,008)	(1,622,099)
Depreciation and amortization		(629,047)	(359,979)
Rent of premises and utilities		(434,258)	(265,838)
Other expenses		(1,445,676)	(761,287)
Total expenditure		(4,664,989)	(3,009,203)
NET INCOME FROM OPERATION		143,117	276,242
Finance income		31,226	118,992
NET INCOME BEFORE INCOME TAX		174,343	395,234
Income tax expense		(7,704)	(24,393)
SURPLUS FOR THE YEAR		166,639	370,841
OTHER COMPREHENSIVE INCOME			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of available-for-sale financial assets in the current year		61,180	42,053
Net gain on available-for-sale financial assets reclassified to profit or loss upon disposal		32,537	65,205
OTHER COMPREHENSIVE INCOME FOR THE YEAR		93,717	107,258
Total comprehensive income for the year		260,356	478,099

CONSOLIDATED STATEMENT OF CHANGES IN SURPLUS FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of Russian Roubles)

	ENDOWMENT FUND	ACCUMULATED SURPLUS	ACCUMULATED OTHER COMPREHENSIVE INCOME / (LOSS)	TOTAL
BALANCE AT 1 JANUARY 2016 (UNAUDITED)	3,772,043	1,058,448	(181,528)	4,649,003
Surplus for the year	-	370,841	-	370,841
Other comprehensive income	-	-	107,258	107,258
Total comprehensive income for the year	-	370,841	107,258	478,099
BALANCE AT 31 DECEMBER 2016 (UNAUDITED)	3,772,043	1,429,329	(74,270)	5,127,102
Surplus for the year	-	166,639	-	166,639
Other comprehensive income	-	-	93,717	93,717
Total comprehensive income for the year	-	166,639	93,717	260,356
BALANCE AT 31 DECEMBER 2017	3,772,043	1,595,968	19,447	5,387,458



CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of Russian Roubles)

	NOTES	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2016 (UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES			
INCOME BEFORE INCOME TAX		174,343	395,234
<i>Adjustments for:</i>			
Depreciation and amortization	3,4	629,047	359,979
Grants		(4,255,640)	(2,727,234)
Income from Endowment Fund		(357,450)	(355,810)
Interest income on cash and cash equivalents		(40,357)	(109,542)
Interest income accrued		(509)	-
Allowance for trade receivables and prepayments		9,268	-
Other		116	315
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL		(3,841,182)	(2,437,058)
(Increase) / decrease in accounts receivable and advances paid		(173,307)	(772,711)
(Increase) / decrease in inventory		14,326	10,992
Increase / (decrease) in accounts payable and advances received		207,776	(189,579)
CHANGES IN WORKING CAPITAL		48,795	(951,298)
Grants received		5,502,966	5,547,542
Grants repaid		(53,793)	(22,014)
Interest income received on bonds		331,976	251,353
Interest income received on deposits		79,203	239,551
Interest income received on cash and cash equivalents		40,357	109,542
Income tax paid		(12,570)	(46,103)
NET CASH FLOWS FROM OPERATING ACTIVITIES		2,095,752	2,691,515
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,803,868)	(2,135,006)
Purchase of intangible assets		(89,581)	(62,523)
Proceeds from sale / (purchases) of bonds		28,838	(1,664,051)
(Placement of cash on) /receipts of cash from deposits, net		(24,391)	1,467,565
Purchase of promissory notes		(30,988)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(1,919,990)	(2,394,015)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		629,397	331,897
NET INCREASE IN CASH AND CASH EQUIVALENTS		175,762	297,500
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		805,159	629,397

Summary of significant accounting policies

BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Group applied the International Financial Reporting Standards since 1 January, 2013. The consolidated financial statements are prepared on the historical cost basis, except for investments classified as available-for-sale financial

assets that have been measured at fair value. The national currency of the Russian Federation is the Russian rouble ("RUB"), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand, unless otherwise stated.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the parent organization and its subsidiary- Endowment Fund. All intra-group assets and

liabilities, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

GOING CONCERN

Management prepares consolidated financial statements on a going concern basis. In making this judgment management considers the Group's financial position, current intentions, access to the financing, current plans of the major funding body - Skolkovo Foundation

to continue provision of grants in accordance with the State Program on Innovation Development of the Russian Federation approved by Russian Government, and analyzes the impact of the situation in the financial markets on the operations of the Group.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment (hereinafter – PPE) are stated at cost less accumulated depreciation. Costs of minor repairs and day-to-day maintenance are

expensed when incurred. Depreciation of PPE is calculated using the straight-line method over their estimated useful lives as follows:

<i>Laboratory equipment</i>	1 – 20 years;
<i>Server and networking equipment</i>	2 – 10 years;
<i>Computers and telecom equipment</i>	1 – 10 years;
<i>Building engineering systems, office equipment</i>	2 – 15 years.

INTANGIBLE ASSETS

Intangible assets stated at cost less accumulated amortization. The Group's intangible assets have definite useful lives and primarily include computer software. Acquired computer software licenses are

capitalized on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortized using the straight-line method over their useful lives (1-10 years).

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized when a Group becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' (HTM) investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and

purpose of the financial assets and is determined at the time of initial recognition.

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as loans and receivables, HTM investments or financial assets at FVTPL. Listed bonds held by the Group that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to changes in interest income calculated using the effective interest method are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

ENDOWMENT FUND

Endowments received represent one-off donations to the subsidiary towards establishment of the Endowment Fund. The establishment and operations of such fund

are governed by the Russian legislation. Income received from the management of endowment funds is used in the financing of the operating activities of the Institute.

GRANTS

Grants are receipts of cash to perform principal activities in the area of professional education programs and scientific research. Grants comprise:

- Skolkovo Foundation grants;
- Other government grants.

The Group applies IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" to account for all government grants and other forms of

government assistance. Grants relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Grants relating to the purchase of non-current assets are included in non-current liabilities as deferred grants and are credited to profit or loss on a straight - line basis over the expected lives of the related assets. Charitable contributions (donations and sponsorships) are recognized as an income as they are received.

INCOME

The Group derives its income from two types of activities:

- Non-commercial operations - The Institute is a non-profit organization and the ma-

jority of the Group activities fall into this category.

- Commercial operations - consist of fixed fee research contracts, services and other activities.

REVENUE FROM RESEARCH CONTRACTS

For contracts where rendering of services are performed in stages and the outcome of a transaction are estimated reliably the revenue is recognized in proportion to the stage of completion. The percentage of completion of

research contracts is calculated by the reference to the proportion of the actual costs incurred in the project budgeted costs. Revenue from other research contracts is recognized in accordance with IAS 18 "Revenue".

EXPENSES

The Group uses the classification of expenses by their nature in a statement of profit or loss and other comprehensive income. It

recognizes expenses in the period in which they were actually incurred, and not at the time of payment.

FOREIGN CURRENCY

Monetary assets and liabilities denominated at the reporting date in foreign currencies have been translated into RUB at the exchange rate at the reporting date. Foreign currency transactions are accounted for at the exchange rate at the transaction date. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign

currencies are recognized in profit or loss.

As at 31 December 2017, the official rate of exchange as determined by the Central Bank of the Russian Federation, between the RUB and the US Dollar was RUB 57.6002:US Dollar 1.00 (31 December 2016: RUB 60.6569:US Dollar 1.00); between the RUB and Euro: RUB 68.8668: Euro 1.00 (31 December 2016: RUB 63.8111: Euro 1.00).

INCOME TAX

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

CLASSIFICATION OF ACCUMULATED SURPLUS

The net income generated from operations is all used to finance the operating activities of the Institute and is not distributed to the founders. The founders do not have any rights relating to the net income of the Group nor on residual assets in case of the Group's liquidation. Therefore, in the

consolidated financial statements, the management of the Group concluded that the Group doesn't classify its net assets as equity, and total accumulated comprehensive income is presented as a separate category in the Group consolidated statement of financial position.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

(in thousands of Russian Roubles)

1. Financial investments

The Endowment Fund made investment in the state bonds of the Russian Federation, Russian municipal bonds, and Russian corporate bonds.

	31 DECEMBER 2017	31 DECEMBER 2016 (UNAUDITED)
AFS INVESTMENTS		
Russian government bonds	2,138,398	1,916,189
Corporate bonds	1,752,127	1,877,872
Municipal bonds	-	53,662
Total AFS investments	3,890,525	3,847,723
FINANCIAL ASSETS AT AMORTIZED COST		
Promissory notes	31,497	-
Total financial assets at amortized cost	31,497	-
Total financial investments	3,922,022	3,847,723

Analysis by credit quality of available-for-sale investments outstanding at 31 December 2017 is as follows (Fitch rating, for the bonds not rated by Fitch, S&P rating was used):

	RUSSIAN GOVERNMENT BONDS	CORPORATE BONDS	TOTAL
BBB-	2,138,398	1,030,357	3,168,755
BB+	-	721,770	721,770
Total AFS investments	2,138,398	1,752,127	3,890,525

Analysis by credit quality of financial assets outstanding at 31 December 2016 is as follows (Fitch rating, for the bonds not rated by Fitch, S&P rating was used):

	RUSSIAN GOVERNMENT BONDS	CORPORATE BONDS	MUNICIPAL BONDS	TOTAL
BBB-	1,714,647	1,162,145	-	2,876,792
BB+	-	715,727	-	715,727
Unrated	201,542	-	53,662	255,204
Total AFS investments	1,916,189	1,877,872	53,662	3,847,723

The primary factor that the Group considers in determining whether an investment is impaired is its overdue status. There are no overdue investments as of 31 December 2017 and 31 December 2016.

All are categorised as Level 1 in the fair value hierarchy. Fair value gains/ (losses) arising during the year were comprised of:

	YEAR ENDED 31 DECEMBER 2017	YEAR ENDED 31 DECEMBER 2016 (UNAUDITED)
Russian government bonds	33,158	32,354
Corporate bonds	28,022	12,708
Municipal bonds	-	(3,009)
Total net gains for the year	61,180	42,053

2. Deposits

Deposits are comprised of RUB de-nominated term deposits with original maturity of more than three months (interest rate 2017: 7.70%-7.75%; 2016: 9.5%-10.5%). Analysis by credit quality

of deposits outstanding at 31 December 2017 and at 31 December 2016 is as follows (S&P rating and Fitch rating of the banks, where the Group held its deposits, were used):

	31 DECEMBER 2017	31 DECEMBER 2016 (UNAUDITED)
Ba1	557,606	663,215
BB+	130,000	-
Total deposits	687,606	663,215

3. Property, plant and equipment

Movements in the carrying amount of property, plant and equipment were as follows:

	LABORATORY EQUIPMENT	SERVER AND NETWORKING EQUIPMENT	COMPUTERS AND TELECOM EQUIPMENT	BUILDING ENGINEERING SYSTEMS, OFFICE EQUIPMENT	CONSTRUCTION IN PROGRESS	TOTAL
COST						
BALANCE AT 1 JANUARY 2016 (UNAUDITED)	535,715	258,753	116,098	39,831	993,187	1,943,584
Additions	371,373	18,443	30,724	125,665	1,615,553	2,161,758
Transfers	229,573	-	-	-	(229,573)	-
Disposals	-	-	(201)	(304)	-	(505)
BALANCE AT 31 DECEMBER 2016 (UNAUDITED)	1,136,661	277,196	146,621	165,192	2,379,167	4,104,837
Additions	1,387,494	81,246	53,307	221,955	88,882	1,832,884
Transfers	456,816	33,893	3,000	29,839	(523,548)	-
Disposals	(125)	-	(307)	-	-	(432)
BALANCE AT 31 DECEMBER 2017	2,980,846	392,335	202,621	416,986	1,944,501	5,937,289
DEPRECIATION						
BALANCE AT 1 JANUARY 2016 (UNAUDITED)	(61,302)	(51,719)	(23,917)	(7,415)	-	(144,353)
Depreciation for the period	(186,723)	(85,293)	(31,821)	(15,874)	-	(319,711)
Disposals	-	-	121	67	-	188
BALANCE AT 31 DECEMBER 2016 (UNAUDITED)	(248,025)	(137,012)	(55,617)	(23,222)	-	(463,876)
Depreciation for the period	(371,782)	(86,111)	(45,306)	(73,343)	-	(576,542)
Disposals	19	-	299	-	-	317
BALANCE AT 31 DECEMBER 2017	(619,788)	(223,123)	(100,624)	(96,565)	-	(1,040,101)
NET BOOK VALUE						
BALANCE AT 1 JANUARY 2016 (UNAUDITED)	474,413	207,034	92,181	32,416	993,187	1,799,231
BALANCE AT 31 DECEMBER 2016 (UNAUDITED)	888,636	140,184	91,004	141,970	2,379,167	3,640,961
BALANCE AT 31 DECEMBER 2017	2,361,057	169,212	101,997	320,421	1,944,501	4,897,188

Construction in progress as of 31 December 2017 includes:

- Prepayments for campus construction in the amount of RUB 1,016,873 thousand and assets under installation for campus construction – RUB 25,804 thousand (31 December 2016: RUB 650,055 thousand and RUB 5,069 thousand accordingly);
- Prepayments for other PPE in the amount of RUB 838,176 thousand and assets under installation for other PPE – RUB 63,649 thousand (31 December 2016: RUB 1,313,126 thousand and RUB 410,917 thousand accordingly).

4. Intangible assets

Movements in the carrying amount of intangible assets were as follows:

	SOFTWARE	OTHER INTANGIBLE ASSETS	DEVELOPMENT AND OTHER COSTS	TOTAL
COST				
BALANCE AT 1 JANUARY 2016 (UNAUDITED)	139,539	318	10,124	149,981
Additions	28,364	1,265	32,894	62,523
Transfers	9,003	-	(9,003)	-
BALANCE AT 31 DECEMBER 2016 (UNAUDITED)	176,906	1,583	34,015	212,504
Additions	86,325	-	3,256	89,581
Transfers	5,897	-	(5,897)	-
BALANCE AT 31 DECEMBER 2017	269,128	1,583	31,374	302,085
AMORTIZATION				
BALANCE AT 1 JANUARY 2016 (UNAUDITED)	(57,552)	(64)	-	(57,616)
Amortization for the period	(40,100)	(168)	-	(40,268)
BALANCE AT 31 DECEMBER 2016 (UNAUDITED)	(97,652)	(233)	-	(97,885)
Amortization for the period	(52,323)	(182)	-	(52,505)
BALANCE AT 31 DECEMBER 2017	(149,975)	(415)	-	(150,390)
NET BOOK VALUE				
BALANCE AT 1 JANUARY 2016 (UNAUDITED)	81,987	253	10,125	92,365
BALANCE AT 31 DECEMBER 2016 (UNAUDITED)	79,254	1,351	34,015	114,620
BALANCE AT 31 DECEMBER 2017	119,153	1,168	31,374	151,695

5. Financial risk management

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits. The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's providing services on credit terms and other transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets is as follows.

	31 DECEMBER 2017	31 DECEMBER 2016 (UNAUDITED)
ACCOUNTS RECEIVABLE	84,493	74,515
Trade receivables	66,977	23,354
Interest receivables	11,716	43,369
Receivables due from customers for long-term research contracts	5,800	7,792
FINANCIAL INVESTMENTS	3,922,022	3,847,723
Russian government bonds	2,138,398	1,916,189
Corporate bonds	1,752,127	1,877,872
Municipal bonds	-	53,662
Promissory notes	31,497	-
DEPOSITS	687,606	663,215
CASH AND CASH EQUIVALENTS	805,159	629,397
Total maximum exposure to credit risk	5,499,280	5,214,850

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

Credit risks concentration. The Group is exposed to concentrations of credit risk. As at 31 December 2017 the Group had 13 counterparties (31 December 2016: 8 counterparties) with aggregated receivables balances above RUB 1 million and accounted for approximately 97% (2016: 99 %) of all the receivables outstanding.

The Group's bank deposits are held only with 2 (2016: 1) banks thus exposing the Group to a concentration of credit risk.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in interest bearing assets. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks are based on a change in a factor while holding all other factors constant. In practice this is unlikely

to occur and changes in some of the factors may be correlated – for example, changes in interest rate. If the market value of available-for-sale investments would increase or decrease by 5% respectively, with all other variables held constant, the Group's total comprehensive income for the year would have been RUB 389,053 thousand (2016: RUB 384,772 thousand) higher or lower, respectively. Managing the impact of market risks is carried by third party asset managers on behalf of the Group through management of the Group's investment portfolio.

Currency exchange risk. The Group receives financing in Russian Roubles. All deposits and available-for-sale investments are denominated in Russian Roubles. The Group purchases certain PPE, materials and services from abroad. Thus the Group is exposed to foreign exchange risk, primary relating to US Dollar and Euro to Russian Rouble exchange rate.

Foreign currencies denominated assets represent cash balances on bank accounts and liabilities give rise to foreign currency exchange exposure.

The table below summarizes the Group's exposure to foreign currency exchange rate at the reporting date:

	31 DECEMBER 2017			31 DECEMBER 2016 (UNAUDITED)		
	MONETARY FINANCIAL ASSETS	MONETARY FINANCIAL LIABILITIES	NET BALANCE SHEET POSITION	MONETARY FINANCIAL ASSETS	MONETARY FINANCIAL LIABILITIES	NET BALANCE SHEET POSITION
US Dollars	9,155	(5,802)	3,353	714	(1,043)	(329)
Euro	2,263	(11,730)	(9,467)	6,827	(1,103)	5,724
CHF	-	(4,543)	(4,543)	-	-	-
Total	11,418	(22,075)	(10,657)	7,541	(2,146)	5,395

As at 31 December 2017, if Russian Rouble would weaken or strengthen by 5% against the USD, Euro and CHF with all other variables held constant, the Group's total comprehensive income for the year would have been by RUB 533 thousand (2016: RUB 270 thousand) higher or lower, respectively. This would result mainly from foreign exchange gains or losses on translation of Euro denominated cash on bank accounts and accounts payable.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Management does not consider the interest rate risk as significant to the Group's business as interest rates are fixed for the deposits and available-for-sale-investments.

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources. Liquidity risk is managed by finance department. Management monitors monthly rolling forecasts of the Group's cash flows.

The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group's liquidity portfolio comprises cash and cash equivalents (Note 12), deposits and available-for-sale bonds (Note 5). Management estimates that the liquidity portfolio cash and bank deposits can be realized in cash within a day in order to meet unforeseen liquidity requirements.

The table below shows liabilities at reporting dates by their remaining contractual maturity.

	31 DECEMBER 2017		31 DECEMBER 2016 (UNAUDITED)	
	TRADE PAYABLES AND ACCRUED LIABILITIES	OTHER PAYABLES	TRADE PAYABLES AND ACCRUED LIABILITIES	OTHER PAYABLES
Demand and less than 1 month	50,834	17,392	14,570	9,211
From 1 to 3 months	50,410	743	4,648	-
From 3 to 12 months	36,240	35,741	23,727	23,440
Total	137,484	53,876	42,945	32,651



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The information in this report was correct at the time of printing
(September 2018). The University reserves the right to alter or amend
the material contained in this publication.