Skoltech Group

Consolidated Financial Statements
for the year ended 31 December 2018 and
Independent Auditor’s Report

SKOLTECH GROUP

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SKOLTECH GROUP

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Skoltech Group (the "Group") as of 31 December 2018, and the results of its operations, cash flows and changes in surplus for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies.
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance.
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group.
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS.
- Maintaining statutory accounting records in compliance with Russian legislation and accounting standards.
- Taking such steps as are reasonably available to them to safeguard the assets of the Group.
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2018 were approved by management on 21 June 2019:

On behalf of the Management:

Tatyana Zakharova
Vice President for Finance and Operations

Zhanna Saenko
Chief Accountant

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the Autonomous non-profit educational organisation of higher education "Skolkovo Institute of Science and Technology":

Opinion

We have audited the consolidated financial statements of the Autonomous non-profit educational organisation of higher education "Skolkovo Institute of Science and Technology" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in surplus and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report, but does not include the financial statements and our auditor's report thereon. The Annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Annual report, if, based on the work we perform, we conclude that there is a material misstatement of this other information, we are required to report that fact.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

  Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Vladimir Perfiliev
Team leader

21 June 2019

The Group: Autonomous educational organisation of higher education "Skolkovo Institute of Science and Technology"

Certificate of state registration of non-profit organisation was issued by Moscow Region department of the Ministry of Justice of Russian Federation at 03.04.2013.

Primary State Registration Number: 1115000005922.

Certificate of registration in the Unified State Register: № 50 013059389 of 25.10.2011, issued by Federal Tax Service for Moscow region.

Address: Russia, 143025, Moscow region, Odintsovsky district, Skolkovo village, Novaya street, building 100.

Audit Firm: AO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Member of Self-regulated organization of auditors "Russian Union of auditors" (Association), ORNZ 11603080484.

SKOLTECH GROUP

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(in thousands of Russian Rubles)

	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	9	4,653,299	4,897,188
Intangible assets	10	160,049	151,695
Deferred tax assets	17	12,823	8,321
Other non-current assets		27,890	-
Total non-current assets		**4,854,061**	**5,057,204**
Current assets			
Inventory		-	145
Accounts receivable	11	313,802	84,493
Income tax prepayment		-	20,806
Prepayments and other current assets	12	1,226,337	1,352,867
Financial investments	5	4,554,905	3,922,022
Bank deposits	6	-	687,606
Cash and cash equivalents	13	830,165	805,159
Total current assets		**6,925,209**	**6,873,098**
Total assets		**11,779,270**	**11,930,302**
ACCUMULATED SURPLUS AND LIABILITIES			
Accumulated surplus and other comprehensive income			
Endowment Fund	15	3,772,043	3,772,043
Accumulated surplus		1,552,392	1,595,968
Accumulated other comprehensive (loss)/income		(20,025)	19,447
Total accumulated surplus and other comprehensive income		**5,304,410**	**5,387,458**
Non-current liabilities			
Deferred grants	14	4,688,232	4,876,731
Total non-current liabilities		**4,688,232**	**4,876,731**
Current liabilities			
Accounts payable	16	511,172	369,271
Advances received		14,278	30,298
Deferred grants	14	1,261,178	1,266,544
Total current liabilities		**1,786,628**	**1,666,113**
Total liabilities		**6,474,860**	**6,542,844**
Total accumulated surplus and liabilities		**11,779,270**	**11,930,302**

These consolidated financial statements were approved for issue and signed on 21 June 2019:

Tatyana Zakharova
Vice President for Finance and Operations

Zhanna Saenko
Chief Accountant

The accompanying notes on pages 9-36 are an integral part of these consolidated financial statements.

SKOLTECH GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Russian Rubles)

	Notes	Year ended 31 December 2018	Year ended 31 December 2017
Income			
Grants	14	5,755,954	4,255,640
Income from investments of Endowment Fund	15	322,287	357,450
Revenue from contracts with customers and other income	7	596,721	195,016
Total income		**6,674,962**	**4,808,106**
Expenditure			
Staff costs		(2,856,711)	(2,156,008)
Depreciation and amortization		(1,086,208)	(629,047)
Scholarships and students costs		(556,486)	(399,557)
Co-researchers costs		(453,238)	(310,695)
Rent of premises and utilities		(429,385)	(434,258)
Other expenses	8	(1,295,220)	(735,424)
Total expenditure		**(6,677,248)**	**(4,664,989)**
Net (loss)/income from operations		**(2,286)**	**143,117**
Finance (costs)/income	8	(8,040)	31,226
Net (loss)/income before income tax		**(10,326)**	**174,343**
Income tax expense	17	(19,298)	(7,704)
(Loss)/income for the year		**(29,624)**	**166,639**
Other comprehensive (loss)/income			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of financial investment in the current year	5	(59,279)	61,180
Net loss on financial investment reclassified to profit or loss upon disposal		5,855	32,537
Other comprehensive (loss)/income for the year		**(53,424)**	**93,717**
Total comprehensive (loss)/income for the year		**(83,048)**	**260,356**

The accompanying notes on pages 9-36 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SURPLUS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Russian Rubles)

	Endowment fund	Accumulated surplus	Accumulated other comprehensive income/(loss)	Total
Balance at 1 January 2017	**3,772,043**	**1,429,329**	**(74,270)**	**5,127,102**
Surplus for the year	-	166,639	-	**166,639**
Other comprehensive income	-	-	93,717	**93,717**
Total comprehensive income for the year	**-**	**166,639**	**93,717**	**260,356**
Balance at 31 December 2017	**3,772,043**	**1,595,968**	**19,447**	**5,387,458**
Impact of adopting IFRS 9 at 1 January 2018	-	(13,952)	13,952	-
Balance at 1 January 2018 after adoption	**3,772,043**	**1,582,016**	**33,399**	**5,387,458**
Loss for the year	-	(29,624)	-	**(29,624)**
Other comprehensive loss	-	-	(53,424)	**(53,424)**
Total comprehensive loss for the year	**-**	**(29,624)**	**(53,424)**	**(83,048)**
Balance at 31 December 2018	**3,772,043**	**1,552,392**	**(20,025)**	**5,304,410**

The accompanying notes on pages 9-36 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in thousands of Russian Rubles)

CASH FLOWS FROM OPERATING ACTIVITIES	Note	Year ended 31 December 2018	Year ended 31 December 2017
Income before income tax		**(10,327)**	**174,343**
Adjustments for:			
Depreciation and amortization	9,10	1,086,208	629,047
Grants	14	(5,755,954)	(4,255,640)
Income from investments of Endowment Fund		(322,287)	(357,450)
Allowance for trade receivables and prepayments	11,12	77,693	9,268
Interest income on cash and cash equivalents		(17,184)	(40,357)
Discount expenses		9,810	-
Interest income accrued		(823)	(509)
Other		378	116
Cash flows from operating activities before changes in working capital		**(4,932,486)**	**(3,841,182)**
Increase in accounts receivable and advances paid		(222,023)	(160,058)
Decrease in inventory		145	14,326
(Decrease)/Increase in accounts payable and advances received		(5,189)	194,527
Changes in working capital		**(227,067)**	**48,795**
Grants received	14	5,563,932	5,502,966
Grants repaid	14	(1,843)	(53,793)
Interest income received on bonds		381,791	331,976
Interest income received on deposits		26,394	79,203
Interest income received on cash and cash equivalents		17,184	40,357
Income tax paid		(1,376)	(12,570)
Net cash flows from operating activities		**826,528**	**2,095,752**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(632,221)	(1,803,868)
Purchase of intangible assets		(96,088)	(89,581)
Proceeds from/(purchases) sales of bonds		(793,139)	28,838
Receipts of cash from/(placement of cash on) deposits, net		687,606	(24,391)
Proceeds from/(purchase of) promissory notes		32,320	(30,988)
Net cash flows used in investing activities		**(801,522)**	**(1,919,990)**
Cash and cash equivalents at the beginning of the year		**805,159**	**629,397**
Net increase in cash and cash equivalents		**25,006**	**175,762**
Cash and cash equivalents at the end of the year		**830,165**	**805,159**

The accompanying notes on pages 9-36 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

The Group and its operation

Autonomous Non-profit Organization for Higher Education "Skolkovo Institute of Science and Technology" (hereinafter – the "Institute", "Organization", "Skoltech") was set up in the Russian Federation in 2011.

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

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

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

Each domain serves as a lever for Institutional academic and brand excellence as well as forming a foundation for value generation. This foundation comprises the fields that have been and continue to be strong in Russia, i.e., Mathematics and Physics. This solid foundation is shored up with fields that will be of high importance for the future, and where Skoltech aims to be an international leader and a continuing source of future leaders for the Skolkovo community, Russia and the world.

The founders of the Institute are:

- The Federal State Educational Institution of Higher Professional Education "Moscow Institute of Physics and Technology";
- The Federal State Educational Institution of Higher Professional Education "National Research Tomsk Polytechnic University";
- Russian Academy of Science, Scientific Center in Chernogolovka;
- The Moscow School of Management "Skolkovo";
- Non-state Educational Institution "The New Economic School";
- RUSNANO Corporation;
- Russian Venture Company;
- State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)";
- The Foundation for Assistance to small enterprises in science and technology sector.

The operations of the Institute and its subsidiary are governed by the Board of Trustees, which is the highest collegiate governing body of the Institute.

The Institute is located in Innovation Center "Skolkovo", Russia, 143025, Moscow region, Odintsovsky district, Skolkovo village, Novaya street, building 100. The Group's facilities are based in the Moscow, Moscow region and Saint Petersburg.

1. GENERAL INFORMATION (CONTINUED)

Operating environment of the Group

Emerging markets including Russia are exposed to economic, political, social, legal and legislative risks, which differ from those inherent to more developed markets. Laws and regulations affecting businesses in the Russian Federation may change rapidly and may be subject to arbitrary interpretations. The future path of the Russian economy is largely dependent upon fiscal and monetary measures undertaken by the government, together with legal, regulatory, and political developments.

Because Russia produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the price of oil and gas on the world market.

Starting from March 2014, the United States and the European Union imposed several packages of sanctions on a number of Russian officials, businessmen, entities, and economy sectors.

The impact of changes in the economic situation on the future performance and financial position of the Group is difficult to determine.

Due to the fact that the crisis negatively affected the credit quality of Russian banks, the Group placed deposits only in major Russian banks partially owned by the government and invested funds in corporate bonds of entities controlled by the government of Russian Federation. The Group's investment strategy for 2018 provided for placing a larger share of funds in bonds rather than bank deposits due to the financial market situation in 2018. New sanctions imposed against Russia and US-China trade wars resulted in an increase in bond yields, while the income from bank deposits did not increase to the same extent. As at 31 December 2018, the share of funds invested in bonds was 100% (as at 31 December 2017: 85%, as at 31 December 2016: 85%).

The Group's investment strategy provided for the investment of funds only in financial instruments denominated in Russian rubles.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Statement of compliance. These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). The Group applied the International Financial Reporting Standards since 1 January 2013.

Each entity of the Group individually maintains its own books of accounts and prepares its statutory financial statements in accordance with the Russian Accounting Standards. The Group's consolidated financial statements are based on the statutory records with adjustments and reclassifications recorded in the consolidated financial statements for the fair presentations in accordance with IFRS.

Basis of measurement. The consolidated financial statements are prepared on the historical cost basis, except for financial investments that have been measured at fair value.

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

Use of estimates and judgements. The preparation of consolidated financial statements in conformity with IFRS requires management to make a number of professional judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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

Assumptions and estimates are regularly assessed to determine whether they are applicable. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected by these changes.

Professional judgements that have the most significant effect on the amounts recognised in these consolidated financial statements and estimates and assumptions that may require significant adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- Classification and initial recognition of grants;
- Useful lives of property, plant and equipment;
- Assessment of the stage of completion on research contracts.

<u>Classification and initial recognition of grants</u>

Grants provided by the funding bodies are recognized at the amounts expected to be received when there is a reasonable assurance that the grants will be received and the Group will comply with the conditions attaching to them. The Group's management considered that these conditions took place at the moment of funds receipt from the funding body. Before that date, the amount of grant and its conditions are subject to negotiation between the Group and funding body.

<u>Useful lives of property, plant and equipment</u>

The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group.

<u>Assessment of the stage of completion on research contracts</u>

The stage of completion of research contracts is calculated by the reference to the proportion of the actual costs incurred in the project budgeted costs.

Going concern

Management prepares consolidated financial statements on a going concern basis. In making this judgment management considers the Group's financial position, current intentions, access to the financing, current plans of the Foundation of the New Technologies Development and Commercialization Centre (hereinafter "Skolkovo Foundation") (major funding body) to continue provision of grants in accordance with the State Program on Innovation Development of the Russian Federation approved by Russian Government, and analyzes the impact of the situation in the financial markets on the operations of the Group.

New and revised International financial reporting standards

IFRSs and IFRIC interpretations adopted in the current year

The Group has adopted all IFRSs and Interpretations that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2018. The impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Group's results of operations and financial position is described below.

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

IFRS 9 Financial Instruments

IFRS 9 "Financial Instruments" replaces IAS 39 "Financial Instruments: Recognition and Measurement" for annual periods after 1 January 2018. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. In the current year, the Group has applied IFRS 9 "Financial Instruments" (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The Group has elected a modified retrospective approach whereby differences arising from the adoption of IFRS 9 have been recognized directly in accumulated surplus as of 1 January 2018.

Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognized as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018.

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

When a debt investment measured at Financial assets subsequently measured at fair value through other comprehensive income (hereinafter "FVTOCI") is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortized cost or at FVTOCI are subject to impairment.

The Group reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

- The Group's investment in quoted bonds that were classified as available-for-sale financial assets under IAS 39 have been classified as financial assets at FVTOCI because they are held within a business model whose objective is both to collect contractual cash flows and to sell the bonds, and they have contractual cash flows that are solely payments of principal and interest on principal outstanding. The change in the fair value on these redeemable notes continues to accumulate in the investment revaluation reserve until they are derecognized or reclassified;
- Financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortized cost continue to be measured at amortized cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

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

Specifically, IFRS 9 requires the Group to recognize a loss allowance for expected credit losses on:

1. Debt investments measured subsequently at amortized cost or at FVTOCI,
2. Lease receivables,
3. Trade receivables and contract assets, and
4. Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The reconciliation between the ending provision for impairment in accordance with IAS 39 to the opening loss allowance determined in accordance with IFRS 9 for the financial instruments on 1 January 2018 is disclosed in the Note 11.

<u>Classification and measurement of financial liabilities</u>

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss, but are instead transferred to retained earnings when the financial liability is derecognized. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at financial assets subsequently measured at fair value through profit or loss (hereinafter "FVTPL") was presented in profit or loss.

This change has had no impact on the Group's financial liabilities.

IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

The Group adopted IFRS 15 using the retrospective method of adoption with the cumulative effect of initially applying this standard recognized at the date of initial application (i.e. 1 January 2018).

As regards the research services, the management has assessed that these performance obligations are satisfied over time and that the method used earlier 1 January 2018 to measure the progress towards complete satisfaction of these performance obligations continue to be appropriate under IFRS 15. So there is no effect of IFRS 15 adopting as to research contracts accounted for before 1 January 2018 in accordance with IFRS 11.

Apart from providing more extensive disclosures on the Group's revenue transactions, the application of IFRS 15 doesn't have a significant impact on the financial position and/or financial performance of the Group.

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

IFRS and IFRIC interpretations in issue but not yet effective

At the date of authorization of these consolidated financial statements, the following standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2019 or later periods and which the entity has not early adopted:

- IFRS 16 *Leases*[1]*;*
- IFRS 17 *Insurance Contracts*[2];
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[1];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3];
- Amendments to IFRS 9 – *Prepayment Features With Negative Compensation*;
- IAS 19 *Employee Benefits*[1]*-Plan Amendment, Curtailment or Settlement*[1]*;*
- Amendments to IAS 28 – *Long-Term Interests in Associates and Joint Ventures*[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[1]. *Amendments to* IFRS 3 *Business Combinations,* IFRS 11 *Joint Arrangements,* IAS 12 *Income Taxes and* IAS 23 *Borrowing Costs;*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*;
- IFRS 10 *Consolidated Financial Statements* and IAS 28 (amendments) – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.*

[1] Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
[2] Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.
[3] Effective for annual periods beginning on or after a date to be determined. Earlier application is permitted

IFRS 16 Leases

General impact of application of IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related interpretations when it becomes effective.

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

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

Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

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

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019, (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

<u>Impact on Lessee Accounting</u>

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. On initial application of IFRS 16, for all leases (except as noted below), the Group will:

- Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss and other comprehensive income;
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low value assets (such as personal computers and office furniture), the Group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of RUB 1,655,365 thousand (Note 20). A preliminary assessment indicates that all of these arrangements relate to leases other than short-term leases and leases of low value assets, and hence the Group will recognize a right of use asset of approximately of RUB 711,054 thousand and a corresponding lease liability in respect of all these leases. The impact on profit or loss is to decrease expenditure by approximately RUB 228,738 thousand, to increase depreciation by approximately RUB 172,644 thousand and to increase interest expense by approximately RUB 60,458 thousand.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to increase the cash generated by operating activities by approximately RUB 127,094 thousand and to increase net cash used in financing activities by the same amount.

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

Finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. The Group doesn't have finance leases as at 31 December 2018.

Annual Improvements to IFRS Standards 2015-2017 Cycle

The Annual Improvements include amendments to four Standards.

IAS 12 Income Taxes

The amendments clarify that an entity should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 Borrowing Costs

The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

IFRS 3 Business Combinations

The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognised assets, liabilities and goodwill relating to the joint operation.

IFRS 11 Joint Arrangements

The amendments to IFRS 11 clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the entity does not remeasure its PHI in the joint operation.

All the amendments are effective for annual periods beginning on or after 1 January 2019 and generally require prospective application. Earlier application is permitted.

The management of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by the Group's entities.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the parent organization and its subsidiary. All intra-group assets and liabilities, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Property, plant and equipment (hereinafter – "PPE") are stated at cost less accumulated depreciation. Costs of minor repairs and day-to-day maintenance are expensed when incurred.

Depreciation of PPE is calculated using the straight-line method over their estimated useful lives as follows:

Laboratory equipment	1–20 years;
Server and networking equipment	2–10 years;
Computers and telecom equipment	1–10 years;
Building engineering systems	2–15 years;
Furniture, office equipment and other	2–20 years.

Construction in progress items are not depreciated. Construction in progress items are included in the respective categories of PPE at the time of construction completion or readiness for the intended use. Depreciation of these assets commences when the assets are ready for their intended use.

Intangible assets

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

Software	1–10 years.

Financial instruments

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

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

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

Measurement of financial assets

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

Listed bonds held by the Group that are traded in an active market are classified as FVTOCI and are stated at fair value at the end of each reporting period. Changes in the carrying amount of FVTOCI assets relating to changes in interest income calculated using the effective interest method are recognized in profit or loss. Other changes in the carrying amount of FVTOCI assets are recognized in other comprehensive income. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in other companies

The Group makes investments in other companies (start-up organizations) by entering into the following agreements:

- Investment agreement and acceleration agreement or,
- Agreement with founders to establish a legal entity or,
- Agreement of sale and purchase of a share in the charter capital of legal entity or,
- Other agreements.

These investments are accounted for as:

1. Equity instruments designated as at FVTOCI (measured at fair value through other comprehensive income) or,
2. Investments in associates and joint ventures, if the Group has significant influence or has joint control over investments or,
3. Subsidiaries, if the Group has control over investments.

Accounting for transactions between the Group, the Company and founders

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

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

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

- Doesn’t recognize revenue from sale of goods/services rendering. The Group makes contribution to the Companies assets in form of goods/services. Their costs are included in operating expenditures.

As part of the transactions under the agreement on the establishment of a legal entity, the Group:

- Does not recognize revenue from the provision of resources by the Group. The Group makes contributions to the Companies assets in the form of transferred goods / services. Their cost is included in operating expenditures.

Equity instruments designated as at FVTOCI (measured at fair value through other comprehensive income)

On initial recognition, the Group makes an irrevocable election on an instrument-by-instrument basis to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in the investments revaluation reserve.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the Group's investment in charter capital of start-up is less than 100 thousand Rubles, then cost of investment is an appropriate indication of fair value at the early development stage. This is due to high uncertainty on future financial results and cash flows. Once it becomes possible to build a reliable projection of future cash flows, the appropriate methods for calculation of fair value will be used, among them – discounted cash flow model. The very early development stage for a start-up is approximately 2 years from the date the Company was established.

If the Group's investment in charter capital of start-up is more than or 100 thousand Rubles or equal to, then it is measured at fair value.

The cumulative gain or loss is not reclassified to profit or loss on disposal of the equity investments, instead, it is transferred to retained earnings. Dividends on investments in equity instruments are recognized in profit or loss in accordance with IFRS 9.

According to IFRS 9, the equity instruments designated as at FVTOCI are not subject to impairment test.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

If the Group holds 20 per cent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the Group holds less than 20 per cent of the voting power of the investee, it is presumed that it does not have significant influence, unless such influence can be clearly demonstrated.

The existence of significant influence by the Group is usually evidenced in one or more of the following ways:

(a) Representation on the board of directors or equivalent governing body of the investee;
(b) Participation in policy-making processes, including participation in decisions about dividends or other distributions;
(c) Material transactions between the entity and its investee;
(d) Interchange of managerial personnel; or
(e) Provision of essential technical information.

Equity method

The results, assets, and liabilities of associates or joint ventures are incorporated in financial statements using the equity method of accounting. Under the equity method, an investment in an associate or a joint venture is recognized initially in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture.

Subsidiaries

The Group assesses whether or not it controls an investee. If facts and circumstances indicate that there is control, then investment is treated as subsidiary. Interests in subsidiaries are accounted for in accordance with IFRS 10 "Consolidated Financial Statement".

Cash and cash equivalents

Cash and cash equivalents comprise cash balances in banks.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits

This category includes deposits with original maturities more than three months.

Endowment funds and Grants

Endowment funds

Endowments received represent one-off donations to the subsidiary towards establishment of the endowment fund. The establishment and operations of such fund are governed by the Russian legislation. Income received from the management of endowment funds comprises interest income on bonds and deposits, net gains or losses on available-for-sale investments reclassified to profit or loss upon disposal or impairment and net gains or losses on disposal of other investments and is used in the financing of the operating activities of the Institute.

Income from the management of endowment funds may be distributed to the Institute and used for the financing of its activities without any restrictions.

Grants

Grants are receipts of cash to perform principal activities in the area of professional education programs and scientific research. Grants comprise:

- Skolkovo Foundation grants;
- Other government grants.

The Group applies IAS 20 "Accounting for Government Grants and Disclosure of Government Assistance" to account for all government grants and other forms of government assistance.

Grants relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Grants relating to the purchase of non-current assets are included in non-current liabilities as deferred grants and are credited to profit or loss on a straight – line basis over the expected lives of the related assets.

Charitable contributions (donations and sponsorships) are recognized as an income as they are received.

Income

The Group derives its income from two types of activities:

- Non-commercial operations – The Institute is a non-profit organization and the majority of the Group activities fall into this category;
- Commercial operations – consist of fixed fee research contracts, services and other activities.

Revenue from research contracts

For contracts where rendering of services are performed over time and the outcome of a transaction are estimated reliably the revenue is recognized in proportion to the stage of completion.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Expenses

The Group uses the classification of expenses by their nature in a statement of profit or loss and other comprehensive income. The Group recognizes expenses in the period in which they were actually incurred, and not at the time of payment. Classification of expenses as commercial or non-commercial is carried out based on their target use. Allocation of indirect expenses on commercial and non-commercial activity is performed in proportion to the direct commercial and non-commercial expenses.

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the state social contributions.

Foreign currency

Monetary assets and liabilities denominated at the reporting date in foreign currencies have been translated into RUB at the exchange rate at the reporting date. Foreign currency transactions are accounted for at the exchange rate at the transaction date. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

As at 31 December 2018, the official rate of exchange as determined by the Central Bank of the Russian Federation, between the RUB and the US Dollar was RUB 69.4706:US Dollar 1.00 (31 December 2017: RUB 57.6002:US Dollar 1.00); between the RUB and Euro: RUB 79.4605: Euro 1.00 (31 December 2017: RUB 68.8668: Euro 1.00).

Income tax

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

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

Classification of accumulated surplus

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

(in thousands of Russian Rubles)

4. MEASUREMENT OF FAIR VALUE

When measuring the fair value of an asset or liability, the Group uses observable market data as much as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Available-for-sale investments are carried in the consolidated financial statements at their fair value, all categorized as level 1 in the fair value hierarchy (Note 5). Fair value of all other financial instruments equals to their balance values.

5. FINANCIAL INVESTMENTS

The Endowment Fund made investments in the state bonds of the Russian Federation and Russian corporate bonds.

	31 December 2018	31 December 2017
Financial investments		
Russian government bonds	1,231,519	2,138,398
Corporate bonds	3,323,386	1,752,127
Total financial investments of FVOCI	**4,554,905**	**3,890,525**
Financial assets at amortized cost		
Promissory notes	-	31,497
Total financial assets at amortized cost	**-**	**31,497**
Total financial investments	**4,554,905**	**3,922,022**

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

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

Analysis by credit quality of financial assets outstanding at 31 December 2017 is as follows (Fitch rating, for the bonds not rated by Fitch, S&P rating was used):

	Russian government bonds	Corporate bonds	Total
BBB-	2,138,398	1,030,357	**3,168,755**
BB+	-	721,770	**721,770**
Total financial investments	**2,138,398**	**1,752,127**	**3,890,525**

(in thousands of Russian Rubles)

5. FINANCIAL INVESTMENTS (CONTINUED)

The movements in financial investments are as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Carrying amount at 1 January	**3,890,525**	**3,847,723**
Net change of fair value	(59,279)	61,180
Interest income	312,310	342,613
Interest received	(381,791)	(322,585)
Additions	2,153,700	615,866
Disposals	(859,908)	(188,976)
Repayments	(500,653)	(465,296)
Carrying amount at 31 December	**4,554,905**	**3,890,525**

In accordance with IAS 39 the primary factor, that the Group considers in determining whether an investment is impaired is its overdue status. There are no overdue investments as of 31 December 2017. In accordance with IFRS 9 as at 1 January 2018 and 31 December 2018 loss allowance has been recognized. Probability of default rates and loss given default are based on information from Bloomberg.

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

	Year ended 31 December 2018
Balance as at 31 December 2017 under IAS 39	**-**
Adjustment upon application of IFRS 9	13,952
Balance as at 1 January 2018 under IFRS 9	**13,952**
Decrease in loss allowance from financial investments	(854)
Balance as at 31 December 2018	**13,098**

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

	Year ended 31 December 2018	Year ended 31 December 2017
Russian government bonds	(17,658)	33,158
Corporate bonds	(41,621)	28,022
Total net (losses)/gains for the year	**(59,279)**	**61,180**

6. BANK DEPOSITS

Deposits are comprised of RUB denominated term deposits with original maturity of more than three months (interest rate 2017: 7.70%-7.75%). Analysis by credit quality of deposits outstanding at 31 December 2017 is as follows (S&P rating and Fitch rating of the banks, where the Group held its deposits, were used):

	31 December 2018	31 December 2017
Ba1	-	557,606
BB+	-	130,000
Total deposits	**-**	**687,606**

(in thousands of Russian Rubles)

7. REVENUE FROM CONTRACTS WITH CUSTOMERS AND OTHER INCOME

	Year ended 31 December 2018	Year ended 31 December 2017
Revenue from research contracts	548,595	182,666
Revenue from educational services	8,223	1,525
Revenue from consulting services	4,985	3,812
Revenue from licenses	372	-
Revenue from other services	13,627	3,237
Total revenue from contracts with customers	**575,802**	**191,240**
Rental income	2,421	2,023
Other income	18,498	1,753
Total revenue from contracts with customers and other income	**596,721**	**195,016**

8. INCOME AND EXPENDITURE ANALYSIS

The information presented below provides analysis of the Group's operations and its results. The table below provides information on the Group's results for the year ended 31 December 2018, broken down by the non-commercial and commercial activities:

For the year ended 31 December 2018	Non-Commercial operations	Commercial operations	Total
Income			
Grants	5,755,954	-	**5,755,954**
Income from Endowment Fund	322,287	-	**322,287**
Revenue from research contracts and other income	18,498	578,223	**596,721**
Total income	**6,096,739**	**578,223**	**6,674,962**
Expenditure			
Staff costs	(2,544,477)	(312,234)	**(2,856,711)**
Depreciation and amortization	(1,081,497)	(4,711)	**(1,086,208)**
Scholarships and students costs	(556,486)	-	**(556,486)**
Co-researchers costs	(453,238)	-	**(453,238)**
Rent of premises, utilities	(397,084)	(32,301)	**(429,385)**
Research direct materials	(226,348)	(42,599)	**(268,947)**
Research and technology contractors costs	(128,596)	(44,854)	**(173,450)**
Consulting and professional services	(124,752)	(21,098)	**(145,850)**
Business trips	(103,728)	(16,725)	**(120,453)**
Laboratory costs	(109,015)	(303)	**(109,318)**
Software, hardware, IT services	(96,663)	(4,211)	**(100,874)**
Events and conferences	(85,957)	(8,717)	**(94,674)**
Prepayments impairment allowance	(61,313)	-	**(61,313)**
PR costs	(49,385)	(147)	**(49,532)**
Transport costs	(40,725)	(1,600)	**(42,325)**
Periodicals	(31,925)	(2,412)	**(34,337)**
Internet, mobile, post service	(13,406)	(464)	**(13,870)**
Trade and other receivables impairment allowance	-	(16,380)	**(16,380)**
Other expenses	(43,949)	(19,948)	**(63,897)**
Total expenditure	**(6,148,544)**	**(528,704)**	**(6,677,248)**
Finance income/(costs)			
Interest income on cash and cash equivalents	550	16,634	**17,184**
Interest income on promissory note	-	823	**823**
Bank commission	(5)	(11,896)	**(11,901)**
Discount expenses	-	(9,810)	**(9,810)**
Foreign exchange loss	110	(4,446)	**(4,336)**
Total finance income/(costs)	**655**	**(8,695)**	**(8,040)**
Net income/(loss) before income tax	**(51,150)**	**40,824**	**(10,326)**

(in thousands of Russian Rubles)

8. INCOME AND EXPENDITURE ANALYSIS (CONTINUED)

The table below provides information on the Group's results for the year ended 31 December 2017, broken down by the non-commercial and commercial activities:

For the year ended 31 December 2017	Non-commercial operations	Commercial operations	Total
Income			
Grants	4,255,640	-	**4,255,640**
Income from Endowment Fund	357,450	-	**357,450**
Revenue from research contracts and other income	1,753	193,263	**195,016**
Total income	**4,614,843**	**193,263**	**4,808,106**
Expenditure			
Staff costs	(2,030,392)	(125,616)	**(2,156,008)**
Depreciation and amortization	(615,954)	(13,093)	**(629,047)**
Rent of premises, utilities	(413,448)	(20,810)	**(434,258)**
Scholarships and students costs	(399,557)	-	**(399,557)**
Co-researchers costs	(307,523)	(3,172)	**(310,695)**
Research direct materials	(174,004)	(15,567)	**(189,571)**
Business trips	(94,344)	(6,061)	**(100,405)**
Software, hardware, IT services	(78,589)	(3,815)	**(82,404)**
Research and technology contractors costs	(73,676)	(2,434)	**(76,110)**
Events and conferences	(66,593)	(745)	**(67,338)**
Consulting and professional services	(58,447)	(2,406)	**(60,853)**
Laboratory costs	(51,588)	(16)	**(51,604)**
Transport costs	(26,898)	(2,201)	**(29,099)**
PR costs	(18,798)	(1,080)	**(19,878)**
Periodicals	(17,284)	(281)	**(17,565)**
Internet, mobile, post service	(9,279)	(466)	**(9,745)**
Other expenses	(23,496)	(7,356)	**(30,852)**
Total expenditure	**(4,459,870)**	**(205,119)**	**(4,664,989)**
Finance income			
Interest income on cash and cash equivalents	10,814	29,543	**40,357**
Interest income on promissory note	-	509	**509**
Foreign exchange loss	(5,222)	(263)	**(5,485)**
Bank commission	(3,956)	(199)	**(4,155)**
Total finance income	**1,636**	**29,590**	**31,226**
Net income before income tax	**156,609**	**17,734**	**174,343**

Staff costs include salaries, compulsory social security contributions, medical insurance, reimbursement of accommodation, transportation costs and other benefits in kind provided to employees.

Rent of premises, utilities include rent costs, utilities payments, and maintenance costs.

Scholarships were paid to Skoltech MSc and PhD students.

Co-researchers costs are payments to the partner institutions under joint research programs.

Consulting and professional services include advisory services relating to strategy, human resources, innovation and product development, entrepreneurship and start-ups, marketing and promotion. It also includes audit expenses, property insurance, conference and competition organizing services, expenses of patenting procedure.

Other expenses include allowance for trade receivables and prepayments, occupational health and safety costs, tax penalties, other materials.

(in thousands of Russian Rubles)

9. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

	Laboratory equipment	Server and networking equipment	Computers and telecom equipment	Building engineering systems	Furniture, office equipment and other	Construction in progress	Total
Cost							
Balance at 1 January 2017	1,136,661	277,196	146,621	115,309	49,883	2,379,167	**4,104,837**
Additions	1,387,494	81,246	53,307	202,297	19,658	88,882	**1,832,884**
Transfers	456,816	33,893	3,000	28,222	1,617	(523,548)	**-**
Disposals	(125)	-	(307)	-	-	-	**(432)**
Balance at 31 December 2017	**2,980,846**	**392,335**	**202,621**	**345,828**	**71,158**	**1,944,501**	**5,937,289**
Additions	349,966	143,439	75,611	5,284	93,315	87,350	**754,965**
Transfers	433,669	155,655	76,615	19,830	38,100	(723,869)	**-**
Disposals	(799)	-	(463)	-	(3)	-	**(1,265)**
Balance at 31 December 2018	**3,763,682**	**691,429**	**354,384**	**370,942**	**202,570**	**1,307,982**	**6,690,989**
Depreciation							
Balance at 1 January 2017	(248,025)	(137,012)	(55,617)	(6,015)	(17,207)	**-**	**(463,876)**
Depreciation for the period	(371,782)	(86,112)	(45,306)	(60,322)	(13,021)	-	**(576,542)**
Disposals	18	-	299	-	-	-	**317**
Balance at 31 December 2017	**(619,789)**	**(223,123)**	**(100,624)**	**(66,337)**	**(30,228)**	**-**	**(1,040,101)**
Depreciation for the period	(595,648)	(170,311)	(67,277)	(136,487)	(28,752)	-	**(998,475)**
Disposals	540	-	346	-	-	-	**886**
Balance at 31 December 2018	**(1,214,897)**	**(393,434)**	**(167,555)**	**(202,824)**	**(58,980)**	**-**	**(2,037,690)**
Net book value							
At 1 January 2017	**888,636**	**140,184**	**91,004**	**109,294**	**32,676**	**2,379,167**	**3,640,961**
At 31 December 2017	**2,361,057**	**169,212**	**101,997**	**279,491**	40,930	**1,944,501**	**4,897,188**
At 31 December 2018	**2,548,785**	**297,995**	**186,829**	**168,118**	**143,590**	**1,307,982**	**4,653,299**

(in thousands of Russian Rubles)

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Construction in progress as of 31 December 2018 includes:

- Prepayments for campus construction in the amount of RUB 1,016,873 thousand and assets under installation for campus construction – RUB 51,319 thousand (31 December 2017: RUB 1,016,873 thousand and RUB 25,804 thousand accordingly);
- Prepayments for other PPE in the amount of RUB 154,698 thousand and assets under installation for other PPE – RUB 85,092 thousand (31 December 2017: RUB 838,176 thousand and RUB 63,649 thousand accordingly).

10. INTANGIBLE ASSETS

Movements in the carrying amount of intangible assets were as follows:

	Software	Other intangible assets	Development and other costs	Total
Cost				
Balance at 1 January 2017	176,906	1,583	34,015	**212,504**
Additions	86,325	-	3,256	**89,581**
Transfers	5,897	-	(5,897)	**-**
Balance at 31 December 2017	**269,128**	**1,583**	**31,374**	**302,085**
Additions	94,451	500	1,136	**96,087**
Transfers	21,123	112	(21,235)	**-**
Balance at 31 December 2018	**384,702**	**2,195**	**11,275**	**398,172**
Amortization				
Balance at 1 January 2017	(97,652)	(233)	-	**(97,885)**
Amortization for the period	(52,323)	(182)	-	**(52,505)**
Balance at 31 December 2017	**(149,975)**	**(415)**	**-**	**(150,390)**
Amortization for the period	(87,543)	(190)	-	**(87,733)**
Balance at 31 December 2018	**(237,518)**	**(605)**	**-**	**(238,123)**
Net book value				
At 1 January 2017	**79,254**	**1,350**	**34,015**	**114,619**
At 31 December 2017	**119,153**	**1,168**	**31,374**	**151,695**
At 31 December 2018	**147,184**	**1,590**	**11,275**	**160,049**

11. ACCOUNTS RECEIVABLE

Accounts receivable as at 31 December 2018 and 2017 consisted of the following:

	31 December 2018	31 December 2017
Trade receivables	291,512	69,697
Lease deposit	36,590	-
Receivables due from customers for long-term research contracts	4,800	5,800
Interest receivables	-	11,716
Allowance for receivables for long-term contracts	(4,800)	-
Allowance for trade receivables	(14,300)	(2,720)
Total accounts receivable	**313,802**	**84,493**

(in thousands of Russian Rubles)

11. ACCOUNTS RECEIVABLE (CONTINUED)

The Group always measures the loss allowance for trade receivables at an amount equal to lifetime ECL (expected credit losses). The expected credit losses on trade receivables and for long-term contracts are estimated using a provision matrix by reference to past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry in which the debtors operate and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

The Group has recognized a loss allowance of 100% against all receivables over 360 days past due because historical experience has indicated that these receivables are generally not recoverable.

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

	Loss allowance for trade receivables	Loss allowance for receivables for long-term contracts	Total
Balance as at 31 December 2017 under IAS 39	**2,720**	**-**	**2,720**
Adjustment upon application of IFRS 9	-	-	-
Balance as at 1 January 2018 under IFRS 9	**2,720**	**-**	**2,720**
Increase in loss allowance	11,580	4,800	16,380
Total loss allowance	**14,300**	**4,800**	**19,100**

12. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets as at 31 December 2018 and 2017 consisted of the following:

	31 December 2018	31 December 2017
Prepayments to suppliers	1,169,980	1,189,451
Taxes prepaid	41,069	62,745
Insurance prepaid	13,958	35,417
VAT	-	6,647
Other prepayments	69,191	65,155
Allowance for prepayments	(67,861)	(6,548)
Total prepayments and other current assets	**1,226,337**	**1,352,867**

Other prepayments include paid legal services for registration of startups in the amount of RUB 60 thousand.

The most significant prepayments as of 31 December 2018 were made to the following suppliers:

- Massachusetts Institute of Technology in the amount of RUB 603,974 thousand (31 December 2017: RUB 458,804 thousand) in accordance with Master Research Agreements;
- LLC "Kinovel" in the amount of RUB 82,548 thousand (31 December 2017: RUB 134,641 thousand) for rent of premises;
- Saint Petersburg National Research Academic University in the amount of RUB 60,000 thousand (31 December 2017: RUB 45,000 thousand) in accordance with Master Research Agreements.
- Innopolis University in the amount of RUB 55,813 thousand (31 December 2017: RUB 115,150 thousand) for educational program;
- Lomonosov Moscow State University in the amount of RUB 37,414 thousand (31 December 2017: RUB 66,140 thousand) in accordance with Master Research Agreements.

(in thousands of Russian Rubles)

12. PREPAYMENTS AND OTHER CURRENT ASSETS (CONTINUED)

The movements in loss allowance that has been recognized for the prepayments and other current assets are as follows:

	Loss allowance for prepayments and other current assets
Balance as at 1 January 2017	**-**
Increase in loss allowance	6,548
Balance as at 31 January 2017	**6,548**
Increase in loss allowance	61,313
Balance as at 31 January 2018	**67,861**

13. CASH AND CASH EQUIVALENTS

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

	31 December 2018	31 December 2017
Ba1 rated	624,929	716,889
Ba2 rated	-	81,776
Unrated	205,236	6,494
Total cash and cash equivalents	**830,165**	**805,159**

14. DEFERRED GRANTS

The Group's operations are financed by means of grants received from Skolkovo Foundation and other philanthropists.

Majority of the grants are received from Skolkovo Foundation as part of the State Program on Innovation Development of the Russian Federation till 2020. The grants are provided to finance the development, ongoing operations and activities of the Institute. According to the grant documentation, Skolkovo Foundation has the right to control the use of the money received under the grants and may demand repayment of the grant back to Skolkovo Foundation if it is not spent towards the specified objectives.

Similar to Skolkovo Foundation, each donor has the right to control the use of the money received under the grants and demand cancellation of the grant should the money not be applied towards stated purposes.

Grants relating to the purchase of PPE, intangible assets are included in non-current liabilities as deferred grants and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

Grants received to cover the costs related to operational activities and research projects are included in current liabilities as deferred grants and are credited to profit or loss as income in the period the related costs are incurred.

(in thousands of Russian Rubles)

14. DEFERRED GRANTS (CONTINUED)

The movements in these current and non-current deferred grants were as follows:

	Current deferred grants	Non-current deferred grants	Total
Balance at 1 January 2017	**1,339,147**	**3,610,595**	**4,949,742**
Grants received	5,502,966	-	5,502,966
Repayment of unused grants	(53,793)	-	(53,793)
Grants recognised in income to match related expenses	(3,675,132)	(580,508)	(4,255,640)
Reclassification to long-term grants	(1,846,644)	1,846,644	-
Balance at 31 December 2017	**1,266,544**	**4,876,731**	**6,143,275**
Grants received	5,563,932		5,563,932
Repayment of unused grants	(1,843)		(1,843)
Grants recognised in income to match related expenses	(4,717,231)	(1,038,723)	(5,755,954)
Reclassification to long-term grants	(850,224)	850,224	-
Balance at 31 December 2018	**1,261,178**	**4,688,232**	**5,949,410**

15. ENDOWMENT FUNDS

The Endowment Fund has a long-term endowment strategy designed to enhance the Institute's financial independence and support the implementation of its strategy. The primary goal of the Endowment Fund investment policy is to ensure the reliability, liquidity, yield and diversification of investments. According to the Investment Declaration approved by the Management Board of the Endowment Fund, investments can be made in the state bonds of the Russian Federation, Russian corporate bonds (from a specified list), Russian municipal bonds and deposits in Russian Rubles in state-owned banks. Endowment funds are managed by professional asset management companies, including:

- Alfa Capital (RUB 2,927,834 thousand);
- VTB Capital Asset Management (RUB 844,209 thousand).

Asset management companies manage the endowment fund based on the rules stipulated in the Investment Declaration. In 2018 and 2017 the Fund invested in term deposits and bonds (see Notes 3, 5, 6).

Income received from the management of endowment funds comprises interest income on bonds and deposits, net gains or losses on financial investments reclassified to profit or loss upon disposal or impairment and net gains or losses on disposal of other investments.

Income from investments of Endowment Fund were as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Interest income on bonds	312,310	342,613
Interest income on bank deposits	14,678	47,550
Income on disposal of bonds	1,155	176
Recovered impairment of financial assets at FVOCI	854	-
Net loss on financial assets at reclassified to profit or loss upon disposal or impairment	(6,710)	(32,889)
Total income frome investments of Endowment Fund	**322,287**	**357,450**

(in thousands of Russian Rubles)

16. ACCOUNTS PAYABLE

	31 December 2018	31 December 2017
Due to employees	263,913	183,804
Trade payables and accrued liabilities	205,718	124,235
Taxes payable	19,858	7,356
Income tax payable	9,479	-
Other payables	12,204	53,876
Total accounts payable	**511,172**	**369,271**

17. INCOME TAX EXPENSE

(a) Components of income tax expense

Income tax expense comprises the following:

	Year ended 31 December 2018	Year ended 31 December 2017
Current tax expense	23,800	9,306
Deferred tax income	(4,502)	(1,602)
Income tax expense for the year	**19,298**	**7,704**

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

(b) Reconciliation between the tax expense and net income before tax multiplied by applicable tax rate

The income tax rate applicable to the Group's 2018 and 2017 income from commercial activities is 20%. Reconciliation between the expected and the actual taxation charge is provided below:

	Year ended 31 December 2018	Year ended 31 December 2017
Income from commercial activities (Note 8)	**40,824**	**17,734**
Theoretical tax charge at statutory rate of 20%	8,165	3,547
Tax effect of items which are not deductible or assessable for taxation purposes	11,133	4,157
Income tax expense for the year	**19,298**	**7,704**

(c) Deferred taxes analyzed by type of temporary difference

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

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

(in thousands of Russian Rubles)

17. INCOME TAX EXPENSE (CONTINUED)

	1 January 2017	Recognised in profit or loss	31 December 2017
Account payables	5,161	2,056	7,217
Account receivables	1,558	(616)	942
Prepayments and other current assets	-	81	81
Financial investments	-	81	81
Net deferred tax assets	**6,719**	**1,602**	**8,321**

18. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

The Group's key management personnel is represented by members of the Board of Trustees and top managers of the Group (President, Vice Presidents, Provosts, Director of Endowment Fund).

The outstanding balances with The Group's key management personnel and benefits for them were as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Short-term employee benefits to the top management for the year (including wages, bonuses, medical insurance)	247,850	197,140
Payment for members of the Board of Trustees (reimbursement of accommodation, transport costs, preparing of information for Board)	553	5,315
Total	**248,403**	**202,455**

The Russian state has significant influence over the Group. The Institute performs co-research programs with Russian institutions, controlled by or are under significant influence of the Russian state. The Group decided to apply the exemption from disclosure of individually insignificant transactions and balances with the government and parties that are related to the entity because the Russian state has control, joint control or significant influence over such party.

The Group is financed mostly by grants received from Skolkovo Foundation as a part of the State Program of Innovation Development of the Russian Federation (Note 14).

	Year ended 31 December 2018	Year ended 31 December 2017
Grants received from Skolkovo Foundation	5,027,400	5,130,000
Repayment of unused grants to Skolkovo Foundation	(1,382)	-
Total	**5,026,018**	**5,130,000**

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

	31 December 2018	31 December 2017
Trade receivables	24,000	580
Prepayments to suppliers	29,813	28,783
Accounts payable and accruals	1,959	-
Total	**55,772**	**29,363**

(in thousands of Russian Rubles)

18. RELATED PARTY TRANSACTIONS (CONTINUED)

The significant transactions with other related parties were as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Revenue	23,139	10,000
Purchase of services/goods	5,640	978
Repayment of unused grants to PJSC "Russian Venture Company	-	(53,793)
Total	**28,779**	**(42,815)**

19. FINANCIAL RISK MANAGEMENT

The risk management function within the Group is carried out in respect of financial risks, operational risks and legal risks. Financial risk comprises market risk (including currency risk, interest rate risk and other price risks), credit risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

The operational and legal risk management functions are intended to ensure proper functioning of internal policies and procedures, in order to minimise operational and legal risks.

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

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

	31 December 2018	31 December 2017
Other non-current assets	**27,887**	**-**
Lease deposit	27,887	
Accounts receivable	**313,802**	**84,493**
Trade receivables	277,212	66,977
Interest receivables	-	11,716
Receivables due from customers for long-term research contracts	-	5,800
Lease deposit	36,590	-
Financial investments	**4,554,905**	**3,922,022**
Russian government bonds	1,231,519	2,138,398
Corporate bonds	3,323,386	1,752,127
Promissory notes	-	31,497
Deposits	**-**	**687,606**
Cash and cash equivalents	**830,165**	**805,159**
Total maximum exposure to credit risk	**5,726,759**	**5,499,280**

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties or groups of counterparties. Limits on the level of credit risk are approved regularly by management. Such risks are monitored on a revolving basis and are subject to an annual, or more frequent, review.

(in thousands of Russian Rubles)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

Credit risks concentration. The Group is exposed to concentrations of credit risk. As at 31 December 2018 the Group had 21 counterparties (31 December 2017: 13 counterparties) with aggregated receivables balances above RUB 1 million accounting for approximately 95% (2017: 97 %) of all the receivables outstanding.

The Group's bank deposits are held in 2017 only with 2 banks thus exposing the Group to a concentration of credit risk.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in interest bearing assets. Management sets limits on the value of risk that may be accepted, which is monitored on a daily basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks are based on a change in a factor while holding all other factors constant. In practice, this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate. If the market value of financial investments would increase or decrease by 5% respectively, with all other variables held constant, the Group's total comprehensive income for the year would have been RUB 227,745 thousand (2017: RUB 196,101 thousand) higher or lower, respectively. Managing the impact of market risks is carried by third party asset managers on behalf of the Group through management of the Group's investment portfolio.

Currency exchange risk. The Group receives financing in Russian Rubles. Financial investments are denominated in Russian Rubles. The Group purchases certain PPE, materials and services from abroad. Thus, the Group is exposed to foreign exchange risk, primary relating to US Dollar and Euro to Russian Ruble exchange rate.

Foreign currencies denominated assets represent cash balances on bank accounts, trade receivables and liabilities give rise to foreign currency exchange exposure.

The table below summarizes the Group's exposure to foreign currency exchange rate at the reporting date:

	31 December 2018			31 December 2017		
	Monetary financial assets	**Monetary financial liabilities**	**Net balance sheet position**	**Monetary financial assets**	**Monetary financial liabilities**	**Net balance sheet position**
US Dollars	31,860	(1,541)	30,319	9,155	(5,802)	3,353
Euro	32,759	(3,961)	28,798	2,263	(11,730)	(9,467)
GBR	-	(442)	(442)			
CHF	-	-	-	-	(4,543)	(4,543)
Total	**64,619**	**(5,944)**	**58,675**	**11,418**	**(22,075)**	**(10,657)**

As at 31 December 2018, if Russian Ruble would weaken or strengthen by 5% against the USD, Euro and GBR with all other variables held constant, the Group's total comprehensive income for the year would have been by RUB 2,934 thousand (2017: RUB 533 thousand) higher or lower, respectively. This would result mainly from foreign exchange gains or losses on translation of Euro and USD denominated trade receivables and accounts payable.

Interest rate risk. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Management does not consider the interest rate risk as significant to the Group's business as interest rates are fixed for the financial investments.

(in thousands of Russian Rubles)

19. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

The Group invests the funds in diversified portfolios of liquid assets, in order to be able to respond quickly and smoothly to unforeseen liquidity requirements. The Group's liquidity portfolio comprises cash and cash equivalents (Note 13), deposits (Note 6) and bonds (Note 5).

Management estimates that the liquidity portfolio cash and bank deposits can be realized in cash within a day in order to meet unforeseen liquidity requirements.

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

	31 December 2018		31 December 2017	
	Trade payables and accrued liabilities	Other payables	Trade payables and accrued liabilities	Other payables
Demand and less than 1 month	6,973	82	50,834	17,392
From 1 to 3 months	64,570	10,394	50,410	743
From 3 to 12 months	134,175	1,728	36,240	35,741
Total	**205,718**	**12,204**	**137,484**	**53,876**

20. CONTINGENCIES AND COMMITMENTS

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

Capital expenditure commitments. There are capital expenditure commitments RUB 1,558,599 thousand as at 31 December 2018 (31 December 2017: RUB 1,666,790 thousand) representing future costs for laboratory construction in new campus and acquisitions of scientific and research equipment. Among them commitments in amount of RUB 24,132 thousand are denominated in particular: RUB 6,100 thousand in USD, RUB 17,826 thousand in Euro, RUB 205 thousand in GBP (31 December 2017: 65,657 thousand are denominated in other currencies: RUB 29,463 thousand in USD and RUB 36,193 thousand in Euro).

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases for premises, equipment are as follows:

	31 December 2018	31 December 2017
Not later than 1 year	427,340	419,435
Later than 1 year and not later than 5 years	1,109,764	704,395
Later than 5 years	243,462	249,631
Total operating lease commitments	**1,780,566**	**1,373,461**

Partnership commitments. As at 31 December 2018 the Institute signed Master Research Agreements with 3 Universities (31 December 2017: 7) for Center for Hydrocarbon Recovery, Center for Electrochemical Energy Storage, Center for Photonics and Quantum Materials.

The commitments for the payments to the research partners are as follows:

	31 December 2018	31 December 2017
Not later than 1 year	145,250	171,189
Later than 1 year and not later than 5 years	-	233,251
Total partnership commitments	**145,250**	**404,440**

21. SUBSEQUENT EVENTS

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

Other events after the balance sheet date, which should be reflected in the consolidated financial statements for the reporting period, have not been identified.