

Financial Statements of

**INTERNATIONAL SCIENCE AND
TECHNOLOGY CENTER**

For the year ended December 31, 2018



KPMG Baltics AS
Vesetas iela 7
Rīga, LV-1013
Latvia

Telephone +371 67038000
Telefax +371 67038002
kpmg.com/lv

Independent Auditors' Report

To the Governing Board of the International Science and Technological Center

Our Qualified Opinion on the Financial Statements

We have audited the accompanying financial statements of the International Science and Technological Center (hereinafter "ISTC"), set out on pages 1 to 32 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2018,
- the statement of revenues and expenditure for the year then ended,
- the statement of movements in capital contributions for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of the ISTC as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

Under the terms of the project agreement concluded between the ISTC and the respective recipient institutes, project costs for a given period of time may not be claimed by a recipient institute if it has received project reimbursements from other funding sources for the same period of time. In case the project condition is breached, the ISTC may ultimately terminate the project and demand the prompt return of all payments and goods previously provided. Institute's potential failure to return the funds and goods creates additional credit risk exposure to the ISTC. We were unable to obtain sufficient appropriate audit evidence about the recipient institutes' compliance with the above contractual condition as no related effective controls or supporting records existed at the ISTC, and we were also denied access to the relevant accounting records of the recipient institutes. Accordingly, we were not able to determine whether any adjustments might be necessary to the amounts shown in the financial statements for project revenue, project expenditure, designated capital contributions and accounts receivable. Our audit opinion on the ISTC's financial statements for the year ended 31 December 2017 was also modified accordingly.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the ISTC in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

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

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 ISTC'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 ISTC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the ISTC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a 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.

KPMG Baltics AS
Licence No. 55

A handwritten signature in blue ink, appearing to be 'Armine', is positioned above the printed name of the signatory.

Armine Movsisjana
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 178
Riga, Latvia
20 June 2019

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER
FINANCIAL STATEMENTS
For the year ended December 31, 2018

	<u>Page</u>
Statement of Financial Position	1
Statement of Revenues and Expenses	2
Statement of Cash Flows	3
Statement of Movements in Capital Contributions	4-8
Notes to the Financial Statements	9-32

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statement of Financial Position


December 31, 2018 and 2017

(Thousands of U.S. Dollars)

	2018	2017
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	33,996	37,718
Receivables		
Amounts due from funding parties (Note 5)	4,264	6,038
Project advances	190	58
Other receivables (Note 6)	9,499	5,777
Prepaid expenses	14	22
Accrued income receivable	57	30
	48,020	49,643
NON-CURRENT RECEIVABLES FROM FUNDING PARTIES (Note 5)		
	1,240	1,367
TOTAL ASSETS	\$ 49,260	\$ 51,010
LIABILITIES AND CAPITAL CONTRIBUTIONS		
CURRENT		
Accounts payable		
Projects	\$ 227	\$ 307
Administration and project vendors	503	158
Administrative commitments (Note 7)	-	66
Grants payable to institutes	561	591
	1,291	1,122
CAPITAL CONTRIBUTIONS		
DESIGNATED CAPITAL CONTRIBUTIONS ("DCC") - PROJECTS		
	21,816	20,311
DESIGNATED CAPITAL CONTRIBUTIONS ("DCC") - OPERATING		
Administrative budget	644	403
Supplemental budget	9,875	10,079
UNDESIGNATED CAPITAL CONTRIBUTIONS ("UCC")		
	15,634	19,095
	47,969	49,888
TOTAL LIABILITIES AND CAPITAL CONTRIBUTION	\$ 49,260	\$ 51,010

Accompanying notes, as set out on pages 9 - 32, form an integral part of these financial statements.

Signed on behalf of International Science and Technology Center on 20 June 2019



David Cleave
Executive Director

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statements of Revenues and Expenses

Years ended December 31, 2018 and 2017

(Thousands of U.S. Dollars)

	2018	2017
REVENUES		
Project revenues (Capital movement note (a))	\$ 8,136	\$ 4,938
Supplemental budget (Capital movement note (b))	1,928	3,121
Operating revenues		
Administrative revenue (Note 7)	1,095	1,397
<i>Administrative budget (Capital movement note (b))</i>	<i>1,095</i>	<i>1,463</i>
<i>Changes in deferred revenue</i>	<i>-</i>	<i>(66)</i>
Investment income (Capital movement note (c))	401	237
Other income (Note 8)	-	1,372
	<u>11,560</u>	<u>11,065</u>
EXPENSES		
Project expenses (Note 10)	8,136	4,938
<i>Projects ongoing</i>	<i>3,345</i>	<i>2,992</i>
<i>Projects completed</i>	<i>291</i>	<i>122</i>
<i>Sustainability Support Programs</i>	<i>4,500</i>	<i>1,824</i>
Supplemental budget (Note 11)	1,928	3,121
Operating expenses		
Administrative costs	1,012	1,166
<i>Administrative expenses (Note 11)</i>	<i>1,012</i>	<i>1,232</i>
<i>Changes in administrative commitments</i>	<i>-</i>	<i>(66)</i>
Other expenses (Note 9)	609	-
	<u>11,685</u>	<u>9,225</u>
EXCESS OF REVENUES OVER EXPENSES (Note 12)	\$ (125)	\$ 1,840

Accompanying notes, as set out on pages 9 - 32, form an integral part of these financial statements.

Signed on behalf of International Science and Technology Center on 20 June 2019



David Cleave
Executive Director

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statements of Cash Flows

Years ended December 31, 2018 and 2017

(Thousands of U.S. Dollars)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Cash received from funding parties (Note 13)	\$ 11,320	\$ 9,193
Cash out	<u>(12,096)</u>	<u>(9,521)</u>
Cash generated from operation	<u>(776)</u>	<u>(328)</u>
<i>Net cash from operating activities</i>	(776)	(328)
Cash flows from investing activities		
Investment Income	<u>374</u>	<u>221</u>
<i>Net cash used in investing activities</i>	374	221
Cash flows from financing activities		
Effects of exchange rate changes on cash and cash equivalents	<u>(619)</u>	<u>1,329</u>
Net increase/(decrease) in cash and cash equivalents	<u>(1,021)</u>	<u>1,222</u>
Cash and cash equivalents at beginning of period	42,742	41,520
Cash and cash equivalents at end of period	<u><u>41,721</u></u>	<u><u>42,742</u></u>

Accompanying notes, as set out on pages 9 - 32, form an integral part of these financial statements.

Signed on behalf of International Science and Technology Center on 20 June 2019



David Cleave
Executive Director

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statement of Movements in Capital Contributions

For the year ended December 31, 2018

Movements in capital accounts during fiscal years 2018 and 2017 are as follow:

a. *Designated Capital Contributions ("DCC") – Projects are presented at the country level which summarizes Funding Parties and Partners associated with that country.*

Designated capital contribution – Projects represent amounts committed on signed projects net of project expenses incurred to date

	EU	U.S.	Japan	South Korea	Total
DCC projects - December 31, 2016 and January 1, 2017	\$ 16,977	\$ 1,385	\$ 337	\$ 140	\$ 18,839
Transfers to statement of revenues and expenses	(3 163)	(1,180)	(456)	(139)	(4,938)
New projects signed during 2017	3,551	2,447	510	-	6,508
Funding received in excess of close proj. expenses transfer to UCC	(36)	(62)	-	-	(98)
DCC projects - December 31, 2017 and January 1, 2018	17,329	2,590	391	1	20,311
Transfers to statement of revenues and expenses	(5,499)	(2,168)	(468)	(1)	(8,136)
New projects signed during 2018	5,087	3,790	946	-	9,823
Project modification reduction	(111)	-	-	-	(111)
Funding received in excess of closed proj. expenses transfer to UCC	(24)	(31)	(16)	-	(71)
DCC projects - December 31, 2018	\$ 16,782	\$ 4,181	\$ 853	\$ 0	\$ 21,816

Accompanying notes, as set out on pages 9 – 32, form an integral part of these financial statements.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statement of Movements in Capital Contributions

For the year ended December 31, 2018

b. Designated Capital Contributions ("DCC") - Operating

Administrative operating budget represents amount committed for the administration budget for the next fiscal year.

	EU	U.S.	Japan	Norway	South Korea	Kazakhstan	Partners fees	Total
Administrative operating budget - December 31, 2016 and January 1, 2017	-	-	-	-	-	-	198	198
New budget approved 2017	772	329	162	50	60	40	-	1,413
Transfer to statement of revenues and expenses	(772)	(329)	(162)	(50)	(60)	(40)	(50)	(1,463)
Additional contribution (net of adjustments)	-	-	-	-	-	-	255	255
Revenues in excess of expenses for the year	130	56	27	8	10	-	-	231
Transfer to UCC for revenues in excess of expenses	(130)	(56)	(27)	(8)	(10)	-	-	(231)
Administrative operating budget - December 31, 2017 and January 1, 2018	-	-	-	-	-	-	403	403
New budget approved 2018	595	143	67	50	50	40	-	945
Transfer to statement of revenues and expenses	(595)	(143)	(67)	(50)	(50)	(40)	(150)	(1,095)
Additional contribution (net of adjustments)	-	-	-	-	-	-	391	391
Revenues in excess of expenses for the year	54	13	6	5	5	-	-	83
Transfer to UCC for revenues in excess of expenses	(54)	(13)	(6)	(5)	(5)	-	-	(83)
Administrative budget - December 31, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 644	\$ 644

Accompanying notes, as set out on pages 9 –32, form an integral part of these financial statements.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statement of Movements in Capital Contributions

For the year ended December 31, 2018

b. Designated Capital Contributions ("DCC") – SB programs are presented at the country level which summarizes Funding Parties and Partners associated with country.

SOB represents amounts committed to programs and program activities net of related expenses incurred to date.

	EU	U.S.	Japan	Total
Supplemental budget - December 31, 2016 and January 1, 2017	458	1,894	407	2,759
Transfer to statement of revenues and expenses	(1,399)	(1,422)	(300)	(3,121)
Additional contribution	2,232	9,754	426	12,412
Transfer to DCC - projects	-	(72)	-	(72)
Transfer to DCC - admin	(2)	-	-	(2)
Transfer to UCC for unused funds	(744)	(985)	(168)	(1,897)
Supplemental budget - December 31, 2017 and January 1, 2018	545	9,169	365	10,079
Transfer to statement of revenues and expenses	(1,315)	(454)	(159)	(1,928)
Additional contribution	1,922	1,207	306	3,435
Transfer to DCC - projects	(105)	(1,200)	-	(1,305)
Transfer to UCC for unused funds	(317)	-	(89)	(406)
Supplemental operating budget - December 31, 2018	\$ 730	\$ 8,722	\$ 423	\$ 9,875

Accompanying notes, as set out on pages 9 – 32, form an integral part of these financial statements.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statement of Movements in Capital Contributions

For the year ended December 31, 2018

c. *Undesignated Capital Contributions ("UCC")*

Undesignated capital contributions are the amounts paid or committed by the funding parties and partners which have not yet been designated for the operating budget or project purposes (see also Note 2d for additional explanations).

	EU	U.S.	Japan	Norway	South Korea	Kazakhstan	Total
UCC - December 31, 2016	\$ 6,181	\$ 17,687	\$ 3,845	\$ 7	\$ 11	\$ -	\$ 27,731
Increase of capital							
Contributions from parties	2,897	400	680	-	-	100	4,077
Investment income allocation	99	110	27	-	1	-	237
Transfer from DCC for revenues in excess of expenses in operating - administrative budget	130	56	27	8	10	-	231
Transfer from DCC for unused funds on programs under operating - supplemental budget	744	985	168	-	-	-	1,897
Transfer from DCC - projects for approved funding in excess of expenses	36	62	-	-	-	-	98
Other transfers	2	2	2	-	-	-	6
Foreign exchange differences	1,372	-	-	-	-	-	1,372
Decrease of capital							
Transfer to DCC - projects for signed projects	(506)	(878)	(510)	-	-	-	(1,894)
Transfer to DCC for operating - administrative budget	(770)	(387)	-	(7)	-	(40)	(1,204)
Transfer to DCC for operating - supplemental budget	(2,434)	(9,604)	(426)	-	-	-	(12,464)
Transfer of funds to STCU	-	(933)	-	-	-	-	(933)
Other	-	1	-	-	-	(60)	(59)
UCC - December 31, 2017	\$ 7,751	\$ 7,501	\$ 3,813	\$ 8	\$ 22	\$ -	\$ 19,095

Accompanying notes, as set out on pages 9 – 32, form an integral part of these financial statements.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER
Statement of Movements in Capital Contributions
For the year ended December 31, 2018

c. *Undesignated Capital Contributions ("UCC") (continued)*

	EU	U.S.	Japan	Norway	South Korea	Kazakhstan	Total
UCC - December 31, 2017	\$ 7,751	\$ 7,501	\$ 3,813	\$ 8	\$ 22	\$ -	\$ 19,095
Increase of capital							
Contributions from parties	2,934	500	680	-	-	100	4,214
Investment income allocation	188	167	46	-	-	-	401
Transfer from DCC for revenues in excess of expenses in operating - administrative budget	54	13	6	5	5	-	83
Transfer from DCC for unused funds on programs under operating - supplemental budget	317	-	89	-	-	-	406
Transfer from DCC - projects for approved funding in excess of expenses	24	31	16	-	-	-	71
Other transfers	-	-	-	-	-	-	-
Foreign exchange differences	-	-	-	-	-	-	-
Decrease of capital							
Transfer to DCC - projects for signed projects	(1,726)	(1,171)	(945)	-	-	-	(3,842)
Transfer to DCC for operating - administrative budget	(597)	(353)	-	-	-	(40)	(990)
Transfer to DCC for operating - supplemental budget	(1,874)	(955)	(306)	-	-	-	(3,135)
Other transfers	-	-	-	-	-	(60)	(60)
Foreign exchange differences	(609)	-	-	-	-	-	(609)
UCC - December 31, 2018	\$ 6,462	\$ 5,733	\$ 3,399	\$ 13	\$ 27	\$ -	\$ 15,634

Accompanying notes, as set out on pages 9 – 32, form an integral part of these financial statements.

Signed on behalf of International Science and Technology Center on June 20, 2019


David Cleave
Executive Director

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

1. ORGANIZATION AND BUSINESS

The International Science and Technology Center (hereinafter "ISTC") was established in 1992 pursuant to an Agreement signed in Moscow, Russian Federation.

Agreement continuing the ISTC was signed on December 9, 2015 at the GB 61 in Astana city, the Republic of Kazakhstan and fully ratified on December 14, 2017.

The objectives of the ISTC are set forth in Article II of the Agreement. The ISTC develops, approves, finances and monitors science and technology projects for civilian purposes, which are to be carried out primarily at institutions and facilities located in the states of the Commonwealth of Independent States ("CIS") and Georgia. The parties to the Continuing Agreement signed in December 2015 were the European Union, the United States of America, Armenia, Georgia, the Republic of Kazakhstan, the Kyrgyz Republic, Tajikistan, Japan, Norway, and the Republic of South Korea. Funding parties which contribute to the ISTC are the States parties, government and non-government partners.

Based on Article IX of the Continuing Agreement, the Government of the Republic of Kazakhstan provides the ISTC with free office space and other facilities, along with maintenance, utilities and security for the facility. Since August 2014, the ISTC has occupied office space provided in kind by the Government of the Republic of Kazakhstan. The annual contribution included free rent, utilities and security services and is estimated at fair value of \$150,123 in 2018 and \$35,538 in 2017.

On January 15, 2018, the ISTC moved to the new premises at 46/1 Turan Avenue, Astana that were provided in kind by the Government of the Republic of Kazakhstan.

The ISTC has been registered with the State Revenue Committee of the Ministry of Finance of the Republic of Kazakhstan (the Committee). The Committee established that the ISTC, as a part of "Diplomatic and consular representations", is not a corporate income tax payer and is not obligatory to submit the declaration for the corporate income tax. Furthermore, the Committee recognized that the ISTC, in accordance with the Paragraph a) of the Article 34 of the Vienna Convention on Diplomatic Relations dated from 18.04.1961, shall be exempt from all dues and taxes, personal or real, national, regional or municipal.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES

a. *Basis of preparation*

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), except as described below, and management has concluded that the financial statements present fairly the entity's financial position, results of operations and cash flows.

International Accounting Standard ("IAS") 16 "Property, Plant and Equipment" requires non-current assets to be capitalized; depreciated over their useful economic lives and derecognized upon disposal and IAS 38 "Intangible Assets" requires computer software costs and other intangible assets be capitalized and amortized over their useful economic life and derecognized upon disposal. Due to the project-based nature of ISTC's operations, management believes the application of these requirements would result in improper matching between the revenues contributed by the funding parties with the related expenses, and, accordingly conflict with the fair presentation objective of these financial statements.

Non-current assets acquired for use by participating institutes as part of the projects and for use by sustainability program partners, as well as non-current assets acquired by ISTC for the administrative needs, are charged to the Statement of Revenues and Expenses upon acquisition (project related non-current assets acquired in 2018 - \$1098 thousand; 2017 - \$213 thousand). For the administrative needs, ISTC acquired \$11 thousand of non-current assets in 2018 and \$30 thousand in 2017.

These financial statements were approved by the Executive Director and the Chief Financial Officer on June 20, 2019 and will be presented for approval to the Governing Board on July 17, 2019. The Governing Board has the power to reject the financial statements, and the right to request that new financial statements be issued.

In these financial statements, the statement of Comprehensive Income is called "the Statement of Revenues and Expenses" and the Statement of Changes in Equity is called "the Statement of Movements in Capital Contributions".

Statement of Cash Flows is prepared based on direct method.

The financial statements have been prepared on a historical cost basis.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

b. Functional and presentation currency and foreign currency transactions

The U.S. dollar is the functional currency for the ISTC. Accordingly, these financial statements have been prepared using U.S. dollars as the presentation currency. Use of the U.S. dollar best reflects the economic substance of the transactions and circumstances of the ISTC. All financial information presented in U.S. dollars has been rounded to the nearest thousand.

Foreign currency transactions are translated into U.S. dollars at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the European Central Bank for EUR currency and the National Bank of Republic of Kazakhstan for KZT currency exchange rates prevailing at the year-end date. Foreign currency translation gains and losses are charged to the Statement of Revenues and Expenses under Other expenses/Other income with the exception of translation gains and losses arising from project and program funding related transactions involving the European Union and EU partners. The exchange rates applied at the period end for the principal currencies are as follows: EUR/USD 1.1450 (2017: 1.1993), USD/KZT 384.20 (2017: 332.33).

c. Project activity

ISTC authorizes and funds scientific projects which are carried out at institutes or various organizations. Projects are financed by the funding parties and partners either individually or jointly. All project agreements include a maximum amount of funding to be provided by the funding parties or partners. ISTC's projects include sustainable capacity and capabilities building support programs. These programs are different from scientific research and technology projects in a way that they provide material and technical assistance to Partner Countries that participate in the programs to strengthen their legislative, institutional and educational/training frameworks.

The project activity is accounted for in the financial statements as follows:

Project recognition

Projects are initially accounted for upon the later occurrence of either the signing date of the project agreement between ISTC, the recipient institutes and the partners or the project commencement date. Upon commencement of the project accounting, the total amount of the funding is credited to the relevant funding parties' designated capital accounts in proportion to the level of funding agreed to by each party. To the extent that the signed projects are not funded by advance payments from the respective funding parties, a receivable is recorded in the accounting records, which is subsequently covered by either transfers from Undesignated Capital Contributions Accounts or direct disbursement by the Funding Parties.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

Project expenses

Project costs consist of several main components: grants to scientists, technical services, travel, equipment and overhead. The ISTC, being a non-profit inter-governmental organization, does not envisage that any economic benefits will accrue to it in the foreseeable future from the financing of these projects. Accordingly, all project costs incurred, including the purchase of project equipment, are charged immediately to the Statement of Revenues and Expenditure. Projects are performed on a cost reimbursable basis, with a ceiling of funds specified in the project agreements.

Based on the project agreement the ISTC temporarily retains the payment of the allowable overhead for the individual projects, in accordance with the project agreements, until the submission, and acceptance of, the financial and technical reports prepared by the project recipients. The overhead retainage is recognized as part of amounts payable for projects that were completed in the audited year.

When a project has been completed or terminated, any funds committed in excess of actual costs are credited back to the relevant Funding Parties' Undesignated Capital Contributions Account in the same proportion as the initial contributions from the Funding Parties.

d. Revenues

IFRS 15, which was adopted by the ISTC in 2018, deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. An entity adopts a five-step model to determine when to recognize revenue, and at what amount. The new model specifies that revenue should be recognized when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognized:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

Additionally, it is provided that an asset will be recognized for the incremental costs of obtaining a contract with a customer if they are expected to be recovered.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

The standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts" and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and early application is permitted. The STCU applied cumulative effect method from 1 January 2018. In accordance with the transitional provision of IFRS 15, the cumulative effect of initially applying the new revenue standard is recognized as an adjustment to the opening balance as at 1 January 2018. The STCU has assessed necessity of opening balance adjustment and concluded that there is no cumulative effect to the opening balance as at 1 January 2018.

The internal revenue recognition policies for the different types of contracts with customers have been analyzed, identifying the performance obligations, the determination of the pattern of satisfaction of these obligations, transaction price and allocation thereof, in order to identify possible differences with respect to the revenue recognition model under the new standard. A performance obligation is a promise to deliver a good or provide a service (or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer). No significant differences between them have been detected. IFRS 15 requires the recognition of an asset for incremental costs incurred in obtaining such contracts with customers and which are expected to be recovered. The current practices applied by the ISTC imply that there are no contract costs to be capitalized.

The specific accounting policies for the ISTC's main types of revenue are explained below.

Project Revenues

Project revenues recognized during the year in the Statement of Revenues and Expenditure are amounts equal to the total value of project expenditure incurred and expensed during the year. These revenues are transferred from the Funding Parties Designated Capital Accounts for Projects to the Statement of Revenues and Expenditure.

Project Revenues do not arise from contracts with customers where a 'customer' is a party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activity. Therefore, revenue recognition model under IFRS 15 is not applicable for the project revenues recognized by the ISTC.

Partner Fees

Partner projects may be charged a fee of 10% of the total project cost for the services provided by the ISTC to administer the project. Revenues from partner fees meet the definition of the contracts with customers as stipulated under IFRS 15. Revenues from partner fees derived from contracts with customers are recognized based on compliance with performance obligations with customers. Partner fees reflect the transfer of services to funding parties at an amount that reflects the consideration to which the ISTC expects to be entitled in exchange for such services. Partner fees are recognized in the Statement of Revenues and Expenditure upon receipt of the Partner Fees from the Partners.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

Agent vs. Principal

The ISTC has performed assessment over principal vs agent presentation under IFRS 15. The Center has concluded that it acts as a principal. The ISTC obtains control of a service performed by recipient institutes and directs this service by administering the projects and holds primary responsibility for fulfilling the specified service to the Funding parties. During the project administration the ISTC has discretion in selecting suppliers and agreeing on the prices paid.

Operating revenues and expenses

Administrative and operating budget ("AOB")

Administrative and operating budget revenues recognized in the Statement of Revenues and Expenses during the year are amounts approved by the funding parties for the AOB of the particular year and transferred from the funding parties' designated capital contributions to administrative and operating budget. Such income does not meet the definition of revenue from contracts with customers as per IFRS 15.

AOB operating expenses are charged to the Statement of Revenues and Expenses when incurred.

Revenues in excess of expenses are generally reallocated to the funding parties' undesignated capital contributions accounts in the same proportion as the administrative revenues contributions or upon the Governing Board's approval can be allocated in total or a portion to the AOB and/or SOB in the same method as described above.

Supplemental operating budget ("SOB")

Supplemental Budgets are approved by the Funding Parties and Partners to provide funding for activities that are outside the scope of the Administrative Operating Budget and not directly related to the implementation of projects. Upon approval of the Supplemental Budgets, the total amount of such budgets is credited to the relevant Funder's Designated Capital Accounts for Supplemental Budgets.

Supplemental operating budget revenues are recognized in the Statement of Revenues and Expenses are amounts equal to expenses incurred during the year. Such income does not meet the definition of revenue from contracts with customers as per IFRS 15.

Supplemental budget operating expenses are charged to the Statement of Revenues and Expenses when incurred.

Any surplus in funds upon completion of the programs within the supplemental operating budget is transferred to the funding parties' undesignated capital contribution account.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

e. Capital management

The capital of the ISTC is represented by the net assets attributable to Funding Parties. The ISTC's objectives in managing capital are to safeguard the assets of the Funding Parties to enable the ISTC to continue as a going concern and enable the future funding of project expenditure.

All significant capital decisions such as project funding, transfers of capital, investment of capital and returns of capital to funding parties, require approval by the funding parties at six-monthly meetings of the governing board or otherwise. The management of the ISTC after receiving funds from the parties takes care to manage the Parties funds and minimize various risks with the Banks that are chosen to keep these funds and as such these funds are managed on a regular monthly basis in terms of operational and liquidity requirements.

Designated capital contribution

Projects represent amounts committed on signed projects net of project expenses incurred to date.

Undesignated capital contributions

Undesignated capital contributions are amounts paid or committed by the funding parties which have not yet been designated for the operating budget or project purposes, or are funding party revenues in excess of expenses from closed or terminated projects.

In the case of projects funded by the European Union, the annual protocol signed between the ISTC and the European Union and specifying the amount of funding allocated allows a certain proportion of project amounts to be invoiced upon signing the protocol and before the commencement of the individual projects. As a result, the invoices issued during the year are recognized in the financial statements by including them in the European Union's undesignated capital contributions account and amounts receivable from funding parties. Subsequently, when these projects are finally signed, an appropriation is made between the designated and undesignated capital contributions account.

f. Cash and cash equivalents

Cash and cash equivalents in the Statement of Cash Flows comprise of cash and cash deposits with original maturity of less than 3 months and subject to insignificant risk of change in value.

g. Prepayments

Prepayments include prepaid expense related to projects and to administrative and supplemental activities. ISTC recognises prepayments upon cash transfer for which the underlying asset will not be consumed until a future period. When the asset is eventually consumed, it is charged to expense.

h. Non-current assets

Non-current assets are acquired for the ISTC's own use or for the projects and other activities and are comprised of the following:

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

ISTC equipment

The costs of the ISTC's equipment, information technology related to purchases and facility improvements are charged to administrative expenses when acquired.

Project equipment

Since ISTC does not expect to derive any foreseeable economic benefits from the ownership of project equipment, expenses incurred for equipment under each project is recorded as an expense in the Statement of Revenues and Expenses together with other project expenses incurred during the year (see Note 2c).

Despite the fact that ISTC does not consume economic benefits derived from the project equipment over the term of its useful life, ISTC maintains ownership of the equipment during and beyond the period of project implementation.

i. Contingent assets and liabilities

Possible assets and obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of ISTC, and give rise to the possibility of future inflows, are disclosed in the financial statements. ISTC does not have other types of contingent liabilities.

j. Employee benefits

Short term employee benefits, including staff salaries and social security contributions to the staff in the Republic of Kazakhstan, vacation and other benefits are included in expenses on an accrual basis. The ISTC has no obligations to pay further contributions related to employee services in respect to payroll taxes and contributions outside the Republic of Kazakhstan and any pensions on the retirement of employees.

k. Taxation

Under the terms of the Agreement Continuing the ISTC with the Republic of Kazakhstan government, the ISTC is exempt from corporate income taxes. In addition, the ISTC is exempt from custom duties and Value Added Taxes ("VAT") on imported goods and VAT exempt on purchases within Kazakhstan, Georgia and the CIS participating countries.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

1. Financial Instruments

Financial Assets

The ISTC uses only non-derivative financial instruments as part of its normal operations. These financial assets include bank accounts, certificates of deposit, and receivables. All financial assets are accounted for at amortized cost.

Any potential differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 in 2018 should have been recognized in capital contribution as at 1 January 2018. However, there was no impact from IFRS 9 adoption as noted below and therefore no adjustment to capital contribution were made as at 1 January 2018. Likewise, no substantial additional disclosures required by IFRS 9 were deemed necessary in the ISTC' s circumstances.

Initial recognition and measurement

Financial assets include trade and other receivables and cash and cash equivalents. Similarly to the past practice all financial assets held by the ISTC are classified as instruments at amortized cost under IFRS 9. The Center determines the classification of its financial assets at initial recognition. All financial assets held by the Center are recognised initially at fair value plus directly attributable transaction costs.

Subsequent measurement

Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset. When calculating the effective interest rate, ISTC estimates future cash flows considering all contractual terms of the financial instruments.

Derecognition

ISTC derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by ISTC is recognized as a separate asset or liability.

Impairment of financial assets

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss (ECL)' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised. The new impairment model will apply to financial assets

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

measured at amortized cost or Fair Value Through Other Comprehensive Income (FVOCI), except for investments in equity instruments, and to contract assets.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The ISTC assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. The ISTC recognises doubtful debt impairment allowances based on an individual management assessment of the recoverability of each receivable. Trade and other receivables are recognised as balance sheet assets against capital contribution. Thus, loss given default (LGD) for trade and other receivables is equal to zero. Subsequently, expected credit loss (ECL) ($ECL = PD * LGD * EAD$ where PD the probability of default and EAD the exposure at default) is also equal to zero. Given the nature of the ISTC funding providers, at the reporting date there was no direct exposure to potential impairment to be recognized in the Statement of Financial Position.

Given the short term nature the impact on cash and cash equivalents is assessed as not significant. Therefore, no significant additional disclosures included in financial statements as allowed under IAS 1.31.

Credit risk exposures are summarized and Fair values are calculated in Note 3 to the Financial Statements.

Interest income

Interest earned on balances in the ISTC's bank accounts is recognized in the Statement of Revenues and Expenditure as finance income in line with effective interest rate method. Surplus interest earned is allocated to the Funding Parties Undesignated Capital Contributions Accounts, with the exception of Partner interest earned, which is allocated to the Undesignated Capital Contributions Accounts of the United States and the European Union in the same ratio as their Administrative Revenues contributions. Interest earned on administrative and supplemental bank accounts is allocated to the Undesignated Capital Contributions Accounts of the United States and the European Union in the same ratio as their Administrative Revenues contributions.

Financial liabilities

For financial liabilities, IFRS 9 brings no changes to classification and measurement except for liabilities designated at fair value through profit or loss whereby the changes in own credit risks are recognised in other comprehensive income.

Initial recognition and measurement

The ISTC's financial liabilities include trade and other payables.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at amortised cost. The ISTC determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

Subsequent measurement

After initial recognition, trade and other payables are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the Statement of Revenues and Expenditure when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Revenues and Expenditure.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

m. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumption that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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.

Key sources of estimation uncertainty:

Accounting policy applied to non-current assets: Please refer to Note 2a and 2h above.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

Valuation of loans and receivables: There are a number of significant risks and uncertainties inherent in the process of monitoring financial assets and determining if impairment exists. These risks and uncertainties include the risk that ISTC's assessment of funding party's or borrower's ability to meet all of its contractual obligations will change based on changes in the credit characteristics or that the risk that the economic outlook will be worse than expected or have more of an impact on the counterparty than anticipated.

Loans and receivables are valued according to the principle of prudence and recognized at net amount due less allowances for doubtful loans and receivables.

Doubtful debt allowances are recognized based on an individual management assessment of the recoverability of each receivable. Given the nature of the ISTC funding providers, at the reporting date there was no direct exposure to potential impairment (see Note 3).

Recognition of accruals: Accruals are established when it is certain that a past event has given rise to a present obligation (accrued liabilities) or present right (accrued income), but there is uncertainty about the amount payable or receivable. The estimate of the amount of a liability or asset requires management judgment in the selection of a proper calculation model and the specific assumptions related to the particular exposure.

As of 31 December 2018 ISTC recognized accrued liabilities of \$159 thousand as part of current liabilities (2017: \$387 thousand) with respect to grants and overheads payable. Furthermore, project advances paid to the institutes for project execution have been reduced by the amount of accrued expenses incurred but not yet reported by institutes as of 31 December 2018 of \$155 thousand (2017: \$ 97 thousand).

n. Adoption of new and revised standards and interpretations

The following new and amended IFRS and their interpretations have become effective in 2018:

IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018). The standard was adopted as of 1 January 2018, adjusting the Center's accounting policies accordingly and where applicable. This standard does not have significant impact on the ISTC's financial statements, as described above.

IFRS 15 – Revenue from Contracts with customers (effective for annual periods beginning on or after 1 January 2018) and amendments to IFRS 15 – Revenue from Contracts with customers (effective for annual periods beginning on or after 1 January 2018). The amended standard was adopted as of 1 January 2018, adjusting the ISTC's accounting policies accordingly and where applicable. This standard does have significant impact on the ISTC's financial statements, as described above.

22 Foreign Currency Transaction and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018). This interpretation does have an impact on the STCU's financial statements.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2019, and have not been applied in preparing these financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle – (Effective for annual periods beginning on or after 1 January 2019). These improvements include changes to 4 standards.

IFRS 16 Lease – (Effective for annual periods beginning on or after 1 January 2019).

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires entities to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognize a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Under the ISTC Agreement, the Government of Kazakhstan is required to provide at its own expense facility for use by the Center. The arrangement for the current facility has been authorized by the Government of Kazakhstan until December 31, 2020. After that, the Government of Kazakhstan will either extend the arrangements for the current facility or will provide new office space.

The new standard, when initially applied, is likely to result the Center having to recognize in its balance sheet assets and liabilities relating to use of the premises at the fair value of the rent, utility and security benefits (please see Note 1).

At the same time, under IAS 20 'Government grants', granted use of the facility meets the definition the government grant which should be recognized in the Statement of Revenues and Expenditure on a systematic basis throughout the arrangement period, and implies the need to recognize in ISTC's balance sheet assets and liabilities at the fair value of the grant.

IAS 20 'Government grants' permits net presentation of the government grants related to assets. Therefore, balance sheet assets and liabilities arising from IFRS 16 implementation and from IAS 20 'Government grants' will be equal, having zero effect in the Statement of Financial Position.

**INTERNATIONAL SCIENCE AND TECHNOLOGY
CENTER**

Notes to the Financial Statement

For the year ended December 31, 2018

3. FINANCIAL INSTRUMENTS

	Loans and receivables 2018	Loans and receivables 2017
Financial assets		
Cash and cash equivalents	\$ 33,996	\$ 37,718
Amounts due from funding parties	\$ 5,504	\$ 7,405
Other receivables	\$ 9,499	\$ 5,777
Accrued income receivable	\$ 57	\$ 30
	\$ 49,056	\$ 50,930
	Other liabilities 2018	Other liabilities 2017
Financial liabilities		
Accounts payable	\$ 730	\$ 531
Grants payable to institutes	\$ 561	\$ 591
	\$ 1,291	\$ 1,122

Management of risk is an essential element of the ISTC's operations. Due to the non-trading nature of the activities of the ISTC, the organization is not exposed to a high degree of financial risk, as disclosed below:

Credit risk

Credit risk arises when one party to a financial obligation may fail to discharge an obligation and cause the other party to incur a financial loss. The maximum potential exposure to credit risk of ISTC as of 31 December 2018 and 31 December 2017 is represented by the carrying amounts of financial assets as disclosed above (see also Note 5 for the amounts due from funding parties and partners). Given the nature of the ISTC Funding Parties which have established Undesignated Capital Contribution (UCC) accounts at the reporting date create no direct exposure to credit risk. The potential risk is presented in outstanding amounts due from funding Partners that don't have UCC accounts and may fail to discharge obligations. As of 31 December 2018, the ISTC had outstanding \$4,264 (2017 - \$5,879), in current obligations and \$1,240 (2017 - \$1,367) in non-current obligations due from the Funding Partners.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

Liquidity risk

Liquidity risk is the risk that ISTC will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. ISTC's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses, and maintain net working capital surplus. Practically all of ISTC's financial assets are formed of cash and cash equivalents that are available on demand; net working capital surplus is \$47,969 thousand as of 31 December 2018 (2017 - \$49,888 thousand). All carrying amounts of the financial liabilities as of 31 December 2018 and 31 December 2017 agree with the respective value of the contractual cash flows and the contractual maturities do not exceed 3 months.

Currency risk

The notional amounts of financial assets and liabilities denominated in foreign currencies were as follows as at the reporting date:

	EUR	RUB	KZT	USD	GBP	Total
Financial assets as of 31 December 2018						
Cash and cash equivalents, other receivables	\$ 17,659	\$ -	\$ 1	\$ 24,061	\$ -	\$ 41,721
Amounts due from funding parties and partners	\$ 3,250	\$ -	\$ -	\$ 2,254	\$ -	\$ 5,504
Accrued income receivable	\$ -	\$ -	\$ -	\$ 57	\$ -	\$ 57
	\$ 20,909	\$ -	\$ 1	\$ 26,372	\$ -	\$ 47,282

	EUR	RUB	KZT	USD	GBP	Total
Financial liabilities as of 31 December 2018						
Accounts payable	\$ 409	\$ 29	\$ 11	\$ 261	\$ 20	\$ 730
Grants payable to institutes	\$ -	\$ -	\$ -	\$ 561	\$ -	\$ 561
	\$ 409	\$ 29	\$ 11	\$ 822	\$ 20	\$ 1,291

Net currency position as of 31 December 2018	\$ 20,500	\$ (29)	\$ (10)	\$ 25,550	\$ (20)	
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A 10 percent weakening (strengthening) of the U.S. dollar against EUR at 31 December 2018 would have increased (decreased) excess of revenues over expenses and capital contributions by \$2,050 thousand. This analysis assumes that all other variables remain constant.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

	EUR	RUB	KZT	USD	Total
Financial assets as of 31 December 2017					
Cash and cash equivalents, other receivables	\$ 15,233	\$ -	\$ 10	\$ 27,499	\$ 42,742
Amounts due from funding parties	\$ 5,594	\$ -	\$ -	\$ 1,811	\$ 7,405
Accrued income receivable	\$ -	\$ -	\$ -	\$ 30	\$ 30
	\$ 20,827	\$ -	\$ 10	\$ 29,340	\$ 50,177

	EUR	RUB	KZT	USD	Total
Financial liabilities as of 31 December 2017					
Accounts payable	\$ 62	\$ 25	\$ 19	\$ 425	\$ 531
Grants payable to institutes	\$ -	\$ -	\$ -	\$ 591	\$ 591
	\$ 62	\$ 25	\$ 19	\$ 1 016	\$ 1,122

Net currency position as of 31 December 2017	\$ 20,765	\$ (25)	\$ (9)	\$ 28,324	
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A 10 percent weakening (strengthening) of the U.S. dollar against EUR at 31 December 2017 would have increased (decreased) excess of revenues over expenses by \$ 2,076 thousand. This analysis assumes that all other variables remain constant.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. ISTC manages interest rate risks by entering into deposit and current account agreements with interest rates that do not significantly differ from market rates. At the reporting date, the interest bearing assets of the ISTC were term deposits and investments in currency fund of \$ 28,034 thousand (2017: \$15,173 thousand).

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

Fair values

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 in the principal, or in its absence, the most advantageous market to which ISTC has access at that date. The fair value of a liability reflects its non-performance risk.

When measuring the fair value of an asset or a liability, ISTC uses market observable data as far 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).

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

ISTC recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

ISTC has performed an assessment of its financial instruments, as required by IFRS 7 Financial Instruments: Disclosures, to determine whether it is practicable within the constraints of timeliness and cost to determine their fair values with sufficient reliability. The estimated fair values of all other financial assets and liabilities are calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instrument at the reporting date.

Due to the short-term nature of ISTC financial assets and liabilities, the estimated fair values of all financial instruments of ISTC approximate their carrying amounts as of 31 December 2018 and 2017 and are classified to Level 3 in fair value hierarchy.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are made up of the following amounts:

	<u>2018</u>	<u>2017</u>
Cash and short-term deposits	\$ 33,996	\$ 37,718
	<u>\$ 33,996</u>	<u>\$ 37,718</u>

As of 31 December 2018 and 31 December 2017, cash and cash equivalents in the short-term deposits are placed with Kazakhstan and foreign banks. Interest rates earned on interest bearing deposits are

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

in line with market rates prevailing in the countries of placement.

5. AMOUNTS DUE FROM FUNDING PARTIES AND PARTNERS

Amounts due from funding parties at December 31 2018 were as follows:

	<u>2018</u>	<u>2017</u>
Due within one year		
Other funding parties and partners	4,264	6,038
	<u>\$ 4,264</u>	<u>\$ 6,038</u>
Due after one year		
Other funding parties and partners	1,240	1,367
	<u>\$ 1,240</u>	<u>\$ 1,367</u>

6. OTHER RECEIVABLES

Other receivables are amounts paid to vendors and contractors for goods or services in advance and cash deposit.

	<u>2018</u>	<u>2017</u>
Cash deposit	7 725	5 024
Advances paid for services under sustainability support program	1 748	600
Other receivables	26	153
	<u>\$ 9 499</u>	<u>\$ 5 777</u>

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

7. ADMINISTRATIVE REVENUE

Approved Administrative budget for 2018 is \$1,095 (2017: \$1,463). Commitments for 2018 is 0 (2017: \$66)

8. OTHER INCOME

Other income during 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Net foreign exchange gain	\$ -	\$ 1 372
	<u>\$ -</u>	<u>\$ 1 372</u>

The Parties have agreed that VAT recoveries should be repaid to the individual funding bodies when received. The Continuation Agreement ratification was fully completed on December 14, 2017 and the ISTC started a process for VAT reimbursements with the Kazakhstan authorities, which is pending.

9. OTHER EXPENSES

Other expenses during 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Net foreign exchange loss	\$ 609	\$ -
	<u>\$ 609</u>	<u>\$ -</u>

The unrealized exchange loss of \$609 was recorded at the end of the fiscal year 2018. Foreign currency translation losses are charged to the Statement of Revenues and Expenses under Other expenses with the exception of translation gains and losses arising from project and program funding related transactions involving the European Union and EU partners. The exchange rates applied at the period end for the principal currencies were 1.1450 EUR/USD in 2018 vs 1.1992 EUR/USD in 2017.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

10. PROJECT EXPENSES

Project expenses charged to the statements of revenues and expenses during each year ended December 31 since inception are as follows:

2018	\$ 8,136
2017	4,938
2016	4,358
2015	4,353
2014	8,279
2013	13,544
2012	18,111
2011	30,927
2010	39,307
2009	45,992
2008	57,158
2007	66,002
2006	67,454
2005	72,476
2004	77,102
2003	75,715
2002	68,215
2001	52,690
2000	43,923
1999	36,039
1998	33,320
1997	31,029
1996	28,459
1995	22,001
1994	1,765
Cumulative project expenses incurred as of December 31, 2018	\$ 911,293

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

PROJECT EXPENSES (continued)

Cumulative project expenses amounting to \$911,293 thousand (2017 \$903,157 thousand) reflect actual expenses incurred on ongoing projects and completed projects. Such expenses consisted of the following in 2018 and 2017 for the Projects and Sustainability Support Programs:

<u>Projects</u>	<u>2018</u>	<u>2017</u>
Grants to scientists	\$ 2,035	\$ 2,161
Equipment	441	142
Travel	163	212
Professional services	523	78
Other project costs	474	521
	<u>\$ 3,636</u>	<u>\$ 3,114</u>
<u>Sustainability Support Programs</u>	<u>2018</u>	<u>2017</u>
Grants to scientists	\$ 68	\$ 157
Equipment	657	70
Travel	585	322
Professional services	2 280	1 235
Other program costs	910	40
	<u>\$ 4,500</u>	<u>\$ 1,824</u>

Other program costs include trainings, training materials, and banking fees.

11. OPERATING EXPENSES

Operating expenses incurred during 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Administrative budget		
Personnel	\$ 707	\$ 793
Center operations	197	246
Center facilities and equipment	34	59
Information and branch offices	74	134
	<u>\$ 1,012</u>	<u>\$ 1,232</u>

**INTERNATIONAL SCIENCE AND TECHNOLOGY
CENTER**

Notes to the Financial Statement

For the year ended December 31, 2018

	<u>2018</u>	<u>2017</u>
Supplemental budget		
Seminars	\$ 746	\$ 1 721
Management information systems	32	228
Expert participation		
United States	239	254
European Union	810	772
Japan	101	146
	<u>\$ 1,928</u>	<u>\$ 3,121</u>

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

12. FUNDING PARTY INFORMATION

The revenues in excess of expenses during the year have been allocated to the funding parties as follows:

	Project Revenues	Net Admin Budget Revenues	Supplemental Budget Revenues	Investment Income	Project Expenses	Supplemental Budget Expenses	Net Other Income (Expenses)	Total
2018								
European Union	5,499	54	1,315	188	\$ (5,499)	\$ (1,315)	(609)	(367)
Japan	468	6	159	46	\$ (468)	\$ (159)	-	52
United States	2,168	13	454	167	\$ (2,168)	\$ (454)	-	180
Norway	-	5	-	-	\$ -	\$ -	-	5
South Korea	1	5	-	-	\$ (1)	\$ -	-	5
	\$ 8,136	\$ 83	\$ 1,928	\$ 401	\$ (8,136)	\$ (1,928)	\$ (609)	\$ (125)
2017								
European Union	3,163	130	1,399	99	\$ (3,163)	\$ (1,399)	1,372	1,601
Japan	456	27	300	27	\$ (456)	\$ (300)	-	54
United States	1,180	56	1,422	110	\$ (1,180)	\$ (1,422)	-	166
Norway	-	8	-	-	\$ -	\$ -	-	8
South Korea	139	10	-	1	\$ (139)	\$ -	-	11
	\$ 4,938	\$ 231	\$ 3,121	\$ 237	\$ (4,938)	\$ (3,121)	\$ 1,372	\$ 1,840

All revenues in excess of expenses arising during the year have been allocated to the funding parties UCC accounts based on the funding levels of the sponsors.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2018

13. AMOUNTS RECEIVED FROM FUNDING PARTIES

Amounts received during the year from the funding parties have either been recorded against accounts receivable or directly against the parties' capital contributions accounts. Such amounts received, less transfer of funds back to funding parties, during 2018 and 2017 were as follows:

	2018	2017
European Union	\$ 8,846	\$ 8 196
Japan	746	842
United States	1,528	(48)
Norway	50	43
South Korea	50	60
Kazakhstan	100	100
	<hr/> \$ 11,320	<hr/> \$ 9,193

14. FINANCIAL COMMITMENTS

The funding parties have approved but not yet signed 1 (2017 - 8) project with a total funding of \$64, thousand (2017 - \$2,799 thousand) including €0 thousand; (2017 - €127 thousand) denominated pledges at December 31, 2018 and 2017. \$64 and \$2,779 was committed by government partners in FY2017 by GB 61, G64 and GB65. This agreement for project unsigned as of December 31, 2018 are expected to be signed in 2019.

While the program and funding expansion continues from the EU and from the U.S. Government Partners, the U.S. Department of State announced in June 2017 that they would be unable to provide new funding through their ISN/CTR program to fund the ISTC's supplemental and project budgets. However, the U.S. Party reiterated its unwavering commitment and support of the ISTC as an important conduit and mechanism to implement CBRN threats.

The ISTC is working with the Governing Board to map out a strategy to deal with this situation, should this continue. Discussions were held by all parties at the December 65th Governing Board Meeting in Frankfurt to try and seek out ways to deal with this challenge. Currently, the U.S. DoS Party has adequate funds on hand to support the ISTC for the immediate future; therefore, going concern assumption is applicable in the preparation of these financial statements. The overall level of capital at the ISTC is stable.

15. CONTINGENT LIABILITIES

There are no contingent liabilities to report in 2018 (2017 - None).

16. RELATED PARTIES

Other than the parties to the Agreement described in Note 1, there are no related parties (2017 - None). All transactions with related parties have been undertaken on arm's length terms.