

Skoltech Group

Consolidated Financial Statements
for the year ended 31 December 2019 and
Independent Auditor's Report

SKOLTECH GROUP

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019, 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.
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2019 were approved by management on 31 August 2020:

On behalf of the Management:



Tatyana Zakharova
Vice President for Finance and Operations



Elena Kolesnichenko
Chief Accountant

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 2019, 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 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon.

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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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


Vladimir Perfiliev
Engagement partner
31 August 2020



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 03.04.2013.

Primary State Registration Number: 111500005922.

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.

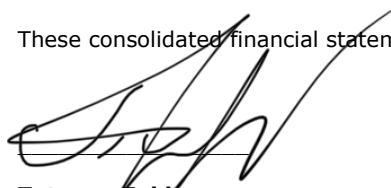
Member of Self-regulatory organization of auditors Association "Sodruzhestvo", ORNZ 12006020384.

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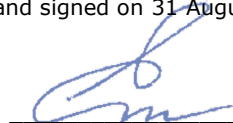
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2019 (in thousands of Russian Rubles)

	Notes	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	8	3,801,936	4,653,299
Intangible assets	9	172,350	160,049
Right-of-use assets	14	1,031,026	-
Deferred tax assets	18	5,934	12,823
Other non-current assets	10	42,390	27,890
Total non-current assets		5,053,636	4,854,061
Current assets			
Inventory		9,671	-
Accounts receivable	11	198,122	313,802
Income tax prepayment		8,747	-
Prepayments and other current assets	12	1,041,650	1,226,337
Financial investments	5	4,694,910	4,554,905
Cash and cash equivalents	13	1,183,457	830,165
Total current assets		7,136,557	6,925,209
Total assets		12,190,193	11,779,270
ACCUMULATED SURPLUS AND LIABILITIES			
Accumulated surplus and other comprehensive income			
Endowment funds	16	3,772,043	3,772,043
Accumulated surplus		1,616,437	1,552,392
Accumulated other comprehensive income/(loss)		47,676	(20,025)
Total accumulated surplus and other comprehensive income		5,436,156	5,304,410
Non-current liabilities			
Deferred grants	15	4,575,655	4,716,122
Lease liabilities		771,885	-
Total non-current liabilities		5,347,540	4,716,122
Current liabilities			
Accounts payable	17	510,563	501,693
Income tax payable		-	9,479
Advances received		71,357	14,278
Deferred grants	15	532,492	1,233,288
Lease liabilities		292,085	-
Total current liabilities		1,406,497	1,758,738
Total liabilities		6,754,037	6,474,860
Total accumulated surplus and liabilities		12,190,193	11,779,270

These consolidated financial statements were approved for issue and signed on 31 August 2020:



Tatyana Zakharova
Vice President for Finance and Operations



Elena Kolesnichenko
Chief Accountant

The accompanying notes on pages 9-38 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

	Notes	Year ended 31 December 2019	Year ended 31 December 2018
Income			
Grants	15	7,036,634	5,755,954
Income from investments of Endowment Fund	16	415,443	322,287
Revenue from contracts with customers and other income	6	731,764	596,721
Total income		8,183,841	6,674,962
Expenditure			
Staff costs		(3,656,301)	(2,853,453)
Depreciation and amortization		(1,642,499)	(1,086,208)
Scholarships and students costs		(742,876)	(556,486)
Utilities and maintenance		(406,652)	(154,544)
Co-researchers' costs		(362,748)	(453,238)
Other expenses	7	(1,202,355)	(1,573,319)
Total expenditure		(8,013,431)	(6,677,248)
Net income/(loss) from operations		170,410	(2,286)
Finance costs, net	7	(68,556)	(8,040)
Net income/(loss) before income tax		101,854	(10,326)
Income tax expense	18	(37,809)	(19,298)
Income/(loss) for the year		64,045	(29,624)
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net change in fair value of financial investment in the current year	5	91,482	(59,279)
Net (gains)/losses on financial investment reclassified to profit or loss upon disposal or impairment		(23,781)	5,855
Other comprehensive income/(loss) for the year		67,701	(53,424)
Total comprehensive income/(loss) for the year		131,746	(83,048)

The accompanying notes on pages 9-38 are an integral part of these consolidated financial statements.

SKOLTECH GROUP**CONSOLIDATED STATEMENT OF CHANGES IN SURPLUS
FOR THE YEAR ENDED 31 DECEMBER 2019
(in thousands of Russian Rubles)**

	<u>Endowment fund</u>	<u>Accumulated surplus</u>	<u>Accumulated other comprehensive income/(loss)</u>	<u>Total</u>
Balance at 1 January 2018	3,772,043	1,582,016	33,399	5,387,458
Loss for the year	-	(29,624)	-	(29,624)
Other comprehensive loss	-	-	(53,424)	(53,424)
Total comprehensive loss for the year	-	(29,624)	(53,424)	(83,048)
Balance at 31 December 2018	3,772,043	1,552,392	(20,025)	5,304,410
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

The accompanying notes on pages 9-38 are an integral part of these consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

	Note	Year ended 31 December 2019	Year ended 31 December 2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		101,854	(10,327)
<i>Adjustments for:</i>			
Depreciation and amortization	8,9,14	1,642,499	1,086,208
Grants	15	(7,036,634)	(5,755,954)
Income from investments of Endowment Fund	16	(415,443)	(322,287)
Interest income on cash and cash equivalents		(21,254)	(17,184)
Discount (income)/ expenses		(3,976)	9,810
Interest expense		83,040	-
Loss on PPE disposal	8	9,684	-
Allowance for trade receivables and prepayments	11,12	(4,933)	77,693
Other		(1,046)	(446)
Cash flows from operating activities before changes in working capital		(5,646,209)	(4,932,487)
Decrease/(increase) in accounts receivable and advances paid		294,776	(222,023)
(Increase)/decrease in inventory		(9,671)	145
Increase/(decrease) in accounts payable and advances received		86,177	(5,189)
Changes in working capital		371,282	(227,067)
Grants received		6,219,538	5,563,932
Grants repaid	15	(68,134)	(1,843)
Interest income received on bonds		400,766	381,791
Interest income received on deposits		1,545	26,394
Interest income received from REPO		67	-
Interest income received on cash and cash equivalents		21,254	17,184
Interest paid		(83,040)	-
Income tax paid		(49,147)	(1,376)
Net cash flows from operating activities		1,167,922	826,528
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(417,471)	(632,221)
Purchase of intangible assets		(68,911)	(96,088)
Proceeds from purchases of bonds		(59,240)	(793,139)
Purchase of equity instruments at fair value through OCI		(4)	-
Cash received on expiration of term deposits, net		-	687,606
Proceeds from promissory notes		-	32,320
Net cash flows used in investing activities		(545,626)	(801,522)
CASH FLOWS FROM FINANCING ACTIVITIES			
Lease payments		(269,004)	-
Net cash flows used in financing activities		(269,004)	-
Cash and cash equivalents at the beginning of the year		830,165	805,159
Net increase in cash and cash equivalents		353,292	25,006
Cash and cash equivalents at the end of the year		1,183,457	830,165

The accompanying notes on pages 9-38 are an integral part of these consolidated financial statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

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". Endowment Fund is a non-profit organization incorporated in the Russian Federation in 2012, and its main activities are to manage and distribute income from the usage of the endowment funds received as donations from individuals or companies. Income from the management of the Endowment Fund is used for financing of the Institute. The Group has 100% interest in Endowment Fund.

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

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

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.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

1. GENERAL INFORMATION (CONTINUED)

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. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. In March 2020 oil prices dropped for more than 40%, which resulted in immediate weakening of Russian Ruble against major currencies. Management cannot reasonably estimate further price changes and the impact they may have on the financial situation of the Institute.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. This led to reduced access of the Russian businesses to international capital markets.

In 2018 and 2019, the economic situation in Russia was relatively stable, but the above events led to higher inflation, slower economic growth and other negative economic consequences. The impact of changes in the economic situation on the future performance and financial situation of the Institute is currently difficult to determine.

In 2019 and in the following years, the Institute's activities were and will be exposed to the country risk arising from the sanctions against Russia. The negative consequences include:

- 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.

To minimize the negative impact of the above risks, the Institute's management looks to engage professors from countries that have not imposed sanctions against Russia.

In addition to that, starting from early 2020 a new coronavirus disease (COVID-19) has begun rapidly spreading all over the world resulting in announcement of the pandemic status by the World Health Organization in March 2020.

Responses put in place by many countries to contain the spread of COVID-19 are resulting in significant operational disruption for many companies and have significant impact on global financial markets. As the situation is rapidly evolving it may have a significant effect on business of many companies across a wide range of sectors, including, but not limited to such impacts as disruption of business operations as a result of interruption of production or closure of facilities, supply chain disruptions, quarantines of personnel, reduced demand and difficulties in raising financing. In addition, the Group may face the increasingly broad effects of COVID-19 as a result of its negative impact on the global economy and major financial markets. The significance of the effect of COVID-19 on the Group's business largely depends on the duration and the incidence of the pandemic effects on the world and Russian economy.

As at 31 December 2019, the share of funds invested in bonds was 100% (as at 31 December 2018: 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. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years preceding the year of tax audit. Under certain circumstances reviews may cover longer periods.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

1. GENERAL INFORMATION (CONTINUED)

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.

In 2019, amendments were introduced to the Tax Code of the Russian Federation and certain other legislative acts, which provides, among other things, an increase in the general rate of Value Added Tax (VAT) from 18% to 20%. The new rates apply to goods, work, services, and property rights supplied starting from January 1, 2019.

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 rouble ("RUB"), which is the Group's functional currency and the currency in which these consolidated financial statements are presented. All financial information presented in RUB has been rounded to the nearest thousand, unless otherwise stated.

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 recognised 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.

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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

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 in the project budgeted costs.

Going concern

Management prepares consolidated financial statements on a going concern basis. In making this judgment management considers the Group's financial position, current intentions, access to the financing, current plans of the Foundation of the New Technologies Development and Commercialization Centre (hereinafter "Skolkovo Foundation") (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.

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 2019. The impact of the adoption of IFRS 16 Leases on the Group's results of operations and financial position is described below. The adoption of other standards and amendments did not have an impact on the Group's results of operations, financial position or cash flows.

IFRS 16 Leases

As at 1 January 2019, the Group adopted IFRS 16.

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 replaced IAS 17 Leases and all related interpretations.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions between operating leases (off balance sheet) and finance leases (on balance sheet) is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

Transition

According to the transition provisions of IFRS 16, the Group selected the modified retrospective method of transition with liabilities measured at the present value of the remaining lease payments, discounted using incremental borrowing rate at 1 January 2019, and right-of-use assets measured as the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. In accordance with this method, the Group did not restate comparative information for the previous period.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

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

The Group made use of the following practical expedients:

- Permission to exclude from IFRS 16 scope leases for which the lease term ends within 12 months from 1 January 2019 and recognize the lease payments associated with those leases as an expense on a straight-line basis over the lease term;
- Relief from the requirement to reassess whether a contract is, or contains the lease;
- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Use of assessment of whether leases are onerous applying IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, immediately before the date of initial application as an alternative to performing an impairment review;
- Permission to exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- Use hindsight, such as in determining the lease term if the contract contains options to extend or terminate the lease.

Effect from the adoption

As a result of adoption of IFRS 16 the Group recognised right-of-use assets and lease liabilities of RUB 1,011,452 thousand as at 1 January 2019.

The result of the transition is represented as follows:

Future minimum lease payments at 31 December 2018 as disclosed in the consolidated financial statements for the year-ended 31 December 2018	<u>1,780,566</u>
Less:	
Commitments relating to short-term leases	(16,928)
VAT	(296,547)
Impact of discounting	(724,530)
Add:	
Reassessment of options to extend and cancel lease contracts	<u>268,891</u>
Lease liabilities recognized at 1 January 2019	<u>1,011,452</u>

The table below shows the effect of application of IFRS 16 on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2019:

	<u>2019</u>
Increase in depreciation within Cost of sales and Selling, general and administrative expenses	(302,996)
Increase in Interest expenses	(83,040)
Decrease in rent expenses within Cost of sales and Selling, general and administrative expenses	<u>352,215</u>
Decrease in Profit or Loss	<u>(33,821)</u>

The application of IFRS 16 has an impact on the consolidated statement of cash flows of the Group.

Under IFRS 16, lessees must present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by IAS 7 (the Group has opted to include interest paid as part of operating activities); and
- Cash payments for the principal portion for a lease liability, as part of financing activities.

SKOLTECH GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

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

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by RUB 269,004 thousand being the lease payments, and net cash used in financing activities has increased by the same amount.

The adoption of IFRS 16 did not have an impact on net cash flows.

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 2020 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 2021
Amendments to IFRS 10 and IAS 28 – <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	Date to be determined by the IASB
Amendments to IFRS 3 – <i>Definition of a business</i>	1 January 2020
Annual Improvements to IFRSs (2010-2012 Cycle Amendments to IAS 1) – <i>Classification of Liabilities as Current or Non-Current</i>	1 January 2022
Amendments to IFRS 9, IAS 39 and IFRS 7 – <i>Interest Rate Benchmark Reform and its Effects on Financial Reporting</i>	1 January 2020
Amendments to IAS 1 and IAS 8 – <i>Definition of material</i>	1 January 2020
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IFRS 16 – <i>Covid-19-Related Rent Concessions</i>	1 June 2020

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 recognised 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 recognised 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 *Definition of a business*

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

SKOLTECH GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

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

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted. The management of the Group plans to apply the amendments for the future transactions.

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.

The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application 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.

Annual Improvements to IFRSs (2010-2012 Cycle Amendments to IAS 1) – Classification of Liabilities as Current or Non-Current

The amendments are intended to clarify that a liability is classified as non-current if an entity expects, and has the discretion, to refinance or roll over an obligation for at least twelve months after the reporting period under an existing loan facility with the same lender, on the same or similar terms.

The amendment affect only the presentation of liabilities in the statement of financial position – not the amount or timing of recognition, or the information that entities disclose about those items.

The amendments clarify that the classification should be based on rights that are in existence at the end of the reporting period to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability.

The classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and are to be applied retrospectively. Earlier application 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.

SKOLTECH GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

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. 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.

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.

Intangible assets

Intangible assets stated at cost less accumulated amortization. The Group's intangible assets have definite useful lives and primarily include computer software. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortized using the straight-line method over their useful lives:

Software	1-10 years.
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Financial instruments

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

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

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

Measurement of financial assets

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

SKOLTECH GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Accounting for transactions between the Group, the Company and founders

Acceleration agreement is 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 founders shall pay for them. If the Group provides services and sells goods to the founders of the companies under Acceleration agreement before it becomes a shareholder, then the Group:

- Records transaction of sale of goods/services rendering and recognizes revenue;
- Long-term receivables are discounted to their present value with including the effect into finance cost in profit and loss;
- Under IFRS 9 an allowance for expected credit losses is estimated for trade receivables for goods and services rendered;
- Then, if the Group becomes a shareholder it records transaction of contribution to the companies' assets and makes setting off the right of a claim under Acceleration agreement.

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

- Doesn't recognize revenue from sale of goods/services rendering, if the Group doesn't expect to receive the amount of consideration. The Group makes 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.

SKOLTECH GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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, the equity instruments designated as at FVTOCI are not subject to 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.

SKOLTECH GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 subsidiary towards establishment of the Endowment Fund. The establishment and operations of such fund are governed by the Russian legislation. Income received from the management of endowment funds comprises interest income on bonds, 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:

- 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.

SKOLTECH GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 *(in thousands of Russian Rubles)*

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 2019, the official rate of exchange as determined by the Central Bank of the Russian Federation, between the RUB and the US Dollar was RUB 61.9057: US Dollar 1.00 (31 December 2018: RUB 69.4706:US Dollar 1.00); between the RUB and Euro: RUB 69.3406: Euro 1.00 (31 December 2018: RUB 79.4605: Euro 1.00).

Income tax

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Classification of accumulated surplus

The net income generated from operations is all used to finance the operating activities of the Institute and is not distributed to the founders. The founders do not have any rights relating neither to the net income of the Group nor to residual assets in case of the Group's liquidation. Total accumulated comprehensive income is presented as a separate category "Total accumulated surplus and other comprehensive income" in the Group consolidated statement of financial position.

SKOLTECH GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (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 2019	31 December 2018
Financial investments		
Russian government bonds	455,984	1,231,519
Corporate bonds	4,238,926	3,323,386
Total financial investments	4,694,910	4,554,905

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

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

	Russian government bonds	Corporate bonds	Total
BBB-	1,231,519	2,533,431	3,764,950
BB+	-	747,116	747,116
Baa3	-	42,839	42,839
Total financial investments	1,231,519	3,323,386	4,554,905

SKOLTECH GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

5. FINANCIAL INVESTMENTS (CONTINUED)

The movements in financial investments are as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Carrying amount at 1 January	4,554,905	3,890,525
Net change of fair value	91,482	(59,279)
Interest income	376,189	312,310
Interest received	(400,704)	(381,791)
Additions	2,002,170	2,153,700
Disposals	(790,137)	(859,908)
Repayments	(1,138,995)	(500,652)
Carrying amount at 31 December	4,694,910	4,554,905

In accordance with IFRS 9 as at 31 December 2019 and 31 December 2018 loss allowance has been recognized. Probability of default rates and loss given default are based on information from Bloomberg.

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

	Year ended 31 December 2019
Balance as at 1 January 2018	13,952
Decrease in loss allowance from financial investments	(854)
Balance as at 31 December 2018	13,098
Decrease in loss allowance from financial investments	(605)
Balance as at 31 December 2019	12,493

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

	Year ended 31 December 2019	Year ended 31 December 2018
Russian government bonds	9,194	(17,658)
Corporate bonds	82,288	(41,621)
Total gains/(losses) for the year	91,482	(59,279)

6. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OTHER INCOME

	Year ended 31 December 2019	Year ended 31 December 2018
Revenue from research contracts	659,661	548,595
Revenue from consulting services	27,703	4,985
Revenue from educational services	3,375	8,223
Revenue from licenses	1,014	372
Revenue from other services	15,117	13,627
Total revenue from contracts with customers	706,870	575,802
Rental income	7,894	2,421
Other income	17,000	18,498
Total revenue from contracts with customers and other income	731,764	596,721

SKOLTECH GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (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 2019	Year ended 31 December 2018
Income		
Grants	7,036,634	5,755,954
Income from Endowment Fund	415,443	322,287
Revenue from research contracts and other income	731,764	596,721
Total income	8,183,841	6,674,962
Expenditure		
Staff costs	(3,656,301)	(2,853,453)
Depreciation and amortization	(1,642,499)	(1,086,208)
Scholarships and students costs	(742,876)	(556,486)
Utilities and maintenance	(406,652)	(429,385)
Co-researchers costs	(362,748)	(453,238)
Research and technology contractors costs	(311,462)	(173,450)
Research direct materials	(172,549)	(268,947)
Consulting and professional services	(135,860)	(145,850)
Events and conferences	(123,783)	(94,674)
Software, hardware, IT services	(112,897)	(100,874)
Business trips	(103,619)	(120,453)
Other contractors costs	(44,669)	(21,761)
Short term lease expense	(38,217)	-
PR costs	(37,715)	(49,532)
Transport costs	(23,632)	(42,325)
Internet, mobile, post service	(17,262)	(13,870)
Laboratory costs	(16,876)	(109,318)
Profit/(loss) on PPE disposal	(9,684)	-
Periodicals	(6,935)	(34,337)
Start-up costs	(560)	-
Trade and other receivables impairment allowance	4,933	(16,380)
Prepayments impairment allowance		(61,313)
Other expenses	(51,568)	(45,394)
Total expenditure	(8,013,431)	(6,677,248)
Finance income/(costs)		
Interest income on cash and cash equivalents	21,254	17,184
Interest income on promissory notes	-	823
Interest on obligation under leases	(83,040)	-
Bank commission	(12,225)	(11,901)
Discount income/(expense)	3,975	(9,810)
Foreign exchange loss	1,480	(4,336)
Total finance income/(costs)	(68,556)	(8,040)
Net income/(loss) before income tax	101,854	(10,326)

The Group carries out non-commercial and commercial activities. Net income before income tax from non-commercial activities amounted to RUB 3,479 thousand, from commercial activities – RUB 98,375 thousand (2018: loss in the amount RUB 51,150 thousand and income in the amount RUB 40,824 thousand accordingly).

SKOLTECH GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

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, expenses of patenting procedure.

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

SKOLTECH GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (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 2018	2,980,846	392,335	202,621	345,828	71,158	1,944,501	5,937,289
Additions	349,966	143,439	75,611	5,284	93,315	87,350	754,965
Transfers	433,669	155,655	76,615	19,830	38,100	(723,869)	-
Disposals	(799)	-	(463)	-	(3)	-	(1,265)
Balance at 31 December 2018	3,763,682	691,429	354,384	370,942	202,570	1,307,982	6,690,989
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
Depreciation							
Balance at 1 January 2018	(619,789)	(223,123)	(100,624)	(66,337)	(30,228)	-	(1,040,101)
Depreciation for the period	(595,648)	(170,311)	(67,277)	(136,487)	(28,752)	-	(998,475)
Disposals	540	-	346	-	-	-	886
Balance at 31 December 2018	(1,214,897)	(393,434)	(167,555)	(202,824)	(58,980)	-	(2,037,690)
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)
Net book value							
At 1 January 2018	2,361,057	169,212	101,997	279,491	40,930	1,944,501	4,897,188
At 31 December 2018	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

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8. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Construction in progress as of 31 December 2019 includes:

- Prepayments for campus construction in the amount of RUB 869,281 thousand and assets under installation for campus construction – RUB 153,168 thousand (31 December 2018: RUB 1,016,873 thousand and RUB 51,319 thousand accordingly);
- Prepayments for other PPE in the amount of RUB 160,600 thousand and assets under installation for other PPE – RUB 3,075 thousand (31 December 2018: RUB 154,698 thousand and RUB 85,092 thousand accordingly).

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 2018	269,128	31,374	1,583	302,085
Additions	94,451	1,136	500	96,087
Transfers	21,123	(21,235)	112	-
Balance at 31 December 2018	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
Amortization				
Balance at 1 January 2018	(149,975)	-	(415)	(150,390)
Amortization for the period	(87,543)	-	(190)	(87,733)
Balance at 31 December 2018	(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)
Net book value				
At 1 January 2018	119,153	31,374	1,168	151,695
At 31 December 2018	147,184	11,275	1,590	160,049
At 31 December 2019	129,042	21,801	21,507	172,350

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

10. OTHER NON-CURRENT ASSETS

Other non-current assets as at 31 December 2019 and 2018 consisted of the following:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Lease deposit	42,386	27,890
Prepayments to suppliers	27,796	27,796
Equity instruments at fair value through OCI	4	-
Allowance for prepayments	<u>(27,796)</u>	<u>(27,796)</u>
Total other non-current assets	<u>42,390</u>	<u>27,890</u>

In 2019, the Institute became a participant of 2 startups: LLC "Digital Petroleum" (9% ownership share) and LLC "Smartcom" (19.9% ownership share).

11. ACCOUNTS RECEIVABLE

Accounts receivable as at 31 December 2019 and 2018 consisted of the following:

	<u>31 December 2019</u>	<u>31 December 2018</u>
Trade receivables	196,093	291,512
Lease deposit	16,196	36,590
Receivables due from customers for long-term research contracts	-	4,800
Allowance for receivables for long-term contracts	-	(4,800)
Allowance for trade receivables	<u>(14,167)</u>	<u>(14,300)</u>
Total accounts receivable	<u>198,122</u>	<u>313,802</u>

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.

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

	<u>Loss allowance for trade receivables</u>	<u>Loss allowance for receivables for long-term contracts</u>	<u>Total</u>
Balance as at 1 January 2018	<u>2,720</u>	<u>-</u>	<u>2,720</u>
Increase in loss allowance	<u>11,580</u>	<u>4,800</u>	<u>16,380</u>
Balance as at 31 December 2018	<u>14,300</u>	<u>4,800</u>	<u>19,100</u>
Recovered loss allowance	<u>(4,500)</u>	<u>(4,800)</u>	<u>(9,300)</u>
Increase in loss allowance	<u>4,367</u>	<u>-</u>	<u>4,367</u>
Balance as at 31 December 2019	<u>14,167</u>	<u>-</u>	<u>14,167</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

12. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets as at 31 December 2019 and 2018 consisted of the following:

	31 December 2019	31 December 2018
Prepayments to counterparties	946,364	1,142,184
Scholarship prepayments	57,567	54,919
Taxes prepaid	43,884	41,069
Insurance prepaid	7,918	13,958
VAT	4,920	-
Other prepayments	21,062	14,272
Allowance for prepayments	(40,065)	(40,065)
Total prepayments and other current assets	<u>1,041,650</u>	<u>1,226,337</u>

The most significant prepayments as of 31 December 2019 were made to the following suppliers:

- Massachusetts Institute of Technology in the amount of RUB 527,730 thousand (31 December 2018: RUB 603,974 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 68,178 thousand (31 December 2018: RUB 82,548 thousand) for rent of premises;
- The Moscow Institute of Physics and Technology in the amount of RUB 28,445 thousand (31 December 2018: RUB 29,202 thousand) in accordance with Agreement on research and development work.
- LLC Renova Lab in the amount of RUB 18,323 thousand (31 December 2018: RUB 25,032 thousand) for rent of premises.

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 2018	6,548
Increase in loss allowance	33,517
Balance as at 31 January 2018	<u>40,065</u>
Increase in loss allowance	-
Balance as at 31 January 2019	<u>40,065</u>

13. CASH AND CASH EQUIVALENTS

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

	31 December 2019	31 December 2018
Baa3 rated	846,165	-
Ba1 rated	91,858	624,929
Ba2 rated	11,790	-
Unrated	233,644	205,236
Total cash and cash equivalents	<u>1,183,457</u>	<u>830,165</u>

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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.

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

	<u>Campus</u>	<u>Premises</u>	<u>Equipment</u>	<u>Transport</u>	<u>Total</u>
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	<u>218,743</u>	<u>872,969</u>	<u>232,429</u>	<u>9,881</u>	<u>1,334,022</u>
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	<u>(1,363)</u>	<u>(262,165)</u>	<u>(36,300)</u>	<u>(3,168)</u>	<u>(302,996)</u>
Net book value					
At 1 January 2019	<u>69,676</u>	<u>756,606</u>	<u>177,881</u>	<u>7,289</u>	<u>1,011,452</u>
At 31 December 2019	<u>217,380</u>	<u>610,804</u>	<u>196,129</u>	<u>6,713</u>	<u>1,031,026</u>

The following are the amounts recognised in profit or loss:

	Year ended 31 December 2019
Depreciation expense of right-of-use assets	302,996
Interest expense on lease liabilities	83,040
Expense relating to short-term leases	38,217
Total amount recognised in profit or loss	<u>424,253</u>

Group as a lessor

The Group as a lessor has entered into operating subleases of campus premises. These leases have terms of between 11 months and 15 years. Rental income recognized by the Group during the year in the amount of RUB 7,894 thousand (2018: RUB 2,421 thousand).

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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 2020. 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 2018	1,266,544	4,876,731	6,143,275
Grants received	5,563,932	-	5,563,932
Repayment of unused grants	(1,843)	-	(1,843)
Grants recognised in income to match related expenses	(4,717,231)	(1,038,723)	(5,755,954)
Reclassification to deferred grants related to non-current assets	(878,114)	878,114	-
Balance at 31 December 2018	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 recognised in income to match related expenses	(5,763,352)	(1,273,282)	(7,036,634)
Grants related to Intangible assets recognised 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

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).

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16. ENDOWMENT FUND (CONTINUED)

Asset management companies manage the endowment funds based on the rules stipulated in the Investment Declaration. In 2019 and 2018, the Fund invested in bonds (see Note 5).

Income from investments of Endowment Fund was as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Interest income on bonds	376,189	312,310
Income on disposal of bonds	13,861	1,155
Interest income on bank deposits	1,546	14,678
Recovered impairment of financial assets at FVOCI	605	854
Net loss on financial assets at reclassified to profit or (loss) upon disposal or impairment	23,175	(6,710)
Interest income from REPO	67	-
Total income from investments of Endowment Fund	415,443	322,287

17. ACCOUNTS PAYABLE

	31 December 2019	31 December 2018
Due to employees	337,334	263,913
Trade payables	119,589	205,718
Taxes payable	47,186	19,858
Other payables	6,454	12,204
Total accounts payable	510,563	501,693

18. INCOME TAX EXPENSE

(a) Components of income tax expense

Income tax expense comprises the following:

	Year ended 31 December 2019	Year ended 31 December 2018
Current tax expense	30,920	23,800
Deferred tax income	6,889	(4,502)
Income tax expense for the year	37,809	19,298

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

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18. INCOME TAX EXPENSE (CONTINUED)

(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 2019 and 2018 income from commercial activities is 20%. Reconciliation between the expected and the actual taxation charge is provided below:

	<u>Year ended 31 December 2019</u>	<u>Year ended 31 December 2018</u>
Income from commercial activities (Note 7)	98,375	40,824
Theoretical tax charge at statutory rate of 20%	19,675	8,165
Tax effect of items which are not deductible or assessable for taxation purposes	<u>18,134</u>	<u>11,133</u>
Income tax expense for the year	<u>37,809</u>	<u>19,298</u>

(c) Deferred taxes analysed by type of temporary difference

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

	<u>1 January 2019</u>	<u>Recognised in profit or loss</u>	<u>31 December 2019</u>
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	<u>(64)</u>	<u>(137)</u>	<u>(201)</u>
Net deferred tax assets	<u>12,823</u>	<u>(6,889)</u>	<u>5,934</u>
	<u>1 January 2018</u>	<u>Recognised in profit or loss</u>	<u>31 December 2018</u>
Account payables	7,217	2,184	9,401
Account receivables	942	2,436	3,378
Prepayments and other current assets	81	27	108
Financial investments	81	(81)	-
Property, plant and equipment	<u>-</u>	<u>(64)</u>	<u>(64)</u>
Net deferred tax assets	<u>8,321</u>	<u>4,502</u>	<u>12,823</u>

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 2019 and 2018

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19. RELATED PARTY TRANSACTIONS (CONTINUED)

The remuneration of key management personnel during the years ended 31 December 2019 and 2018 were as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Short-term employee benefits to the top management for the year (including wages, bonuses, medical insurance)	237,481	247,850
Payment for members of the Board of Trustees (reimbursement of accommodation, transport costs, preparing of information for Board)	<u>1,532</u>	<u>553</u>
Total	<u>239,013</u>	<u>248,403</u>

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 party.

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 2019	Year ended 31 December 2018
Grants received from Skolkovo Foundation	5,533,985	5,027,400
Repayment of unused grants to Skolkovo Foundation	<u>(30,718)</u>	<u>(1,382)</u>
Total	<u>5,503,267</u>	<u>5,026,018</u>

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

	31 December 2019	31 December 2018
Prepayments to suppliers	30,555	29,813
Accounts payable	1,699	1,959
Trade receivables	-	24,000
Prepayments received	<u>19,661</u>	<u>-</u>
Total	<u>51,915</u>	<u>55,772</u>

The significant transactions with other related parties were as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Revenue	33,102	23,139
Purchase of services/goods	<u>11,312</u>	<u>5,640</u>
Total	<u>44,414</u>	<u>28,779</u>

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19. RELATED PARTY TRANSACTIONS (CONTINUED)

Cash balances held in bank, which is the related party to the Group, in 2019 and 2018 were as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
Cash in bank	836,162	-
Total	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 minimise operational and legal risks.

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

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

	31 December 2019	31 December 2018
Other non-current assets	42,386	27,887
Lease deposit	42,386	27,887
Accounts receivable	198,122	313,802
Trade receivables	181,925	277,212
Lease deposit	16,197	36,590
Financial investments	4,694,910	4,554,905
Russian government bonds	455,984	1,231,519
Corporate bonds	4,238,926	3,323,386
Cash and cash equivalents	1,183,457	830,165
Total maximum exposure to credit risk	6,118,875	5,726,759

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.

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risks concentration. The Group is exposed to concentrations of credit risk. As at 31 December 2019 the Group had 23 counterparties (31 December 2018: 21 counterparties) with aggregated receivables balances above RUB 1 million accounting for approximately 96% (2018: 95%) 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 234,745 thousand (2018: RUB 227,745 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 2019, 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 2019			31 December 2018		
	Monetary financial assets	Monetary financial liabilities	Net balance sheet position	Monetary financial assets	Monetary financial liabilities	Net balance sheet position
US Dollars	48,595	(50,109)	(1,514)	31,860	(1,541)	30,319
Euro	15,647	(142,887)	(127,240)	32,759	(3,961)	28,798
GBR	-	(9,732)	(9,732)	-	(442)	(442)
CHF	-	(9,191)	(9,191)	-	-	-
JPY	-	(3,969)	(3,969)	-	-	-
Total	64,242	(215,888)	(151,646)	64,619	(5,944)	58,675

As at 31 December 2019, if Russian Ruble would weaken or strengthen by 5% against the USD, Euro, GBR, CHF and JPY with all other variables held constant, the Group's total comprehensive income for the year would have been by RUB 7,582 thousand (2018: RUB 2,947 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.

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20. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group's liquidity portfolio comprises cash and cash 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 2019		31 December 2018	
	Trade payables	Other payables	Trade payables	Other payables
Demand and less than 1 month	29,538	-	6,973	82
From 1 to 3 months	12,153	-	64,570	10,394
From 3 to 12 months	77,898	6,454	134,175	1,728
Total	119,589	6,454	205,718	12,204

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

	31 December 2019	31 December 2018
Not later than 1 year	404,154	-
Later than 1 year and not later than 5 years	718,964	-
Later than 5 years	2,022,307	-
Total undiscounted lease liabilities	3,145,425	-

21. CONTINGENCIES AND COMMITMENTS

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

Capital expenditure commitments. There are capital expenditure commitments RUB 543,354 thousand as at 31 December 2019 (31 December 2018: RUB 1,558,599 thousand) representing future costs for laboratory construction in new campus and acquisitions of scientific and research equipment. Among them, commitments in amount of RUB 61,386 thousand are denominated in particular currencies: RUB 1,838 thousand are denominated in USD, RUB 59,343 thousand – in Euro, RUB 205 thousand – in GBP (31 December 2018: 24,132 thousand are denominated in other currencies: RUB 6,100 thousand – in USD, RUB 17,826 thousand – in Euro and RUB 205 thousand – in GBP).

Partnership and cooperation commitments. As at 31 December 2019 the Institute has the Master Research Agreements with 2 Universities (31 December 2018: 3) for Center for Hydrocarbon Recovery, Center for Photonics and Quantum Materials.

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 centre of academic excellence in cutting-edge basic and applied research. In accordance with this Agreement commitment for the period from 2020 till 2023, in amount of RUB 1,631,339 thousand, are denominated in USD.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019 (in thousands of Russian Rubles)

21. CONTINGENT AND COMMITMENTS (CONTINUED)

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

	<u>31 December 2019</u>	<u>31 December 2018</u>
Not later than 1 year	475,608	145,250
Later than 1 year and not later than 5 years	<u>1,257,147</u>	<u>-</u>
Total partnership and cooperation commitments	<u>1,732,755</u>	<u>145,250</u>

22. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus ("COVID-19") a global pandemic. In the first quarter of 2020, the COVID-19 outbreak caused significant shocks in the world market: it contributed to the decline in oil prices, the fall of stock market indices, and the depreciation of the Russian ruble. In response to the potentially serious threat posed to public health by the COVID-19 epidemic, the authorities of the Russian Federation have taken measures to contain the spread of COVID-19, which have led to significant difficulties in the operational activities of various institutions and organizations, including the Skoltech Group. During March 2020, local governments gradually introduced additional measures to ensure social distance, including the termination of schools, higher education institutions, restaurants, cinemas, theatres, museums, and sports facilities. The Institute has thus been forced to close almost all of its laboratories, thus suspending research and a number of laboratory projects. The Institute has now translated its activities into a remote format. Remote education has been launched, remote defence of theses is planned. The availability of automated business processes and the expanded use of electronic documents management ensures the stability of the Institute's activities, more care for staff and students at minimum cost to the organization.

As a result of the changing economic situation in Russia and abroad, as well as the appreciation of the dollar, there is a risk of decline in the volume of state financing and external attracted financing. The possible weakening of the ruble may lead to an increase in cash outflows in ruble terms according to settlements with foreign counterparties, which, in turn, may cause the need to revise the volume of cooperation with foreign partners or redistribute the budget to reduce costs under other items.

The depreciation of the ruble has had an impact on the Russian debt market, among other things. However, the impact of this crisis on the financial condition of the Skolkovo Institute of Science and Technology Endowment Fund (hereinafter, Endowment Fund) was 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.

The largest decline in bonds value occurred in March, but by the end of April the bond price had almost recovered to pre-crisis levels. This is due to the following reasons:

- The recession in the economy required the allocation of considerable funds from the state as support measures. These measures have primarily had a positive impact on the ruble debt market;
- The Central Bank reduced the key rate to 5.5%. This is a historic low level, with the last time the key rate was at this level in March 2014.

Despite the fact that the current situation is related to high uncertainty, the fact that the Endowment Fund is invested in bonds of reliable issuers with short durations (less than 1.5 years) suggests that the impact of this crisis on the yield of target capital until the end of 2020 will also be limited.

At the moment, the management of the Institute believes that Skoltech, even taking into account the risks associated with COVID-19, has sufficient funding to maintain the volume of research and educational activities until the end of 2020, and to continue research and educational activities in the short term (for at least the next 12 months from the date of this report) provided that the level of the previously approved budget of state financing of the Institute, received in the form of a Grant of the Skolkovo Foundation, is maintained at the previously budgeted level.

22. SUBSEQUENT EVENTS (CONTINUED)

The possibility of maintaining research and education in the medium and long term, to a large extent, will depend on maintaining the level of state funding. The Institute's management believes that, with a possible reduction in state funding, the financing of completing and equipping the new campus building will be reduced in the first place, which may in turn cause some delay in completing the relocation of all the Institute's units and laboratories to the new building. Research and education activities, if funding is reduced, will decrease last.

In view of the above measures and the current operational and financial results of the Group, as well as the information currently available to the public, management does not expect a significant negative impact of the COVID-19 pandemic on the financial situation and financial results of the Group in the short term. However, it cannot be ruled out that measures to prevent the further spread of infection or the adverse effects of such measures on the economic conditions in which the Group operates will have a negative impact on the Group's activities in the medium and long term. The magnitude of the impact of COVID-19 on the activities of the Institute depends, to a large extent, on the duration and rate of the spread of the virus, its impact on the Russian and global economy. Management continues to monitor the situation closely and will take the necessary measures to mitigate the impact of possible negative events and circumstances as they arise.