SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

Financial Statements for the
Year ended 31 December 2016

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

TABLE OF CONTENTS

KPMG

KPMG Baltics SIA
Vesetas iela 7
Riga, LV-1013
Latvia

Telephone +371 67038000
Telefax +371 67038002
kpmg.com/lv

Independent Auditors' Report

To the Governing Board of the Science and Technology Center in Ukraine

Our Qualified Opinion on the Financial Statements

We have audited the accompanying financial statements of the Science and Technology Center in Ukraine (hereinafter "STCU"), set out on pages 4 to 31 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2016,
- the statement of revenues and expenditure 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 possible effects on the financial statements 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 the STCU 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 STCU 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 STCU may ultimately terminate the project and demand the prompt return of all payments and goods previously provided. Institute's potential failure to return the funds and goods creates additional credit risk exposure to the STCU. 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 STCU 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 account 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 STCU 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 STCU'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 STCU or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the STCU'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 STCU'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 STCU'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 STCU to cease to continue as a going concern.

KPMG

- 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

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

Overview of the Science and Technology Center in Ukraine (STCU)

The Science and Technology Center in Ukraine (STCU) is an intergovernmental organization dedicated to non-proliferation of technologies and expertise related to weapons of mass destruction, including nuclear, biological and chemical weapons, and their delivery systems.

The United States, Canada, Sweden and Ukraine signed the agreement establishing the Science and Technology Center in Ukraine on 25 October 1993 (referred to as “the STCU agreement”). The European Union acceded to the STCU agreement on 26 November, 1998 and in so doing, replaced Sweden as a party to the STCU agreement. Canada withdrew from the Agreement to Establish the STCU in 2013 and their unutilised funds were returned in 2014.

The STCU helps develop, finance and monitor science and technology projects that engage the former Soviet weapons community in Ukraine, Azerbaijan, Uzbekistan, Georgia, and Moldova in peaceful civilian activities. The Funding Parties of STCU projects include: the signatories to the STCU agreement, Japan as a sponsor of the STCU agreement and Partners (government and non-government) approved by the Governing Board.

The STCU is a legal entity and has been registered by the Ministry of Foreign Affairs of Ukraine as an intergovernmental organization with its headquarters in 7a Metalistiv Street Kyiv 03057. During the financial year STCU had international staff of 29 (2015 – 35) full time scientific, financial and administrative experts.

Political and Economic Situation in Ukraine

After a sharp past economic decline when the GDP in 2015 contracted by 9.9% as a result of unprecedented shocks from the conflict in eastern Ukraine and lower global commodity prices, initial signs of stabilization in economic activity in 2016 are beginning to emerge facilitated by a de-escalation of the conflict since September 2015 and reforms implemented by the IMF. A gradual economic recovery of 1% in 2016 and 2% in 2017 is projected, contingent on continuation of the reforms progress and hope that the frozen conflict in the east of the country will not escalate further.

The macroeconomic policy framework has been strengthened through increased exchange rate flexibility and tight monetary policy. Macroeconomic stability has improved, despite the delay in completing the second Extended Fund Facility review, as reflected by rapidly declining inflation, slower currency depreciation and a mild growth recovery. The National Bank of Ukraine is working towards putting in place an inflation-targeting regime that seeks to gradually reduce inflation to 5% by 2019, a goal that depends on coordination with fiscal policy and maintaining policy credibility.

The 2017 budget of Ukraine targets a 3% deficit, reflecting improvement in tax revenues. Failure to keep current expenditure pressures in check and to address the public pension deficit, combined with a proposed increase in minimum wage, are risks for the government's plans to gradually shrink the deficit to 2.3% by 2019. Fitch forecasts a general government deficit of 3.7% of GDP in 2017.

Whilst management believes it is taking appropriate measures to support the sustainability of the STCU’s operations in the current circumstances, a continuation of the current unstable environment could negatively affect the STCU’s results and financial position in a manner not currently determinable. These financial statements reflect management’s current assessment of the impact of the Ukrainian economic and political environment on the operations and the financial position of the STCU. The future economic and political environment may differ from management's assessment.

Basis of Preparation

The financial statements represent the results of the STCU as an individual entity and have been prepared under the historic cost convention and in accordance with applicable International Financial Reporting Standards (IFRS) taking into consideration the departure from International Accounting Standard (IAS) 16 relating to Property, plant and equipment as explained in the policy for Property and equipment.

These financial statements were approved by the management of the STCU on 28 April 2017. The Governing Board of the Science and Technology Center in Ukraine will approve the financial statements at the next Governing Board meeting and have the power to amend the financial statements after issue or request the preparation of new financial statements.

Functional and Presentation Currency, Foreign Currency Transactions

The U.S. dollar is the functional currency for the STCU. 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 STCU.

All foreign currency transactions are converted into USD at the exchange rates prevailing at the date of the transaction. Foreign currency gains and losses resulting from movements in the exchange rates between the date of the transactions and the date of settlement are charged to the Statement of Revenues and Expenditure under the administrative operating budget in the period incurred. Activities in Azerbaijan, Uzbekistan, Georgia, and Moldova are transacted in USD or Euros and, therefore do not result in any gains or losses from currency exchanges except those arising from USD to Euro exchange differences.

Assets, liabilities and capital denominated in foreign currencies are translated into USD at the rates of exchange ruling at the balance sheet date.

The net revaluation (losses)/gains principally relate to amounts contributed or receivable from Funding Parties in currencies other than USD which are held in the source currency of the original contribution. These notional cash (losses)/gains are fully offset by revaluations of Funding Parties capital accounts held in a source currency other than USD. Revaluation (losses)/gains are not actual cash movements but a reflection of the changing value of the source currency. Revaluation gains or losses are recognized in Administrative operating budget expenditure. Effect of revaluation of Funding Parties capital accounts held in a source currency other than USD is reflected through other comprehensive income.

Foreign currency risk is managed as set out in the Note 15.

European Union Funded Projects

Project agreements are concluded in Euros if solely funded by the European Union and in USD if projects are jointly funded.

For project agreements concluded in USD (jointly funded), the European Union provides funding in Euros, before the projects are signed by the STCU Executive Director. The STCU immediately converts the Euros upon receipt into USD. The total amount of USD provided by the European Union is therefore known before the start of the project, and thus the project agreements are written to match the amounts of USD received.

Project Activity

The STCU authorizes and funds scientific projects which are performed at institutions within Ukraine, Azerbaijan, Uzbekistan, Georgia, and Moldova. 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 in the financial statements as follows:

Project Recognition

The projects are only recognized after signature of the project agreement between the STCU and the recipient institutes. Upon signature, the total project value is credited to the relevant Funding Parties Designated Capital Account in proportion to the level of funding agreed by each party. To the extent that the value of the signed projects are not covered by advance payments from the respective Funding Parties, a receivable is set up in the financial statements, which is subsequently covered by either transfers from Undesignated Capital Contributions Accounts or direct disbursement by the Funding Parties.

Project Expenditure

Project costs consist of three main components: grants to scientists, equipment and overhead. The STCU, being a non-profit making inter-governmental organization, does not envisage that any economic benefits will accrue to it in the foreseeable future from the financing of these projects. Accordingly all project costs incurred, including the purchase of project equipment, are charged immediately to the Statement of Revenues and Expenditure. Projects are performed on a cost reimbursable basis, with a ceiling of funds specified in the project agreements.

Based on the project agreement the STCU temporarily retains the payment of 50 percent of the allowable overhead for the individual projects, in accordance with the project agreements, until the submission, and acceptance of, the financial and technical reports prepared by the project recipients. The overhead retainage is recognized as part of amounts payable – projects.

When a project has been completed or terminated, any funds committed in excess of actual costs are credited back to the relevant Funding Parties' Undesignated Capital Contributions Account in the same proportion as the initial contributions from the Funding Parties.

Project Revenues

Project revenues recognized during the year in the Statement of Revenues and Expenditure are amounts equal to the total value of project expenditure incurred and expensed during the year. These revenues are transferred from the Funding Parties Designated Capital Accounts for Projects to the Statement of Revenues and Expenditure.

Administrative and Supplemental Revenues and Expenditure

Administrative Operating Budget

Administrative Revenues recognized in the Statement of Revenues and Expenditure during the year equate to the amounts approved by the Governing Board for the Administrative Operating Budget for the year. The budget is set and agreed at meetings of the Governing Board in the previous financial year. The agreed budgeted amounts are transferred from the Designated Capital Accounts for Administrative Expenses of the United States and the European Union.

Administrative Expenses are charged to the Statement of Revenues and Expenditure when incurred and are matched against the Administrative Revenues for the year.

Any surplus/(deficit) Administrative Revenues arising during the year are re-allocated to the Undesignated Capital Contributions Accounts of the United States and the European Union in the same ratio as the Administrative Revenues contributions.

Supplemental Budget

Supplemental Budgets are approved by the Governing Board to provide funding for activities that are outside the scope of the Administrative Operating Budget and not directly related to the implementation of projects. Upon agreement of the Supplemental Budgets at Governing Board Meetings the total amount of such budgets approved are credited to the relevant Funding Parties' Designated Capital Accounts for Supplemental Budgets in proportion to the level of funding agreed by each party.

Supplemental Budget expenses are charged to the Statement of Revenues and Expenditure when incurred. Supplemental Budget revenues recognized in the year are amounts equal to the value of the Supplemental Budget expenditure incurred in the year. These revenues are transferred to the Statement of Revenues and Expenditure from the Funding Parties' Designated Capital Accounts for Supplemental Budgets.

Partner Fees and Interest

Partner projects may be charged a fee, usually 5% of the total project cost, for the services provided by the STCU to administer the project, which are recognized in the Statement of Revenues and Expenditure proportionally to the initially deferred and subsequently recognised expenses incurred during the reporting period. The surplus partner fees are allocated to the Undesignated Capital Contributions Accounts of the United States and the European Union in the same ratio as their Administrative Revenues contributions.

Interest earned on Funding Party bank accounts is recognized in the Statement of Revenues and Expenditure as finance income. Surplus interest earned is allocated to the Funding Parties Undesignated Capital Contributions Accounts, with the exception of Partner interest earned, which is allocated to the Undesignated Capital Contributions Accounts of the United States and the European Union in the same ratio as their Administrative Revenues contributions. Interest earned on administrative and supplemental bank accounts is allocated to the Undesignated Capital Contributions Accounts of the United States and the European Union in the same ratio as their Administrative Revenues contributions.

Property and Equipment

Property and equipment are acquired either for the STCU's own use or for the projects and comprises of the following:

Center

Property and equipment acquired by the STCU for administrative operations consist of vehicles, office furniture and equipment, including computer hardware and software and communications devices. All commitments and expenditures for administrative equipment are made in accordance with the Board's approved annual budget. The cost of the STCU equipment is charged to the Statement of Revenues and Expenditure when acquired.

Project Equipment

Under the terms of the individual project agreements signed, title to equipment costing less than USD 2,500 is vested with the recipient institutes upon acquisition. The title to all other equipment provided to projects will remain with the STCU until termination or completion of the project, at which time the title will be vested in the recipient institutes unless prior to, or on that date, the STCU informs the project of its intention to retain title.

Since the STCU does not expect to derive any foreseeable economic benefits from the ownership of project equipment, the expenditure incurred during the year on equipment under each project, is written off to the Statement of Revenues and Expenditure.

IAS 16 "Property, Plant and Equipment" requires non-current assets to be capitalized and depreciated over their useful economic lives. Due to the project-based nature of STCU's operations, management believes the application of these requirements would result in improper matching between the revenues contributed by the Funding Parties with the related expenses, and, accordingly conflict with the fair presentation objective of these financial statements. As a result, non-current assets acquired for use by participating institutes as part of the projects are charged to the Statement of Revenues and Expenditure upon acquisition.

Based on the management assessment, the average useful life of such non-current assets is 5 years. Total purchases of non-current assets over the last years were as follows:

	2016 USD
2012	1,725,653
2013	717,196
2014	1,139,536
2015	2,207,502
2016	1,535,583
	7,325,470

Grantee Benefits

All individuals providing services to the STCU as part of their employment agreements are considered grantees. Short term grantees benefits, including staff grants, bonuses, vacations and other benefits are included in expenses on an accrual basis. The STCU has no obligations to pay further contributions relating to grantee services in respect to payroll taxes and any pensions on the retirement of grantees.

Taxation

Under the terms of the agreement establishing the STCU and also the Statute approved by the Governing Board, the STCU is exempted from any form of taxation. However, only since December 1999 has the relevant legal framework been implemented in Ukraine, allowing the STCU to recover its VAT only on administrative expenditures.

The VAT incurred on project expenditures has been charged to the Statement of Revenues and Expenditure as part of the project costs because, for the time being there is no practical process in place for the recovery of VAT for project purchases within Ukraine, Georgia, Uzbekistan, Moldova, and Azerbaijan. Management of the STCU continues discussions with the Governments of Ukraine, Georgia, Moldova, and Azerbaijan to investigate the possibility of establishing a procedure to recover project VAT for purchases made within these respective countries. However, the management of the STCU does not expect to recover the amounts incurred to date. Project items purchased abroad by the STCU and imported into Ukraine, Georgia, Uzbekistan, Moldova, and Azerbaijan are exempt from VAT and import duties. Certain projects have been registered with the respective Ministry of Economy as development aid projects and are exempt from VAT on purchases within Ukraine and Moldova.

Financial Instruments

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

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

STCU 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 STCU is recognized as a separate asset or liability.

Financial liabilities are recognized initially on the trade date at which STCU 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.

STCU 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, STCU 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.

Cash and Cash Equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Capital Management

The capital of the STCU is represented by the net assets attributable to Funding Parties. The STCU’s objectives in managing capital are to safeguard the assets of the Funding Parties to enable the STCU 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. As such, the management of the STCU does not actively manage its capital on a day-to-day basis.

Use of Estimates

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

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

Key sources of estimation uncertainty:

Accounting policy applied to Property and equipment: Please refer to accounting policy applied to Property and equipment, as described above.

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

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

Doubtful debt allowances are recognized based on an individual management assessment of the recoverability of each receivable. Given the nature of the STCU funding providers, at the reporting date there was no direct exposure to potential impairment to be recognized in the Statement of Revenues and Expenditure. Credit risk exposures are summarized in Note 15 and Fair values are calculated as set out in Note 16.

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 STCU.

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

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

STATEMENT OF REVENUES AND EXPENDITURE FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 USD	2015 USD
Revenues			
Project Revenue		12,579,870	9,383,840
Administrative Revenue			
- Administrative Operating Budget		949,500	1,182,240
- Supplemental Budget		581,749	629,411
Partner Fees		131,922	74,625
Finance Income		40,127	105,131
		14,283,168	11,375,247
Expenditure			
Project Expenditure	**1**	12,579,870	9,383,840
Administrative Expenditure	**2**		
- Administrative Operating Budget		915,947	1,187,749
- Supplemental Budget		581,749	629,411
		14,077,566	11,201,000
Net Surplus	**3**	205,602	174,247
Other Comprehensive Result			
Revaluation result of capital contributions		(464,488)	(1,920,297)
Net Surplus and Other Comprehensive Result		(258,886)	(1,746,050)

There are no recognised gains or losses other than the results for the year as set out above.

Accompanying summary of accounting policies, as set out on pages 4 – 12 and notes, as set out on pages 18 – 31, form an integral part of these financial statements.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Note	2016 USD	2015 USD
Non – Current Assets			
Receivables			
Amounts due from Funding Parties	4	2,197,348	1,832,873
		2,197,348	1,832,873
Current Assets			
Receivables			
Amounts due from Funding Parties	4	4,828,597	5,080,780
Other Receivables	5	1,543	9,971
Prepayments and Accrued Income	6	16,443	93,200
Cash and Cash Equivalents	7	28,434,836	24,475,306
		33,281,419	29,659,257
Non – Current Liabilities			
Amounts Payable – Projects	8	(150,513)	(139,321)
Deferred Revenue		(43,489)	(52,736)
		(194,002)	(192,057)
Current Liabilities			
Amounts Payable – Projects	8	(1,256,119)	(1,441,686)
Amounts Payable – Non-project		(92,379)	(124,069)
Amounts Payable – Partners		(1,639)	(35,895)
Deferred Revenue		(108,855)	(69,503)
		(1,458,992)	(1,671,153)
Total Assets less Liabilities		33,825,773	29,628,920
Capital Contributions			
Designated Capital – Projects	9	16,032,639	15,464,441
Designated Capital – Administration	10	876,000	949,500
Designated Capital – Supplemental	11	822,179	941,946
Undesignated Capital	12	16,094,955	12,273,033
		33,825,773	29,628,920

Accompanying summary of accounting policies, as set out on pages 4 – 12 and notes, as set out on pages 18 – 31, form an integral part of these financial statements.

Signed on behalf of
The Science and Technology Center in Ukraine 28 April 2017.

Curtis M. Bjelajac	Anthony Nichol
Executive Director	Chief Financial Officer

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Note	2016 USD	2015 USD
Cash Flows from Operations			
Cash Inflows			
Net Cash Received from Funding Parties	**13**	18,420,312	10,191,832
Partner Fees Received		101,817	196,864
Interest Received		115,860	144,891
Total Cash Inflows		18,637,989	10,533,587
Cash Outflows			
Project Expenditure		(12,754,245)	(9,493,299)
Administrative and Supplemental Expenditure		(1,519,934)	(1,808,470)
Total Cash Outflows		(14,274,179)	(11,301,769)
Net Cash Inflows / (Outflows) from Operations		4,363,810	(768,182)
Net Revaluation Losses		(404,280)	(1,610,507)
Cash and Cash Equivalents at 1 January		24,475,306	26,853,995
Cash and Cash Equivalents at 31 December	**7**	28,434,836	24,475,306

Accompanying summary of accounting policies, as set out on pages 4 – 12 and notes, as set out on pages 18 – 31, form an integral part of these financial statements.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

STATEMENT OF MOVEMENTS IN CAPITAL CONTRIBUTIONS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Designated Capital Contributions – Projects (Note 9)	Designated Capital Contributions – Administrative (Note 10)	Designated Capital Contributions – Supplemental (Note 11)	Undesignated Capital Contributions (Note 12)	Total
	USD	USD	USD	USD	USD
Balance at 1 January 2016	**15,464,441**	**949,500**	**941,946**	**12,273,033**	**29,628,920**
Advances Received from Funding Parties	-	-	-	20,998,152	20,998,152
Budgets Approved	16,991,317	876,000	825,230	-	18,692,547
Surplus of supplemental budget transferred to Undesignated Capital Contributions	-	-	(359,043)	359,043	-
Adjustments for Closed Projects	(3,459,466)	-	-	3,459,466	-
Transfers from Advances Received to offset the amounts due & Designated Capital Contributions	-	-	-	(17,454,591)	(17,454,591)
Adjustments for Closed Projects to offset the amounts due	(279,130)	-	-	-	(279,130)
Funds Repaid to Funding Parties	-	-	-	(3,390,120)	(3,390,120)
Transfers to Statement of Revenues and Expenditure	(12,579,870)	(949,500)	(581,749)	-	(14,111,119)
Allocation of Net Surplus	-	-	-	205,602	205,602
Revaluation Result of Capital Contributions	(104,653)	-	(4,205)	(355,630)	(464,488)
Balance at 31 December 2016	**16,032,639**	**876,000**	**822,179**	**16,094,955**	**33,825,773**

Accompanying summary of accounting policies, as set out on pages 4 – 12 and notes, as set out on pages 18 – 31, form an integral part of these financial statements.

STATEMENT OF MOVEMENTS IN CAPITAL CONTRIBUTIONS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Designated Capital Contributions – Projects (Note 9)	**Designated Capital Contributions – Administrative (Note 10)**	**Designated Capital Contributions – Supplemental (Note 11)**	**Undesignated Capital Contributions (Note 12)**	**Total**
	USD	**USD**	**USD**	**USD**	**USD**
Balance at 1 January 2015	**18,215,796**	**1,182,240**	**1,595,261**	**13,293,572**	**34,286,869**
Advances Received from Funding Parties	-	-	-	10,248,871	10,248,871
Budgets Approved	8,491,102	949,500	908,131	-	10,348,733
Surplus of supplemental budget transferred to Undesignated Capital Contributions	-	-	(885,353)	885,353	-
Adjustments for Closed Projects	(36,696)	-	-	36,696	-
Transfers from Advances Received to offset the amounts due & Designated Capital Contributions	-	-	-	(11,680,768)	(11,680,768)
Adjustments for Closed Projects to offset the amounts due	(540,310)	-	-	-	(540,310)
Funds Repaid to Funding Parties	-	-	-	(92,934)	(92,934)
Transfers to Statement of Revenues and Expenditure	(9,383,840)	(1,182,240)	(629,411)	-	(11,195,491)
Allocation of Net Surplus	-	-	-	174,247	174,247
Revaluation Result of Capital Contributions	(1,281,611)	-	(46,682)	(592,004)	(1,920,297)
Balance at 31 December 2015	**15,464,441**	**949,500**	**941,946**	**12,273,033**	**29,628,920**

Accompanying summary of accounting policies, as set out on pages 4 – 12 and notes, as set out on pages 18 – 31, form an integral part of these financial statements.

1. Project Expenditure

	USD
Amounts charged to the Statement of Revenues and Expenditure:	
2016	12,579,870
2015	9,383,840
2014	11,723,405
2013	12,969,568
2012	14,919,329
2011	13,256,863
2010	14,938,320
2009	15,902,171
2008	18,657,918
2007	19,305,482
2006	17,434,164
2005	16,291,450
2004	17,675,237
2003	17,937,532
2002	12,317,194
2001	10,100,633
2000	7,096,198
1999	7,904,566
1998	7,351,641
1997	4,987,540
1996	1,339,245
1995	-
Cumulative Project Costs incurred to 31 December 2016	264,072,166

Project expenditure comprises of grants to scientists, equipment costs, travel costs and overhead costs.

2. Administrative Expenditure

	2016 USD	2015 USD
a) Administrative Operating Budget		
Business Operations	80,464	103,777
Public Affairs	16,076	4,780
Personnel	454,909	613,073
Personnel Support and Development	106,876	124,832
Legal, Auditing and Banking	106,192	107,276
Property and Equipment	17,772	35,375
Net Foreign Exchange Losses	113,054	176,365
Headquarters and Branch Offices	20,604	22,271
	915,947	1,187,749

2. Administrative Expenditure *(continued)*

Personnel costs comprise grants made to the grantees in the STCU headquarters and four regional offices located in Kharkiv, Baku, Chisinau, and Tbilisi.

From March 2009, the STCU have occupied offices provided by the Ukrainian government for which the STCU does not pay rental or utility charges. In 2016 the estimated fair value of the rent, utility and security benefit is USD 73,986 (2015 – USD 92,348).

	2016 USD	**2015 USD**
b) Supplemental Budget		
Technical, Collaborator and Contractor Travel Support	1,759	5,321
Business Training / Sustainability Group Support	-	12,985
Patent Support	2,086	(46)
Travel and Mobility Support	179,031	172,469
Expert Review and Advisors	9,705	16,723
Service Contracts (Key management remuneration)	358,160	353,087
Partner Promotion and Support	31,008	61,972
Consulting Projects	-	6,900
	581,749	629,411

3. Net Surplus Revenues over Expenditure

The net surplus comprises the following:

	2016 USD	**2015 USD**
Surplus Administrative Budget Revenues	33,553	(5,509)
Finance Income	40,127	105,131
Partner Fees	131,922	74,625
	205,602	174,247

The net surplus set out above has been allocated to the Funding Parties in accordance with the accounting policies and agreed responsibilities.

4. Amounts Due from Funding Parties – Due within One Year

	2016 USD	2015 USD
European Union	1,139,440	3,078,099
Partners	3,689,157	2,002,681
	4,828,597	5,080,780

Amounts Due from Funding Parties – Due after One Year

	2016 USD	2015 USD
European Union	237,089	143,514
Partners	1,960,259	1,689,359
	2,197,348	1,832,873
Total due from Funding Parties	7,025,945	6,913,653

5. Other Receivables

	2016 USD	2015 USD
VAT Recoverable	1,458	4,931
Other Receivables	85	5,040
	1,543	9,971

6. Prepayments and Accrued Income

	2016 USD	2015 USD
Prepayments	5,425	6,449
Accrued Interest	11,018	86,751
	16,443	93,200

7. Cash and Cash Equivalents

	2016 USD	2015 USD
Cash on Hand	7,038	6,026
Non-interest Bearing Accounts	57,401	115,633
Short-term Deposits	28,370,397	24,353,647
	28,434,836	24,475,306

Interest bearing cash and cash equivalents are placed in foreign banks. Interest rates earned on interest bearing deposits are not more than 0.3%.

8. Amounts Payable – Projects

	2016 USD	2015 USD
Grants Payable	702,026	741,907
Vendor Payable	237,442	429,847
Overhead Payable	72,306	39,029
Overhead Retainage	394,858	370,224
	1,406,632	1,581,007

Overhead Retainage includes amounts which may be due for payment after one year depending on when the financial and technical reports are prepared and submitted by the project recipients and accepted by the STCU. Included within Overhead Retainage is USD 60,775 (2015 – USD 95,825) in relation to projects with a completion date after more than one year from the balance sheet date. Included within Vendor Payable is USD 89,738 (2015 – USD 43,496) in relation to projects for which final payments to be made after more than one year from the balance sheet date.

9. Designated Capital Contributions – Projects

Designated Capital Contributions (DCC) Projects represent the amounts committed on signed projects net of project expenditures incurred to date.

	United States	**European Union**	**Partners**	**Total**
	USD	**USD**	**USD**	**USD**
Balance at 1 January 2015	**293,837**	**10,066,976**	**7,854,983**	**18,215,796**
New Projects Signed During 2015	757,500	3,714,917	4,018,685	8,491,102
Adjustment for Closed Projects	(5)	(1,602)	(575,399)	(577,006)
Transfer to Statement of Revenues and Expenditure				
Expenditure Incurred on Projects in 2015	(593,458)	(3,363,392)	(5,426,990)	(9,383,840)
Revaluation of Project Agreements	-	(976,148)	(305,463)	(1,281,611)
Balance at 1 January 2016	**457,874**	**9,440,751**	**5,565,816**	**15,464,441**
New Projects Signed During 2016	3,223,287	6,827,428	6,940,602	16,991,317
Adjustment for Closed Projects	(145)	(3,675,697)	(62,754)	(3,738,596)
Transfer to Statement of Revenues and Expenditure				
Expenditure Incurred on Projects in 2016	(3,346,628)	(3,975,408)	(5,257,834)	(12,579,870)
Revaluation of Project Agreements	-	2,570	(107,223)	(104,653)
Balance at 31 December 2016	**334,388**	**8,619,644**	**7,078,607**	**16,032,639**

10. Designated Capital Contributions – Administration

	United States USD	European Union USD	Total USD
Balance at 1 January 2015	**426,880**	**755,360**	**1,182,240**
Transfer to Statement of Revenues and Expenditure	(426,880)	(755,360)	(1,182,240)
Administrative Budget 2016	323,885	625,615	949,500
Balance at 1 January 2016	**323,885**	**625,615**	**949,500**
Transfer to Statement of Revenues and Expenditure	(323,885)	(625,615)	(949,500)
Administrative Budget 2017	307,403	568,597	876,000
Balance at 31 December 2016	**307,403**	**568,597**	**876,000**

11. Designated Capital Contributions – Supplemental

	United States	European Union	Partners	Total
	USD	USD	USD	USD
Balance at 1 January 2015	**565,000**	**446,744**	**583,517**	**1,595,261**
Supplemental Budgets Approved	420,000	342,561	145,570	908,131
Transfer to Undesignated Capital Contributions	(328,509)	(162,008)	(394,836)	(885,353)
Transfer to Statement of Revenues and Expenditure	(236,491)	(239,911)	(153,009)	(629,411)
Adjustment for Revaluation	-	(44,825)	(1,857)	(46,682)
Balance at 1 January 2016	**420,000**	**342,561**	**179,385**	**941,946**
Supplemental Budgets Approved	395,000	225,496	204,734	825,230
Transfer to Undesignated Capital Contributions	(200,540)	(149,503)	(9,000)	(359,043)
Transfer to Statement of Revenues and Expenditure	(219,460)	(189,466)	(172,823)	(581,749)
Adjustment for Revaluation	-	(3,590)	(615)	(4,205)
Balance at 31 December 2016	**395,000**	**225,498**	**201,681**	**822,179**

12. Undesignated Capital Contributions

	United States USD	European Union USD	Partners USD	Total USD
Balance at 1 January 2016	**4,928,171**	**4,867,460**	**2,477,402**	**12,273,033**
Advances Received from Funding Parties	-	8,427,769	12,570,383	20,998,152
Transfer of result of Closed Projects	145	3,454,016	5,305	3,459,466
Transfer from Designated Capital – Supplemental Budget	200,540	149,503	9,000	359,043
Transfer to Designated Capital for Signed Projects	(3,223,287)	(7,532,082)	(4,997,992)	(15,753,361)
Transfer to Designated Capital – Supplemental Budget	(395,000)	(225,496)	(204,734)	(825,230)
Transfer to Designated Capital - Administrative Budget	(307,403)	(568,597)	-	(876,000)
Returned to Funding Parties	-	(3,384,762)	(5,358)	(3,390,120)
Transferred Between Funding Parties	4,994	-	(4,994)	-
Allocation of Surplus Income for 2016	51,823	153,779	-	205,602
Adjustment for Revaluation	-	(355,401)	(229)	(355,630)
Balance at 31 December 2016	**1,259,983**	**4,986,189**	**9,848,783**	**16,094,955**

Although the funding parties have not indicated their commitments to provide future financing beyond the balances included in Undesignated Capital Contributions, STCU's management is of the opinion that the Center has sufficient funding for its current operations in the foreseeable future.

12. Undesignated Capital Contributions *(continued)*

	United States USD	European Union USD	Partners USD	Total USD
Balance at 1 January 2015	**6,063,575**	**5,774,854**	**1,455,143**	**13,293,572**
Advances Received from Funding Parties	-	4,361,516	5,887,355	10,248,871
Transfer of result of Closed Projects	5	1,602	35,089	36,696
Transfer from Designated Capital – Supplemental Budget	328,509	162,008	394,836	885,353
Transfer to Designated Capital for Signed Projects	(757,500)	(3,953,857)	(5,025,244)	(9,736,601)
Transfer to Designated Capital – Supplemental Budget	(420,000)	(345,998)	(160,295)	(926,293)
Transfer to Designated Capital - Administrative Budget	(323,885)	(693,989)	-	(1,017,874)
Returned to Funding Parties	-	-	(92,934)	(92,934)
Transferred Between Funding Parties	-	15,812	(15,812)	-
Allocation of Surplus Income for 2015	37,467	136,780	-	174,247
Adjustment for Revaluation	-	(591,268)	(736)	(592,004)
Balance at 31 December 2015	**4,928,171**	**4,867,460**	**2,477,402**	**12,273,033**

13. Net Cash Received from Funding Parties

	2016 USD	2015 USD
Partners	12,458,554	5,830,316
European Union	5,961,758	4,361,516
	18,420,312	10,191,832

14. Financial Commitments

a) Science and Technology Center in Ukraine

No material commitments existed at 31 December 2016 or 2015.

b) Funding Parties

At 31 December 2016 the Funding Parties had approved but not signed five projects with a total funding of USD 223,236 (2015 - one project for USD 437,256). The agreements for these projects were signed in 2017.

15. Financial Risks

The STCU's financial instruments comprise:

Cash, liquid resources and receivables and payables that arise directly from the STCU's operations:

	2016 USD	2015 USD
Financial Assets		
Amounts due from Funding Parties	7,025,945	6,913,653
Cash and Cash Equivalents	28,434,836	24,475,306
Financial Liabilities		
Amounts Payable	1,500,650	1,740,971

The main risks arising from the STCU's financial instruments are liquidity risk, credit risk, and foreign currency risk. The STCU management reviews and agrees policies for managing each of these risks and they are summarised below.

15. Financial Risks *(continued)*

a) Liquidity Risk

Liquidity risk is the risk that the STCU will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. STCU’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.The STCU’s assets comprise mainly of cash and bank deposits which are readily realisable to meet funding commitments.

b) Credit Risk

The STCU manage credit risk by only paying project expenses up to the amount of cash received from the relevant Funding Party. The credit risk is therefore limited to project expenses incurred in excess of cash received from the relevant Funding Party. At 31 December 2016 the maximum credit risk represented by the net amount of receivables due from Funding Parties and the related Designated Capital Contributions received was USD 423,428 (2015 – USD 393,031).

The ageing of accounts receivable due from Funding Parties at the reporting date is as follows:

	2016 USD	**2015 USD**
Not past due	6,385,465	6,477,385
Past due < 1 year	603,389	393,285
Past due > 1 year	37,091	42,983
	7,025,945	6,913,653

Amounts past due include funds receivable under contracts without set payment dates before the project completion but not fully settled in the reporting year. The STCU expects to receive all amounts due in due course and as such has made no impairment allowance against these receivables.

c) Foreign Currency Risk

The STCU’s income and expenditure and net assets could be affected by currency translation movement as some of the STCU’s assets and revenues are denominated in currencies other than USD. The STCU manages foreign currency risk through keeping funds in the currency of commitment (USD or Euros) and minimizing funds held in local currency.

15. Financial Risks *(continued)*

At the year end, financial assets and liabilities held by the STCU in currencies other than USD were as follows:

	2016		
	Amounts due from Funding Parties USD	Cash and cash equivalents USD	Amounts payable USD
Euros	3,845,641	13,914,134	689,345
Ukrainian Hryvnia	-	29,690	8,623
Other	-	5	60
	3,845,641	13,943,829	698,028

	2015		
	Amounts due from Funding Parties USD	Cash and cash equivalents USD	Amounts payable USD
Euros	4,138,695	14,217,075	926,632
Ukrainian Hryvnia	-	1,270	6,527
Other	-	6	16
	4,138,695	14,218,351	933,175

The following table details the effect on the Net Surplus and Other Comprehensive Result at 31 December 2016 from a 10% change in US dollar exchange rates against the exposed currencies listed above, with all other variables held constant.

	2016		2015	
	Effect on Net Surplus USD	Effect on Other Comprehensive Result USD	Effect on Net Surplus USD	Effect on Other Comprehensive Result USD
USD strengthening by 10% against:				
Euros	(976)	(1 706 067)	(54,743)	(1,688,071)
Ukrainian Hryvnia	(2 107)	-	526	-
Other	6	-	1	-
	(3 077)	(1 706 067)	(54,216)	(1,688,071)
USD weakening by 10% against				
Euros	976	1 706 067	54,743	1,688,071
Ukrainian Hryvnia	2 107	-	(526)	-
Other	(6)	-	(1)	-
	3 077	1 706 067	54,216	1,688,071

15. Financial Risks *(continued)*

c) Foreign Currency Risk *(continued)*

The method used to arrive at the possible risk of 10% was based on both statistical and non-statistical analyses. The statistical analysis has been based on currency movement for the last five years. This information is then revised and adjusted for reasonableness under the current economic circumstances. A standard rate of 10% is considered possible given past volatility trends.

During 2015 and 2016 significant divergences in the growth rate of the Eurozone countries compared with other economies, particularly the United States, together with the European Central Bank's programme of Quantitative Easing has resulted in a significant strengthening of the Dollar against the Euro. This has required a significant revaluation of the capital contributions. These notional losses are reflected through Other Comprehensive Income (see Accounting Policies on pages 4 and 5).

d) Concentrations of Risk

Management has determined that the only significant concentration of risk arises in respect of the holding of the majority of cash and cash equivalents at a small number of financial institutions at the balance sheet date as follows:

	Location	2016 USD	2015 USD
Deutsche Bank	USA	14,467,635	10,157,495
BNP Paribas	Belgium	13,902,762	14,196,152
OTP Bank	Ukraine	26,345	61,403
Other	Various	38,094	60,256
		28,434,836	24,475,306

Management does not consider the risk exposure suffered as a result of this concentration of assets to be significant. The cash funds placed with credit institutions in Ukraine are current accounts in nature and are used for everyday operations only.

16. 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 market or, in its absence, the most advantageous market to which STCU 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, STCU uses market observable data as far as possible. Fair values are categorised 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 categorised in different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

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

The STCU 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 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 and are classified in Level 3 of fair value hierarchy.

Due to the mostly short-term nature of the STCU financial assets and liabilities and minimal prevailing funds placement interest rates, the estimated fair values of all financial instruments of the STCU do not differ materially from their carrying amounts as at 31 December 2016 and 2015.

17. Related Parties

Other than the parties to the agreement (The United States, Ukraine and the European Union), there are no related parties (2015 - None). All transactions with related parties have been undertaken on arm’s length terms and are disclosed within capital contributions movements.

18. Contingent Liabilities

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