

Skolkovo
Institute of Science
and Technology


Skoltech

**Annual
Financial
Report**

20

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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 2020 with comparative information as at 31 December 2019. 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

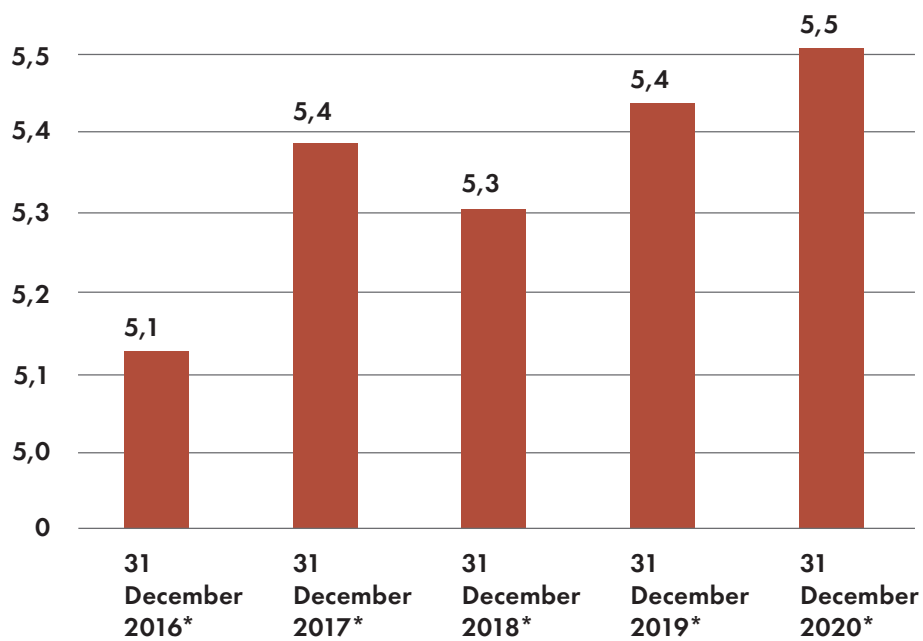
Institute 2020 financial results were strong, providing sufficient funding for the growing needs of education, research and innovation activities, as well as to support our Campus construction and infrastructure development tasks. We have grown

our income. These resources allow for enhancement for research projects and programs, expanded housing opportunities for students, competitive salary programs for faculty and staff and investments in our construction of new laboratories.

Net assets

Skoltech net assets in excess of RUB 5 billion have remained relatively constant from 2019 to 2020 (Figure 1).

Net assets



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Figure 1. Institute's Net assets

* Consolidated Financial Statement for the years 2017, 2018, 2019, 2020 are audited, for 2016- unaudited.

Capital Investments

As at 31 December 2020 the largest category within the Group’s RUB 12, 126.4 million total asset balance is Property, plant and equipment (PPE) which represents 30% of the total (31 December 2019: 31%).

In accordance with one of the Institute’s strategic goals it incurred significant capital expenditure, including the construction

of the university Campus and developing laboratory infrastructure, to assure the Institute’s future sustainability. This year investments in capital expenditure amounted to RUB 889.2 million which 111.2% higher than in the previous year. Together with the increase in accumulated depreciation in 2020 as compared to 2019, this led to a decrease in depreciable capital assets (Figure 2).

Carrying amount of Property, plant and equipment

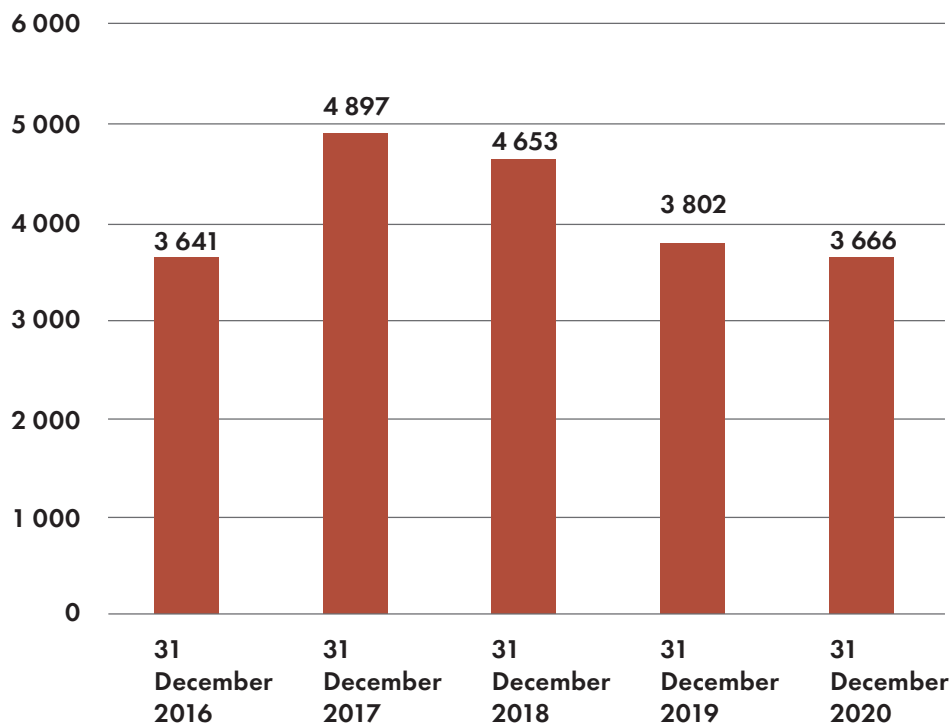


Figure 2. Institute’s PPE

Analysis of the 2020 structure of PPE by groups (Figure 3) shows that it doesn't change significantly in comparison with a previous year. 42% of all PPE consists of Laboratory equipment. Another large component of PPE is the Construction in progress group. It consists of advance payments and assets under installation.

The amount of RUB 757.7 million is for the construction of training and laboratory facilities in the Campus. In 2020-2017, Skoltech invested significantly into developing its laboratory infrastructure. The lab/research facilities design and construction program continue to move according to schedule and will be completed by the end of 2021.

2020

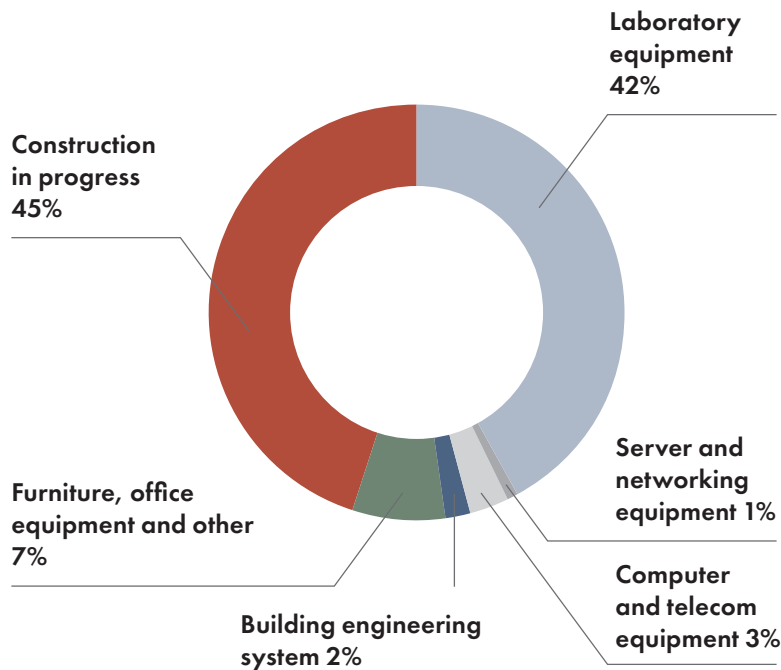


Figure 3. Institute's PPE by groups

The carrying amount of Intangible assets increased as at 31 December 2020 by 48.7% in comparison with as at 31 December 2019. The increase of intangible assets was due to the acquisition of licenses and computer software, primarily Trillium operating system software licenses of RUB 87 million. The Group’s intangible assets primarily include computer software, database, patents. The Group has lease contracts for campus, premises for laboratories,

offices, various items of science equipment, vehicles and other equipment used in its operations. Right-of-use assets totaled RUB 827 million as at 31 December 2020 (31 December 2019: RUB 1,031 million). Analysis of the 2020 structure of right-of-use assets by groups (Figure 4) shows that the group of premises for laboratories constitutes the largest part. The structure didn’t change significantly in comparison with the previous year.

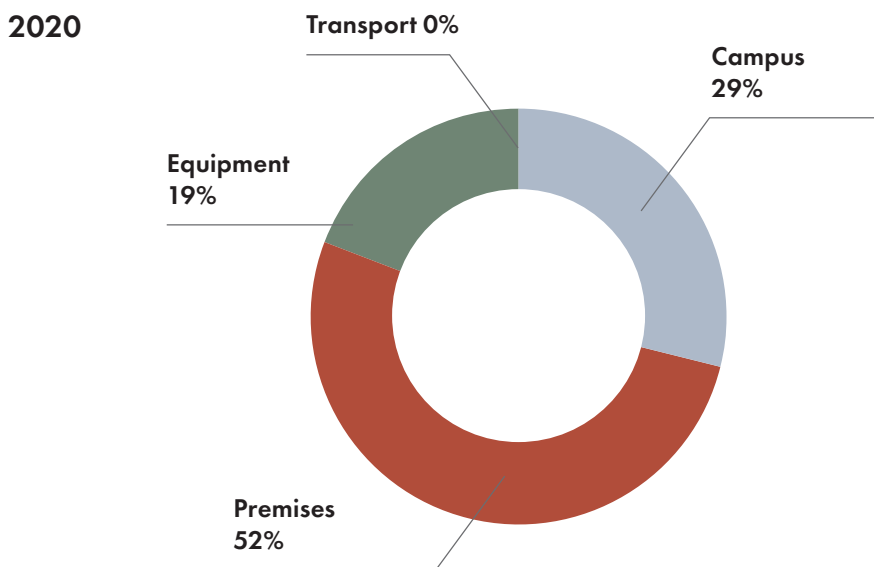


Figure 4. Institute’s right-of-use assets by groups

Current assets

As at 31 December 2020 the largest categories within the Institute’s current asset balance are financial investments, cash and cash equivalents and prepayments to suppliers. Prepayments to suppliers totaled RUB 1,071.9 million as at 31 December 2020 (31 December 2019: RUB 946.4

million). The prepayments primarily consist of advance payments to the international Institute-partners under these Master Research Agreements and Agreement to further extend cooperation. Skoltech is developing networks with top international and Russian universities and research teams in the areas identified as its research priorities.

Liabilities

As at 31 December 2020 the largest category within the Institute’s RUB 6,618 million (31 December 2019: RUB 6,754 million) liability balance is deferred grants, which represent 77% of the total (2019 – 76%). 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. 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).

Deferred grants

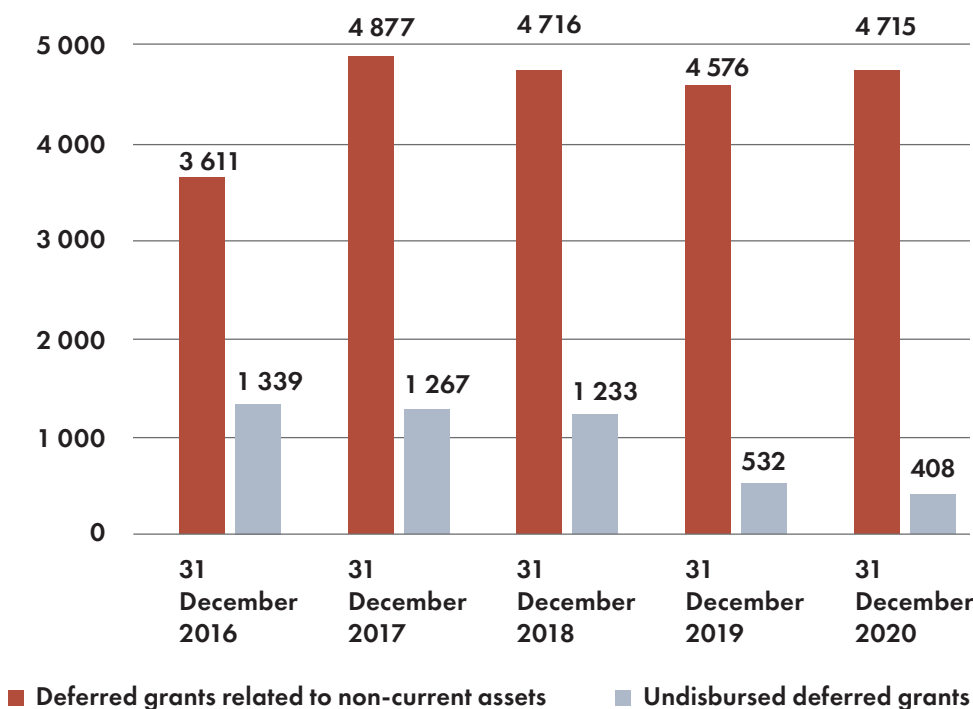


Figure 5. Institute’s deferred grants

Endowment

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 Rouble deposits with state-owned banks. Analysis of the structure of the Endowment Fund portfolio (including bonds, cash in bank) as at 31 December 2020 shows that Corporate bonds represent 79% (31 December 2019: 89%) of the total portfolio. The Russian government bonds increased from 456 million to 924 RUB million and represent 19% (31 December 2019: 9%) of the total portfolio (Figure 6).

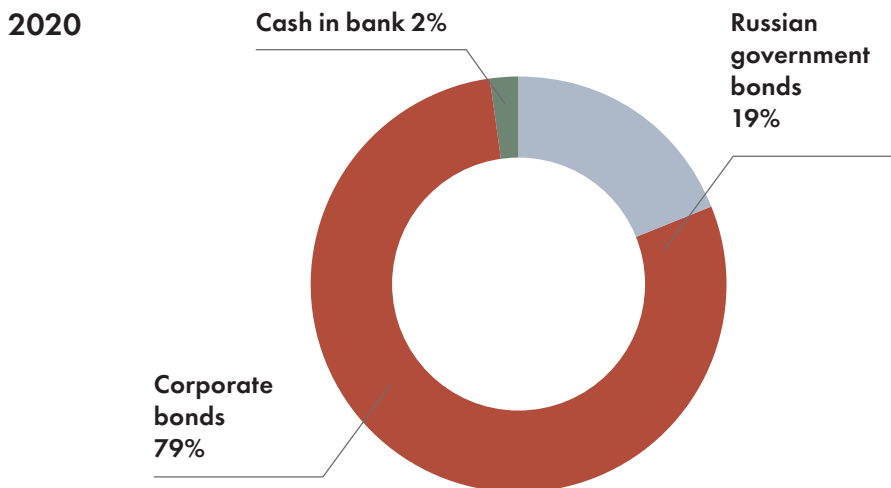


Figure 6. Endowment Fund portfolio structure

Endowment funds are managed by Management Company Alfa Capital and Management Company VTB Capital Asset Management, both of which are professional asset management companies.

As a whole the Endowment Fund portfolio increased during the year from 4,774.6 to 4,787.2 RUB million, an increase of RUB 12.6 million or 0.3% from December 31, 2019 (Figure 7).

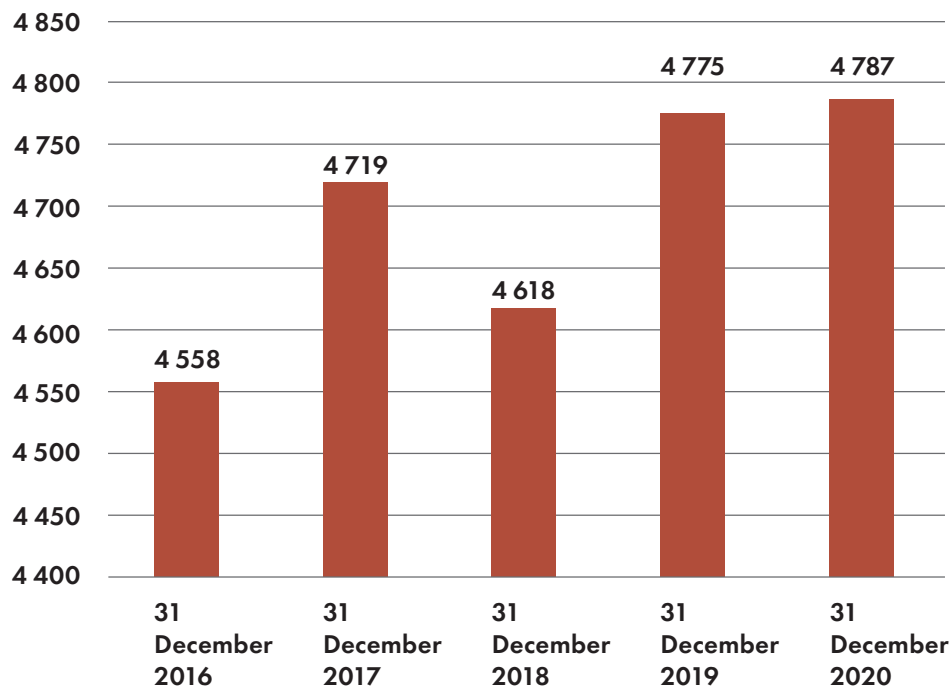


Figure 7. Endowment Fund portfolio

Consolidated statement of profit or loss and other comprehensive income

Income

There was a minor decrease in total income (income from grants, income from investments of Endowment Fund, revenue from contracts with customers and other income, other comprehensive income/ (loss)) in 2020, 1%. (Figure 8).

The Endowment Fund's performance have been quite successful this year.

This led to total comprehensive income for the year from the Group's operations in the amount of RUB 72.3 million.

The depreciation of the ruble has had an impact on the Russian debt market in 2020. However, the impact of this crisis on Endowment Fund was limited due to the fact, that all the funds were invested in ruble bonds of reliable Russian issuers.

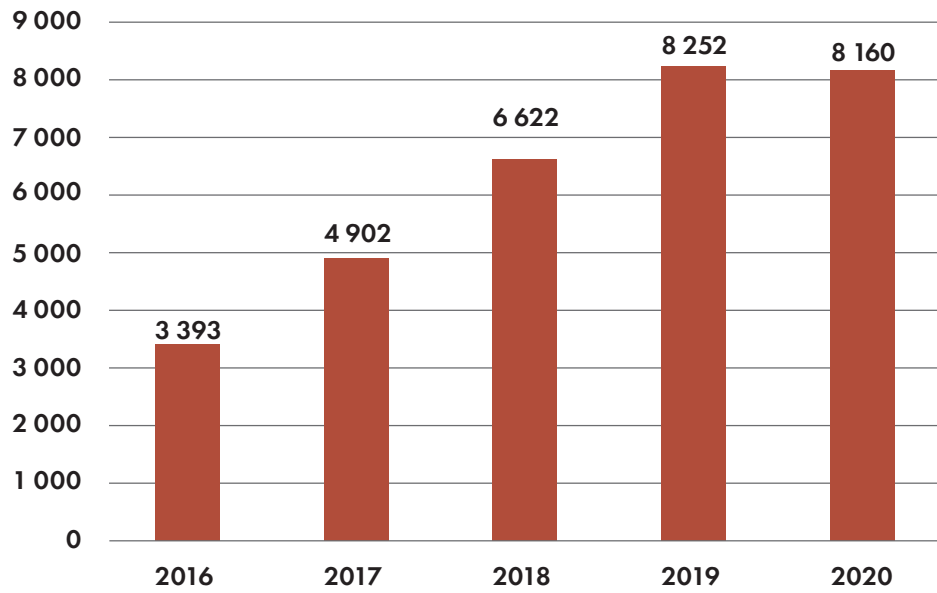


Figure 8. Group's income

Analysis of the 2020 structure of Income by sources shows that it doesn't change significantly in comparison with a previous year. (Figure 9).

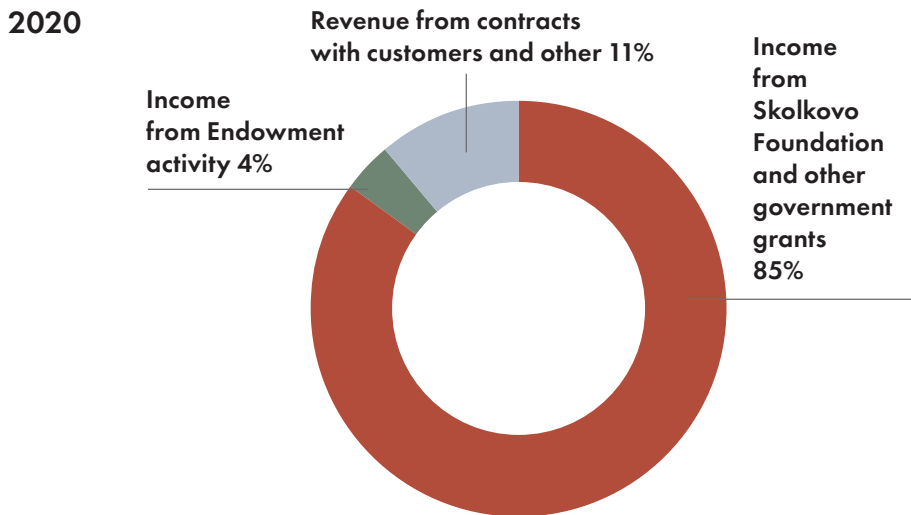


Figure 9. Group's income by sources

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The decrease in total income is mainly driven by the decrease in the income from Endowment activity, income from Skolkovo Foundation and other government grants partly offset by an increase in revenue from contracts with customers. Income from grants decreased from RUB 7,036.6 million in 2019 to 6,942.2 RUB million in 2020. Income from grants is recognized in the amount of the corresponding incurred expenses. Revenue from contracts with customers increased from RUB 706.9 million in 2019 to 757.6 RUB million in 2020. Revenue from contracts includes revenue from research contracts, from educational, consulting

and other services. A key reason for the increase in revenue from contracts with customers was the expansion of industry-funded research and consulting services. The largest customers of the Institute are Gazpromneft NTC, Gazpromneft Technologicheskies Partnerstva, Lukoil- Engineering, National Research Nuclear University, Huawei Technologies Co. Ltd., OERLIKON AM GMBH. Income from Endowment activity regarding the bonds portfolio (including other comprehensive (loss)/income) in 2020 decreased significantly by 33% from RUB 483.1 million in 2019 to 322.3 RUB million in 2020.

Operating expenses

In 2020, Skoltech operating expenses decreased by RUB 28.3 million, or 0.4%, to RUB 7,985.1 million (Figure 10). The Institute’s expenditures for 2020 and 2019 analyzed by the nature of the expenses (Figure 11). The Group’s expenditure includes staff costs, depreciation and amortization, scholarship and student costs, campus

utilities and maintenance, research initiative costs and other. In 2020, staff costs remain our primary resources and represent 50% of the total expenses. They mainly consist of costs on salaries, compulsory social security contributions, bonuses, medical insurance, reimbursement of accommodation and benefits in kind provided to employees.

Group's operating expenses

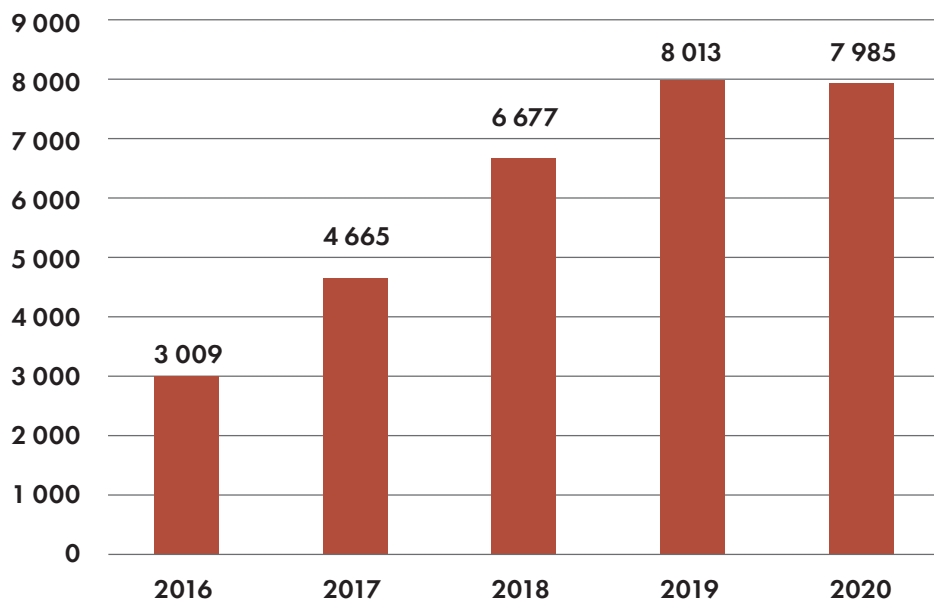


Figure 10. Group’s total expenditure

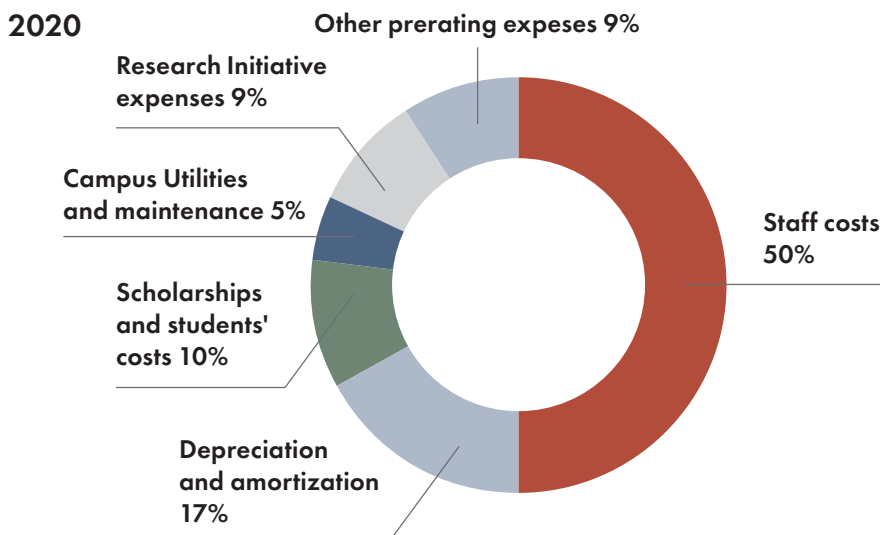


Figure 11. Expenditure by cost categories

Staff costs grew from RUB 3,656.3 million in 2019 to 3,971.6 RUB million in 2020, an increase of 9%. This is due to higher staff numbers recruited in order to improve overall research capability and to support the increased contract activities. Depreciation and amortization represent 18% of total expenditure and decreased by 15% to RUB 1,404.2 million in 2020. In 2020 some engineering systems, server and laboratory equipment were fully depreciated which led to decrease in depreciation and amortization expense compared to 2019. Scholarships and student costs grew to 787.7 RUB, or 6% in comparison to 2019. Growth was connected with the increase in student cohort, share of PhD students. Utilities and maintenance expenses this year represent 5% of total expenditure and includes costs for repair and maintenance of engineering systems in campus,

utilities, cleaning of premises and territories, security services. In 2019, the Institute signed an Agreement to further extend cooperation with Massachusetts Institute of Technology. The purpose of the parties' cooperation is to continue the development of Skoltech as a graduate university focused on discovery and innovation in science and technology for social betterment and as a leading center of academic excellence in cutting-edge basic and applied research. In accordance with this Agreement commitment for the period from 2021 till 2023, in amount of RUB 1,458,550 thousand, are denominated in USD (2019: from 2020 till 2023 in the amount of RUB 1,631,339). Other operating expenses decreased by 1% to 694.8 RUB for 2020 due to a number of factors, including increase in professional services and supplies expense.

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 11 June 2021. 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 organization 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 2020, 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 2020, 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 statements.



Consolidated financial statements

Consolidated statement of financial position
As at 31 december 2020 (In thousands of russian rubles)

	Notes	31 December 2020	31 December 2019
Assets			
Non-current assets			
Property, plant and equipment	3	3,666,006	3,801,936
Intangible assets	4	256,313	172,350
Right-of-use assets	5	827,152	1,031,026
Deferred tax assets		5,282	5,934
Other non-current assets		47,580	42,390
Total non-current assets		4,802,333	5,053,636
Current assets			
Inventory		20,890	9,671
Accounts receivable		262,996	198,122
Income tax prepayment		11,582	8,747
Prepayments and other current assets		1,159,685	1,041,650
Financial investments	1	4,680,066	4,694,910
Cash and cash equivalents		1,188,811	1,183,457
Total current assets		7,324,030	7,136,557
Total assets		12,126,363	12,190,193
Accumulated surplus and liabilities			
Accumulated surplus and other comprehensive income			
Endowment Fund		3,772,043	3,772,043
Accumulated surplus		1,732,162	1,616,437
Accumulated other comprehensive income		4,237	47,676
Total accumulated surplus and other comprehensive income		5,508,442	5,436,156
Non-current liabilities			
Deferred grants		4,715,188	4,575,655
Lease liabilities		631,569	771,885
Total non-current liabilities		5,346,757	5,347,540
Current liabilities			
Accounts payable		483,343	510,563
Advances received		117,464	71,357
Deferred grants		407,732	532,492
Lease liabilities		262,625	292,085
Total current liabilities		1,271,164	1,406,497
Total liabilities		6,617,921	6,754,037
Total accumulated surplus and liabilities		12,126,363	12,190,193

Consolidated statement of profit or loss and other comprehensive income For the year ended 31 december 2020 (In thousands of russian rubles)

	Notes	Year ended 31 December 2020	Year ended 31 December 2019
Income			
Grants		6,942,189	7,036,634
Income from the Endowment Fund investments		365,698	415,443
Revenue from contracts with customers and other income	2	895,617	731,764
Total income		8,203,504	8,183,841
Expenditure			
Staff costs		(3,971,583)	(3,656,301)
Depreciation and amortization		(1,404,148)	(1,642,499)
Scholarships and students costs		(787,690)	(742,876)
Utilities and maintenance		(435,264)	(406,652)
Co-researchers' costs		(305,982)	(362,748)
Other expenses		(1,080,388)	(1,202,355)
Total expenditure		(7,985,055)	(8,013,431)
Net income from operations		218,449	170,410
Finance costs, net		(83,263)	(68,556)
Net income before income tax		135,186	101,854
Income tax expense		(19,461)	(37,809)
Income for the year		115,725	64,045
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of financial investment in the current year		(30,094)	91,482
Net (gains)/losses on financial investment reclassified to profit or loss upon disposal		(13,345)	(23,781)
Other comprehensive (loss)/income for the year		(43,439)	67,701
Total comprehensive income for the year		72,286	131,746

Consolidated statement of changes in surplus
For the year ended 31 december 2020 (In thousands of russian rubles)

	Endowment fund	Accumulated surplus	Accumulated other comprehensive income/(loss)	Total
Balance at 1/01/2019	3,772,043	1,552,392	(20,025)	5,304,410
Income for the year	-	64,045	-	64,045
Other comprehensive income	-	-	67,701	67,701
Total comprehensive income for the year	-	64,045	67,701	131,746
Balance at 31/12/2019	3,772,043	1,616,437	47,676	5,436,156
Income for the year	-	115,725	-	115,725
Other comprehensive loss	-	-	(43,439)	(43,439)
Total comprehensive income/(loss) for the year	-	115,725	(43,439)	72,286
Balance at 31/12/2020	3,772,043	1,732,162	4,237	5,508,442

Consolidated statement of cash flows

For the year ended 31 december 2020 (In thousands of russian rubles)

	Notes	31 December 2020	31 December 2019
Cash flows from operating activities			
Income before income tax		135,186	101,854
Adjustments for:			
Depreciation and amortization	3,4,5	1,404,148	1,642,499
Grants		(6,942,189)	(7,036,634)
Income from the Endowment Fund investments		(365,698)	(415,443)
Interest income on cash and cash equivalents		(19,314)	(21,254)
Discount expenses/(income)		1,466	(3,976)
Interest expense		83,119	83,040
Loss on PPE disposal		665	9,684
Allowance for trade receivables and prepayments		22,754	(4,933)
Other		11,397	(1,046)
Cash flows used in activities before changes in working capital		(5,668,466)	(5,646,209)
(Increase)/decrease in accounts receivable and advances paid		(212,326)	294,776
Increase in inventories		(11,220)	(9,671)
(Decrease)/increase in accounts payable and advances received		(18,319)	86,177
Changes in working capital		(241,865)	371,282
Grants received		6,982,365	6,219,538
Grants repaid		(25,403)	(68,134)
Interest income received on bonds		339,293	400,766
Interest income received on deposits		-	1,545
Interest income received from REPO		4,538	67
Interest income received on cash and cash equivalents		19,315	21,254
Interest paid		(83,119)	(83,040)
Income tax paid		(21,643)	(49,147)
Net cash flows from operating activities		1,305,015	1,167,922
Cash flows from investing activities			
Purchase of property, plant and equipment		(851,942)	(417,471)
Purchase of intangible assets		(163,215)	(68,911)
Proceeds from sales/(purchase) of bonds		(6,728)	(59,240)
Purchase of equity instruments at fair value through OCI		-	(4)
Net cash flows used in investing activities		(1,021,885)	(545,626)
Cash flows from financing activities			
Lease payments		(277,776)	(269,004)
Net cash flows used in financing activities		(277,776)	(269,004)
Cash and cash equivalents at the beginning of the year		1,183,457	830,165
Net increase in cash and cash equivalents		5,354	353,292
Cash and cash equivalents at the end of the year		1,188,811	1,183,457

General information

The Group and its operation

Autonomous Non-profit Organization for Higher Education "Skolkovo Institute of Science and Technology" (hereinafter – the "Institute", "Organization", "Skoltech") was set up in the Russian Federation in 2011. The Institute has one subsidiary – The Skolkovo Institute of Science and Technology Endowment Fund (hereinafter – the "Endowment Fund"), hereinafter together referred to as "Skoltech Group", the "Group". Endowment Fund is a non-profit organization incorporated in the Russian Federation in 2012, and its main activities are to manage and distribute income from the usage of the endowment funds received as donations from individuals or companies. Income

from the management of the Endowment Fund is used for financing of the Institute. The Group has 100% interest in Endowment Fund.

Principal activity

As an academic institution, Skoltech's primary mission is academic excellence in six target domains. The following Target Domains were established based on technology priorities and experience:

- Data Science & Artificial Intelligence;
- Life Sciences & Biomedicine;
- Cutting-edge Engineering & Advanced Materials;
- Energy Efficiency;
- Quantum Technologies;
- Advanced Studies.



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. Management has, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

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 2020.

The following amended standards and interpretations became effective starting from 1 January 2020:

Amendments to the Conceptual Framework	Conceptual Framework in IFRS Standards
Amendments to IFRS 3	Definition of a business
Amendments to IAS 1 and IAS 8	Definition of material
Amendments to IFRS 9, IAS 39 and IFRS 7	Interest Rate Benchmark Reform
Amendment to IFRS 16	COVID-19-Related Rent Concessions

Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.



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;
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Server and networking equipment	2–10 years;
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Computers and telecom equipment	1–10 years;
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Building engineering systems	2–15 years;
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Furniture, office equipment and other	2–20 years.
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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
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Other intangible assets	7-10 years
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Right-of-use assets and lease liabilities

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise the initial measurement of the corresponding lease liability,

lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset (Note 14). If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group as lessor

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Financial instruments

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

Financial assets of the Group 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 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 2020, the official rate of exchange as determined by the Central Bank of the Russian Federation, between the RUB and the US Dollar was RUB 73.8757: US Dollar 1.00 (31 December 2019: RUB 61.9057:US Dollar 1.00); between the RUB and Euro: RUB 90.6824: Euro 1.00 (31 December 2019: RUB 69.3406: 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 2020
(In thousands of russian rubles)

1. Financial investments

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

	31 December 2020	31 December 2019
Financial investments		
Russian government bonds	923,976	455,984
Corporate bonds	3,756,090	4,238,926
Total financial investments	4,680,066	4,694,910

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Analysis by credit quality of financial investments outstanding at 31 December 2020 is as follows (Fitch rating, for the bonds not rated by Fitch, S&P rating was used):

	Russian government bonds	Corporate bonds	Total
BBB	-	332,819	332,819
BBB-	923,976	1,995,194	2,919,170
BB+	-	1,428,077	1,428,077
Total financial investments	923,976	3,756,090	4,680,066

Analysis by credit quality of financial investments outstanding at 31 December 2019 is as follows (Fitch rating, for the bonds not rated by Fitch, S&P rating was used):

	Russian government bonds	Corporate bonds	Total
BBB	229,721	348,847	578,568
BBB-	226,263	2,105,994	2,332,257
BB+	-	1,784,085	1,784,085
Total financial investments	455,984	4,238,926	4,694,910

The movements in financial investments are as follows:

	Year ended 31 December 2020	Year ended 31 December 2019
Carrying amount at 1 January	4,694,910	4,554,905
Net change of fair value	(30,094)	91,482
Interest income	353,176	376,189
Interest received	(339,293)	(400,704)
Additions	29,934,656	2,002,170
Disposals	(28,893,494)	(790,137)
Repayments	(1,039,795)	(1,138,995)
Carrying amount at 31 December	4,680,066	4,694,910

In accordance with IFRS 9 as at 31 December 2020 and 31 December 2019 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 ended 31 December 2020
Balance as at 1/01/2019	13,098
Decrease in loss allowance from financial investments	(605)
Balance as at 31/12/2019	12,493
Decrease in loss allowance from financial investments	(69)
Balance as at 31/12/2020	12,424

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

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	Year ended 31 December 2020	Year ended 31 December 2019
Russian government bonds	4,185	9,194
Corporate bonds	(34,279)	82,288
Total gains/(losses) for the year	(30,094)	91,482

2. Revenue from contracts with customers and other income

	Year ended 31 December 2020	Year ended 31 December 2019
Revenue from research contracts	704,222	659,661
Revenue from educational services	22,813	3,375
Revenue from consulting services	13,011	27,703
Revenue from licenses	6,200	1,014
Revenue from other services	11,305	15,117
Total revenue from contracts with customers	757,551	706,870
Rental income	20,659	7,894
Other income	117,407	17,000
Total revenue from contracts with customers and other income	895,617	731,764

3. Property, plant and equipment

Construction in progress as of 31 December 2020 includes:

- Prepayments for campus construction in the amount of RUB 43,798 thousand and assets under installation for campus construction – RUB 174,262 thousand (31 December 2019: RUB 869,281

thousand and RUB 153,168 thousand accordingly);

- Prepayments for other PPE in the amount of RUB 226,295 thousand and assets under installation for other PPE – RUB 1,171,892 thousand (31 December 2019: RUB 160,600 thousand and RUB 3,075 thousand accordingly).

	Laboratory equipment	Server and networking equipment	Computers and telecom equipment	Building engineering systems	Furniture, office equipment and other	Construction in progress	Total
<i>Cost</i>							
Balance at 1/01/2019	3,763,682	691,429	354,384	370,942	202,570	1,307,982	6,690,989
Additions	210,479	618	54,936	20,081	120,421	14,553	421,088
Transfers	96,650	17,779	8,760	9,538	3,684	(136,411)	-
Disposals	(8,928)	(223)	(1)	-	(629)	-	(9,781)
Balance at 31/12/2019	4,061,883	709,603	418,079	400,561	326,046	1,186,124	7,102,296
Additions	111,635	24,628	49,721	-	83,135	620,032	889,151
Transfers	117,547	20,573	11,422	-	6,701	(156,243)	-
Disposals	(2,083)	-	-	-	(488)	-	(2,571)
Balance at 31/12/2020	4,288,982	754,804	479,222	400,561	415,394	1,649,913	7,988,876
<i>Depreciation</i>							
Balance at 1 January 2019	(1,214,897)	(393,434)	(167,555)	(202,824)	(58,980)	-	(2,037,690)
Depreciation for the period	(802,519)	(208,007)	(107,329)	(101,109)	(43,803)	-	(1,262,767)
Disposals	36	1	-	-	60	-	97
Balance at 31/12/2019	(2,017,380)	(601,440)	(274,884)	(303,933)	(102,723)	-	(3,300,360)
Depreciation for the period	(734,272)	(92,712)	(104,425)	(28,297)	(64,710)	-	(1,024,416)
Disposals	1,856	-	-	-	50	-	1,906
Balance at 31/12/2020	(2,749,796)	(694,152)	(379,309)	(332,230)	(167,383)	-	(4,322,870)
<i>Net book value</i>							
At 1/01/2019	2,548,785	297,995	186,829	168,118	143,590	1,307,982	4,653,299
At 31/12/2019	2,044,503	108,163	143,195	96,628	223,323	1,186,124	3,801,936
At 31/12/2020	1,539,186	60,652	99,913	68,331	248,011	1,649,913	3,666,006

4. Intangible assets

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

	Software	Development and other costs	Other intangible assets	Total
<i>Cost</i>				
Balance at 1/01/2019	384,702	11,275	2,195	398,172
Additions	58,326	10,526	20,185	89,037
Disposals	(161,068)	-	-	(161,068)
Balance at 31/12/2019	281,960	21,801	22,380	326,141
Additions	120,268	42,949	-	163,217
Transfer	33,326	(35,474)	2,148	-
Disposals	(104,004)	-	-	(104,004)
Balance at 31/12/2020	331,550	29,276	24,528	385,354
<i>Amortization</i>				
Balance at 1 January 2019	(237,518)	-	(605)	(238,123)
Amortization for the period	(76,468)	-	(268)	(76,736)
Disposals	161,068	-	-	161,068
Balance at 31/12/2019	(152,918)	-	(873)	(153,791)
Amortization for the period	(63,252)	-	(3,826)	(67,078)
Disposals	91,828	-	-	91,828
Balance at 31/12/2020	(124,342)	-	(4,699)	(129,041)
<i>Net book value</i>				
At 1/01/2019	147,184	11,275	1,590	160,049
At 31/12/2019	129,042	21,801	21,507	172,350
At 31/12/2020	207,208	29,276	19,829	256,313

5. Right-of-use-assets

Group as a lessee

The Group has lease contract for the new campus which provides a series of highly functional laboratory buildings from August 2018, the lease term is 100 years. The lab/research facilities design and construction program continues to move according to schedule and will be completed by the end of 2021, the rented area of the campus will increase.

The Group has lease contracts for premises including laboratories, offices, various items of science equipment, vehicles and other

equipment used in its operations.

Leases of science equipment have lease terms between 3 and 10 years, while motor vehicles and other equipment generally have lease terms between 1 and 3 years.

The Group also has certain leases of premises with lease terms of 12 months or less and applies the 'short-term lease' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Campus	Premises	Equipment	Transport	Total
<i>Cost</i>					
Balance at 1/01/2019	69,676	756,606	177,881	7,289	1,011,452
Additions	149,067	116,363	54,548	2,592	322,570
Balance at 31/12/2019	218,743	872,969	232,429	9,881	1,334,022
Additions	23,670	120,559	-	-	144,229
Disposal	-	(95,968)	(2,236)	-	(98,204)
Balance at 31/12/2020	242,413	897,560	230,193	9,881	1,380,047
<i>Depreciation</i>					
Balance at 1/01/2019	-	-	-	-	-
Depreciation for the period	(1,363)	(262,165)	(36,300)	(3,168)	(302,996)
Balance at 31/12/2019	(1,363)	(262,165)	(36,300)	(3,168)	(302,996)
Depreciation for the period	(2,220)	(268,791)	(38,140)	(3,503)	(312,654)
Disposal	-	60,519	2,236	-	62,755
Balance at 31/12/2020	(3,587)	(470,437)	(72,204)	(6,671)	(552,895)
<i>Net book value</i>					
At 1/01/2019	69,676	756,606	177,881	7,289	1,011,452
At 31/12/2019	217,380	610,804	196,129	6,713	1,031,026
At 31/12/2020	238,830	427,123	157,989	3,210	827,152

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The following are the amounts recognized in profit or loss:

	Year ended 31 December 2020	Year ended 31 December 2019
Depreciation expense of right-of-use assets	312,654	302,996
Interest expense on lease liabilities	83,119	83,040
Expense relating to short-term leases	33,880	38,217
Total amount recognised in profit or loss	429,653	424,253

Group as a lessor

The Group as a lessor has entered into operating subleases of campus premises. These leases have terms

of between 11 months and 15 years. Rental income recognized by the Group during the year in the amount of RUB 20,659 thousand (2019: RUB 7,894 thousand).

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 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 2020	31 December 2019
Other non-current assets	47,580	42,386
Lease deposit	47,580	42,386
Accounts receivable	262,996	198,122
Trade receivables	259,850	181,925
Lease deposit	3,146	16,197
Financial investments	4,680,066	4,694,910
Russian government bonds	923,976	455,984
Corporate bonds	3,756,090	4,238,926
Cash and cash equivalents	1,188,811	1,183,457
Total maximum exposure to credit risk	6,179,453	6,118,875

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 2020 the Group had 28 counterparties (31 December 2019: 23 counterparties) with aggregated receivables balances above RUB 1 million accounting for approximately 99% (2019: 96%) of all the receivables outstanding.

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 234,003 thousand (2019: RUB 234,745 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. In 2020, the Group received financing in Russian Rubles and Euro. 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, primary 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 2020			31 December 2019		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
US Dollars	154,209	(171,243)	(17,034)	48,595	(50,109)	(1,514)
Euro	22,779	(286,362)	(263,583)	15,647	(142,887)	(127,240)
GBR	-	(17,860)	(17,860)	-	(9,732)	(9,732)
CHF	-	(14,067)	(14,067)	-	(9,191)	(9,191)
JPY	-	(217,379)	(217,379)	-	(3,969)	(3,969)
Other foreign currencies	-	(368)	(368)	-	-	-
Total	176,988	(707,279)	(530,291)	64,242	(215,888)	(151,646)

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As at 31 December 2020, if Russian Ruble would weaken or strengthen by 5% against the USD, Euro, GBR, CHF, JPY and other foreign currencies with all other variables held constant, the Group's total comprehensive income for the year would have been by RUB 26,515 thousand (2019: RUB 7,582 thousand) higher or lower, respectively. This would result mainly from foreign exchange gains or losses on translation of USD, Euro, GBR, CHF and JPY 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 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 equivalent and bonds (Note 1). Management estimates that the liquidity portfolio cash and cash equivalents can be realized in cash within a day in order to meet unforeseen liquidity requirements.

The table below shows trade and other payables at reporting dates by their remaining contractual maturity.

	31 December 2020		31 December 2019	
	Trade payables	Other payables	Trade payables	Other payables
Demand and less than 1 month	30,643	-	29,538	-
From 1 to 3 months	2,228	-	12,153	-
From 3 to 12 months	75,394	10,001	77,898	6,454
Total	108,265	10,001	119,589	6,454

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

	31 December 2020	31 December 2019
Not later than 1 year	352,081	404,154
Later than 1 year and not later than 5 years	612,579	718,964
Later than 5 years	2,158,414	2,022,307
Total undiscounted lease liabilities	3,123,074	3,145,425

7. Subsequent events

On 18 February 2021 the Institute together with European University at St. Petersburg, Moscow Higher School of Social and Economic Sciences and Russian Economic School established the Association of educational institutions of higher education "New League of Universities".

The main objectives of the league are:

- Creation of a sustainable platform for educational innovations and their implementation;
- Development of new experimental learning formats;
- Conducting interdisciplinary research across technical and social sciences, as well as natural sciences and industries related to information technology.

On 10 February 2021 the Institute became the participant / founder of "SberMedAI" LLC with a share of 33% (RUB 6,403). The second participant is "Tsifrovyye aktivy" LLC with a share of 67% (RUB 13,000).

"SberMedAI" LLC is a non-public business entity exclusively engaged in research activities and commercialization of its results in accordance with Federal Law No. 244-FZ dated 28.09.2010 "On the Skolkovo Innovation Center", including:

- Research and development on natural sciences and engineering;
- Technical testing, research and certification;
- Testing and analysis of scientific nature;
- Development, certification, marketing of artificial intelligence and other software products.



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