

Financial Statements of

**INTERNATIONAL SCIENCE AND
TECHNOLOGY CENTER**

For the year ended December 31, 2016





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Independent Auditors' Report

To the Governing Board of International Science and Technology Center

Our Qualified Opinion on the Financial Statements

We have audited the accompanying financial statements of International Science and Technology Center (hereinafter "ISTC") set out on pages 1 to 28 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2016,
- the statement of revenues and expenses for the year then ended,
- the statement of movements in capital contributions for the year then ended,
- the statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial statements give a true and fair view of the financial position of ISTC as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Qualified Opinion

Under the terms of the project agreement concluded between the ISTC and the respective recipient institutes, project costs for a given period of time may not be claimed by a recipient institute if it has received project reimbursements from other funding sources for the same period of time. In case the project condition is breached, the ISTC may ultimately terminate the project and demand the prompt return of all payments and goods previously provided. Institute's potential failure to return the payments and goods exposes the ISTC to credit risk. We were unable to obtain sufficient appropriate audit evidence about the recipient institutes' compliance with the above contractual condition because such records do not exist at the ISTC and we were also denied access to the relevant accounting records of the recipient institutes. Accordingly, we were not able to determine whether any adjustments might be necessary to the amounts shown in the financial statements for project revenue, project expenditure, designated capital contributions and accounts receivable.

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

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



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

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

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

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

Auditors' Responsibility for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the ISTC's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ISTC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the ISTC to cease to continue as a going concern.



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

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

KPMG Baltics SIA
Licence No. 55

A handwritten signature in black ink, appearing to be 'Armine Movsisjana'.

Armine Movsisjana
Chairperson of the Board
Latvian Certified Auditor
Certificate No. 178
Riga, Latvia
7 June 2017

**INTERNATIONAL SCIENCE AND TECHNOLOGY
CENTER
FINANCIAL STATEMENTS**
For the year ended December 31, 2016

	<u>Page</u>
Statement of Financial Position	1
Statement of Revenues and Expenses	2
Statement of Cash Flows	3
Statement of Movements in Capital Contributions	4-8
Notes to the Financial Statements	9-28

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statement of Financial Position

December 31, 2016 and 2015

(Thousands of U.S. Dollars)

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT		
Cash and cash equivalents (Note 4)	41,520	35,530
Receivables		
Amounts due from funding parties (Note 5)	5,399	1,091
Project advances	60	49
Other receivables	286	54
Prepaid expenses	32	19
Accrued income receivable	14	1
	<u>47,311</u>	<u>36,744</u>
NON-CURRENT RECEIVABLES FROM FUNDING PARTIES (Note 5)	<u>3,072</u>	<u>-</u>
	<u>50,383</u>	<u>36,744</u>
LIABILITIES AND CAPITAL CONTRIBUTIONS		
CURRENT		
Accounts payable		
Projects	\$ 138	\$ 277
Administration and project vendors	105	123
Budget commitments (Note 6)	91	72
Grants payable to institutes	522	633
	<u>856</u>	<u>1,105</u>
CAPITAL CONTRIBUTIONS		
DESIGNATED CAPITAL CONTRIBUTIONS ("DCC") - PROJECTS	4,148	4,152
DESIGNATED CAPITAL CONTRIBUTIONS ("DCC") - OPERATING		
Administrative budget	198	136
Supplemental budget	17,450	2,497
UNDESIGNATED CAPITAL CONTRIBUTIONS ("UCC")	<u>27,731</u>	<u>28,854</u>
	<u>49,527</u>	<u>35,639</u>
TOTAL LIABILITIES AND CAPITAL CONTRIBUTION	<u>\$ 50,383</u>	<u>\$ 36,744</u>

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

Signed on behalf of International Science and Technology Center on 7 June 2017



David Cleave
Executive Director

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statements of Revenues and Expenses

Years ended December 31, 2016 and 2015

(Thousands of U.S. Dollars)

	2016	2015
REVENUES		
Project revenues (Capital movement note (a))	\$ 4,011	\$ 4,353
Supplemental budget (Capital movement note (b))	3,101	3,276
<i>Training/Expert Participation</i>	2,754	3,276
<i>Sustainability Support Programs</i>	347	-
Administrative revenue (Note 6)	1,806	2,266
<i>Administrative budget (Capital movement note (b))</i>	1,897	2,338
<i>Changes in deferred revenue</i>	(91)	(72)
Investment income (Capital movement note (c))	61	237
Other income (Note 7)	-	567
	8,979	10,699
EXPENSES		
Project expenses (Note 9)		
On-going projects	3,861	4,214
Completed projects	150	139
Supplemental budget (Note 10)	3,101	3,276
<i>Training/Expert Participation</i>	2,754	3,276
<i>Sustainability Support Programs</i>	347	-
Administrative costs	1,527	2,124
<i>Administrative expenses (Note 10)</i>	1,618	2,196
<i>Changes in administrative commitments</i>	(91)	(72)
Other expenses (Note 8)	148	243
	8,787	9,996
EXCESS OF REVENUES OVER EXPENSES (Note 11)	\$ 192	\$ 703

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

Signed on behalf of International Science and Technology Center on 7 June 2017



David Cleave
Executive Director



INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statements of Cash Flows

Years ended December 31, 2016 and 2015

(Thousands of U.S. Dollars)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Cash received from funding parties (Note 12)	\$ 15,326	\$ 5,812
VAT reimbursements (Note 7)	-	561
Other	-	56
Cash out	<u>(9,227)</u>	<u>(10,403)</u>
Cash generated from operation	<u>6,099</u>	<u>(3,974)</u>
<i>Net cash from operating activities</i>	6,099	(3,974)
Cash flows from investing activities		
Investment Income	<u>47</u>	<u>286</u>
<i>Net cash used in investing activities</i>	47	286
Cash flows from financing activities		
Effects of exchange rate changes on cash and cash equivalents	<u>(156)</u>	<u>(254)</u>
Net increase/(decrease) in cash and cash equivalents	5,990	(3,942)
Cash and cash equivalents at beginning of period (Note 4)	35,530	39,472
Cash and cash equivalents at end of period (Note 4)	<u><u>41,520</u></u>	<u><u>35,530</u></u>

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

Signed on behalf of International Science and Technology Center on 7 June 2017



David Cleave
Executive Director

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER
Statement of Movements in Capital Contributions
For the year ended December 31, 2016

Movements in capital accounts during fiscal years 2016 and 2015 are as follow:

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

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

	EU	U.S.	Canada	Japan	South Korea	Other Parties	Total
DCC projects - December 31, 2014 and January 1, 2015	\$ 1 605	\$ 3,177	\$ 16	\$ 393	\$ 372	\$ 1,898	\$ 7,461
Transfers to statement of revenues and expenses	(879)	(2,262)	(1)	(237)	(115)	(859)	(4,353)
New projects signed during 2015	362	874	-	285	-	-	1,521
Funding received in excess of close prj. expenses transfer to UCC	-	(44)	(15)	(1)	-	(417)	(477)
DCC projects - December 31, 2015 and January 1, 2016	1,088	1,745	-	440	257	622	4,152
Transfers to statement of revenues and expenses	(1 312)	(1,746)	-	(214)	(117)	(622)	(4,011)
New projects signed during 2016	1 923	1 273	-	-	-	900	4,096
Funding received in excess of close prj. expenses transfer to UCC	(8)	(52)	-	(1)	-	(28)	(89)
DCC projects - December 31, 2016	\$ 1,691	\$ 1,220	\$ -	\$ 225	\$ 140	\$ 872	\$ 4,148

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



INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statement of Movements in Capital Contributions

For the year ended December 31, 2016

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

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

	EU	U.S.	Japan	Norway	South Korea	Russia	Other Parties	Total
Administrative operating budget - December 31, 2014 and January 1, 2015	-	-	-	-	-	-	\$ 140	\$ 140
New budget approved 2015	645	1,100	350	50	108	-	-	2,253
Transfer to statement of revenues and expenses	(645)	(1,100)	(350)	(50)	(108)	(25)	(60)	(2,338)
Additional contribution (net of adjustments)	-	-	-	-	-	25	56	81
Revenues in excess of expenses for the year	41	69	22	3	7	-	-	142
Transfer to UCC for revenues in excess of expenses	(41)	(69)	(22)	(3)	(7)	-	-	(142)
Administrative operating budget - December 31, 2015 and January 1, 2016	-	-	-	-	-	-	136	136
New budget approved 2016	802	732	246	50	67	-	-	1,897
Transfer to statement of revenues and expenses	(802)	(732)	(246)	(50)	(67)	-	-	(1,897)
Additional contribution (net of adjustments)	-	-	-	-	-	-	62	62
Revenues in excess of expenses for the year	118	108	36	7	10	-	-	279
Transfer to UCC for revenues in excess of expenses	(118)	(108)	(36)	(7)	(10)	-	-	(279)
Administrative budget - December 31, 2016	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 198	\$ 198

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

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER
Statement of Movements in Capital Contributions
For the year ended December 31, 2016

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

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

	EU	U.S.	Japan	South Korea	Other Parties	Total
Supplemental budget - December 31, 2014 and January 1, 2015	\$ 69	\$ 2,163	\$ 247	-	\$ 428	\$ 2,907
Transfer to statement of revenues and expenses	(711)	(1,547)	(251)	(61)	(706)	(3,276)
Additional contribution	973	1,492	395	120	684	3,664
Transfer to DCC - admin	-	-	-	-	(3)	(3)
Transfer to UCC for unused funds	(109)	(568)	(22)	(59)	(37)	(795)
Supplemental budget - December 31, 2015 and January 1, 2016	222	1,540	369	-	366	2,497
Transfer to statement of revenues and expenses	(680)	(1,632)	(193)	-	(596)	(3,101)
Additional contribution	963	2,152	290	-	15,198	18,603
Transfer to DCC - admin	-	-	-	-	(2)	(2)
Transfer to UCC for unused funds	(261)	(181)	(105)	-	-	(547)
Supplemental operating budget - December 31, 2016	\$ 244	\$ 1,879	\$ 361	\$ -	\$ 14,966	\$ 17,450

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



INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statement of Movements in Capital Contributions

For the year ended December 31, 2016

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

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

	EU	U.S.	Canada	Japan	Norway	South Korea	Other Parties	Total
UCC - December 31, 2014	\$ 3 845	\$ 18 918	\$ 100	\$ 3 182	\$ 65	\$ 820	\$ 766	\$ 27 696
Increase of capital								
Contributions from parties	2 724	1,389	-	588	-	-	508	5,209
Investment income allocation	47	142	-	8	-	6	34	237
Transfer from DCC for revenues in excess of expenses in operating - administrative budget	41	69	-	22	3	7	-	142
Transfer from DCC for unused funds on programs under operating - supplemental budget	109	568	-	22	-	59	37	795
Transfer from DCC - projects for approved funding in excess of expenses	-	44	15	1	-	-	417	477
VAT reimbursement	145	259	90	51	4	6	6	561
Other	3	3	-	-	-	-	-	6
Decrease of capital								
Transfer to DCC - projects for signed projects	(362)	(874)	-	(285)	-	-	-	(1,521)
Transfer to DCC for operating - administrative budget	(645)	(1,100)	-	-	(50)	(108)	(116)	(2,019)
Transfer to DCC for operating - supplemental budget	(973)	(595)	-	(239)	-	(120)	(174)	(2,101)
Transfer of funds	127	-	(205)	-	-	-	(307)	(385)
Foreign exchange differences	(239)	(4)	-	-	-	-	-	(243)
UCC - December 31, 2015	\$ 4,822	\$ 18,819	\$ -	\$ 3,350	\$ 22	\$ 670	\$ 1 171	\$ 28,854

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

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Statement of Movements in Capital Contributions

For the year ended December 31, 2016

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

	EU	U.S.	Japan	Norway	South Korea	Other Parties	Total
UCC - December 31, 2015	\$ 4,822	\$ 18,819	\$ 3,350	\$ 22	\$ 670	\$ 1,171	\$ 28,854
Increase of capital							
Contributions from parties	4,258	1,788	680	-	-	66	6,792
Investment income allocation	11	35	7	-	1	7	61
Transfer from DCC for revenues in excess of expenses in operating - administrative budget	118	108	36	7	10	-	279
Transfer from DCC for unused funds on programs under operating - supplemental budget	261	181	105	-	-	-	547
Transfer from DCC - projects for approved funding in excess of expenses	9	52	1	-	-	27	89
Decrease of capital							
Transfer to DCC - projects for signed projects	(1,923)	(1,273)	-	-	-	(508)	(3,704)
Transfer to DCC for operating - administrative budget	(802)	(774)	-	(22)	(67)	(2)	(1,667)
Transfer to DCC for operating - supplemental budget	(964)	(1,394)	(360)	-	-	(50)	(2,768)
Transfer of funds	-	-	-	-	(603)	-	(603)
Foreign exchange differences	(149)	-	-	-	-	-	(149)
Other	-	-	-	-	-	-	-
UCC - December 31, 2016	\$ 5,641	\$ 17,542	\$ 3,819	\$ 7	\$ 11	\$ 711	\$ 27,731

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

Signed on behalf of International Science and Technology Center on 7 June 2017



David Cleave
Executive Director



INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

1. ORGANIZATION AND BUSINESS

The International Science and Technology Center (hereinafter "ISTC") was established in 1992 pursuant to an Agreement (hereinafter "1992 Agreement") signed in Moscow, Russian Federation, provisionally applied through a 1993 Protocol.

The objectives of the ISTC are set forth in Article II of the 1992 Agreement. The ISTC develops, approves, finances, and monitors science and technology projects for peaceful purposes, which are to be carried out primarily at institutions and facilities located in the states of the Commonwealth of Independent States ("CIS") and Georgia.

The Agreement Continuing the ISTC (hereinafter "Continuation Agreement") was signed on December 9, 2015 at the GB 61 in Astana, Republic of Kazakhstan, and will enter into force after all the signatories have deposited their instruments of ratification, acceptance, or approval.

The parties to the Continuation Agreement are the European Union, the United States of America, Armenia, Georgia, the Republic of Kazakhstan, the Kyrgyz Republic, Tajikistan, Japan, Norway, and the Republic of South Korea.

Funding parties which contribute to the ISTC include the States parties (including by any governmental agency within a Party), and non-governmental organizations, foundations, academic and scientific institutions, inter-governmental organizations, and organizations in the private sector.

The Continuation Agreement provides for the ISTC headquarters to be located in Kazakhstan. The Government of the Republic of Kazakhstan provides the ISTC with free office space and other facilities, along with maintenance, utilities and security for the facility. Since August 2014, the ISTC has occupied office space provided in kind by the Government of the Republic of Kazakhstan. The annual contribution includes free rent, utilities, and security services and is estimated at fair value of \$35,112 in 2016 and \$35,258 in 2015.

On December 29, 2015, the Ministry of Foreign Affairs of the Republic of Kazakhstan has registered the ISTC at the address of 53 Kabanbay Batyr Avenue, Block 39, Nazarbayev University, Astana, Republic of Kazakhstan 010000 and issued a certificate that is valid until December 29, 2016. The ratification of the Continuation Agreement of 9 December 2015 which is pending at the time these financial statements are approved will officially confirm the ISTC privileges and immunities established by the Continuation Agreement.

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

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation

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

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

Non-current assets acquired for use by participating institutes as part of the projects, as well as non-current assets acquired by ISTC for the administrative needs, are charged to the Statement of Revenues and Expenses upon acquisition (project related non-current assets acquired in 2016 - \$441 thousand; 2015 - \$345 thousand).

These financial statements were approved by the Executive Director and the Chief Financial Officer on 7 June 2017 and will be presented for approval to the Governing Board on 13 June, 2017. The Governing Board has the power to reject the financial statements, and the right to request that new financial statements be issued.

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

Statement of Cash Flows is prepared based on direct method.

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

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

b. Functional and presentation currency and foreign currency transactions

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

Foreign currency transactions are translated into U.S. dollars at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the European Central Bank for EUR currency and the National Bank of Republic of Kazakhstan for KZT currency exchange rates prevailing at the year-end date. Foreign currency translation gains and losses are charged to the Statement of Revenues and Expenses under Other expenses with the exception of translation gains and losses arising from project and program funding related transactions involving the European Union and EU partners. The exchange rates applied at the period end for the principal currencies are as follows: EUR/USD 1.0541 (2015: 1.0887), USD/KZT 333.29 (2015: 339.47).

c. Project activity

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

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

Projects

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

Project expenses

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

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

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

Project revenues

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

Closed projects

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

Terminated projects

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

d. Operating revenues and expenses

Administrative and operating budget ("AOB")

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

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

Revenues in excess of expenses are generally reallocated to the funding parties' undesignated capital contributions accounts in the same proportion as the administrative revenues contributions.

Supplemental operating budget ("SOB") and sustainability support programs

Supplemental operating budget revenues and revenues from the sustainability support programs recognized in the Statement of Revenues and Expenses are amounts equal to expenses incurred during the year.

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

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

Undesignated capital contributions

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

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

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

e. Investment income

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

Investment income is credited to the Statement of Revenues and Expenses and allocated to undesignated capital contributions accounts of each funding party based on contributions account balance at the end of each quarter in the fiscal year.

f. Cash and cash equivalents

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

g. Accounts receivable recognition

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

h. Non-current assets

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

ISTC equipment

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



INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

Project equipment

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

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

i. Contingent assets and liabilities

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

j. Employee benefits

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

k. Taxation

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

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

1. Financial Instruments

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

Receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially on the date that they are originated at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset. When calculating the effective interest rate, ISTC estimates future cash flows considering all contractual terms of the financial instruments.

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

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

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

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

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

m. Use of estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period, in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty:

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

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

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

Doubtful debt allowances are recognized based on an individual management assessment of the recoverability of each receivable. Given the nature of the ISTC funding providers, at the reporting date there was no direct exposure to potential impairment (31 December 2015: none) see Note 3.

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

As of 31 December 2016 ISTC recognized accrued liabilities of \$ 266 thousand as part of current liabilities (2015: \$599 thousand) with respect to grants and overheads payable. Furthermore, project advances paid to the institutes for project execution have been reduced by the amount of accrued expenses incurred but not yet reported by institutes as of 31 December 2016 of \$ 48 thousand (2015: \$57 thousand).

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

n. New Standards and Interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016, and have not been applied in preparing these financial statements.

- (i) *IFRS 9 Financial Instruments (2014)* (Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.)
- (ii) *IFRS 15 Revenue from contracts with customers* (Effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted).
- (iii) *IFRS 16 Leases* - (Effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15).
- (iv) *Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions* (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted).
- (v) *Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (Effective for annual periods beginning on or after 1 January 2021; to be applied prospectively).
- (vi) *Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture* (The effective date has not yet been determined by the IASB, however earlier adoption is permitted.)
- (vii) *Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses* (Effective for annual periods beginning on or after 1 January 2018; to be applied prospectively)
- (viii) *Amendments to IAS 40 Transfers of Investment Property*
- (ix) *Amendments to IAS 7* (Effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted).
- (x) *IFRIC 22 Foreign Currency Transactions and Advance Consideration* (Effective for annual periods beginning on or after 1 January 2018).
- (xi) *Annual improvements*. Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

None of these amendments are expected to have a significant impact on the financial statements of the Company.

Furthermore, there were no new or revised standards and interpretations that came into force for financial year ending 31 December 2016 that had a material impact on the ISTC.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

3. FINANCIAL INSTRUMENTS

	Receivables 2016	Receivables 2015
Financial assets		
Cash and cash equivalents	\$ 41,520	\$ 35,530
Amounts due from funding parties	\$ 8,471	\$ 1 091
Accrued income receivable	\$ 14	\$ 1
	<u>\$ 50,005</u>	<u>\$ 36,622</u>
	Other liabilities 2016	Other liabilities 2015
Financial liabilities		
Accounts payable	\$ 334	\$ 472
Grants payable to institutes	\$ 522	\$ 633
	<u>\$ 856</u>	<u>\$ 1,105</u>

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

Credit risk

Credit risk arises when one party to a financial obligation may fail to discharge an obligation and cause the other party to incur a financial loss. The maximum potential exposure to credit risk of ISTC as of 31 December 2016 and 31 December 2015 is represented by the carrying amounts of financial assets as disclosed above (see also Note 5 for amounts due from funding parties). However, given the nature of the ISTC funding providers, at the reporting date there is no direct exposure to credit risk.

Liquidity risk

Liquidity risk is the risk that ISTC will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. ISTC's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses, and maintain net working capital surplus. Practically all of ISTC's financial assets are formed of cash and cash equivalents that are available on demand; net working capital surplus is \$ 49,527 thousand as of 31 December 2016 (2015 - \$ 35,639 thousand). All carrying amounts of the financial liabilities as of 31 December 2016 and 31 December 2015 agree with the respective value of the contractual cash flows and the contractual maturities do not exceed 3 months.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

Currency risk

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

	EUR	RUB	KZT	USD	Total
Financial assets as of 31 December 2016					
Cash and cash equivalents	\$ 9,113	\$ -	\$ 2	\$ 32,405	\$ 41,520
Amounts due from funding parties	\$ 8,079	\$ -	\$ -	\$ 392	\$ 8,471
Accrued income receivable	\$ -	\$ -	\$ -	\$ 14	\$ 14
	\$ 17,192	\$ -	\$ 2	\$ 32,811	\$ 50,005
Financial liabilities as of 31 December 2016					
Accounts payable	\$ 55	\$ -	\$ 45	\$ 234	\$ 334
Grants payable to institutes	\$ -	\$ -	\$ -	\$ 522	\$ 522
	\$ 55	\$ -	\$ 45	\$ 756	\$ 856
Net currency position as of 31 December 2016	\$ 17,137	-	\$ (43)	\$ 32,055	

A 10 percent weakening (strengthening) of the U.S. dollar against EUR at 31 December 2016 would have increased (decreased) excess of revenues over expenses and capital contributions by \$ 1,714 thousand. This analysis assumes that all other variables remain constant.

	EUR	RUB	KZT	USD	Total
Financial assets as of 31 December 2015					
Cash and cash equivalents	\$ 1,443	\$ -	\$ 2	\$ 34,085	\$ 35,530
Amounts due from funding parties	\$ -	\$ -	\$ -	\$ 1,091	\$ 1,091
Accrued income receivable	\$ -	\$ -	\$ -	\$ 1	\$ 1
	\$ 1,443	\$ -	\$ 2	\$ 35,177	\$ 36,622
Financial liabilities as of 31 December 2015					
Accounts payable	\$ 61	\$ 1	\$ 21	\$ 389	\$ 472
Grants payable to institutes	\$ -	\$ -	\$ -	\$ 633	\$ 633
	\$ 61	\$ 1	\$ 21	\$ 1,022	\$ 1,105
Net currency position as of 31 December 2015	\$ 1,382	\$ (1)	\$ (19)	\$ 34,155	

A 10 percent weakening (strengthening) of the U.S. dollar against EUR at 31 December 2015 would have increased (decreased) excess of revenues over expenses by \$ 138 thousand. This analysis assumes that all other variables remain constant.

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of the financial instruments. ISTC manages interest rate risks by entering into deposit and current account agreements with interest rates that do not significantly differ from market rates. At the reporting date, the interest bearing assets of the ISTC were term deposits and investments in currency fund of \$ 13,077 thousand (2015: \$10,476 thousand).

Capital management

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

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

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which ISTC has access at that date. The fair value of a liability reflects its non-performance risk.

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

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

Due to the short-term nature of ISTC financial assets and liabilities, the estimated fair values of all financial instruments of ISTC approximate their carrying amounts as of 31 December 2016 and 2014 and are classified to Level 3 in fair value hierarchy.

4. CASH AND CASH EQUIVALENTS

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

	<u>2016</u>	<u>2015</u>
Cash and short-term deposits	\$ 41 520	\$ 32 590
Investments in currency fund	-	2 940
	<u>\$ 41 520</u>	<u>\$ 35 530</u>

As of 31 December 2016 and 31 December 2015, cash and cash equivalents in the short-term deposits are placed with Kazakhstan, Russia (closed in June 2015) and foreign banks. Interest rates earned on interest bearing deposits are in line with market rates prevailing in the countries of placement.

5. AMOUNTS DUE FROM FUNDING PARTIES

Amounts due from funding parties at December 31, 2016 and 31 December 31, 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Due within one year		
Other funding parties	5,399	1,091
	<u>\$ 5,399</u>	<u>\$ 1,091</u>
Due after one year		
Other funding parties	3,072	-
	<u>\$ 3,072</u>	<u>\$ -</u>

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

6. ADMINISTRATIVE REVENUE

Approved Administrative budget for 2016 is \$1,897 (2015: \$2,388) including Administrative Budget Commitments \$91 (2015: \$72) which are consist of following categories: Personal \$1 (2015: \$15), Center operations \$62 (2015: \$26), Center facilities and equipment \$20 (2015: \$31), and other costs of \$8 (2015: none).

7. OTHER INCOME

Other income during 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
VAT	\$ -	\$ 561
Other	\$ -	\$ 6
	<u>\$ -</u>	<u>\$ 567</u>

Agreement on the recovery of VAT paid during the period from 1 January 2001 to 1 August 2007 was reached with the authorities in 2008. During 2015, VAT recovery of \$561 thousand was received by Government of Russian Federation.

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

	<u>2016</u>	<u>2015</u>
Canada	\$ -	\$ 90
European Union	-	145
Japan	-	51
United States	-	259
Norway	-	4
South Korea	-	6
Other parties	-	6
Total	<u>\$ -</u>	<u>\$ 561</u>

In regards to VAT paid in the Republic of Kazakhstan, the ISTC will start filing for VAT refund as soon as the Continuation Agreement is ratified, which is expected to be completed by the end of FY 2017 The recovered VAT will be allocated to each funding body in proportion to their funding of the annual AOB budget during that particular period.



INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

8. OTHER EXPENSES

Other expenses during 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Net foreign exchange loss	\$ (148)	\$ (243)
	<u>\$ (148)</u>	<u>\$ (243)</u>

9. PROJECT EXPENSES

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

2016	\$ 4,011
2015	4,353
2014	8,279
2013	13,544
2012	18,111
2011	30,927
2010	39,307
2009	45,992
2008	57,158
2007	66,002
2006	67,454
2005	72,476
2004	77,102
2003	75,715
2002	68,215
2001	52,690
2000	43,923
1999	36,039
1998	33,320
1997	31,029
1996	28,459
1995	22,001
1994	1,765
Cumulative project expenses incurred as of December 31, 2016	<u>\$ 897,872</u>

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

9. PROJECT EXPENSES (continued)

Cumulative project expenses amounting to \$ 897,872 thousand (2015: \$893,861 thousand) reflect actual expenses incurred on ongoing projects and completed projects. Such expenses consisted of the following in 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Grants to scientists	\$ 2,747	\$ 3,078
Equipment	441	345
Other project costs	823	930
	<u>\$ 4,011</u>	<u>\$ 4,353</u>

10. OPERATING EXPENSES

Operating expenses incurred during 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Administrative budget		
Personnel	\$ 893	\$ 1,471
Center operations	453	306
Center facilities and equipment	135	164
Information and branch offices	137	255
	<u>\$ 1,618</u>	<u>\$ 2,196</u>

	<u>2016</u>	<u>2015</u>
Supplemental budget		
Training	\$ 44	\$ -
Seminars	1,285	942
Management information systems	26	10
Expert participation		
United States	562	1,149
European Union	684	916
Canada	-	-
Japan	153	106
South Korea	-	-
Russia	-	153
	<u>\$ 2,754</u>	<u>\$ 3,276</u>

**INTERNATIONAL SCIENCE AND TECHNOLOGY
CENTER**

Notes to the Financial Statement

For the year ended December 31, 2016

10. OPERATING EXPENSES (continued)

	<u>2016</u>	<u>2015</u>
Sustainability Support Programs		
Seminars	\$ 38	\$ -
Expert participation		
European Union	309	-
	<u>\$ 347</u>	<u>\$ -</u>
	<u>\$ 3,101</u>	<u>\$ 3,276</u>



INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER
Notes to the Financial Statement

For the year ended December 31, 2016

11. FUNDING PARTY INFORMATION

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

	Project Revenues	Net Admin Budget Revenues	Supplemental Budget Revenues	Investment Income	Project Expenses	Supplemental Budget Expenses	Net Other Income (Expenses)	Total
<u>2016</u>								
European Union	1,312	118	680	11	\$ (1,312)	\$ (680)	(148)	(19)
Japan	213	36	193	7	\$ (213)	\$ (193)	-	43
United States	1,747	108	1,632	35	\$ (1,747)	\$ (1,632)	-	143
Norway	-	7	-	-	\$ -	\$ -	-	7
South Korea	117	10	-	1	\$ (117)	\$ -	-	11
Other parties	622	-	596	7	\$ (622)	\$ (596)	-	7
	\$ 4,011	\$ 279	\$ 3,101	\$ 61	\$ (4,011)	\$ (3,101)	\$ (148)	\$ 192
<u>2015</u>								
Canada	\$ 1	\$ -	\$ -	\$ -	\$ (1)	\$ -	\$ 90	\$ 90
European Union	879	41	711	47	\$ (879)	\$ (711)	(91)	(3)
Japan	237	22	251	8	\$ (237)	\$ (251)	51	81
United States	2,262	69	1,547	142	\$ (2,262)	\$ (1,547)	258	469
Norway	-	3	-	-	\$ -	\$ -	4	7
South Korea	115	7	61	6	\$ (115)	\$ (61)	6	19
Other parties	859	-	706	34	\$ (859)	\$ (706)	6	40
	\$ 4,353	\$ 142	\$ 3,276	\$ 237	\$ (4,353)	\$ (3,276)	\$ 324	\$ 703

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

INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

12. AMOUNTS RECEIVED FROM FUNDING PARTIES AND PARTNERS

Amounts received during the year from the funding parties and partners have either been recorded against accounts receivable or directly against the parties' and partners' capital contributions accounts.

Such amounts received, less transfer of funds back to funding parties, during 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
European Union	\$ 4,258	\$ 2,724
Japan	\$ 926	1,094
United States	3,648	1,147
Norway	28	-
South Korea	(603)	-
Canada	-	(205)
Other	7,069	1,052
	<u>\$ 15,326</u>	<u>\$ 5,812</u>

In FY 2016, the amount of \$603 was transferred back to the Republic of Korea (RoK). The RoK has been providing funding out of new government budget appropriations. The amount categorized under "Other" of \$7,069 was received for the sustainability support programs from DEVCO/EC under Delegation Agreements (\$6,958), from the UK Ministry of Defense (\$95), and from the EU International Association (INTAS) (\$16).

13. FINANCIAL COMMITMENTS

The funding parties have approved but not yet signed 9 (2015 - 21) projects with a total funding of \$2,037 thousand (2015 - \$5,467 thousand) including €123 thousand; (2015 - €1,182 thousand) denominated pledges at December 31, 2016 and 2015. Out of \$2,037, the amount of \$978 was approved for projects by GB 60 in June 2015 and by GB 61 in December 2015, and \$1,059 was committed by government partners in the second half of FY2016. The agreements for projects unsigned as of December 31, 2016 are expected to be signed in 2017.

Due to the request by the Governing Board (GB) 63, the GB members took additional time to review and approved the 2017 Administrative Operating Budget (\$1,463) by a written procedure via email. The budgets will be funded by the various parties in a predetermined formula.

14. CONTINGENT LIABILITIES

There are no contingent liabilities to report in 2016 (2015 - None).

15. RELATED PARTIES

Other than the parties to the Agreement described in Note 1, there are no related parties (2015 - None). All transactions with related parties have been undertaken on arm's length terms.



INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

Notes to the Financial Statement

For the year ended December 31, 2016

16. SUBSEQUENT EVENTS

As of the audit completion date, the ISTC received confirmation that Georgia ratified the Continuation Agreement. The Continuation Agreement will enter in full force when the last party, Armenia, ratifies the Continuation Agreement. In addition, the ISTC started discussions with the Ministry of Education and Science of the Republic of Kazakhstan regarding new office space for the ISTC. The decision and possible move to the new office space are expected to take place by the end of financial year 2017. There are no other events subsequent to 31 December 2016 that require disclosures in these financial statements.

