# Skoltech Group

Consolidated Financial Statements
for the year ended 31 December 2020 and
Independent Auditor's Report

## SKOLTECH GROUP

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**SKOLTECH GROUP**

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Autonomous non-profit educational organization of higher education "Skolkovo Institute of Science and Technology" ("Skoltech") and its subsidiaries (the "Group") as of 31 December 2020, and the results of its operations, cash flows and changes in surplus for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies.
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance.
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with Russian legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

On 11 June 2021, Management approved the consolidated financial statements of the Group for the year ended 31 December 2020:

On behalf of the Management:

| | |
|---|---|
| **Tatyana Zakharova** | **Elena Kolesnichenko** |
| Vice President for Finance and Operations | Chief Accountant |

AO Deloitte & Touche CIS
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Russia

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**INDEPENDENT AUDITOR'S REPORT**

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

**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.

**Other Information**

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information after it is provided to us and to consider whether there are any significant inconsistencies between the other information and the consolidated financial statements or our knowledge gained in the course of the audit, and whether the other information potentially contains other material misstatements.

If, based on the reading of the Annual Report, we conclude that it contains material misstatements, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

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

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

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

Акционерное общество «Делойт и Туш СНГ»
для аудиторских заключений и отчетов
Россия, г. Москва, ул. Лесная, д. 5

Vladimir Perfiliev
Engagement partner

11 June 2021

The Group: Autonomous educational organization of higher education “Skolkovo Institute of Science and Technology”

Certificate of state registration of non-profit organization was issued by Moscow Region department of the Ministry of Justice of Russian Federation at 28.11.2019, №7714059138.

Primary State Registration Number: 1115000005922.

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

Address: Russia, 121205, Moscow, Bolshoy Boulevard 30, bld. 1

Audit Firm: AO “Deloitte & Touche CIS”

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

Primary State Registration Number: 1027700425444

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

Member of Self-regulatory organization of auditors Association “Sodruzhestvo”, ORNZ 12006020384.

## SKOLTECH GROUP

## 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 | 8 | 3,666,006 | 3,801,936 |
| Intangible assets | 9 | 256,313 | 172,350 |
| Right-of-use assets | 14 | 827,152 | 1,031,026 |
| Deferred tax assets | 18 | 5,282 | 5,934 |
| Other non-current assets | 10 | 47,580 | 42,390 |
| **Total non-current assets** | | **4,802,333** | **5,053,636** |
| | | | |
| **Current assets** | | | |
| Inventories | | 20,890 | 9,671 |
| Accounts receivable | 11 | 262,996 | 198,122 |
| Income tax prepayment | | 11,582 | 8,747 |
| Prepayments and other current assets | 12 | 1,159,685 | 1,041,650 |
| Financial investments | 5 | 4,680,066 | 4,694,910 |
| Cash and cash equivalents | 13 | 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 funds | 16 | 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 | 15 | 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 | 17 | 483,343 | 510,563 |
| Advances received | | 117,464 | 71,357 |
| Deferred grants | 15 | 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** |

These consolidated financial statements were approved for issue and signed on 11 June 2021:

**Tatyana Zakharova**
Vice President for Finance and Operations

**Elena Kolesnichenko**
Chief Accountant

The accompanying notes on pages 9-43 are an integral part of these consolidated financial statements.

## 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 | 15 | 6,942,189 | 7,036,634 |
| Income from the Endowment Fund investments | 16 | 365,698 | 415,443 |
| Revenue from contracts with customers and other income | 6 | 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 | **(7,985,055)** | **(8,013,431)** |
| **Net income from operations** | | **218,449** | **170,410** |
| Finance costs, net | 7 | (83,263) | (68,556) |
| **Net income before income tax** | | **135,186** | **101,854** |
| Income tax expense | 18 | (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 | 5 | (30,094) | 91,482 |
| Net (gains)/losses on financial investment reclassified to profit or loss upon disposal or impairment | | (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** |

The accompanying notes on pages 9-43 are an integral part of these consolidated financial statements.

## 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 January 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 December 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 December 2020** | **3,772,043** | **1,732,162** | **4,237** | **5,508,442** |

The accompanying notes on pages 9-43 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 DECEMBER 2020
## *(in thousands of Russian Rubles)*

| | Note | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Income before income tax** | | **135,186** | **101,854** |
| *Adjustments for:* | | | |
| Depreciation and amortization | 8,9,14 | 1,404,148 | 1,642,499 |
| Grants | 15 | (6,942,189) | (7,036,634) |
| Income from the Endowment Fund investments | 16 | (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 | 8 | 665 | 9,684 |
| Allowance for trade receivables and prepayments | 11,12 | 22,754 | (4,933) |
| Other | | 11,397 | (1,046) |
| **Cash flows used in operating 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 | 15 | (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** | | | |
| Repayment of lease liabilities | | (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** |

The accompanying notes on pages 9-43 are an integral part of these consolidated financial statements.

## 1. 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 with "Skoltech" referred to as "Skoltech Group", the "Group". The 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 the 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;
- Photonics and Quantum Technologies;
- Advanced Studies.

Each domain serves as a lever for Institutional academic and brand excellence as well as forming a foundation for value generation. This foundation comprises the fields that have been and continue to be strong in Russia, i.e., Mathematics and Physics. This solid foundation is shored up with fields that will be of high importance for the future, and where Skoltech aims to be an international leader and a continuing source of future leaders for the Skolkovo community, Russia and the world.

The founders of the Institute are:

- The Federal State Educational Institution of Higher Professional Education "Moscow Institute of Physics and Technology";
- The Federal State Educational Institution of Higher Professional Education "National Research Tomsk Polytechnic University";
- Russian Academy of Science, Scientific Center in Chernogolovka;
- The Moscow School of Management "Skolkovo";
- Non-state Educational Institution "The New Economic School";
- RUSNANO Corporation;
- Russian Venture Company;
- State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)";
- The Foundation for Assistance to small enterprises in science and technology sector;
- Sberbank of Russia.

## 1. GENERAL INFORMATION (CONTINUED)

The operations of the Institute are managed by the Skoltech President appointed by the General Meeting of Founders.

The Institute is located in Innovation Center "Skolkovo", Russia, 121205, Moscow, Bolshoy Boulevard 30, bld.1. The Group's facilities are based in Moscow and Saint Petersburg.

**Operating environment of the Group**

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The deterioration of the economic situation in 2020 due to the drop of world oil prices and the weakening of the Russian ruble, as well as the introduction of new sanctions against Russia, had a negative impact on the Institute, which is included:

- Additional difficulties with the recruitment of teaching and academic staff, mainly foreign staff;
- Difficulties associated with the restricted imports of certain categories of R&D equipment which have no domestic substitutes.

In 2020 a new coronavirus disease COVID-19 had a significant negative effect on many companies across a wide range of sectors. The pandemic has also had a great impact on higher education globally.

The negative impact of the pandemic includes: a decrease in academic mobility of students, a suspension of scientific research, and a weakening of partnerships. The Institute quickly organized the online learning process, educational activities did not stop.

## 1. GENERAL INFORMATION (CONTINUED)

Substantial work was also carried out to form new formats for interaction with partners, to develop new strategies for virtual mobility, and to train teachers for working in a digital environment.

In addition to the above, the Institute may face an even greater impact from COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the impact of COVID-19 on the activities of the Institute largely depends on the duration and prevalence of the impact of the virus on the world and Russian economies.

Also, the depreciation of the ruble has had an impact on the Russian debt market, among other things. However, the impact of it on the financial condition of the Skolkovo Institute of Science and Technology Endowment Fund is limited due to the fact, that all the funds were invested in ruble bonds of reliable Russian issuers: federal loan bonds (hereinafter, OFZ) and bonds of corporations with state participation.

As at 31 December 2020, the share of funds invested in bonds was 100% (as at 31 December 2019: 100%). The Group’s investment strategy provided for the investment of funds only into financial instruments denominated in Russian rubles.

### Taxation

Laws and regulations affecting business in the Russian Federation continue to change rapidly. Management’s interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged.

Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. Nevertheless, the tax authorities may have differing interpretations of the tax laws, and the differences in treatment can significantly affect the financial statements.

## 2. 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.

Each entity of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Russian Accounting Standards. The Group's consolidated financial statements are based on the statutory records with adjustments and reclassifications recorded in the consolidated financial statements for the fair presentations in accordance with IFRS.

***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 ruble ("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. Foreign operations are included in accordance with the policies set out in note 3.

***Use of estimates and judgements.*** The preparation of consolidated financial statements in conformity with IFRS requires management to make a number of professional judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Additional information relating to contingencies and commitments is disclosed in Note 21.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Professional judgements that have the most significant effect on the amounts recognized in these consolidated financial statements and estimates and assumptions that may require significant adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- Classification and initial recognition of grants;
- Useful lives of property, plant and equipment;
- Assessment of the stage of completion on research contracts;
- Judgement in identifying whether a contract includes a lease.

***Classification and initial recognition of grants***

Grants provided by the funding bodies are recognized at the amounts expected to be received when there is a reasonable assurance that the grants will be received and the Group will comply with the conditions attaching to them. The Group's management concluded that these conditions are met at the moment of funds receipt from the funding body. Before that date, the amount of grant and its conditions are subject to negotiation between the Group and the funding body.

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

***Useful lives of property, plant and equipment***

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through their use. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group.

***Assessment of the stage of completion on research contracts***

The stage of completion of research contracts is determined by the reference to the proportion of the actual costs incurred compared to the project budgeted costs.

***Judgement in identifying whether a contract includes a lease***

Management makes estimates whether a contract contains a lease based on the following requirements:

- the underlying asset is directly or indirectly identified in a contract;
- the contract gives the right to control the use of an identified asset for a period of time.

Management considers that the right to control the use exists if it has contracted for the right to obtain substantially all of the economic benefits from use of the identified asset for the lease term and to direct the use of the identified asset. Management determines whether a contract is a lease or contains a lease at the inception of the contract.

***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 financing, current plans of the Foundation of the New Technologies Development and Commercialization Centre (hereinafter "Skolkovo Foundation") (the major funding body) to continue provision of grants in accordance with the State Program on Innovation Development of the Russian Federation approved by the 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.

***(in thousands of Russian Rubles)***

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 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.

### IFRS and IFRIC interpretations in issue but not yet effective

At the date of authorization of these consolidated financial statements, the following standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2021 or later periods and which the entity has not early adopted:

| **Standards and Interpretations** | **Effective for annual periods beginning on or after** |
|---|---|
| IFRS 17 *Insurance Contracts* | 1 January 2023 |
| Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* | Date to be determined by the IASB |
| Amendments to IFRS 4 – *Extension of the Temporary Exemption from Applying IFRS 9* | 1 January 2023 |
| Amendments to IAS 1 – *Classification of Liabilities as Current or Non-current* | 1 January 2023 |
| Amendments to IAS 1 and IFRS Practice Statement 2 – *Disclosure of accounting policies* | 1 January 2023 |
| Amendments to IAS 8 – *Definition of accounting estimates* | 1 January 2023 |
| Amendments to IFRS 3 – *Reference to the Conceptual Framework* | 1 January 2022 |
| Amendments to IAS 16 – *Property, Plant and Equipment—Proceeds before Intended Use* | 1 January 2022 |
| Amendments to IAS 37 - *Onerous Contracts – Cost of Fulfilling a Contract* | 1 January 2022 |
| Annual Improvements to IFRSs (2018-2020 Cycle) – Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture | 1 January 2022 |
| Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – *Interest Rate Benchmark Reform — Phase 2* | 1 January 2021 |

Management does not expect that the adoption of the Standards listed above will have a potential material impact on the financial statements of the Group in future periods, except as noted below:

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The management of the Group does not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

### Amendments to IFRS 3 – *Reference to the Conceptual Framework*

The amendments update IFRS 3 so that it refers to the 2018 *Conceptual Framework* instead of the 1989 *Framework*. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 *Levies*, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated *Conceptual Framework*) at the same time or earlier.

### Amendments to IAS 1 – *Classification of Liabilities as Current or Non-current*

The amendments to IAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted.

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### Amendments to IFRS 3 – *Reference to the Conceptual Framework*

The amendments update IFRS 3 so that it refers to the 2018 *Conceptual Framework* instead of the 1989 *Framework*. They also add to IFRS 3 a requirement that, for obligations within the scope of IAS 37, an acquirer applies IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 *Levies*, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

Finally, the amendments add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated *Conceptual Framework*) at the same time or earlier.

### Amendments to IAS 16 – *Property, Plant and Equipment—Proceeds before Intended Use*

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 *Inventories*.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

## 2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**Amendments to IAS 37 – *Onerous Contracts—Cost of Fulfilling a Contract***

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labor or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

**Annual Improvements to IFRS Standards 2018–2020**

The *Annual Improvements* include amendments to four Standards.

***IFRS 1 First-time Adoption of International Financial Reporting Standards***

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

***IFRS 9 Financial Instruments***

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.

***IFRS 16 Leases***

The amendment removes the illustration of the reimbursement of leasehold improvements.

As the amendment to IFRS 16 only regards an illustrative example, no effective date is stated.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group's entities.

### 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.

### Property, plant and equipment

Property, plant and equipment (hereinafter – "PPE") are stated at cost less accumulated depreciation and accumulated impairment loss. 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. |

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress items are not depreciated. Construction in progress items are included in the respective categories of PPE at the time of construction completion or readiness for the intended use. Depreciation of these assets commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

### Intangible assets

Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses. 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 |
| Other intangible assets | 7-10 years |

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**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 recognizes 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 recognizes 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 recognized 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 recognized on a straight-line basis over the lease term.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial instruments**

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

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 amortized 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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

***Accounting for transactions between the Group, the Institute and founders***

An acceleration agreement is an agreement between the Institute and the founders of the companies to transfer goods to the founders' property, transfer the equipment for rent, render services, perform works, grant a license to use the intellectual activity and the founders shall pay for them.

If the Group provides services and sells goods to the founders of the companies under an acceleration agreement before it becomes a shareholder, then the Group:

- Records transaction of sale of goods/services rendering and recognizes revenue;
- Discounts long-term receivables are to their present value and includes the effect into finance cost in profit and loss;
- Estimates an allowance under IFRS 9 for expected credit losses for trade receivables for goods and services rendered.

Then, if the Group becomes a shareholder it records a transaction for the contribution to the companies' assets and sets off the right of a claim under the acceleration agreement.

If the Group provides services and sells goods to the founders of the companies under an acceleration agreement after it becomes a shareholder, then the Group:

- Doesn't recognize revenue from the sale of goods/services, if the Group doesn't expect to receive the amount of consideration. The Group makes a contribution to the Companies assets in form of goods/services. Their costs are included in operating expenditures.

As part of the transactions under the agreement on the establishment of a legal entity, the Group:

- Does not recognize revenue from the provision of resources by the Group. The Group makes contributions to the Companies assets in the form of transferred goods / services. Their cost is included in operating expenditures.

***Equity instruments designated as at FVTOCI (measured at fair value through other comprehensive income)***

On initial recognition, the Group makes an irrevocable election on an instrument-by-instrument basis to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve.

If the Group's investment in charter capital of start-up is less than 100 thousand Rubles, then the cost of investment is an appropriate indication of fair value at the early development stage. This is due to high uncertainty on future financial results and cash flows. Once it becomes possible to build a reliable projection of future cash flows, the appropriate methods for calculation of fair value will be used, among them – discounted cash flow model. The very early development stage for a start-up is approximately 2 years from the date the company was established.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the Group's investment in charter capital of start-up is more than or 100 thousand Rubles or equal to, then it is measured at fair value.

The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings. Dividends on investments in equity instruments are recognized in profit or loss in accordance with IFRS 9.

According to IFRS 9, equity instruments designated as at FVTOCI are not subject to an impairment test.

***Investments in associates and joint ventures***

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

If the Group holds 20 per cent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the Group holds less than 20 per cent of the voting power of the investee, it is presumed that it does not have significant influence, unless such influence can be clearly demonstrated.

The existence of significant influence by the Group is usually evidenced in one or more of the following ways:

(a) Representation on the board of directors or equivalent governing body of the investee;
(b) Participation in policy-making processes, including participation in decisions about dividends or other distributions;
(c) Material transactions between the entity and its investee;
(d) Interchange of managerial personnel; or
(e) Provision of essential technical information.

***Equity method***

The results, assets, and liabilities of associates or joint ventures are incorporated in financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is recognized initially in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture.

***Subsidiaries***

The Group assesses whether or not it controls an investee. If facts and circumstances indicate that there is control, then investment is treated as subsidiary. Interests in subsidiaries are accounted for in accordance with IFRS 10 "Consolidated Financial Statement".

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances in banks and deposits with original maturities less than three months.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Deposits**

This category includes deposits with original maturities more than three months.

**Endowment funds and Grants**

***Endowment funds***

Endowments received represent one-off donations to the Institute 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, deposits and other investments, income or loss on disposal of bonds and other investments, net gains or losses on financial assets reclassified to profit or loss upon disposal or impairment, impairment allowance/ (recovered impairment) of financial assets.

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 of:

- 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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**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. Classification of expenses as commercial or non-commercial is carried out based on their target use. Allocation of indirect expenses on commercial and non-commercial activity is performed in proportion to the direct commercial and non-commercial expenses.

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the state social contributions.

**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 recognized 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 realized, 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 to the net income of the Group or 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.

*(in thousands of Russian Rubles)*

## 4. 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).

Financial investments are carried in the consolidated financial statements at their fair value, all categorized as level 1 in the fair value hierarchy (Note 5). Fair value of all other financial instruments equals to their balance values.

## 5. 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** |

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** |

*(in thousands of Russian Rubles)*

## 5. FINANCIAL INVESTMENTS (CONTINUED)

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) |
| Purchases | 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 a 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 January 2019** | **13,098** |
| Decrease in loss allowance from financial investments | (605) |
| **Balance as at 31 December 2019** | **12,493** |
| Decrease in loss allowance from financial investments | (69) |
| **Balance as at 31 December 2020** | **12,424** |

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

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

## 6. 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** |

*(in thousands of Russian Rubles)*

## 7. INCOME AND EXPENDITURE ANALYSIS

The information presented below provides analysis of the Group's operations and its results.

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|---|---|
| **Income** | | |
| Grants (Note 15) | 6,942,189 | 7,036,634 |
| Income from Endowment Fund (Note 16) | 365,698 | 415,443 |
| Revenue from research contracts and other income | 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) |
| Research direct materials | (198,334) | (172,549) |
| Software, hardware, IT services | (179,619) | (112,897) |
| Research and technology contractors costs | (169,779) | (311,462) |
| Consulting and professional services | (137,183) | (135,860) |
| Other contractors costs | (73,935) | (44,669) |
| Events and conferences | (44,763) | (123,783) |
| PR costs | (44,118) | (37,715) |
| Periodicals | (37,824) | (6,935) |
| Short term lease expense | (33,880) | (38,217) |
| Trade and other receivables impairment allowance | (22,754) | 4,933 |
| Business trips | (17,603) | (103,619) |
| Laboratory costs | (17,466) | (16,876) |
| Internet, mobile, post service | (15,680) | (17,262) |
| Transport costs | (8,991) | (23,632) |
| Loss on PPE disposal | (665) | (9,684) |
| Start-up costs | - | (560) |
| Other expenses | (77,794) | (51,568) |
| **Total expenditure** | **(7,985,055)** | **(8,013,431)** |
| **Finance income/(costs)** | | |
| Interest income on cash and cash equivalents | 19,314 | 21,254 |
| Interest on obligation under leases | (83,119) | (83,040) |
| Bank commission | (13,855) | (12,225) |
| Discount (expense)/income | (1,466) | 3,975 |
| Foreign exchange loss | (4,137) | 1,480 |
| **Total finance costs** | **(83,263)** | **(68,556)** |
| **Net income before income tax** | **135,186** | **101,854** |

The Group carries out non-commercial and commercial activities. Net income before income tax from non-commercial activities amounted to RUB 79,883 thousand, from commercial activities – RUB 55,303 thousand (2019: income in the amount RUB 3,479 thousand and RUB 98,375 thousand accordingly).

## 7. INCOME AND EXPENDITURE ANALYSIS (CONTINUED)

Staff costs include salaries, compulsory social security contributions, medical insurance, reimbursement of accommodation, transportation costs and other benefits in kind provided to employees.

Scholarships were paid to Skoltech MSc and PhD students.

Co-researchers costs are payments to the partner institutions under joint research programs.

Consulting and professional services include advisory services relating to strategy, human resources, innovation and product development, entrepreneurship and start-ups, marketing and promotion. It also includes audit expenses, property insurance, conference and competition organizing services, and expenses of patenting procedure.

Other expenses include occupational health and safety costs, tax penalties, other materials.

***(in thousands of Russian Rubles)***

## 8. 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 | Furniture, office equipment and other | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | | |
| **Balance at 1 January 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 December 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 December 2020** | **4,288,982** | **754,804** | **479,222** | **400,561** | **415,394** | **1,649,913** | **7,988,876** |
| ***Depreciation*** | | | | | | | |
| **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 December 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 December 2020** | **(2,749,796)** | **(694,152)** | **(379,309)** | **(332,230)** | **(167,383)** | **-** | **(4,322,870)** |
| ***Carrying amount*** | | | | | | | |
| **At 1 January 2019** | **2,548,785** | **297,995** | **186,829** | **168,118** | **143,590** | **1,307,982** | **4,653,299** |
| **At 31 December 2019** | **2,044,503** | **108,163** | **143,195** | **96,628** | **223,323** | **1,186,124** | **3,801,936** |
| **At 31 December 2020** | **1,539,186** | **60,652** | **99,913** | **68,331** | **248,011** | **1,649,913** | **3,666,006** |

*(in thousands of Russian Rubles)*

## 8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 respectively);
- 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 respectively).

## 9. INTANGIBLE ASSETS

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

| | Software | Development and other costs | Other intangible assets | Total |
|---|---|---|---|---|
| ***Cost*** | | | | |
| Balance at 1 January 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 December 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 December 2020** | **331,550** | **29,276** | **24,528** | 385,354 |
| ***Amortization*** | | | | |
| 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 December 2019** | **(152,918)** | **-** | **(873)** | **(153,791)** |
| Amortization for the period | (63,252) | - | (3,826) | **(67,078)** |
| Disposals | 91,828 | - | - | **91,828** |
| **Balance at 31 December 2020** | **(124,342)** | **-** | **(4,699)** | **(129,041)** |
| ***Net book value*** | | | | |
| **At 1 January 2019** | **147,184** | **11,275** | **1,590** | **160,049** |
| **At 31 December 2019** | **129,042** | **21,801** | **21,507** | **172,350** |
| **At 31 December 2020** | **207,208** | **29,276** | **19,829** | **256,313** |

*(in thousands of Russian Rubles)*

## 10. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2020 and 2019 consisted of the following:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Lease deposit | 47,576 | 42,386 |
| Prepayments to suppliers | 27,796 | 27,796 |
| Equity instruments at fair value through OCI | 4 | 4 |
| Allowance for prepayments | (27,796) | (27,796) |
| **Total other non-current assets** | **47,580** | **42,390** |

In 2019, the Institute became a participant of 2 startups: LLC "Digital Petroleum" (9% ownership share) and LLC "Smartcom" (19.9% ownership share). There were no changes in the structure of equity instruments at fair value through OCI in 2020.

The movements in loss allowance that has been recognized for other non-current assets are as follows:

| | Loss allowance for other non-current assets |
|---|---|
| **Balance as at 1 January 2019** | **27,796** |
| Increase in loss allowance | - |
| **Balance as at 31 December 2019** | **27,796** |
| Decrease in loss allowance | - |
| **Balance as at 31 December 2020** | **27,796** |

## 11. ACCOUNTS RECEIVABLE

Accounts receivable as at 31 December 2020 and 2019 consisted of the following:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Trade receivables | 296,771 | 196,093 |
| Lease deposit | 3,146 | 16,196 |
| Allowance for trade receivables | (36,921) | (14,167) |
| **Total accounts receivable** | **262,996** | **198,122** |

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL (expected credit losses). The expected credit losses on trade receivables and for long-term contracts are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group has recognized a loss allowance of 100% against all receivables over 360 days past due because historical experience has indicated that these receivables are generally not recoverable.

*(in thousands of Russian Rubles)*

## 11. ACCOUNTS RECEIVABLE (CONTINUED)

The movements in loss allowance that have been recognized for the accounts receivable are as follows:

| | Loss allowance for trade receivables | Loss allowance for receivables for long-term contracts | Total |
|---|---|---|---|
| **Balance as at 1 January 2019** | **14,300** | **4,800** | **19,100** |
| Recovered loss allowance | (4,500) | (4,800) | (9,300) |
| Increase in loss allowance | 4,367 | - | 4,367 |
| **Balance as at 31 December 2019** | **14,167** | **-** | **14,167** |
| Increase in loss allowance | 22,754 | - | 22,754 |
| **Balance as at 31 December 2020** | **36,921** | **-** | **36,921** |

## 12. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets as at 31 December 2020 and 2019 consisted of the following:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Prepayments to counterparties | 1,071,888 | 946,364 |
| Taxes prepaid | 99,909 | 43,884 |
| Other prepayments | 15,739 | 21,062 |
| VAT | 6,684 | 4,920 |
| Insurance prepaid | 5,530 | 7,918 |
| Scholarship prepayments | - | 57,567 |
| Allowance for prepayments | (40,065) | (40,065) |
| **Total prepayments and other current assets** | **1,159,685** | **1,041,650** |

The most significant prepayments as of 31 December 2020 were made to the following suppliers:

- Massachusetts Institute of Technology in the amount of RUB 703,834 thousand (31 December 2019: RUB 527,730 thousand) in accordance with Master Research Agreements and Agreement to further extend cooperation with Massachusetts Institute of Technology;
- LLC Kinovel in the amount of RUB 45,862 thousand (31 December 2019: RUB 68,178 thousand) for rent of premises;
- LLC Renova Lab in the amount of RUB 17,613 thousand (31 December 2019: RUB 18,323 thousand) for rent of premises;
- The Moscow Institute of Physics and Technology in the amount of RUB 167 thousand (31 December 2019: RUB 28,445 thousand) in accordance with Agreement on research and development work.

***(in thousands of Russian Rubles)***

## 12. PREPAYMENTS AND OTHER CURRENT ASSETS (CONTINUED)

The movements in loss allowance that has been recognized for the prepayments and other current assets are as follows:

| | Loss allowance for prepayments and other current assets |
|---|---|
| **Balance as at 1 January 2019** | **40,065** |
| Increase in loss allowance | - |
| **Balance as at 31 December 2019** | **40,065** |
| Decrease in loss allowance | - |
| **Balance as at 31 December 2020** | **40,065** |

## 13. CASH AND CASH EQUIVALENTS

The credit quality of cash and cash equivalents balances may be summarized based on Moody's ratings of the banks where the Group holds its cash balances as follows:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Baa3 rated | 1,006,069 | 846,165 |
| Ba2 rated | 14,129 | 11,790 |
| Ba1 rated | 13,830 | 91,858 |
| Unrated | 154,783 | 233,644 |
| **Total cash and cash equivalents** | **1,188,811** | **1,183,457** |

Cash and cash equivalents as at 31 December 2020 and 2019 comprise cash in bank and short-term bank deposits with an original maturity of three months or less.

## 14. RIGHT-OF-USE ASSETS

### Group as a lessee

The Group has lease contract for the new campus, which provides 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.

*(in thousands of Russian Rubles)*

## 14. RIGHT-OF-USE ASSETS (CONTINUED)

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

| | Campus | Premises | Equipment | Transport | Total |
|---|---|---|---|---|---|
| ***Cost*** | | | | | |
| Balance at 1 January 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 December 2019** | **218,743** | **872,969** | **232,429** | **9,881** | **1,334,022** |
| Additions | 23,670 | 120,559 | - | - | 144,229 |
| Disposals | - | (95,968) | (2,236) | - | (98,204) |
| **Balance at 31 December 2020** | **242,413** | **897,560** | **230,193** | **9,881** | **1,380,047** |
| ***Depreciation*** | | | | | |
| Balance at 1 January 2019 | - | - | - | - | - |
| Depreciation for the period | (1,363) | (262,165) | (36,300) | (3,168) | **(302,996)** |
| **Balance at 31 December 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)** |
| Disposals | - | 60,519 | 2,236 | - | **62,755** |
| **Balance at 31 December 2020** | **(3,583)** | **(470,437)** | **(72,204)** | **(6,671)** | **(552,895)** |
| ***Carrying amount*** | | | | | |
| **At 1 January 2019** | **69,676** | **756,606** | **177,881** | **7,289** | **1,011,452** |
| **At 31 December 2019** | **217,380** | **610,804** | **196,129** | **6,713** | **1,031,026** |
| **At 31 December 2020** | **238,830** | **427,123** | **157,989** | **3,210** | **827,152** |

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 recognized 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 was recognized by the Group during the year in the amount of RUB 20,659 thousand (2019: RUB 7,894 thousand).

*(in thousands of Russian Rubles)*

## 15. DEFERRED GRANTS

The Group's operations are financed by means of grants received from Skolkovo Foundation and other philanthropists.

Majority of the grants are received from Skolkovo Foundation as part of the State Program on Innovation Development of the Russian Federation till 2021. The grants are provided to finance the development, ongoing operations and activities of the Institute. According to the grant documentation, Skolkovo Foundation has the right to control the use of the money received under the grants and may demand repayment of the grant back to Skolkovo Foundation if it is not spent towards the specified objectives.

Similar to Skolkovo Foundation, each donor has the right to control the use of the money received under the grants and demand cancellation of the grant should the money not be applied towards stated purposes.

Grants relating to the purchase of PPE, intangible assets, right-of-use assets, other non-current assets are included in non-current liabilities as deferred grants. Deferred grants related to non-current assets are credited to profit or loss on a straight-line basis over the expected lives of the related assets: PPE, intangible assets, right-of-use assets.

Grants received to cover the costs related to operational activities and research projects are included in current liabilities as deferred grants and are credited to profit or loss as income in the period the related costs are incurred.

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

| | **Undisbursed deferred grants** | **Deferred grants related to non-current assets** | **Total** |
|---|---|---|---|
| **Balance at 1 January 2019** | **1,233,288** | **4,716,122** | **5,949,410** |
| Grants received | 6,243,378 | - | 6,243,378 |
| Repayment of unused grants | (68,134) | - | (68,134) |
| Grants recognized in income to match related expenses | (5,763,352) | (1,273,282) | (7,036,634) |
| Grants related to Intangible assets recognized as at 31 December 2019 | - | 20,127 | 20,127 |
| Reclassification to deferred grants related to non-current assets | (1,112,688) | 1,112,688 | - |
| **Balance at 31 December 2019** | **532,492** | **4,575,655** | **5,108,147** |
| Grants received | 6,982,365 | - | 6,982,365 |
| Repayment of unused grants | (25,403) | - | (25,403) |
| Grants recognized in income to match related expenses | (5,866,960) | (1,075,229) | (6,942,189) |
| Reclassification to deferred grants related to non-current assets | (1,214,762) | 1,214,762 | - |
| **Balance at 31 December 2020** | **407,732** | **4,715,188** | **5,122,920** |

*(in thousands of Russian Rubles)*

## 16. ENDOWMENT FUNDS

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), Russian municipal bonds and deposits in Russian Rubles in state-owned banks. The endowment funds are managed by professional asset management companies, including:

- Alfa Capital (RUB 2,927,834 thousand);
- VTB Capital Asset Management (RUB 844,209 thousand).

Asset management companies manage the endowment funds based on the rules stipulated in the Investment Declaration. In 2020 and 2019, the Fund invested in bonds (see Note 5).

Income from the Endowment Fund investments was as follows:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|---|---|
| Interest income on bonds | 353,176 | 376,189 |
| Net income on financial assets at reclassified to profit or (loss) upon disposal or impairment | 13,276 | 23,175 |
| Interest income from REPO | 4,538 | 67 |
| Recovered impairment of financial assets at FVOCI | 69 | 605 |
| (Loss) / income on disposal of bonds | (5,361) | 13,861 |
| Interest income on bank deposits | - | 1,546 |
| **Total income from the Endowment Fund investments** | **365,698** | **415,443** |

## 17. ACCOUNTS PAYABLE

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Due to employees | 365,072 | 337,334 |
| Trade payables | 108,265 | 119,589 |
| Taxes payable | 5 | 47,186 |
| Other payables | 10,001 | 6,454 |
| **Total accounts payable** | **483,343** | **510,563** |

***(in thousands of Russian Rubles)***

## 18. INCOME TAX EXPENSE

(a) Components of income tax expense

Income tax expense comprises the following:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|---|---|
| Current tax expense | 18,809 | 30,920 |
| Deferred tax income | 652 | 6,889 |
| **Income tax expense for the year** | **19,461** | **37,809** |

The majority of the Group's operations are non-commercial and are not subject to income tax.

(b) Reconciliation between the tax expense and net income before tax multiplied by applicable tax rate

The income tax rate applicable to the Group's 2020 and 2019 income from commercial activities is 20%. Reconciliation between the expected and the actual taxation charge is provided below:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|---|---|
| **Income from commercial activities (Note 7)** | **55,303** | **98,375** |
| Theoretical tax charge at statutory rate of 20% | 11,061 | 19,675 |
| Tax effect of items which are not deductible or assessable for taxation purposes | 8,400 | 18,134 |
| **Income tax expense for the year** | **19,461** | **37,809** |

(c) Deferred taxes analyzed by type of temporary difference

Deferred tax assets and liabilities are attributable to the following items:

| | 1 January 2020 | Recognized in profit or loss | 31 December 2020 |
|---|---|---|---|
| Account payables | 4,196 | (853) | 3,343 |
| Account receivables | 2,397 | 2,896 | 5,293 |
| Intangible assets | (458) | (2,695) | (3,153) |
| Property, plant and equipment | (201) | - | (201) |
| **Net deferred tax assets** | **5,934** | **(652)** | **5,282** |

| | 1 January 2019 | Recognized in profit or loss | 31 December 2019 |
|---|---|---|---|
| Accounts payable | 9,401 | (5,205) | 4,196 |
| Accounts receivable | 1,416 | 981 | 2,397 |
| Other non-current assets | 1,962 | (1,962) | - |
| Prepayments and other current assets | 108 | (108) | - |
| Intangible assets | - | (458) | (458) |
| Property, plant and equipment | (64) | (137) | (201) |
| **Net deferred tax assets** | **12,823** | **(6,889)** | **5,934** |

*(in thousands of Russian Rubles)*

## 19. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's key management personnel are represented by members of the Board of Trustees and top managers of the Group (President, Vice Presidents, Provosts, Director of the Endowment Fund).

The Group had no legal or constructive obligation to make pension or similar benefit payments beyond the state social contributions during the years ended 31 December 2020 and 2019.

The remuneration of key management personnel during the years ended 31 December 2020 and 2019 were as follows:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|---|---|
| Short-term employee benefits to the top management for the year (including wages, bonuses, medical insurance) | 293,238 | 237,481 |
| Payment for members of the Board of Trustees (reimbursement of accommodation, transport costs, preparing of information for Board) | - | 1,532 |
| **Total** | **293,238** | **239,013** |

The Russian state has significant influence over the Group. The Institute performs co-research programs with Russian institutions, controlled by or are under significant influence of the Russian state. The Group decided to apply the exemption from disclosure of individually insignificant transactions and balances with the government and parties that are related to the entity because the Russian state has control, joint control or significant influence over such parties.

The Group is financed mostly by grants received from Skolkovo Foundation as a part of the State Program of Innovation Development of the Russian Federation (Note 15).

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|---|---|
| Grants received from Skolkovo Foundation | 5,867,307 | 5,533,985 |
| Repayment of unused grants to Skolkovo Foundation | - | (30,718) |
| **Total** | **5,867,307** | **5,503,267** |

Other related parties include founders of the Institute. The outstanding balances with them were as follows:

| | 31 December 2020 | 31 December 2019 |
|---|---|---|
| Prepayments to suppliers | 3,618 | 30,555 |
| Prepayments received | 17,442 | 19,661 |
| Accounts payable | - | 1,699 |
| **Total** | **21,060** | **51,915** |

*(in thousands of Russian Rubles)*

## 19. RELATED PARTY TRANSACTIONS (CONTINUED)

Significant transactions with other related parties were as follows:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|---|---|
| Revenue | 18,357 | 33,102 |
| Donations | 100,000 | - |
| Purchase of services/goods | 46,605 | 11,312 |
| **Total** | **164,962** | **44,414** |

Cash balances held in bank, which is the related party to the Group, as at 31 December 2020 and 2019 were as follows:

| | Year ended 31 December 2020 | Year ended 31 December 2019 |
|---|---|---|
| Cash in bank | 903,238 | 836,162 |
| **Total** | **903,238** | **836,162** |

## 20. 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 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** |

*(in thousands of Russian Rubles)*

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 rates.

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)** |

***(in thousands of Russian Rubles)***

## 20. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 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 cash and cash equivalents (Note 13) and bonds (Note 5).

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** |

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** |

***(in thousands of Russian Rubles)***

## 21. CONTINGENCIES AND COMMITMENTS

Management estimates that the Group has obligations to make payments in future periods for capital commitments and partnership commitments.

***Capital expenditure commitments.*** There are capital expenditure commitments of RUB 266,382 thousand as at 31 December 2020 (31 December 2019: RUB 543,354 thousand) representing future costs for laboratory construction in the new campus and acquisitions of scientific and research equipment. Among them, commitments in the amount of RUB 174,065 thousand are denominated in particular currencies: RUB 820 thousand are denominated in USD, RUB 173,245 thousand – in Euro (31 December 2019: 61,386 thousand are denominated in other currencies: RUB 1,838 thousand - in USD, RUB 59,343 thousand – in Euro, RUB 205 thousand – in GBP).

***Partnership and cooperation commitments.*** As at 31 December 2020 the Institute has Master Research Agreements with 2 Universities (31 December 2019: 2) for the Center for Hydrocarbon Recovery and the Center for Photonics and Quantum Materials. No new agreements were signed in 2020.

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).

The partnership and cooperation commitments for the payments to the partners are as follows:

| | **31 December 2020** | **31 December 2019** |
|---|---|---|
| Not later than 1 year | 482,451 | 475,608 |
| Later than 1 year and not later than 5 years | 976,099 | 1,257,147 |
| **Total partnership and cooperation commitments** | **1,458,550** | **1,732,755** |

## 22. 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 a 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).

## 22. SUBSEQUENT EVENTS (CONTINUED)

“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.