

*Financial Statements of*

**INTERNATIONAL SCIENCE AND  
TECHNOLOGY CENTER**

*For the year ended December 31, 2012*



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## **Independent Auditors' Report**

### **To the Governing Board of International Science and Technology Center**

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the International Science and Technology Center (hereinafter "ISTC"), which comprise the statement of financial position as at 31 December 2012, the statements of revenues and expenses, movements in capital contributions and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory notes, as set out on pages 1 to 27.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



### *Basis for Qualified Opinion*

The International Science and Technology Center requires all funded institutions to provide written representation that they do not receive funding from multiple sources. Funding received from multiple sources may result in certain misclassifications of project costs. We were unable to confirm that the funded institutions do not receive funding from multiple sources due to restricted access to institute records. There were no alternative audit procedures that we could adopt to confirm the above.

Furthermore, as disclosed in Note 2, non-current assets including computer software costs, which have useful lives extending beyond one year, were expensed when acquired during the current and prior years. In our view, for non-current assets acquired for administrative needs, International Financial Reporting Standards require these assets to be capitalized and depreciated over their expected useful economic lives. Capitalization of non-current assets used for administrative purposes and the related depreciation would have a significant impact on the accompanying financial statements if applied.

### *Qualified Opinion*

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to funding from multiple sources and except for the effect on the financial statements of not capitalizing non-current assets used for administrative purposes and depreciating them over their expected useful lives, the financial statements give a true and fair view of the financial position of the International Science and Technology Center as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Other Matters*

The corresponding figures presented are based on financial statements of the International Science and Technology Center as at and for the year ended 31 December 2011, which were audited by another independent auditors whose report dated 4 May 2012 expressed a qualified opinion. Independent auditors' opinion was qualified due to the fact that the independent auditors were not able to obtain sufficient audit evidence to satisfy themselves as to funding from multiple resources and the significant impact on the financial statements due to ISTC not capitalizing the non-current assets and not depreciating them over their expected useful lives, as prescribed by the International Financial Reporting Standards.

KPMG Baltics SIA

Armine Movsisjana  
Member of the Board  
Riga, Latvia  
17 May 2013

**INTERNATIONAL SCIENCE AND TECHNOLOGY  
CENTER**

**Statement of Movements in Capital Contributions**

For the year ended December 31, 2012

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# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Statement of Financial Position

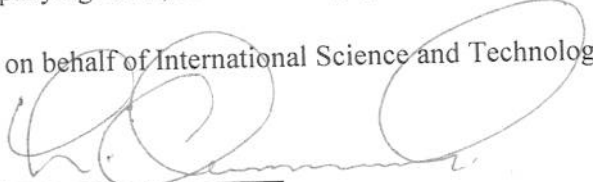
December 31, 2012 and 2011


(Thousands of U.S. Dollars)

	2012	2011
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (Note 4)	63,668	86,143
Receivables		
Amounts due from funding parties, short-term (Note 5)	3,104	744
Project advances	32	47
Other receivables (Note 6)	161	136
Accrued interest income receivable	193	156
Loan receivable (Note 7)	69	131
Other assets	160	168
	<u>67,387</u>	<u>87,525</u>
AMOUNTS DUE FROM FUNDING PARTIES, LONG-TERM (Note 5)	155	150
	<u>67,542</u>	<u>87,675</u>
<b>LIABILITIES AND CAPITAL CONTRIBUTIONS</b>		
<b>CURRENT</b>		
Accounts payable	\$ 1,301	\$ 2,779
Projects	1,419	1,267
Administration and project vendors	3,007	5,051
Grants payable to institutes	<u>5,727</u>	<u>9,097</u>
<b>CAPITAL CONTRIBUTIONS</b>		
DESIGNATED CAPITAL CONTRIBUTIONS ("DCC") - PROJECTS	14,295	26,768
DESIGNATED CAPITAL CONTRIBUTIONS ("DCC") - OPERATING		
Administrative budget	49	73
Supplemental budget	3,894	5,754
UNDESIGNATED CAPITAL CONTRIBUTIONS ("UCC")	43,577	45,983
	<u>61,815</u>	<u>78,578</u>
<b>TOTAL LIABILITIES AND CAPITAL CONTRIBUTIONS</b>	<u>\$ 67,542</u>	<u>\$ 87,675</u>

Accompanying notes, as set out on pages 9 – 27, form an integral part of these financial statements.

Signed on behalf of International Science and Technology Center on 15 May 2013

  
 Leo Owsiacki  
 Executive Director

  
 David Cleave  
 Chief Financial Officer

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Statement of Revenues and Expenses


Years ended December 31, 2012 and 2011

(Thousands of U.S. Dollars)

	<u>2012</u>	<u>2011</u>
<b>REVENUES</b>		
Project revenues	\$ 18,111	\$ 30,927
Operating revenues		
Administrative budget	5,952	6,825
Supplemental budget	7,346	7,674
Investment income	999	920
Other income (Note 8)	302	607
	<u>32,710</u>	<u>46,953</u>
<b>EXPENSES</b>		
Project expenses (Note 10)		
On-going projects	15,777	30,008
Completed projects	2,334	919
Operating expenses (Note 11)		
Administrative budget	5,465	6,108
Supplemental budget	7,346	7,674
Other expenses (Note 9)	38	276
	<u>30,960</u>	<u>44,985</u>
<b>EXCESS OF REVENUES OVER EXPENSES (Note 12)</b>	<b>\$ 1,750</b>	<b>\$ 1,968</b>

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Signed on behalf of International Science and Technology Center on 15 May 2013



Leo Owsicki  
Executive Director



David Cleave  
Chief Financial Officer

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Statement of Cash Flows

Years ended December 31, 2012 and 2011

(Thousands of U.S. Dollars)

	<u>2012</u>	<u>2011</u>
<b>Cash flows from operating activities</b>		
Cash received from funding parties (Note 14)	\$ 10,441	\$ 11,618
VAT reimbursements	-	594
Other	65	70
Cash out on project and other operating activities	<u>(34,047)</u>	<u>(46,891)</u>
Cash generated from operation	<u>(23,541)</u>	<u>(34,609)</u>
<i>Net cash from operating activities</i>	(23,541)	(34,609)
<b>Cash flows from investing activities</b>		
Investment Income	<u>962</u>	<u>813</u>
<i>Net cash used in investing activities</i>	962	813
<b>Cash flows from financing activities</b>		
Effects of exchange rate changes on cash and cash equivalents	<u>104</u>	<u>(105)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	(22,475)	(33,901)
<b>Cash and cash equivalents at beginning of period (Note 4)</b>	86,143	120,044
<b>Cash and cash equivalents at end of period (Note 4)</b>	<u><u>63,668</u></u>	<u><u>86,143</u></u>

Accompanying notes, as set out on pages 9 – 27, form an integral part of these financial statements.

Signed on behalf of International Science and Technology Center on 15 May 2013



Leo Owsjacki  
Executive Director



David Cleave  
Chief Financial Officer

## Statement of Movements in Capital Contributions

For the year ended December 31, 2012

Movements in capital accounts during fiscal years 2012 and 2011 are as follow:

## a. Designated Capital Contributions ("DCC") - Projects

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

	EU	U.S.	Canada	Japan	Norway	South Korea	Other Parties	Total
DCC projects - December 31, 2010 and January 1, 2011	\$ 11 389	\$ 17 827	\$ 4 566	\$ 2 261	\$ 11	\$ 383	\$ 11 358	\$ 47 795
Transfers to statement of revenues and expenses	(7 787)	(11 683)	(3 362)	(999)	38	(324)	(6 810)	\$ (30 927)
New projects signed during 2011	654	5 566	1 498	224	-	288	3 487	11 717
Funding received in excess of close prj. expenses transfer to UCC	(140)	(1 092)	(103)	-	(49)	(4)	(82)	(1 470)
Funding received in excess of termin.prj.expenses transfer to UCC		(112)					(166)	(278)
Funding received in excess of expenses transferred to DCC - operating - supplemental budget	(3)	(63)	(3)	-	-	-	-	(69)
DCC projects - December 31, 2011 and January 1, 2012	4 113	10 443	2 596	1 486	-	343	7 787	26 768
Transfers to statement of revenues and expenses	(2 942)	(7 098)	(1 381)	(952)	-	(350)	(5 388)	(18 111)
New projects signed during 2012		3 785	1	-	-	200	3 266	7 252
Funding received in excess of close prj. expenses transfer to UCC	(180)	(394)	(318)				(224)	(1 116)
Funding received in excess of termin.prj.expenses transfer to UCC		(186)	(312)					(498)
Funding received in excess of expenses transferred to DCC - operating - supplemental budget								-
DCC projects - December 31, 2012	\$ 991	\$ 6 550	\$ 586	\$ 534	\$ -	\$ 193	\$ 5 441	\$ 14 295

Accompanying notes, as set out on pages 9 – 27, form an integral part of these financial statements.



## Statement of Movements in Capital Contributions

For the year ended December 31, 2012

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

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

	EU	U.S.	Canada	Japan	Norway	South Korea	Russia	Other Parties	Total
Administrative operating budget - December 31, 2010 and January 1, 2011	2 160	2 148	1 479	790	50	108	-	\$ 95	\$ 95
New budget approved 2011									6 735
Transfer to statement of revenues and expenses	(2 160)	(2 148)	(1 479)	(790)	(50)	(108)	(50)	(40)	(6 825)
Additional contribution (net of adjustments)	-	-	-	-	-	-	50	18	68
Revenues in excess of expenses for the year	230	229	157	84	5	12	-	-	717
Transfer to UCC for revenues in excess of expenses	(230)	(229)	(157)	(84)	(5)	(12)	-	-	(717)
Administrative operating budget - December 31, 2011 and January 1, 2012	1 457	2 659	795	726	110	115	-	73	5 862
New budget approved 2012									
Transfer to statement of revenues and expenses	(1 457)	(2 659)	(795)	(726)	(110)	(115)	(50)	(40)	(5 952)
Additional contribution (net of adjustments)	-	-	-	-	-	-	50	16	66
Revenues in excess of expenses for the year	121	221	66	60	9	10	-	-	487
Transfer to UCC for revenues in excess of expenses	(121)	(221)	(66)	(60)	(9)	(10)	-	-	(487)
Administrative budget - December 31, 2012	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 49	\$ 49

Accompanying notes, as set out on pages 9 – 27, form an integral part of these financial statements.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Statement of Movements in <sup>(10)</sup>Capital Contributions

For the year ended December 31, 2012

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

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

	EU	U.S.	Canada	Japan	Norway	South Korea	Other Parties	Total
Supplemental budget - December 31, 2010 and January 1, 2011	\$ 270	\$ 2 117	\$ 1 034	\$ 246	-	\$ 104	\$ 500	\$ 4 271
Transfer to statement of revenues and expenses	(1 821)	(2 750)	(1 728)	(648)		(286)	(441)	(7 674)
Additional contribution	2 960	4 332	2 908	778	903	310	991	13 182
Transfer to DCC - projects		(409)	(5)				(150)	(564)
Transfer to UCC for unused funds	(1 230)	(105)	(1 212)	(19)	(903)	(19)	(42)	(3 530)
Transfer from DCC - projects for unused funds	3	63	3					69
Supplemental budget - December 31, 2011 and January 1, 2012	182	3 248	1 000	357	-	109	858	5 754
Transfer to statement of revenues and expenses	(975)	(3 442)	(877)	(615)	(682)	(274)	(481)	(7 346)
Additional contribution	1 011	2 797	6	718	896	323	713	6 464
Transfer to DCC - projects		(61)					(422)	(483)
Transfer to UCC for unused funds	(155)	(120)	(2)	(46)	(117)	(37)	(42)	(519)
Transfer from DCC - projects for unused funds	8	8	8					24
Supplemental operating budget - December 31, 2012	\$ 71	\$ 2 430	\$ 135	\$ 414	\$ 97	\$ 121	\$ 626	\$ 3 894

Accompanying notes, as set out on pages 9 - 27, form an integral part of these financial statements.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

For the year ended December 31, 2012

(Thousands of U.S. Dollars)

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### 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.

The objectives of the ISTC are set forth in Article II of the Agreement. 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 Russian Federation and other states of the Commonwealth of Independent States ("CIS") and Georgia. The parties to the Agreement during 2011 and 2012 were the Russian Federation, the European Union, the United States of America, Canada, Armenia, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, Tajikistan, Japan, Norway and South Korea. Funding parties which contribute to the ISTC include the parties, other government organizations and private contributors.

Based on Article IX of the Agreement, the Government of the Russian Federation provides ISTC with free office space and other facilities, along with maintenance, utilities and security for the facility. The value of such items provided is not recorded in the accompanying financial statements as a reliable estimate cannot be obtained.

On 11 August 2010, the President of the Russian Federation Mr. Dmitry Medvedev signed Decree 534, which announced the Russian Federation government's intention to withdraw from the ISTC. Acting in accordance with Article XV (c) of the Agreement, the Russian Federation will withdraw from the Agreement six months after giving written notification to the other Parties to the Agreement.

During 2010 and 2011, formal and informal discussions and meetings took place between ISTC, the Funding Parties, the State Atomic Energy Corporation (Rosatom) and the Ministry of Foreign Affairs (MFA) of the Russian Federation on this issue, which resulted in the ISTC Secretariat being informed by the MFA that the Russian Federation has the intention to withdraw from ISTC by mid 2015. This was officially confirmed in a letter from the MFA on 13 July 2011. Until that time, the ISTC Agreement will remain fully in force. All ISTC privileges and immunities will stay in place. ISTC has been informed that all ongoing (status 6) projects in Russia should be completed by mid 2014 to allow the Secretariat to have sufficient time to carry out necessary project-related auditing, financial activities and closure before the proposed mid-2015 closure.

During 2012 ISTC received verbal notification of Canada's intention to withdraw from the ISTC agreement however as at the year end 2012 no formal or official notification was received.

The ISTC continues negotiations with the Kazakh authorities with respect to setting a main Office based in Almaty. Work on the various agreements for the office site potentially at KBTU and bilateral agreements are in process and all Parties are involved in this process.

Informal technical discussions continue between the ISTC Secretariat and Rosatom, on behalf of the Russian Federation government, to address the financial, legal and scientific consequences of the withdrawal. At the same time, preparations are being considered for the transition of ISTC to a new location.

ISTC's registered office is located at Krasnoproletarskaya ulitsa, 32-34, 127473, Moscow, Russian Federation.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

For the year ended December 31, 2012

(Thousands of U.S. Dollars)

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### 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 and depreciated over their useful economic lives and IAS 38 "Intangible Assets" requires computer software costs and other intangible assets be capitalized and amortized over their useful economic life. 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. As a result, non-current assets acquired for use by participating institutes as part of the projects, 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 2012 - \$2,061 thousand; 2011 - \$3,693 thousand).

These financial statements were approved by the Executive Director, the Chief Financial Officer and the Executive Management Committee of the ISTC on 15 May 2013. The financial statements of the ISTC are subject to approval by the Governing Board. 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 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.

#### *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 Central Bank of Russian Federation for RUB 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 with the exception of translation gains and losses arising from project and programme 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 1.3194 (2011: 1.2939), USD/RUB 30.3727 (2011: 32.1961).

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*c. Project activity*

ISTC authorizes and funds scientific projects which are carried out at institutes within CIS and Georgia. Projects are financed by the funding parties either individually or jointly. All project agreements include a maximum amount of funding to be provided by the funding parties.

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

Projects

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.

Project expenses

Project expenses consist of three primary components: grants to scientists for time invested in the project activity, purchases of equipment and other sundry project expenses. All project expenses are charged to the Statement of Revenues and Expenses when incurred.

Projects that have not completed the project closing procedures are presented as on-going projects in the Statement of Revenues and Expenses.

Project revenues

Project revenues recognized during the year in the Statement of Revenues and Expenses are amounts equal to the total value of project expenses incurred during the year.

Closed projects

On the closure of a project, revenues in excess of expenses are generally reallocated to the funding parties' undesignated capital contributions accounts in the same proportion as the initial contributions from the funding parties. Where closed projects have received funds from private contributors, private contributor revenues in excess of expenses are repaid to the private contributor.

Terminated projects

On the termination of a project, revenues in excess of expenses are generally reallocated to the funding parties' undesignated capital contributions accounts in the same proportion as the initial contributions from the funding parties. Where terminated projects have received funds from private contributors, private contributor revenues in excess of expenses are repaid to the private contributor.

**INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER**  
**Notes to Financial Statements**  
For the year ended December 31, 2012  
(Thousands of U.S. Dollars)

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*d. Operating revenues and expenses*

Administrative operating budget ("AOB")

Administrative operating budget revenues recognized in the Statement of Revenues and Expenses during the year are amounts approved by the funding parties for the administrative operating budget for the year and transferred from the funding parties' designated capital contributions - administrative - operating budget.

Administrative budget 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 operating budget revenues recognized in the year in the Statement of Revenues and Expenses are amounts equal to expenses incurred during the year.

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 are transferred to the funding parties' undesignated capital contribution account.

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 and terminated projects.

In the case of projects funded by the European Union, the annual protocol signed between 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.

*e. Investment income*

Investment income is comprised of interest earned during the year on the cash deposits held by the ISTC.

Investment income is credited to the Statement of Revenues and Expenses and allocated to undesignated capital contributions accounts of each funding party based on the average cash balance of the funding parties.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

For the year ended December 31, 2012

(Thousands of U.S. Dollars)

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*f. Cash and cash equivalents*

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

*g. Accounts receivable recognition*

Amounts due from funding parties/private partners are recognized when the project agreement is signed per the obligation schedule of payments (see Note 2c). Uncommitted funding is recognized at the date, when the funding provider commits to the transfer of funds (date of invoice – see also Note 2b).

*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 Revenues and Expenses together with other project expenses incurred during the year (see Note 2a).

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. At the Governing Board meeting in December 2012, it was mandated that equipment be written off 5 years after project closure in accordance with the terms of the ISTC agreement and in particular Article X.A.(c).

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

For the year ended December 31, 2012

(Thousands of U.S. Dollars)

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*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 Russian Federation, bonuses, vacations and other benefits are included in expenses on an accrual basis. The ISTC has no obligations to pay further contributions relating to employee services in respect to payroll taxes and contributions outside the Russian Federation and any pensions on the retirement of employees.

*k. Taxation*

Under the terms of the agreement establishing ISTC with the Russian Federation government, ISTC is exempt from income taxes. In addition, ISTC is exempt from custom duties and Value Added Taxes ("VAT") on imported goods and VAT is zero rated on purchases within Russia.

*l. Financial Instruments*

The ISTC uses only non-derivative financial instruments as part of its normal operations. These financial instruments include bank accounts, certificates of deposit, accounts receivable and accounts payable, and a loan receivable. All financial assets are classified as loans and receivables and all financial liabilities are classified as other liabilities accounted for at amortized cost.

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially on the date that they are originated at fair value plus any directly attributable transaction costs. 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.

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.

Financial liabilities are recognized initially on the trade date at which ISTC becomes a party to the contractual provisions of the instrument at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

ISTC derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.



# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

For the year ended December 31, 2012

(Thousands of U.S. Dollars)

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Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, ISTC has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

*m. Use of estimates*

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 recognised 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.

**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 the direct exposure to potential impairment arises only from loan receivable, which showed no indications of impairment as at 31 December 2012 (see also 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 at 31 December 2012 ISTC recognized accrued liabilities of \$ 1,120 thousand as part of current liabilities (2011: \$ 3,100 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 at 31 December 2012 of \$ 353 thousand (2011: \$ 441 thousand).

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## Notes to Financial Statements

For the year ended December 31, 2012

(Thousands of U.S. Dollars)

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n. *Changes in accounting policies*

There were no changes in accounting policies in the current year.

o. *New standards and interpretations not yet adopted*

The following new Standards and Interpretations are not yet effective for the annual period ended 31 December 2012 and have not been applied in preparing these financial statements:

Amendments to *IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities* (Effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods; to be applied retrospectively.)

*IFRS 9 Financial Instruments (2009)* (Effective for annual periods beginning on or after 1 January 2015; to be applied prospectively.)

*IFRS 10 Consolidated Financial Statements* and revised *IAS 27 (2011) Separate Financial Statements* (Effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively when there is a change in the control conclusion, subject to transitional provisions that provide some relief from full retrospective application.)

*IFRS 11 Joint Arrangements* (Effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively, subject to transitional provisions that provide some relief from full retrospective application.)

*IFRS 12 Disclosure of Interests in Other Entities* (Effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively, subject to transitional provisions that provide some relief from full retrospective application.)

Amendments to *IFRS 10, IFRS 12 and IAS 27 - Investment Entities* (Effective for annual periods beginning on or after 1 January 2014)

*IFRS 13 Fair Value Measurement* (Effective prospectively for annual periods beginning on or after 1 January 2013.)

Amendments to *IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income* (Effective for annual periods beginning on or after 1 July 2012; to be applied retrospectively.)

*IAS 19 (2011) Employee Benefits* (Effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively.)

*IAS 28 (2011) Investments in Associates and Joint Ventures* (Amendments effective for annual periods beginning on or after 1 January 2013; to be applied retrospectively.)

Amendments to *IAS 32 Offsetting Financial Assets and Financial Liabilities* (Effective for annual periods beginning on or after 1 January 2014; to be applied retrospectively.)

*IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine* (Effective for annual periods beginning on or after 1 January 2013. It applies prospectively to production stripping costs incurred on or after the beginning of the earliest period presented.)

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Based on the nature of the operations of ISTC and the structure of its assets and liabilities, the management has made an assessment that none of the above changes are expected to have a significant impact on the financial statements of the ISTC.

### 3. FINANCIAL INSTRUMENTS

	Loans and receivables 2012	Loans and receivables 2011
<b>Financial assets</b>		
Cash and cash equivalents	\$ 63 668	\$ 86 143
Amounts due from funding parties	\$ 3 259	\$ 894
Accrued income receivable	\$ 193	\$ 156
Loan receivable	\$ 69	\$ 131
	<u>\$ 67 189</u>	<u>\$ 87 324</u>
	Other liabilities 2012	Other liabilities 2011
<b>Financial liabilities</b>		
Accounts payable	\$ 2 720	\$ 4 046
Grants payable to institutes	\$ 3 007	\$ 5 051
	<u>\$ 5 727</u>	<u>\$ 9 097</u>

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 at 31 December 2012 and 31 December 2011 is represented by the carrying amounts of financial assets as disclosed above (see also Note 5 for the geographical split of amounts due from funding parties and Note 7 for the details on loan receivable). However, given the nature of the ISTC funding providers, at the reporting date the direct exposure to credit risk arises only from loan receivable, which showed no indications of impairment as at 31 December 2012.

#### *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 \$ 61,660 thousand as at 31 December 2012 (2011 - \$ 78,428 thousand). All carrying amounts of the financial liabilities as at 31 December 2012 and 31 December 2011 agree

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## Notes to Financial Statements

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with the respective value of the contractual cash flows and the contractual maturities do not exceed 6 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	USD	Total
<b>Financial assets as of 31 December 2012</b>				
Cash and cash equivalents	\$ 4 003	\$ 91	\$ 59 574	\$ 63 668
Amounts due from funding parties	\$ 2 190	\$ -	\$ 1 069	\$ 3 259
Accrued income receivable	\$ -	\$ -	\$ 193	\$ 193
Loan receivable	\$ -	\$ 69	\$ -	\$ 69
	<u>\$ 6 193</u>	<u>\$ 160</u>	<u>\$ 60 836</u>	<u>\$ 67 189</u>
	EUR	RUB	USD	Total
<b>Financial liabilities as of 31 December 2012</b>				
Accounts payable	\$ 138	\$ 341	\$ 2 241	\$ 2 720
Grants payable to institutes	\$ -	\$ -	\$ 3 007	\$ 3 007
	<u>\$ 138</u>	<u>\$ 341</u>	<u>\$ 5 248</u>	<u>\$ 5 727</u>
<b>Net currency position as of 31 December 2012</b>	<b>\$ 6 055</b>	<b>\$ (181)</b>	<b>\$ 55 588</b>	

A 10 percent weakening (strengthening) of the U.S. dollar against EUR at 31 December 2012 would have increased (decreased) excess of revenues over expenses by \$ 606 thousand (\$ 551 thousand). This analysis assumes that all other variables remain constant.

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## Notes to Financial Statements

For the year ended December 31, 2012

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	EUR	RUB	USD	Total
<b>Financial assets as of 31 December 2011</b>				
Cash and cash equivalents	\$ 7 960	\$ 17	\$ 78 166	\$ 86 143
Amounts due from funding parties	\$ 199	\$ -	\$ 695	\$ 894
Accrued income receivable	\$ -	\$ -	\$ 156	\$ 156
Loan receivable	\$ -	\$ 131	\$ -	\$ 131
	<u>\$ 8 159</u>	<u>\$ 148</u>	<u>\$ 79 017</u>	<u>\$ 87 324</u>
<b>Financial liabilities as of 31 December 2011</b>				
Accounts payable	\$ 86	\$ 427	\$ 3 533	\$ 4 046
Grants payable to institutes	\$ -	\$ -	\$ 5 051	\$ 5 051
	<u>\$ 86</u>	<u>\$ 427</u>	<u>\$ 8 584</u>	<u>\$ 9 097</u>
<b>Net currency position as of 31 December 2011</b>	<b>\$ 8 073</b>	<b>\$ (279)</b>	<b>\$ 70 433</b>	

A 10 percent weakening (strengthening) of the U.S. dollar against EUR at 31 December 2011 would have increased (decreased) excess of revenues over expenses by \$ 807 thousand (\$ 734 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 only interest bearing assets of ISTC were term deposits and investments in currency fund of \$ 55,422 thousand (2011: \$75,401 thousand).

### *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 minimise various risks with the Banks that are chosen to keep these funds and as such these funds are managed on a regular weekly/monthly basis in terms of operational and liquidity requirements.

### *Fair values*

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

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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.

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or settlement of liabilities.

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 at 31 December 2012 and 2011.

#### 4. CASH AND CASH EQUIVALENTS

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

	2012	2011
Cash and short-term deposits	\$ 53 246	\$ 75 742
Investments in currency fund	10 422	10 401
	<u>\$ 63 668</u>	<u>\$ 86 143</u>

Both as at 31 December 2012 and 31 December 2011 cash and cash equivalents are placed in Russian and foreign banks in approximately equal proportions. Interest rates earned on interest bearing deposits are in line with market rates prevailing in the countries of placement.

#### 5. AMOUNTS DUE FROM FUNDING PARTIES

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

	2012	2011
Due within one year		
European Union	2 108	-
Japan	-	-
Canada	-	-
Norway	-	-
United States	-	-
South Korea	-	-
Other funding parties	996	744
	<u>\$ 3 104</u>	<u>\$ 744</u>
Due after one year		
Japan	-	-
Canada	-	-
United States	-	-
Other funding parties	155	150
	<u>\$ 155</u>	<u>\$ 150</u>

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## Notes to Financial Statements

For the year ended December 31, 2012

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### 6. OTHER RECEIVABLES

	<u>2012</u>	<u>2011</u>
Prepayments	161	136
	<u>\$ 161</u>	<u>\$ 136</u>

### 7. LOAN RECEIVABLE

During the year ended December 31, 2003, ISTC acquired a bank note in the amount of 10,328 thousand rubles (\$351 thousand) maturing on July 1, 2004 as part of its agreement with FSUE Red Star (the landlords) to relocate to and renovate the currently rented premises. ISTC repaid the bank note and assumed a loan receivable of 10,000 thousand rubles (\$343 thousand) from FSUE Red Star. The loan is interest-free and is repayable by 31 December 2013 based on the repayment schedule agreed in 2012 (the loan was overdue based on original maturity as at 31 December 2011 and therefore classified short-term).

During the year ended December 31, 2012, the FSUE Red Star repaid 2,106 thousand rubles (\$67 thousand) (2011- 0 thousand rubles (\$0 thousands)) to ISTC. The foreign exchange gain on the loan for the year was \$5 thousands (2011 - loss \$7 thousand). The outstanding balance of the loan is \$69 thousand (2011 - \$131 thousand).

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## Notes to Financial Statements

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### 8. OTHER INCOME

Other income during 2011 and 2010 consisted of the following:

	2012	2011
VAT	\$ -	\$ 594
Net foreign exchange gain	\$ 105	\$ -
Other	\$ 197	\$ 13
	<u>\$ 302</u>	<u>\$ 607</u>

Agreement on the recovery of VAT paid during the period from 1 January 2001 to 1 August 2007 was reached with the authorities in 2008. During 2012, VAT recovery of \$0 thousand was received. (2011 - \$594 thousand)

The Parties have agreed that VAT recoveries should be repaid to the individual funding bodies when received. As a consequence, the VAT receipts have been allocated to each funding body in proportion to their funding of the annual agreed AOB budget for each period of the VAT recovery, as follows:

	2012	2011
Canada	\$ -	\$ 44
European Union	-	126
Japan	-	79
United States	-	283
Norway	-	27
South Korea	-	28
Other parties	-	7
Total	<u>\$ -</u>	<u>\$ 594</u>

### 9. OTHER EXPENSES

Other expenses during 2012 and 2011 consisted of the following:

	2012	2011
Other expenses		
Net foreign exchange loss	\$ -	\$ (276)
Other UCC	\$ (37)	
	<u>\$ (37)</u>	<u>\$ (276)</u>



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## Notes to Financial Statements

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### 10. PROJECT EXPENSES

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

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
<hr/>	
Cumulative project expenses incurred as of December 31, 2012	\$ 867,685

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

For the year ended December 31, 2012

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### 11. PROJECT EXPENSES (continued)

Cumulative project expenses amounting to \$867,685 thousand (2011 - \$849,574 thousand) reflect actual expenses incurred on ongoing projects and completed projects. Such expenses consisted of the following in 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Grants to scientists	\$ 10,166	\$ 18,447
Equipment	2,061	3,693
Other project costs	5,884	8,787
	<u>\$ 18,111</u>	<u>\$ 30,927</u>

### 12. OPERATING EXPENSES

Operating expenses incurred during 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Administrative budget		
Personnel	\$ 4,080	\$ 4,338
Center operations	1,100	1,400
Center facilities and equipment	201	285
Information and branch offices	84	85
Internal programs	-	-
	<u>\$ 5,465</u>	<u>\$ 6,108</u>

	<u>2012</u>	<u>2011</u>
Supplemental budget		
Training	\$ 214	\$ 315
Seminars	2,784	1,637
Management information systems	55	139
Expert participation		
United States	2,254	2,537
European Union	890	1,628
Canada	545	871
Japan	396	350
South Korea	192	185
Russia	16	12
	<u>\$ 7,346</u>	<u>\$ 7,674</u>

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## Notes to Financial Statements

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### 13. FUNDING PARTY INFORMATION

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

	Project Revenues	Administrative Budget Revenues	Supplemental Budget Revenues	Investment Income	Project Expenses	Supplemental Budget Expenses	Other Income (Expenses)	Total
<u>2012</u>								
Canada	\$ 1 381	\$ 66	\$ 877	\$ 112	\$ (1 381)	\$ (877)	\$ 96	\$ 274
European Union	2 942	121	975	111	(2 942)	(975)	149	381
Japan	952	60	615	60	(952)	(615)	-	120
United States	7 098	221	3 442	561	(7 098)	(3 442)	20	802
Norway	-	9	682	7	-	(682)	-	16
South Korea	350	10	274	12	(350)	(274)	-	22
Other parties	5 388		481	136	(5 388)	(481)	(1)	135
	\$ 18 111	\$ 487	\$ 7 346	\$ 999	\$ (18 111)	\$ (7 346)	\$ 264	\$ 1 750
<u>2011</u>								
Canada	\$ 3 362	\$ 157	\$ 1 728	\$ 113	\$ (3 362)	\$ (1 728)	\$ 43	\$ 313
European Union	7 787	230	1 821	142	(7 787)	(1 821)	77	449
Japan	999	84	648	48	(999)	(648)	78	210
United States	11 683	229	2 750	464	(11 683)	(2 750)	293	986
Norway	(38)	5		8	38	-	27	40
South Korea	324	12	286	11	(324)	(286)	28	51
Other parties	6 810	-	441	134	(6 810)	(441)	(215)	(81)
	\$ 30 927	\$ 717	\$ 7 674	\$ 920	\$ (30 927)	\$ (7 674)	\$ 331	\$ 1 968

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.

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## Notes to Financial Statements

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### 14. 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 during 2012 and 2011 were as follows:

	2012	2011
European Union	\$ -	\$ 2,373
Japan	1,258	1,363
United States	6,193	281
Norway	257	-
South Korea	203	770
Canada	-	2,579
Other parties	2,530	4,252
	<u>\$ 10,441</u>	<u>\$ 11,618</u>

### 15. FINANCIAL COMMITMENTS

The funding parties have approved but not yet signed 6 (2011 - 9) projects with a total funding of \$3,459 thousand (2011 - \$1,540 thousand) including €0 thousand; (2011 - €0 thousand) denominated pledges at December 31, 2012 and 2011.

The agreements for projects unsigned as of December 31, 2012 are expected to be signed in 2013.

The Governing Board approved the 2013 Administrative Operating Budget (\$4,593) and the 2013 Supplementary Operating Budget (\$1,219) at its December 04, 2012 meeting. The budgets will be funded by the various parties in a predetermined formula.

### 16. CONTINGENT LIABILITIES

There are no contingent liabilities to report in 2012. (2011 - None)

### 17. RELATED PARTIES

Other than the parties to the Agreement described in Note 1, there are no related parties. (2011 - None) All transactions with related parties have been undertaken on arm's length terms.

### 18. SUBSEQUENT EVENTS

The budget for 2013 was approved by the Governing Board in December 2012, against the background of the Presidential Decree 534 and the subsequent MFA confirmation on allowing ISTC to continue operations until the last current ISTC project has been completed and all necessary project related auditing, financial activities and closure have been carried out by mid 2015. Additionally, the declining workload for ISTC, as a result of a decrease in financial means, has had a consequential effect on the 2013 budget. Therefore, the 2013 budget provides for a decrease in several budget items, including a further reduction in the total ISTC staff numbers, which is subject to discussions among the parties and the Executive Director.



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The ISTC has now been informed in writing of Canada's intention to withdraw from the ISTC Agreement pending the Canadian Government's Treasury Board Sanction due on April 18th after which the Governments; which are Parties to ISTC, will be 'officially' notified shortly thereafter in order for the withdrawal to take effect 6 months after receipt of said notice (November/December 2013). This intention does not result in any additional assets or liabilities to be recognized by ISTC as at 31 December 2012.

The ISTC continues to make progress with the technical discussions and planning for new premises located in Almaty Kazakhstan and is looking to start setting up expanded operations in Almaty once the first agreements are in place, which are expected to be signed in the next couple of months.

Planning for a Moscow office liquidation team to wind down the Russian Federation Office operations that will become into effect from 01/01/2014 is well under way and the Parties are being kept informed of Russian Federation project closure progress and staffing reductions.

Documents were submitted to Rosatom on 2nd March 2012 to support the return of the investment made by the ISTC and its Funding Parties in renovating the building at the Krasnoproletarska Street, Moscow office premises. The amount of the investment totals US\$4.5 million and the ISTC claim is currently under review by Rosatom and related Government Authorities. No receivables have been recognized with respect to these amounts as at 31 December 2012.

There are no other events subsequent to 31 December 2012 that require disclosures in these financial statements.