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Skoltech

Skolkovo Institute of Science and Technology

Annual Financial Report

Contents

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 2018 with comparative information as at 31 December 2017. 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, etc. 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 5,304,410 thousand. They decreased in comparison with as at 31 December 2017 by RUB 83,048 thousand or 1,54%. This was due to the deterioration of Endowment Fund results in 2018. Other comprehensive income, which shows a net change in the fair value of the financial investment portfolio, decreased by RUB 147,141 thousand. There were unfavorable market conditions that caused a significant drop in bonds price in 2018. As for the results of the Institute's performance in 2018, they increased in comparison with 2017. Revenue from the commercial contracts related to the rendering of research, educational and other services tripled to RUB 596,721 thousand.

Capital investments

As at 31 December 2018, the largest category within the Group's RUB 11,779,270 thousand total asset balance is Property, plant and equipment (PPE), which represents 40% of the total (31 December 2017: 41%). 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. In 2018, the carrying amount for PPE decreased a little, by 5% (Figure 1). This is due to both a reduction in additions from RUB 1,832,884 thousand in 2017 to RUB 754,965 thousand in 2018 and an increase in depreciation from RUB 576,542 thousand in 2017 to RUB 998,475 thousand in 2018.

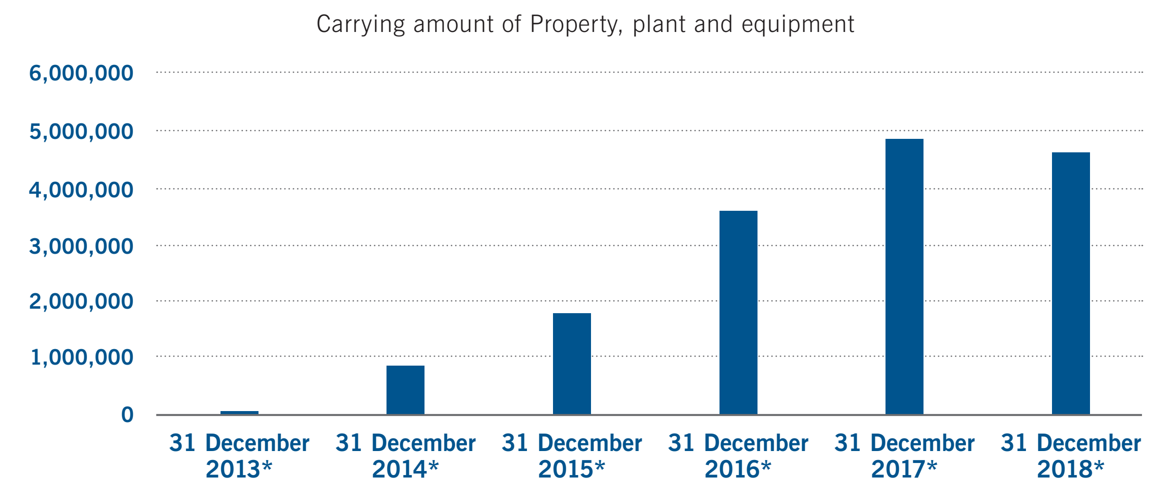
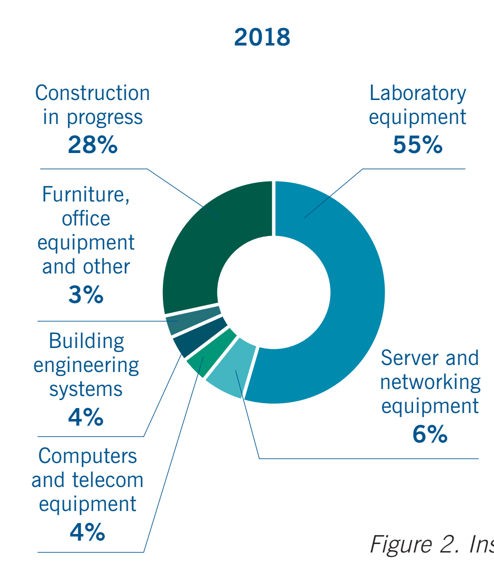


Figure 1. Institute's PPE

*Consolidated Financial Statements for the years 2013, 2014, 2017, 2018 are audited, for 2015-2016- unaudited.

Analysis of the 2018 structure of PPE by groups (Figure 2) shows that more than half of all PPE consists of Laboratory equipment. In 2018-2017, Skoltech invested significantly into developing its laboratory infrastructure. At the reporting date it's carrying amount increased by 8% in comparison with 2017. During these years a dozen new laboratories were opened or substantially refitted. During 2018 Skoltech opened the Joint Laboratory on Addititve Manufacturing (CDMM) with Oerlikon (Switzerland) and the Technical University of Munich and the Joint Laboratory for Modeling of Multiphase Systems (CHR) with Gazprom Neft JSC. The largest part of PPE additions in 2018 was made for the Skoltech Center for Computational and Data-Intensive Science and Engineering, the Center for Energy Science and Technology, the Skoltech Center for Photonics and Quantum Materials and the Center of Life Sciences.



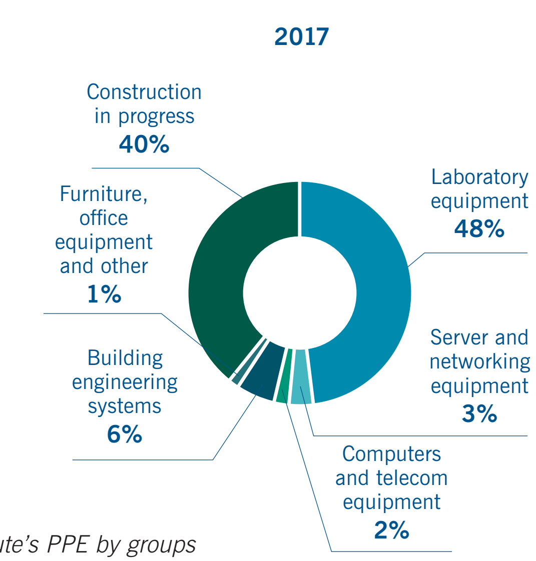


Figure 2. Institute's PPE by groups

As at 31 December 2018, Construction in progress represents 28% of the total for PPE. The largest component consists of advance payments in the amount of RUB 1,016,873 thousand 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. The new campus was partially opened in October 2018. The teaching and learning spaces, cohort/project-based space, seminar and conference rooms, and office space will be open to Skoltech in 2019. The lab/research facilities design and construction program continues to move according to schedule and will be completed by the end of 2021.

The growth of investments in intangible assets in 2018 is mainly related to the purchase of software. The carrying amount for Intangible assets increased as at 31 December by 6% in comparison with as at 31 December 2017. In 2018, software purchases included the data analytics platform, "CoBrain Analytics," for the purposes of the CoBrain project (project on developing a system for processing large neural data to support the implementation of NeuroNet technologies).

Current assets

As at 31 December 2018, the largest categories within the Institute's current asset balance are financial investments (see Endowment Funds) and prepayments to suppliers. Prepayments to suppliers totaled RUB 1,169,980 thousand as at 31 December 2018 (31 December 2017: RUB 1,189,451 thousand).

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 2015-2018. The prepayments primarily consist of advance payments to the partners under these Master Research Agreements.

Endowment

The Group's Endowment Fund as at 31 December 2018 amounted to RUB 3,772,043 thousand (31 December 2017: RUB 3,772,043 thousand) and was initially funded by one-off donations from industry.

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

The fair value of the bond portfolio as at 31 December 2018 is RUB 4,554,905 thousand (31 December 2017: RUB 3,890,525 thousand). All bonds are measured at fair value. The movements in listed bonds in 2018- 2017 were as follows:

	YEAR-END 31 DECEMBER 2018	YEAR-END 31 DECEMBER 2017
Carrying amount at 1 January	**3,890,525**	**3,847,723**
Net change of fair value	(59,279)	61,180
Interest income	312,310	342,613
Interest received	(381,791)	(322,585)
Additions	2,153,700	615,866
Disposals	(859,908)	(188,976)
Repayment on maturity and/or portion repayments	(500,653)	(465,296)
Carrying amount at 31 December	**4,554,905**	**3,890,525**

The analysis of the structure of the Endowment Fund portfolio (including bonds, deposits, cash in bank) as at 31 December 2018 (Figure 3) shows that Corporate bonds represent 72% (31 December 2017: 37%) of the total portfolio. Corporate bonds increased from RUB 1,752,127 thousand to RUB 3,323,386 thousand. Accordingly, the Russian government bonds decreased proportionately. There were no deposits at the end of 2018.

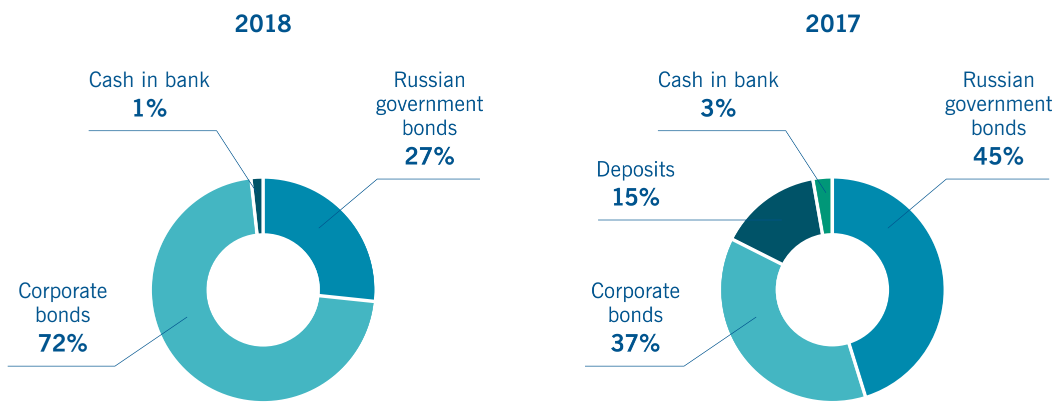


Figure 3. Structure of Endowment Fund portfolio

Endowment funds are managed by Management Company Alfa Capital and Management Company VTB Capital Asset Management, both of which are professional asset management companies. The financial results from the management companies' investment activity in 2018 are lower than those of 2017 because of lower interest rates and unfavorable market conditions that caused a significant drop of the price of bonds.

As a whole, the Endowment Fund portfolio (including all assets) decreased during the year from 4,719,462 to RUB 4,618,421 thousand, a decrease of RUB 101,041 thousand or 2% from December 31, 2017 (Figure 4).

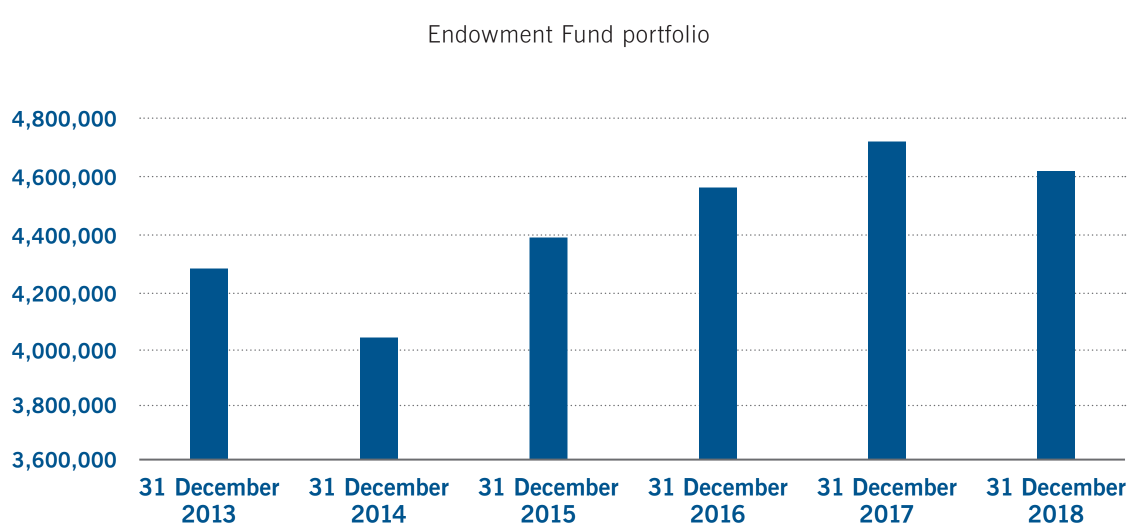


Figure 4. Endowment Fund portfolio

Liabilities

As at 31 December 2018, the largest category within the Institute's RUB 6,474,860 thousand liability balance is deferred grants, which represent 92% of the total (2017 – 94%).

The Group's operations are financed by means of grants received from the 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 the 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, the 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. Under normal circumstances, deferred grants are transferred to income when the terms of the grants are met.

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).

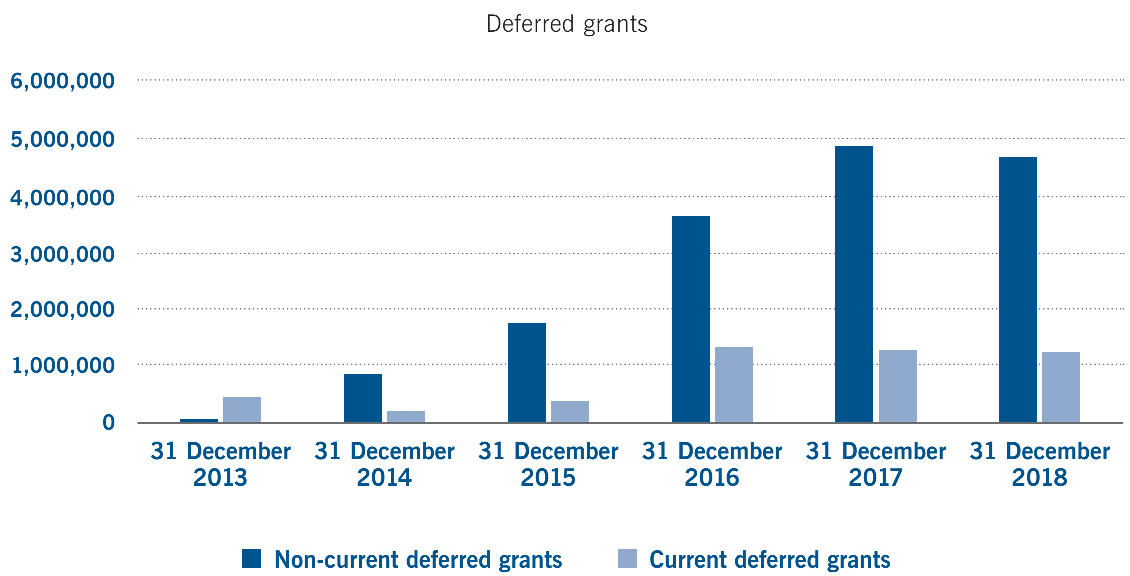


Figure 5. Institute's deferred grants

The movements in these current and non-current deferred grants in 2018 and 2017 were as follows:

	CURRENT DEFERRED GRANTS	NON-CURRENT DEFERRED GRANTS	TOTAL
Balance at 1 January 2017	**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**
Grants received	5,563,932	-	5,563,932
Repayment of grants	(1,843)	-	(1,843)
Grants recognised in income to match related expenses	(4,717,230)	(1,038,723)	(5,755,954)
Reclassification to long-term grants	(850,224)	850,224	-
Balance at 31 December 2018	**1,261,178**	**4,688,232**	**5,949,410**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Income

In 2018, total income from all sources (including finance (costs)/income and other comprehensive (loss)/income) amounted to RUB 6,613,498 thousand, RUB 1,680,449 thousand more than in 2017, an increase of 34% (Figure 6).

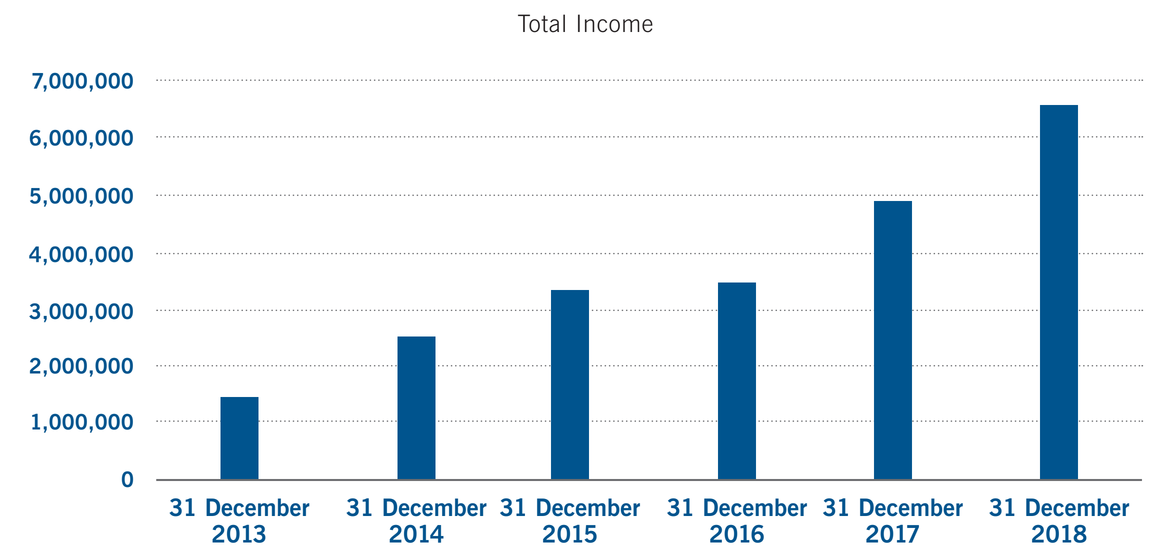


Figure 6. Group's total income

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).

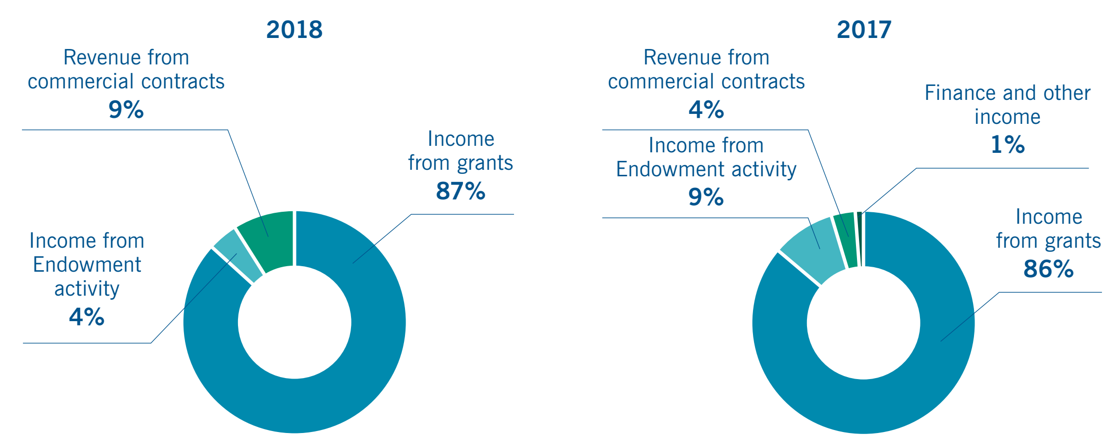


Figure 7. Group's income by sources

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. Income from grants increased from RUB 4,255,640 thousand in 2017 to RUB 5,755,954 thousand in 2018. Income from grants is recognized in the amount of the corresponding incurred expenses.

Revenue from commercial contracts increased significantly from RUB 193,263 thousand in 2017 to RUB 578,223 thousand in 2018. Revenue from contracts includes revenue from research contracts, from educational, consulting and other services. A key reason for the increase in revenue from customers was the expansion of industry-funded research. The largest customers of the Institute are Gazprom Neft NTC, Lukoil-Engineering, Innopolis University, Huawei Technologies Co. Ltd., the Lebedev Physical Institute, VNIIneft JSC, the National Research Nuclear University, AM Munich Research Institute GmbH.

Income from Endowment activity regarding the bonds portfolio (including other comprehensive (loss)/income) and deposits in 2018 dipped significantly by 40% from RUB 451,167 thousand in 2017 to RUB 268,863 thousand in 2018 (see Endowment Funds for bonds portfolio). During 2018, cash from the deposits portfolio was invested into the bonds portfolio. As a result, interest income on term deposits decreased from RUB 47,550 thousand in 2017 to RUB 14,678 thousand in 2018.

Expenditure

In 2018, total expenditure amounted to RUB 6,677,248 thousand, RUB 2,012,259 thousand more than in 2017, representing an increase of 43% (Figure 8).

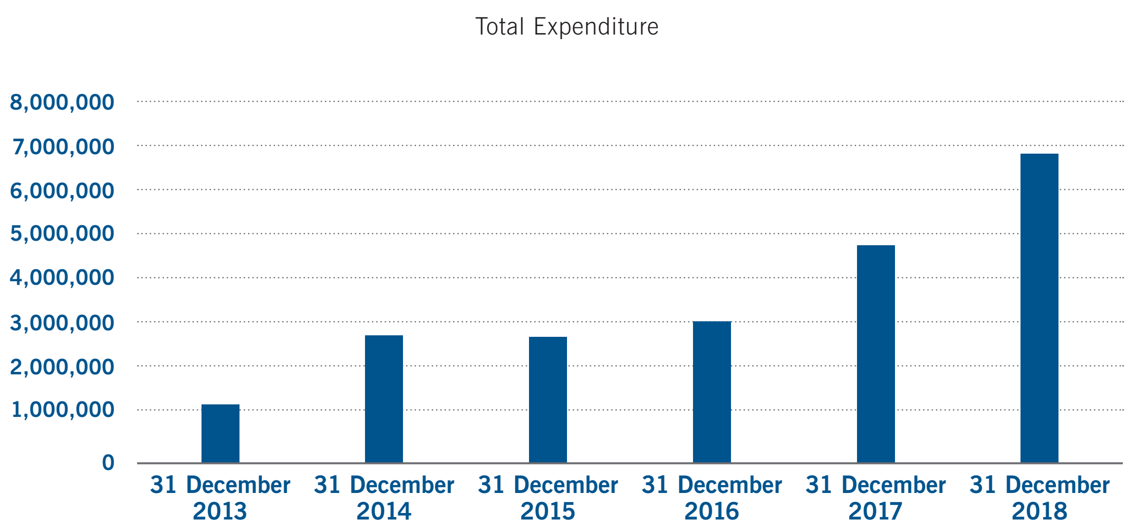


Figure 8. Group's total expenditure

During the year, Skoltech incurred expenses related to the following primary activities: research, education, administrative support, campus development, Skolkovo ecosystem and entrepreneurship (Figure 9).

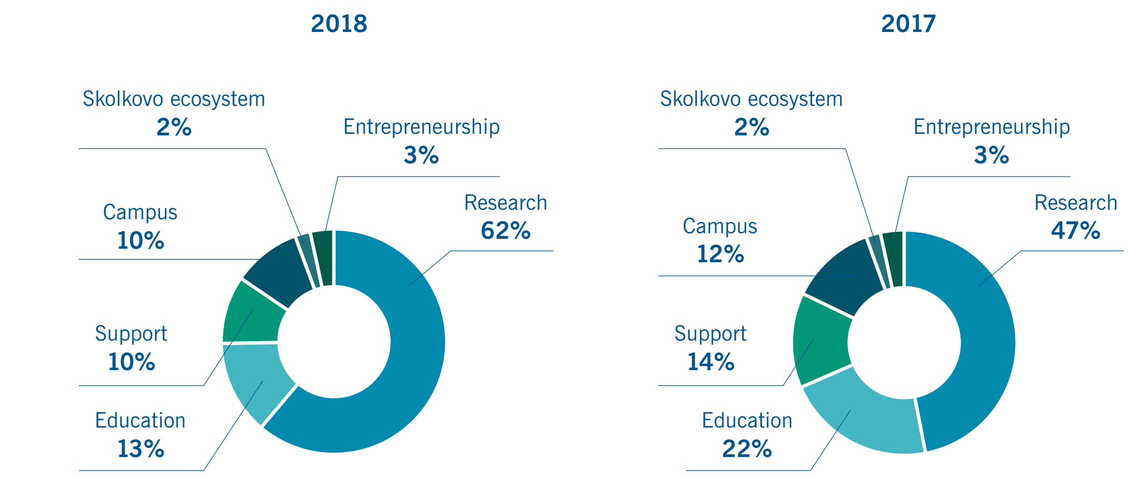


Figure 9. Expenditure on Group activities

The Institute's expenditures for 2018 and 2017 can also be analyzed by the nature of the expenses (Figure 10).

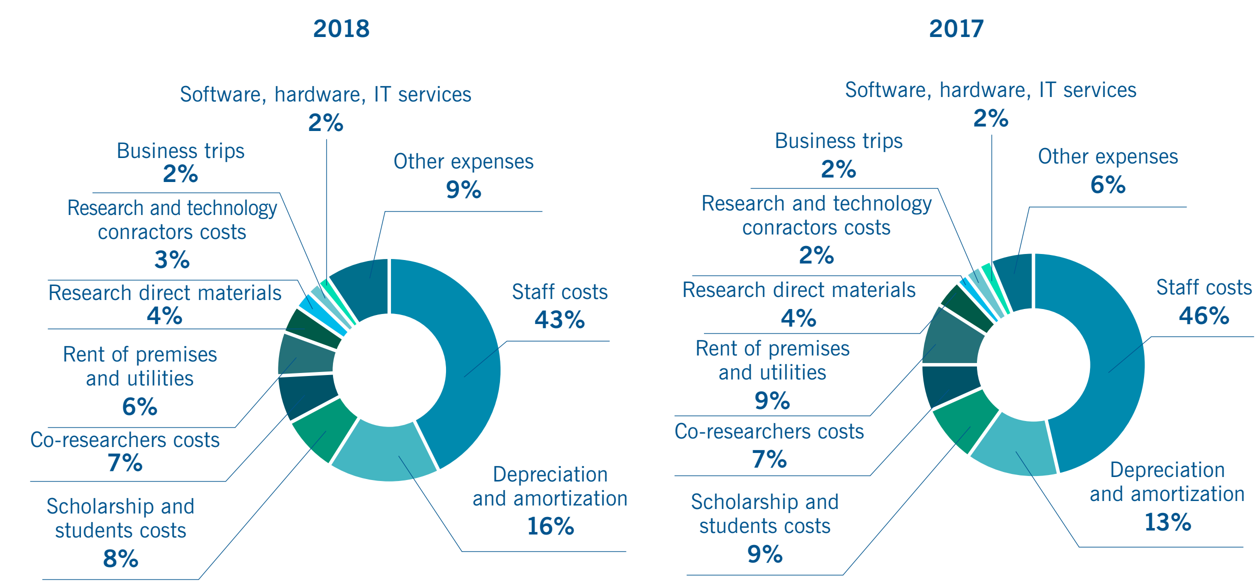


Figure 10. Expenditure by cost categories

The Institute's expenditure includes staff costs, depreciation and amortization, scholarship and student costs, co-researchers costs, rent of premises and utilities and other. In 2018, staff costs represented 43% of the total. They primarily consist of costs on salaries, compulsory social security contributions, bonuses, medical insurance, reimbursement of accommodation and benefits in kind provided to employees.

Staff costs grew from RUB 2,156,008 thousand in 2017 to RUB 2,856,711 thousand in 2018, an increase of 33%. This is mainly due to higher staff numbers recruited in order to improve teaching effectiveness, overall research capability and to support increased contract activities. The number of staff of the Institute as at 31 December 2018 was 822 persons; as at December 31, 2017 – 619 people, representing an increase of 33%.

Depreciation and amortization represent 16% of total expenditure. They grew significantly by 73% from RUB 629,047 thousand in 2017 to RUB 1,086,208 thousand in 2018 as a consequence of the increasing level of capital costs this year and previous years.

There was also higher spending in 2018 for co-researchers, which are partner institutions under joint research programs. They grew from RUB 310,695 thousand in 2017 to RUB 453,238 thousand in 2018, or 46%.

Scholarships and student costs grew by RUB 156,929 thousand, or 39% in comparison to 2017. Growth was connected with the increase in student enrollment from 706 to 977, representing an increase of 38%.

Rent of premises and utilities expenses this year did not change significantly.

Independent auditor’s report

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INDEPENDENT AUDITOR’S REPORT

Independent auditor’s report on the consolidated financial statements in accordance with International Financial Reporting Standards of the Skoltech with an unqualified audit opinion has been issued by the audit firm AO “Deloitte & Touche CIS” on 21 June 2019. This report provides an extract from the audited consolidated financial statements.

Extract from the auditor’s report:

“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 2018, 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 2018, 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.

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 statement. ...”

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

(in thousands of Russian Roubles)

	NOTES	31 DECEMBER 2018	31 DECEMBER 2017
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	4	4,653,299	4,897,188
Intangible assets	5	160,049	151,695
Deferred tax assets		12,823	8,321
Other non-current assets		27,890	-
Total non-current assets		**4,854,061**	**5,057,204**
CURRENT ASSETS			
Inventory		-	145
Accounts receivable		313,802	84,493
Income tax prepayment		-	20,806
Prepayments and other current assets		1,226,337	1,352,867
Financial investments	1	4,554,905	3,922,022
Bank deposits	2	-	687,606
Cash and cash equivalents		830,165	805,159
Total current assets		**6,925,209**	**6,873,098**
Total assets		**11,779,270**	**11,930,302**
ACCUMULATED SURPLUS AND LIABILITIES			
ACCUMULATED SURPLUS AND OTHER COMPREHENSIVE INCOME			
Endowment Fund		3,772,043	3,772,043
Accumulated surplus		1,552,392	1,595,968
Accumulated other comprehensive (loss)/income		(20,025)	19,447
Total accumulated surplus and other comprehensive income		**5,304,410**	**5,387,458**
NON-CURRENT LIABILITIES			
Deferred grants		4,688,232	4,876,731
Total non-current liabilities		**4,688,232**	**4,876,731**
CURRENT LIABILITIES			
Accounts payable		511,172	369,271
Advances received		14,278	30,298
Deferred grants		1,261,178	1,266,544
Total current liabilities		**1,786,628**	**1,666,113**
Total liabilities		**6,474,860**	**6,542,844**
Total accumulated surplus and liabilities		**11,779,270**	**11,930,302**

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of Russian Roubles)

	NOTES	YEAR-END 31 DECEMBER 2018	YEAR-END 31 DECEMBER 2017
INCOME			
Grants		5,755,954	4,255,640
Income from investments of Endowment Fund		322,287	357,450
Revenue from contracts with customers and other income	3	596,721	195,016
Total income		**6,674,962**	**4,808,106**
EXPENDITURE			
Staff costs		(2,856,711)	(2,156,008)
Depreciation and amortization		(1,086,208)	(629,047)
Scholarships and students costs		(556,486)	(399,557)
Co-researchers costs		(453,238)	(310,695)
Rent of premises and utilities		(429,385)	(434,258)
Other expenses		(1,295,220)	(735,424)
Total expenditure		**(6,677,248)**	**(4,664,989)**
NET (LOSS)/INCOME FROM OPERATIONS		**(2,286)**	**143,117**
Finance (costs)/income		(8,040)	31,226
NET (LOSS)/INCOME BEFORE INCOME TAX		**(10,326)**	**174,343**
Income tax expense		(19,298)	(7,704)
(LOSS)/INCOME FOR THE YEAR		**(29,624)**	**166,639**
OTHER COMPREHENSIVE (LOSS)/INCOME			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of financial investment in the current year		(59,279)	61,180
Net loss on financial investment reclassified to profit or loss upon disposal		5,855	32,537
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(53,424)**	**93,717**
Total comprehensive (loss)/income for the year		**(83,048)**	**260,356**

CONSOLIDATED STATEMENT OF CHANGES IN SURPLUS FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of Russian Roubles)

	ENDOWMENT FUND	ACCUMULATED SURPLUS	ACCUMULATED OTHER COMPREHENSIVE INCOME / (LOSS)	TOTAL
BALANCE AT 1 JANUARY 2017	**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**
Impact of adopting IFRS 9 at 1 January 2018	-	(13,952)	13,952	-
BALANCE AT 1 JANUARY 2018 AFTER ADOPTION	**3,772,043**	**1,582,016**	**33,399**	**5,387,458**
Loss for the year	-	(29,624)	-	(29,624)
Other comprehensive loss	-	-	(53,424)	(53,424)
Total comprehensive loss for the year	**-**	**(29,624)**	**(53,424)**	**(83,048)**
BALANCE AT 31 DECEMBER 2018	**3,772,043**	**1,552,392**	**(20,025)**	**5,304,410**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of Russian Roubles)

	NOTES	YEAR-END 31 DECEMBER 2018	YEAR-END 31 DECEMBER 2017
CASH FLOWS FROM OPERATING ACTIVITIES			
INCOME BEFORE INCOME TAX		**(10,327)**	**174,343**
Adjustments for:			
Depreciation and amortization	4,5	1,086,208	629,047
Grants		(5,755,954)	(4,255,640)
Income from investments of Endowment Fund		(322,287)	(357,450)
Allowance for trade receivables and prepayments		77,693	9,268
Interest income on cash and cash equivalents		(17,184)	(40,357)
Discount expenses		9,810	-
Interest income accrued		(823)	(509)
Other		378	116
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN WORKING CAPITAL		**(4,932,486)**	**(3,841,182)**
Increase in accounts receivable and advances paid		(222,023)	(160,058)
Decrease in inventory		145	14,326
(Decrease)/Increase in accounts payable and advances received		(5,189)	194,527
CHANGES IN WORKING CAPITAL		**(227,067)**	**48,795**
Grants received		5,563,932	5,502,966
Grants repaid		(1,843)	(53,793)
Interest income received on bonds		381,791	331,976
Interest income received on deposits		26,394	79,203
Interest income received on cash and cash equivalents		17,184	40,357
Income tax paid		(1,376)	(12,570)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**826,528**	**2,095,752**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(632,221)	(1,803,868)
Purchase of intangible assets		(96,088)	(89,581)
Proceeds from/(purchases) sales of bonds		(793,139)	28,838
Receipts of cash from/(placement of cash on) deposits, net		687,606	(24,391)
Proceeds from/(purchase of) promissory notes		32,320	(30,988)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(801,522)**	**(1,919,990)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**805,159**	**629,397**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**25,006**	**175,762**
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		**830,165**	**805,159**

Basis of preparation of consolidated financial statements

STATEMENT OF COMPLIANCE

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). The Group applied the International Financial Reporting Standards since 1 January 2013.

BASIS OF MEASUREMENT

The consolidated financial statements are prepared on the historical cost basis, except for financial investments that have been measured at fair value.

FUNCTIONAL AND PRESENTATION CURRENCY

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. 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 Foundation of the New Technologies Development and Commercialization Centre (hereinafter "Skolkovo Foundation") (major funding body) 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.

NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRSs and IFRIC interpretations adopted in the current year

The Group has adopted all IFRSs and Interpretations that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2018.

IFRS 9 Financial Instruments

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" for annual periods after 1 January 2018. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. In the current year, the Group has applied IFRS 9 "Financial Instruments" (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The Group has elected a modified retrospective approach whereby differences arising from the adoption of IFRS 9 have been recognized directly in accumulated surplus as of 1 January 2018.

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

IFRS 16 LEASES

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

Summary of significant accounting policies

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:

Laboratory equipment	**1 – 20 years**;
Server and networking equipment	**2 – 10 years**;
Computers and telecom equipment	**1 – 10 years**;
Building engineering systems	**2 – 15 years**;
Furniture, office equipment and other	**2 – 20 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:

Software	**1 – 10 years**

FINANCIAL INSTRUMENTS

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

Starting from 1 January 2018, financial assets are classified in the following categories:

- Financial assets subsequently measured at amortized cost;
- Financial assets subsequently measured at fair value through other comprehensive income (FVTOCI);
- Financial assets subsequently measured at fair value through profit or loss (FVTPL).

MEASUREMENT OF FINANCIAL ASSETS

- Debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost;
- Debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);

- All other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Listed bonds held by the Group that are traded in an active market are classified as FVTOCI and are stated at fair value at the end of each reporting period. Changes in the carrying amount of FVTOCI 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 FVTOCI 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.

INVESTMENTS IN OTHER COMPANIES

The Group makes investments in other companies (start-up organizations) by entering into the following agreements:

- Investment agreement and acceleration agreement or,
- Agreement with founders to establish a legal entity or,
- Agreement of sale and purchase of a share in the charter capital of legal entity or,
- Other agreements.

These investments are accounted for as:

1. Equity instruments designated as at FVTOCI (measured at fair value through other comprehensive income) or,
2. Investments in associates and joint ventures, if the Group has significant influence or has joint control over investments or,
3. Subsidiaries, if the Group has control over investments.

ENDOWMENT FUNDS

Endowments received represent one-off donations to the subsidiary towards establishment of the endowment fund. The establishment and operations of such a fund are governed by the Russian legislation. Income received from the management of endowment funds comprises interest income on bonds and deposits, net gains or losses on available-for-sale investments reclassified to profit or loss upon disposal or impairment and net gains or losses on disposal of other investments, and is used in the financing of the operating activities of the Institute.

Income from the management of endowment funds may be distributed to the Institute and used for the financing of its activities without any restrictions.

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 majority 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 over time and the outcome of a transaction are estimated reliably the revenue is recognized in proportion to the stage of completion.

EXPENSES

The Group uses the classification of expenses by their nature in a statement of profit or loss and other comprehensive income. The Group 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 2018, the official rate of exchange as determined by the Central Bank of the Russian Federation, between the RUB and the US Dollar was RUB 69.4706:US Dollar 1.00 (31 December 2017: RUB 57.6002:US Dollar 1.00); between the RUB and Euro: RUB 79.4605: Euro 1.00 (31 December 2017: RUB 68.8668: 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. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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 neither to the net income of the Group nor to residual assets in case of the Group's liquidation. Total accumulated comprehensive income is presented as a separate category "Total accumulated surplus and other comprehensive income" in the Group consolidated statement of financial position.

MEASUREMENT OF FAIR VALUE

When measuring the fair value of an asset or liability, the Group uses observable market data as much as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2018

(in thousands of Russian Roubles)

1. Financial investments

The Endowment Fund made investments in the state bonds of the Russian Federation and Russian corporate bonds.

	31 DECEMBER 2018	31 DECEMBER 2017
FINANCIAL INVESTMENTS		
Russian government bonds	1,231,519	2,138,398
Corporate bonds	3,323,386	1,752,127
Total financial investments of FVOCI	**4,554,905**	**3,890,525**
FINANCIAL ASSETS AT AMORTIZED COST		
Promissory notes	-	31,497
Total financial assets at amortized cost	**-**	**31,497**
Total financial investments	**4,554,905**	**3,922,022**

Analysis by credit quality of financial investments outstanding as at 31 December 2018 is as follows (Fitch rating, for the bonds not rated by Fitch, S&P rating was used):

	RUSSIAN GOVERNMENT BONDS	CORPORATE BONDS	TOTAL
BBB-	1,231,519	2,533,431	3,764,950
BB+	-	747,116	747,116
Baa3	-	42,839	42,839
Total financial investments	**1,231,519**	**3,323,386**	**4,554,905**

Analysis by credit quality of financial assets outstanding as 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**

The movements in financial investments are as follows:

	YEAR'S END 31 DECEMBER 2018	YEAR'S END 31 DECEMBER 2017
Carrying amount at 1 January	**3,890,525**	**3,847,723**
Net change of fair value	(59,279)	61,180
Interest income	312,310	342,613
Interest received	(381,791)	(322,585)
Additions	2,153,700	615,866
Disposals	(859,908)	(188,976)
Repayments	(500,653)	(465,296)
Carrying amount at 31 December	**4,554,905**	**3,890,525**

In accordance with IAS 39 the primary factor, that the Group considers in determining whether an investment is impaired is its overdue status. There were no overdue investments as of 31 December 2017. In accordance with IFRS 9 as at 1 January 2018 and 31 December 2018, loss allowance has been recognized. Probability of default rates and loss given default are based on information from Bloomberg.

The movements in expected credit losses that have been recognized for the financial investments are as follows:

	YEAR'S END 31 DECEMBER 2018
Balance as at 31 December 2017 under IAS 39	**-**
Adjustment upon application of IFRS 9	13,952
Balance as at 1 January 2018 under IFRS 9	**13,952**
Decrease in loss allowance from financial investments	(854)
Balance as at 31 December 2018	**13,098**

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

	YEAR'S END 31 DECEMBER 2018	YEAR'S END 31 DECEMBER 2017
Russian government bonds	(17,658)	33,158
Corporate bonds	(41,621)	28,022
Total net (losses)/gains for the year	**(59,279)**	**61,180**

2. Bank deposits

Deposits are comprised of RUB denominated term deposits with original maturity of more than three months (interest rate 2017: 7.70%-7.75%). Analysis by credit quality of deposits outstanding as at 31 December 2017 is as follows (S&P rating and Fitch rating of the banks, where the Group held its deposits, were used):

	31 DECEMBER 2018	31 DECEMBER 2017
Ba1	-	557,606
BB+	-	130,000
Total deposits	**-**	**687,606**

3. Revenue from contracts with customers and other income

	YEAR'S END 31 DECEMBER 2018	YEAR'S END 31 DECEMBER 2017
Revenue from research contracts	548,595	182,666
Revenue from educational services	8,223	1,525
Revenue from consulting services	4,985	3,812
Revenue from licenses	372	-
Revenue from other services	13,627	3,237
Total revenue from contracts with customers	**575,802**	**191,240**
Rental income	2,421	2,023
Other income	18,498	1,753
Total revenue from contracts with customers and other income	**596,721**	**195,016**

4. 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	FURNITURE, OFFICE EQUIPMENT AND OTHER	CONSTRUC-TION IN PROGRESS	TOTAL
COST							
BALANCE AT 1 JANUARY 2017	**1,136,661**	**277,196**	**146,621**	**115,309**	**49,883**	**2,379,167**	**4,104,837**
Additions	1,387,494	81,246	53,307	202,297	19,658	88,882	1,832,884
Transfers	456,816	33,893	3,000	28,222	1,617	(523,548)	-
Disposals	(125)	-	(307)	-	-	-	(432)
BALANCE AT 31 DECEMBER 2017	**2,980,846**	**392,335**	**202,621**	**345,828**	**71,158**	**1,944,501**	**5,937,289**
Additions	349,966	143,439	75,611	5,284	93,315	87,350	754,965
Transfers	433,669	155,655	76,615	19,830	38,100	(723,869)	-
Disposals	(799)	-	(463)	-	(3)	-	(1,265)
BALANCE AT 31 DECEMBER 2018	**3,763,682**	**691,429**	**354,384**	**370,942**	**202,570**	**1,307,982**	**6,690,989**
DEPRECIATION							
BALANCE AT 1 JANUARY 2017	**(248,025)**	**(137,012)**	**(55,617)**	**(6,015)**	**(17,207)**	**-**	**(463,876)**
Depreciation for the period	(371,782)	(86,112)	(45,306)	(60,322)	(13,021)	-	(576,542)
Disposals	18	-	299	-	-	-	317
BALANCE AT 31 DECEMBER 2017	**(619,789)**	**(223,123)**	**(100,624)**	**(66,337)**	**(30,228)**	**-**	**(1,040,101)**
Depreciation for the period	(595,648)	(170,311)	(67,277)	(136,487)	(28,752)	-	(998,475)
Disposals	540	-	346	-	-	-	886
BALANCE AT 31 DECEMBER 2018	**(1,214,897)**	**(393,434)**	**(167,555)**	**(202,824)**	**(58,980)**	**-**	**(2,037,690)**
NET BOOK VALUE							
BALANCE AT 1 JANUARY 2017	**888,636**	**140,184**	**91,004**	**109,294**	**32,676**	**2,379,167**	**3,640,961**
BALANCE AT 31 DECEMBER 2017	**2,361,057**	**169,212**	**101,997**	**279,491**	**40,930**	**1,944,501**	**4,897,188**
BALANCE AT 31 DECEMBER 2018	**2,548,785**	**297,995**	**186,829**	**168,118**	**143,590**	**1,307,982**	**4,653,299**

Construction in progress as of 31 December 2018 includes:

- Prepayments for campus construction in the amount of RUB 1,016,873 thousand and assets under installation for campus construction – RUB 51,319 thousand (31 December 2017: RUB 1,016,873 thousand and RUB 25,804 thousand accordingly);
- Prepayments for other PPE in the amount of RUB 154,698 thousand and assets under installation for other PPE – RUB 85,092 thousand (31 December 2017: RUB 838,176 thousand and RUB 63,649 thousand accordingly).

5. 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 2017	**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**
Additions	94,451	500	1,136	96,087
Transfers	21,123	112	(21,235)	-
BALANCE AT 31 DECEMBER 2018	**384,702**	**2,195**	**11,275**	**398,172**
AMORTIZATION				
BALANCE AT 1 JANUARY 2017	**(97,652)**	**(233)**	**-**	**(97,885)**
Amortization for the period	(52,323)	(182)	-	(52,505)
BALANCE AT 31 DECEMBER 2017	**(149,975)**	**(415)**	**-**	**(150,390)**
Amortization for the period	(87,543)	(190)	-	(87,733)
BALANCE AT 31 DECEMBER 2018	**(237,518)**	**(605)**	**-**	**(238,123)**
NET BOOK VALUE				
BALANCE AT 1 JANUARY 2017	**79,254**	**1,350**	**34,015**	**114,619**
BALANCE AT 31 DECEMBER 2017	**119,153**	**1,168**	**31,374**	**151,695**
BALANCE AT 31 DECEMBER 2018	**147,184**	**1,590**	**11,275**	**160,049**

6. 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 risks), 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 minimize 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 2018	31 DECEMBER 2017
OTHER NON-CURRENT ASSETS	**27,887**	**-**
Lease deposit	27,887	
ACCOUNTS RECEIVABLE	**313,802**	**84,493**
Trade receivables	277,212	66,977
Interest receivables	-	11,716
Receivables due from customers for long-term research contracts	-	5,800
Lease deposit	36,590	-
FINANCIAL INVESTMENTS	**4,554,905**	**3,922,022**
Russian government bonds	1,231,519	2,138,398
Corporate bonds	3,323,386	1,752,127
Promissory notes	-	31,497
DEPOSITS	**-**	**687,606**
CASH AND CASH EQUIVALENTS	**830,165**	**805,159**
Total maximum exposure to credit risk	**5,726,759**	**5,499,280**

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 2018, the Group had 21 counterparties (31 December 2017: 13 counterparties) with aggregated receivable balances above RUB 1 million accounting for approximately 95% (2017: 97 %) of all the receivables outstanding.

The Group's bank deposits are held in 2017 only with 2 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 financial 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 227,745 thousand (2017: RUB 196,101 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 Rubles. Financial investments are denominated in Russian Rubles. The Group purchases certain PPE, materials and services from abroad. Thus, the Group is exposed to foreign exchange risk, primarily relating to US Dollar and Euro to Russian Ruble exchange rate.

Foreign currencies denominated assets represent cash balances on bank accounts, trade receivables 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 2018			31 DECEMBER 2017		
	MONETARY FINANCIAL ASSETS	MONETARY FINANCIAL LIABILITIES	NET BALANCE SHEET POSITION	MONETARY FINANCIAL ASSETS	MONETARY FINANCIAL LIABILITIES	NET BALANCE SHEET POSITION
US Dollars	31,860	(1,541)	30,319	9,155	(5,802)	3,353
Euro	32,759	(3,961)	28,798	2,263	(11,730)	(9,467)
GBR	-	(442)	(442)	-	-	-
CHF	-	-	-	-	(4,543)	(4,543)
Total	**64,619**	**(5,944)**	**58,675**	**11,418**	**(22,075)**	**(10,657)**

As at 31 December 2018, if Russian Ruble would weaken or strengthen by 5% against the USD, Euro and GBR with all other variables held constant, the Group's total comprehensive income for the year would have been by RUB 2,934 thousand (2017: RUB 533 thousand) higher or lower, respectively. This would result mainly from foreign exchange gains or losses on translation of Euro and USD denominated trade receivables 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 financial investments.

Liquidity risk. Liquidity risk is the risk that the Group 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 the 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 of cash and cash equivalents (Note 13), deposits (Note 6) and 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 2018		31 DECEMBER 2017	
	TRADE PAYABLES AND ACCRUED LIABILITIES	OTHER PAYABLES	TRADE PAYABLES AND ACCRUED LIABILITIES	OTHER PAYABLES
Demand and less than 1 month	6,973	82	50,834	17,392
From 1 to 3 months	64,570	10,394	50,410	743
From 3 to 12 months	134,175	1,728	36,240	35,741
Total	**205,718**	**12,204**	**137,484**	**53,876**

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