



Financial Statements of

**INTERNATIONAL SCIENCE AND
TECHNOLOGY CENTER**

For the year ended December 31, 2021

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Financial statements

for the year ended December 31, 2021

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INDEPENDENT AUDITOR'S REPORT

To the Governing Board of the International Science and Technology Center

Opinion

We have audited the financial statements of International Science and Technology Center (the "ISTC"), which comprise of the statement of financial position as of December 31, 2021, and the statement of income and expenses, the statement of movements in capital contributions, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the ISTC as of December 31, 2021, and its financial performance and its 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 financial statements section of our report. We are independent of the ISTC in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) and ethical requirements that are relevant to our audit of the financial statements in the Republic of Kazakhstan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements 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 have no realistic alternative but to do so.

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



Auditor's Responsibilities 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 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 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 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 auditor's 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 auditor's 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 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

The engagement partner responsible for the audit resulting in this independent auditor's report is Dilshat Kurbanov.

RSM Qazaqstan LLP

Dilshat Kurbanov
Engagement Partner



43, Dostyk Avenue, office 302
Almaty, 050010, Republic of Kazakhstan

15 June 2022

Aisulu Narbayeva
Auditor/General Director
RSM Qazaqstan LLP

Auditor qualification certificate # 0000137 dated 21
October 1994

State audit license for audit activities on the
territory of the Republic of Kazakhstan #19024411
issued by the Ministry of Finance of the Republic of
Kazakhstan on 24 December 2019

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statement of Financial Position


As of December 31, 2021 and 2020

Thousands of U.S. Dollars

	2021	2020
ASSETS		
CURRENT		
Cash and short-term deposits (Note 3)	39,409	43,717
Receivables		
Amounts due from funding parties (Note 4)	7,586	4,974
Project advances	117	201
Other current assets (Note 5)	819	9,103
Prepaid expenses	25	1
Accrued income receivable	5	7
	<u>47,961</u>	<u>58,003</u>
NON-CURRENT RECEIVABLES FROM FUNDING PARTIES (Note 4)	1,547	3,713
TOTAL ASSETS	<u>\$ 49,508</u>	<u>\$ 61,716</u>
LIABILITIES AND CAPITAL CONTRIBUTIONS		
CURRENT		
Accounts payable		
Projects	\$ 84	\$ 102
Administration and project vendors	1,027	688
Deferred income (Note 6)	259	27
Grants payable to institutes	514	310
	<u>1,884</u>	<u>1,127</u>
CAPITAL CONTRIBUTIONS		
DESIGNATED CAPITAL CONTRIBUTIONS ("DCC") - PROJECTS	26,463	37,578
DESIGNATED CAPITAL CONTRIBUTIONS ("DCC") - OPERATING		
Administrative budget	824	794
Supplemental budget	7,320	8,391
UNDESIGNATED CAPITAL CONTRIBUTIONS ("UCC")	13,017	13,826
	<u>47,624</u>	<u>60,589</u>
TOTAL LIABILITIES AND CAPITAL CONTRIBUTION	<u>\$ 49,508</u>	<u>\$ 61,716</u>

Accompanying notes, as set out on pages 9 - 28, form an integral part of these financial statements.

Signed on behalf of International Science and Technology Center on 15 June 2022


David Cleave
Executive Director

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statement of Income and Expenses

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

	2021	2020
REVENUES		
Project income (Capital movement note (a))	\$ 13,977	\$ 5,927
Supplemental budget (Capital movement note (b))	1,813	1,462
Operating income		
Administrative income (Note 6)	858	1,066
<i>Administrative budget (Capital movement note (b))</i>	1,117	1,093
<i>Changes in deferred revenue</i>	(259)	(27)
Investment income (Capital movement note (c))	36	139
Other income (Note 8)	-	1,317
	<u>16,684</u>	<u>9,911</u>
EXPENSES		
Project expenses (Note 9)	13,977	5,927
<i>Projects ongoing</i>	13,929	5,158
<i>Projects completed</i>	48	769
Supplemental budget (Note 10)	1,813	1,462
Operating expenses		
Administrative costs	858	913
<i>Administrative expenses (Note 10)</i>	1,117	940
<i>Changes in administrative commitments</i>	(259)	(27)
Other expenses (Note 7)	2,046	-
	<u>18,694</u>	<u>8,302</u>
EXCESS OF INCOME OVER EXPENSES	<u>\$ (2,010)</u>	<u>\$ 1,609</u>

Accompanying notes, as set out on pages 9 - 28, form an integral part of these financial statements.

Signed on behalf of International Science and Technology Center on 15 June 2022



David Cleave
Executive Director

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statement of Cash Flows


For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Cash received from funding parties	\$ 4,942	\$ 23,440
Cash out	<u>(12,333)</u>	<u>(13,047)</u>
Cash generated from operation	<u>(7,391)</u>	<u>10,393</u>
<i>Net cash from operating activities</i>	(7,391)	10,393
Cash flows from investing activities		
Investment Income	<u>37</u>	<u>148</u>
<i>Net cash used in investing activities</i>	<u>37</u>	<u>148</u>
Effects of exchange rate changes on cash and cash equivalents	(1,416)	1,289
Net increase/(decrease) in cash and cash equivalents	<u>(8,770)</u>	<u>11,830</u>
Cash and cash equivalents at beginning of period	48,179	36,349
Cash and cash equivalents at end of period (Note 3)	<u><u>39,409</u></u>	<u><u>48,179</u></u>

Accompanying notes, as set out on pages 9 - 28, form an integral part of these financial statements.

Signed on behalf of International Science and Technology Center on 15 June 2022



David Cleave
Executive Director

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statement of Movements in Capital Contributions

For the year ended December 31, 2021
(Thousands of U.S. Dollars)

Movements in capital accounts during fiscal years 2021 and 2020 are as follows:

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	UK	U.S.	Japan	South Korea	Total
DCC projects - December 31, 2019 and January 1, 2020	15,118		5,676	407		\$ 21,201
<i>Reclassification*</i>	(8)	8				
Transfers to statement of revenues and expenses	(3,268)	(15)	(2,109)	(535)		(5,927)
New projects signed during 2020	19,691	128	1,636	1,159		22,614
Project modification reduction			(165)			(165)
Funding received in excess of close proj. expenses transfer to UCC	(1)	(8)	(134)	(2)		(145)
DCC projects - December 31, 2020 and January 1, 2021	\$ 31,532	\$ 113	\$ 4,904	\$ 1,029		\$ 37,578
Transfers to statement of income and expenses	(10,734)	(73)	(2,706)	(454)	(10)	(13,977)
New projects signed during 2021	1,532	286	1,722		10	3,550
Project modification reduction		(32)				(32)
Foreign exchange differences	(546)	(7)				(553)
Funding received in excess of closed proj. expenses transfer to UCC	(20)		(83)			(103)
DCC projects - December 31, 2021	\$ 22,310	\$ 294	\$ 3,837	\$ 575	-	\$ 26,463

Accompanying notes, as presented on pages 9-28, 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, 2021
(Thousands of U.S. Dollars)

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

Administrative operating budget as of December 31, 2021 represents amount committed for the administration budget for the next fiscal year.

	EU	U.S.	Canada	Japan	Norway	South Korea	Kazakhstan	Partners fees	Total
Administrative operating budget - December 31, 2019 and January 1, 2020	-	-	-	-	-	-	-	827	827
New budget approved 2020	502	69	-	182	50	50	40	-	893
Transfer to statement of income and expenses	(502)	(69)	-	(182)	(50)	(50)	(40)	(200)	(1,093)
Additional contribution (net of adjustments)	-	-	-	-	-	-	-	167	167
Income in excess of expenses for the year	90	12	-	33	9	9	-	-	153
Transfer to UCC for income in excess of expenses	(90)	(12)	-	(33)	(9)	(9)	-	-	(153)
Administrative operating budget - December 31, 2020 and January 1, 2021	-	-	-	-	-	-	-	794	794
New budget approved 2021	661	50	-	76	50	50	40	-	927
Transfer to statement of income and expenses	(661)	(50)	-	(76)	(50)	(50)	(40)	(190)	(1,117)
Additional contribution (net of adjustments)	-	-	-	-	-	-	-	220	220
Administrative budget - December 31, 2021	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 824	\$ 824

Accompanying notes, as presented on pages 9-28, 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, 2021
(Thousands of U.S. Dollars)

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	UK	U.S.	Canada	Japan	Total
Supplemental budget - December 31, 2019 and January 1, 2020	973	-	7,389	-	357	8,719
<i>Reclassification*</i>	(63)	63	-	-	-	-
Transfer to statement of income and expenses	(1,053)	-	(265)	-	(144)	(1,462)
Additional contribution	1,710	-	247	-	287	2,244
Transfer to DCC - projects	-	-	(653)	-	-	(653)
Transfer to DCC - admin	-	-	(40)	-	-	(40)
Transfer to UCC for unused funds	(148)	(63)	(87)	-	(119)	(417)
Supplemental budget - December 31, 2020 and January 1, 2021	1,419	-	6,591	-	381	8,391
Transfer to statement of income and expenses	(1,288)	-	(322)	-	(203)	(1,813)
Additional contribution	1,688	-	273	-	156	2,117
Transfer to DCC - projects	-	-	(955)	-	-	(955)
Transfer to DCC - admin	-	-	(1)	-	-	(1)
Transfer to UCC for unused funds	(242)	-	-	-	(177)	(419)
Supplemental operating budget - December 31, 2021	\$ 1,577	\$ -	\$ 5,586	\$ -	\$ 157	\$ 7,320

Accompanying notes, as presented on pages 9-28, 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, 2021
(Thousands of U.S. Dollars)

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 2e for additional explanations).

	EU	UK	U.S.	Japan	Norway	South Korea	Kazakhstan	Total
UCC - December 31, 2019	\$ 5,576		\$ 4,349	\$ 4,065	\$ 13	\$ 27	\$ -	\$ 14,030
<i>Reclassification*</i>	(129)	129						
Contributions from parties	1,326		1,093	680	-	-	100	3,199
Investment income allocation	60	1	60	18	-	-	-	139
Transfer from DCC for income in excess of expenses in operating - administrative budget	90	-	12	33	9	9	-	153
Transfer from DCC for unused funds on programs under operating - supplemental budget	148	63	87	119	-	-	-	417
Transfer from DCC - projects for approved funding in excess of expenses	1	8	134	2	-	-	-	145
Foreign exchange differences	1,317	-	-	-	-	-	-	1,317
Decrease of capital								
Transfer to DCC - projects for signed projects	(458)	-	(933)	(1,158)	-	-	-	(2,549)
Transfer to DCC for operating - administrative budget	(502)	-	(201)	-	-	-	(40)	(743)
Transfer to DCC for operating - supplemental budget	(1,710)	-	(225)	(287)	-	-	-	(2,222)
Other transfers	-	-	-	-	-	-	(60)	(60)
UCC - December 31, 2020	\$ 5,719	\$ -	\$ 4,376	\$ 3,472	\$ 22	\$ 36	\$ -	\$ 13,826

* Reclassification entry was done in the Fiscal Year 2020 to present the UK funding projects separately due to the withdrawal of the UK from EU in January 2020.

Accompanying notes, as presented on pages 9-28, 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, 2021
(Thousands of U.S. Dollars)

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

	EU	UK	U.S.	Japan	Norway	South Korea	Kazakhstan	Total
UCC - December 31, 2020	\$ 5,719	\$ 201	\$ 4,376	\$ 3,472	\$ 22	\$ 36	\$ -	\$ 13,826
Increase of capital								
Contributions from parties	3,035	-	1,656	649	-	10	100	5,450
Investment income allocation	20	-	12	4	-	-	-	36
Transfer from DCC for unused funds on programs under operating - supplemental budget	242	-	-	177	-	-	-	419
Transfer from DCC - projects for approved funding in excess of expenses	20	-	83	-	-	-	-	103
Decrease of capital								
Transfer to DCC - projects for signed projects	(1,533)	-	(641)	-	-	(10)	-	(2,184)
Transfer to DCC for operating - administrative budget	(661)	-	(240)	-	-	-	(40)	(941)
Transfer to DCC for operating - supplemental budget	(1,688)	-	(295)	(156)	-	-	-	(2,139)
Other	-	-	-	-	-	-	(60)	(60)
Foreign exchange differences	(1,492)	(1)	-	-	-	-	-	(1,493)
UCC - December 31, 2021	\$ 3,662	\$ 200	\$ 4,951	\$ 4,146	\$ 22	\$ 36	\$ -	\$ 13,017

Accompanying notes, as presented on pages 9-28, form an integral part of these financial statements.

Signed on behalf of International Science and Technology Center on 15 June 2022.


David Cleave
Executive Director

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statements

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

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 Nur-Sultan 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 peaceful purposes, which are to be carried out at institutions and facilities located in the territories of the Parties. The projects maybe conducted in states that are not Parties to the Agreement. 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 \$133,615 in 2021 and \$137,095 in 2020.

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 Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

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 income 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 Income and Expenses upon acquisition (project related non-current assets acquired in 2021 - \$3,074 thousand; 2020 - \$945 thousand). For the administrative needs, ISTC acquired \$44 thousand of non-current assets in 2021 and \$53 thousand in 2020.

These financial statements were approved by the Executive Director and the Chief Financial Officer on 15 June 2022 and will be presented for approval to the Governing Board on 14 July 2022. 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 Income 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.

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 Income 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 1.1326 (2020: 1.2271), USD/KZT 431.67(2020: 420.71).

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. *Project activity*

ISTC authorizes and funds various 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.

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 Income and Expenses. 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.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. *Income*

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, income 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.

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). 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. The current practices applied by the ISTC imply that there are no contract costs to be capitalized.

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.

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

Project Income

Project income recognized during the year in the Statement of Income and Expenses are amounts equal to the total value of project expenditure incurred and expensed during the year. This income is transferred from the funding parties Designated Capital Accounts for Projects to the Statement of Income and Expenses.

Project Income 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 income 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. Income from partner fees meet the definition of the contracts with customers as stipulated under IFRS 15. Income 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 Income and Expenses upon receipt of the Partner Fees from the partners.

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.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER
Notes to the Financial Statements (continued)
For the year ended December 31, 2021 and 2020
(Thousands of U.S. Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating income and expenses

Administrative and operating budget (“AOB”)

Administrative and operating income recognized in the Statement of Income and Expenses during the year when appropriate administrative and operating expense incurred. The AOB amount approved by funding parties for 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 Income and Expenses when incurred.

Income in excess of expenses is generally reallocated to the funding parties’ undesignated capital contributions accounts in the same proportion as the administrative income contributions.

Supplemental operating budget (“SOB”)

SOB is 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.

SOB income is recognized in the Statement of Income 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.

SOB expenses are charged to the Statement of Income and Expenses when incurred.

Any surplus in funds upon completion of the programs within the SOB is transferred to the funding parties’ undesignated capital contribution account.

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 parties’ funds are kept at the banks that are recommended by the ISTC’s management and approved by the funding parties.

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 income in excess of expenses from closed or terminated projects.

In the case of some projects funded by the European Union, the annual agreements are 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 agreements 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.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognizes 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:

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 Income 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. ISTC does not have either contingent assets or 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 the countries of the Parties to the Continuing Agreement signed in December 2015.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 recognized initially at fair value plus directly attributable transaction costs.

Subsequent measurement

Subsequent to initial recognition 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 are 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 recognized. The new impairment model will apply to financial assets 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.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognizes doubtful debt impairment allowances based on an individual management assessment of the recoverability of each receivable. Trade and other receivables are recognized 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 ECL 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 15 to the Financial Statements.

Interest income

Interest earned on balances in the ISTC's bank accounts is recognized in the Statement of Income and Expenses 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 Income 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 Income 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 recognized in other comprehensive income.

Initial recognition and measurement

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

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

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

Subsequent measurement

After initial recognition, trade and other payables are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the Statement of Income and Expenses when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Amortized 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.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition

A financial liability is derecognized 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 recognized in the Statement of Income and Expenses.

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 recognized amounts and there is an intention to settle on a net basis, or to realize 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.

Sources of estimation uncertainty:

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

Valuation of accounts receivable: 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.

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.

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.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Adoption of new and revised standards and interpretations

A number of new standards (or amendments) are effective from 1 January 2021 but they do not have a material effect on the ISTC financial statements.

The following amendments became effective as at 1 January 2021:

- Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16
- Covid-19-Related Rent Concessions beyond 30 June 2021 Amendment to IFRS 16

Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the ISTC financial statements are disclosed below. ISTC intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

The following new and amended standards are not expected to have a significant impact on the ISTC financial statements.

- IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts.
- Amendments to IAS 1: *Classification of Liabilities as Current or Non-Current*
- Reference to Conceptual Framework – *Amendments to IFRS 3*
- Property, Plant and Equipment: Proceeds before Intended Use – *Amendments to IAS 16*
- Onerous Contracts – Costs to Fulfilling a Contract – *Amendments to IAS 37*
- IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Subsidiary as a first-time adopter.
- IFRS 9 *Financial Instruments* – Fees in the '10 per cent' test for derecognition of financial liabilities.
- IAS 41 *Agriculture* – Taxation in fair value measurements.
- Definition of Accounting Estimates – *Amendments to IAS 8*.
- Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER
Notes to the Financial Statements (continued)
For the year ended December 31, 2021 and 2020
(Thousands of U.S. Dollars)

3. CASH AND SHORT-TERM DEPOSITS

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

	<u>2021</u>	<u>2020</u>
Cash and short-term deposits	39,409	43,717
	<u>\$ 39,409</u>	<u>\$ 43,717</u>

Cash and cash equivalents for cash flow purposes:

	<u>2021</u>	<u>2020</u>
Cash and short-term deposits	39,409	43,717
Cash deposits (Note 5)	-	4,462
	<u>\$ 39,409</u>	<u>\$ 48,179</u>

As of December 31, 2021 and 2020, cash is placed with the Kazakhstan and foreign banks. In 2021 cash equivalents in the short-term were withdrawn from the Kazakhstan banks and as of 31 December 2021 cash equivalents in the short-term deposit is placed with the foreign banks only. Interest rates earned on interest bearing deposits are in line with market rates prevailing in the countries of placement.

4. AMOUNTS DUE FROM FUNDING PARTIES AND PARTNERS

Amounts due from funding parties as of December 31 were as follows:

	<u>2021</u>	<u>2020</u>
Due within one year		
Other funding parties and partners	7,586	4,974
	<u>\$ 7,586</u>	<u>\$ 4,974</u>
Due after one year		
Other funding parties and partners	1,547	3,713
	<u>\$ 1,547</u>	<u>\$ 3,713</u>

5. OTHER CURRENT ASSETS

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

	<u>2021</u>	<u>2020</u>
Cash deposit	-	4,462
Advances paid for services under projects	764	4,583
Other receivables	55	58
	<u>\$ 819</u>	<u>\$ 9,103</u>

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

6. ADMINISTRATIVE INCOME

Approved Administrative budget for 2021 is \$1,117 (2020: \$1,093), and actual administrative expenses amounted to \$858 (2020: \$913), the remaining amount of budget recognized as Deferred income \$259 (2020: \$27) which are consist of following categories: Center operations \$34 (2020: \$27), Center facilities and equipment \$8 (2020: \$0) has committed for Computer hard and software, Contingency fund \$3 (2020: \$0) has committed for the additional works for Pillar assessment and \$213 has committed for continued improvement of the ISTC's website and proposal development site «Forum» approved by GB73.

7. OTHER EXPENSES

Other expenses during 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Net foreign exchange loss	2,046	-
	\$ 2,046	\$ -

8. OTHER INCOME

Other income during 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Net foreign exchange gains	-	1,317
	\$ -	\$ 1,317

The unrealized exchange loss of \$2,046 was recorded at the end of the fiscal year 2021 vs. unrealized exchange gain of \$1,317 in 2020. Foreign currency translation gains and losses are charged to the Statement of Income and Expenses under Other income and 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 1.1326 EUR/USD in 2021 vs 1.2271 EUR/USD in 2020.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

9. PROJECT EXPENSES

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

Financial Year	Amount
2021	\$ 13,977
2020	5,927
2019	9,869
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, 2021	\$ 941,066

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

9. PROJECT EXPENSES (continued)

Cumulative project expenses as of these statements amounted to \$941,066 thousand (2020: \$927,089 thousand) reflect actual expenses incurred on ongoing projects and completed projects. Such expenses consisted of the following in 2021 and 2020 for the Projects:

	<u>2021</u>	<u>2020</u>
Comprehensive services for laboratory supplies	5,867	160
Equipment	3,074	945
Grants to scientists	1,838	1,698
Professional services	1,250	1,468
Other project costs	1,777	1,529
Travel	171	127
	<u>\$ 13,977</u>	<u>\$ 5,927</u>

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

10. OPERATING EXPENSES

Operating expenses incurred during 2021 and 2020 consisted of the following:

	<u>2021</u>	<u>2020</u>
Administrative budget		
Personnel	694	715
Center operations	343	180
Center facilities and equipment	67	30
Branch offices	13	15
	<u>\$ 1,117</u>	<u>\$ 940</u>

	<u>2021</u>	<u>2020</u>
Supplemental budget		
Seminars	706	355
Management information systems	32	82
Expert participation		
United States	218	216
European Union	721	712
Japan	136	97
	<u>\$ 1,813</u>	<u>\$ 1,462</u>

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

11. FUNDING PARTY INFORMATION

The income 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
<u>2021</u>															
EU	10,734	-	-	1,288	20	(10,734)	(1,288)	(2,038)						(2,018)	
Japan	454	-	-	203	4	(454)	(203)	-						4	
United States	2,706	-	-	322	12	(2,706)	(322)	-						12	
Norway	-	-	-	-	-	-	-	-						-	
South Korea	10	-	-	-	-	(10)	-	-						-	
United Kingdom	73	-	-	-	-	(73)	-	(8)						(8)	
	<u>\$ 13,977</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,813</u>	<u>\$ 36</u>	<u>\$ (13,977)</u>	<u>\$ (1,813)</u>	<u>\$ (2,046)</u>	<u>\$ (1,813)</u>	<u>\$ (2,046)</u>	<u>\$ (1,813)</u>	<u>\$ (2,046)</u>	<u>\$ (2,046)</u>	<u>\$ (2,010)</u>	
<u>2020</u>															
EU	3,268	90	1,053	60	(3,268)	(1,053)	1,317	1,467							
Japan	535	33	144	18	(535)	(144)	-	51							
United States	2,109	12	265	60	(2,109)	(265)	-	72							
Norway	-	9	-	-	-	-	-	9							
South Korea	-	9	-	-	-	-	-	9							
United Kingdom	15	-	-	1	(15)	-	-	1							
	<u>\$ 5,927</u>	<u>\$ 153</u>	<u>\$ 1,462</u>	<u>\$ 139</u>	<u>\$ (5,927)</u>	<u>\$ (1,462)</u>	<u>\$ 1,317</u>	<u>\$ 1,609</u>							

All income 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 Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

12. 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 2021 and 2020 were as follows:

	<u>2021</u>	<u>2020</u>
EU	2,248	20,376
UK	-	106
Japan	725	862
United States	1,759	1,790
Norway	50	50
South Korea	60	50
Kazakhstan	100	100
	<u>\$ 4,942</u>	<u>\$ 23,334</u>

13. FINANCIAL COMMITMENTS

The funding parties approved 8 projects in 2021 (2020 – 0), three projects were approved by the Governing Board Meeting 73 (GB 73) and five projects were approved by the U.S. Partner, for a total funding of \$2,339 thousand (2020 - \$0 thousand).

14. RELATED PARTIES

Other than the parties to the Agreement described in Note 1, there are no related parties (2020 - None). All transactions with related parties have been undertaken on arm's length terms.

15. FINANCIAL INSTRUMENTS

	<u>2021</u>	<u>2020</u>
Financial assets		
Cash and cash equivalents	39,409	43,717
Amounts due from funding parties and partners	9,133	8,687
Cash deposits (Note 5)	-	4,462
Other receivables (Note 5)	55	58
Accrued income receivable	5	7
	<u>\$ 48,602</u>	<u>\$ 56,931</u>

	<u>2021</u>	<u>2020</u>
Financial liabilities		
Accounts payable	1,111	817
Grants payable to institutes	514	310
	<u>\$ 1,625</u>	<u>\$ 1,127</u>

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

15. FINANCIAL INSTRUMENTS (continued)

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 2021 and 31 December 2020 is represented by the carrying amounts of financial assets as disclosed above (see also Note 4 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 2021, the ISTC had outstanding receivables of \$7,586 (2020 – \$4,974), in current assets and \$1,547 (2020 – \$3,713) in non-current assets due from the funding partners.

Additionally, under the terms of project agreements 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 return of all payments and goods previously provided. An institute's potential failure to return the funds and goods creates additional credit risk exposure to the ISTC. Recipient institutes' compliance with the above contractual condition cannot be readily verified as no related effective controls or supporting records can be implemented at the ISTC as relevant accounting records of the recipient institutes are not readily available. Nevertheless, such risk of potential reimbursed cost claims is considered remote by the ISTC.

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 \$46,077 thousand as of 31 December 2021 (2020 - \$56,876 thousand). All carrying amounts of the financial liabilities as of 31 December 2021 and 31 December 2020 agree with the respective value of the contractual cash flows and the contractual maturities do not exceed 3 months.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

15. FINANCIAL INSTRUMENTS (continued)

Currency risk

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

	EUR	KZT	USD	GBP	KGS	Total
Financial assets as of December 31, 2021						
Cash and cash equivalents, other receivables	15,844	1	23,564	-	-	39,409
Amounts due from funding parties and partners	8,533	-	293	307	-	9,133
Other receivables (Note 5)			55			55
Accrued income receivable	-	-	5	-	-	5
	\$ 24,377	\$ 1	\$ 23,917	\$ 307	\$ -	\$ 48,602

	EUR	KZT	USD	GBP	KGS	Total
Financial liabilities as of December 31, 2021						
Accounts payable	818	1	290	1	1	1,111
Grants payable to institutes	-	-	514	-	-	514
	\$ 818	\$ 1	\$ 804	\$ 1	\$ 1	\$ 1,625

Net currency position as of December 31, 2021	\$ 23,559	\$ -	\$ 23,113	\$ 306	\$ (1)	\$ -
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A 10 percent weakening (strengthening) of the U.S. dollar against EUR at 31 December 2021 would have increased (decreased) excess of income over expenses and capital contributions by \$2,356 thousand. This analysis assumes that all other variables remain constant.

	EUR	RUB	KZT	USD	Total
Financial assets as of December 31, 2020					
Cash and cash equivalents, other receivables	23,074	-	3	25,102	48,179
Amounts due from funding parties and partners	8,361	-	-	326	8,687
Other receivables (Note 5)				58	58
Accrued income receivable	-	-	-	7	7
	\$ 31,435	\$ -	\$ 3	\$ 25,493	\$ 56,931

	EUR	RUB	KZT	USD	Total
Financial liabilities as of December 31, 2020					
Accounts payable	348	-	21	448	817
Grants payable to institutes	-	-	-	310	310
	\$ 348	\$ -	\$ 21	\$ 758	\$ 1,127

Net currency position as of December 31, 2020	\$ 31,087	\$ (29)	\$ (18)	\$ 24,735	\$ -
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INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statements (continued)

For the year ended December 31, 2021 and 2020

(Thousands of U.S. Dollars)

15. FINANCIAL INSTRUMENTS (continued)

A 10 percent weakening (strengthening) of the U.S. dollar against EUR at 31 December 2020 would have increased (decreased) excess of income over expenses and capital contributions by \$3,109 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 short-term deposits of \$ 22,680 thousand (2020: \$25,314 thousand) (Note 3).

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 2021 and 2020 and are classified to Level 3 in fair value hierarchy.

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Notes to the Financial Statements (continued)

For the year ended December 31, 2021 and 2020

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16. IMPACT OF COVID-19

The coronavirus (COVID-19) pandemic has developed rapidly in 2020 with a significant number of cases globally. Measures taken to contain the virus have significantly affected economic activity which in turn had implications for operations of various organizations and businesses.

ISTC's management has considered the consequences of COVID-19 and other events and conditions, and it has determined that they do not create a material uncertainty that casts significant doubt upon the entity's ability to continue as a going concern.

Timely measures that were put in place in 2020 and continued monitoring of the COVID-19 situation in 2021 allowed to support operational continuity and employees' wellbeing. ISTC provided IT equipment to the staff for the remote work from places of stay, conducted ISTC seminars, training courses, meetings and other cooperation between funding parties, partners and recipient institutes using online resources, and established constant communication (all staff meetings, department meetings) to all employees to adhere to very strict precautionary standards including social distancing.

In 2021, ISTC has received funding for about \$4.9 million in new projects and programs and, as of the date of this report, continues receiving additional financing provided by the ISTC Parties and Partners.