

INTERNATIONAL
SCIENCE AND TECHNOLOGY
CENTER

Z05T0E9, 46/1 Turan Avenue
BC "The Square", Floor 4
Astana, Kazakhstan
Tel: +7(7172) 76-95-34
e-mail: istcinfo@istc.int, <http://www.istc.int>



МЕЖДУНАРОДНЫЙ
НАУЧНО-ТЕХНИЧЕСКИЙ
ЦЕНТР

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БЦ "The Square", 4 этаж
г. Астана, Республика Казахстан
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KPMG Baltics SIA
Vesetas iela 7
Rīga, LV 1013

25 May 2018

Ladies and Gentlemen:

This representation letter is provided in connection with your audit of the financial statements of the International Science and Technology Center (hereinafter "ISTC"), for the year ended 31 December 2017, for the purpose of expressing an opinion as to whether these financial statements give a true and fair view in accordance with International Financial Reporting Standards (IFRSs).

We confirm that the representations we make in this letter are in accordance with the definitions set out in the Appendix to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated 18 October 2016, for the preparation of financial statements that give a true and fair view in accordance with IFRSs.
2. Measurement methods and significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IFRSs require adjustment or disclosure have been adjusted or disclosed.
4. You have informed us that there were no uncorrected financial statement misstatements, omissions or other errors in presentation identified during the course of your audit of the financial statements.

Information Provided

5. We have provided you with:
 - access to all information of which we are aware that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to persons within the ISTC from whom you determined it necessary to obtain audit evidence.

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6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We acknowledge our responsibility for such internal control as we determine necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, we acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error. We have communicated to you all deficiencies in internal control of which we are aware.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.
8. We have disclosed to you all information in relation to:
- (a) Fraud or suspected fraud that we are aware of and that affects the ISTC and involves:
- management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements.
- (b) Allegations of fraud, or suspected fraud, affecting the ISTC's financial statements communicated by employees, former employees, analysts, regulators or others.
9. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
- Further, we have disclosed to you and have appropriately accounted for and disclosed in the financial statements in accordance with IFRSs all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. We have made available to you all books of account and supporting documentation and all minutes of Governing Board meetings that took place in 2017, namely those held on June 13, 2017.
11. We have disclosed to you the identity of the ISTC's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IFRSs.
- Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in IAS 24.
12. There have been no communications from regulatory agencies, governmental representatives, tax authorities employees or others concerning investigations or allegations of non-compliance with laws and regulations, deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.

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Information Provided in Respect of Key Judgements and Assumptions Made by Management

13. We believe that support documentation available in relation to transfer pricing policy applied by the ISTC is sufficient and appropriate to justify the fact that transactions with related parties were made on an arm's length basis.

Management Intent and Plans, and Other Information that is Known Only to Management

14. There are no liens or encumbrances on the ISTC's assets.
15. We confirm that we have disclosed to you all information in relation to the following matters:
- (a) liabilities for interest on deposits and other indebtedness, including subordinated notes and participation loans;
 - (b) losses from transactions not recognised in the statement of financial position;
 - (c) arrangements with financial institutions involving restrictions on cash balances and lines of credit or similar arrangements;
16. The ISTC has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, for example debt covenants.
17. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.
18. We have no plans or intentions that may affect the carrying amount or classification of assets and liabilities.

Title to Assets, Classification and Carrying Amount of Assets, and Impairment of Assets

19. The ISTC has satisfactory title to all assets.

Financial Assets

20. We have assessed all financial assets, except those measured at fair value through profit or loss, to determine whether there is any objective evidence of impairment as a result of one or more loss events that occurred subsequent to their initial recognition, and any impairments identified have been recognised in the financial statements, as appropriate. We confirm that we have the positive intention and ability to hold all financial assets classified as "held to maturity" to their maturity, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

Exposures to Risks Arising From Financial Instruments

21. We confirm that we have disclosed information relating to the ISTC's exposures to risks arising from financial instruments that is adequate to enable users to evaluate the nature and extent of those risks to which the ISTS is exposed at the end of the reporting period, in accordance with IFRS 7 *Financial Instruments: Disclosures*, including the exposures to risks and how they arise, our objectives, policies

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and procedures for managing the risks, the methods used to measure risks, and a summary of quantitative data about our exposure to risks.

22. The quantitative data disclosed are representative of the ISTC's exposure to risks arising from financial instruments during the period.

Fair Value of Financial Assets and Financial Liabilities

23. We believe the assumptions and techniques used by us are appropriate and that all fair value measurements are determined in accordance with IFRS 13 *Fair Value Measurement*.

In circumstances where the fair value of a financial asset or liability at initial recognition is different from the transaction price, we have immediately recognised a gain or loss equal to the difference in the income statement if and only if the fair value measurement is evidenced by a quoted price in an active market for an identical asset or liability, or is based on a valuation technique that uses only data from observable markets. If the fair value measurement at initial recognition does not meet either of these conditions, then the difference is deferred and subsequently recognised as a gain or loss only to the extent it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

24. We have appropriately disclosed fair values of financial assets and financial liabilities in the financial statements in accordance with IFRS 13 *Fair Value Measurement*. We believe the disclosures appropriately categorise those fair value measurements in the fair value hierarchy.
25. We have disclosed the methods and assumptions applied in determining the fair values of each class of financial instruments.

Post-Employment Benefits

26. We confirm that all post-employment employee benefit plans have been identified, properly classified and accounted for, either as defined benefit or defined contribution plans in accordance with IAS 19 *Employee Benefits*.

Provisions, Contingent assets, Contingent liabilities

27. There are no:
- (a) other liabilities that are required to be recognised and no other contingent assets or contingent liabilities that are required to be disclosed in the financial statements in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, including liabilities or contingent liabilities arising from illegal or possibly illegal acts, or
 - (b) other environmental matters that may have a material impact on the financial statements.

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Functional Currency

28. We have considered which currency is the currency of the primary economic environment in which the ISTC operates (the "functional currency"). In making this assessment, we have used our judgment to determine the functional currency that most faithfully represents the underlying transactions, events and conditions of the ISTC. We have concluded that the functional currency of the ISTC is US dollar.

Impact of Adopting a New Standard or Interpretation

29. We have not completed the process of evaluating the impact that will result from adopting new Standards in a future accounting period. The ISTC therefore unable to disclose the impact under IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* that adopting new Standards will have on the financial position and the results of operations when the Standard is adopted.

Going concern

30. We have made an assessment of the ISTC's ability to continue as a going concern taking into account all available information about the future, which under IAS 1, *Presentation of Financial Statements* is at least, but is not limited to, twelve months from the end of the reporting period. We confirm that we have not identified events or conditions that may cast significant doubt upon the ISTC's ability to continue as a going concern.

We have disclosed to you all information relevant to the preparation of the financial statements in accordance with the going concern assumption.

Yours truly,

David Cleave

Chief Executive Officer

Sonya Vekstein

Chief Financial officer

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Appendix to the Management Representation Letter of ISTC

Financial Statements

IAS 1.10 states that "a complete set of financial statements comprises:

- a statement of financial position as at the end of the period;
- a statement of profit or loss and other comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;
- comparative information in respect of the preceding period as specified in paragraphs 38 and 38A; and
- a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A–40D.

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title 'statement of comprehensive income' instead of 'statement of profit or loss and other comprehensive income.'

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state the following:

Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorization.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

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Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorized for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related party

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 *Related Party Disclosures* as the "Company").

- a) A person or a close member of that person's family is related to a Company if that person:
 - i) has control or joint control over the Company;
 - ii) has significant influence over the Company; or
 - iii) is a member of the key management personnel of the Company or of a parent of the Company.
- b) An entity is related to a Company if any of the following conditions applies:
 - i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii) Both entities are joint ventures of the same third party.
 - iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company.
 - vi) The entity is controlled, or jointly controlled by a person identified in (a).
 - vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

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A Company is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a) a government that has control, joint control or significant influence over the Company; and
- b) another entity that is a related party because the same government has control, joint control or significant influence over both the Company and the other entity.

Related party transaction - A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

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