SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

Financial Statements for the
Year ended 31 December 2014

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

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Independent Auditors' Report

To the Governing Board
Science and Technology Center in Ukraine

Report on the Financial Statements

We have audited the accompanying financial statements of the Science and Technology Center in Ukraine (hereinafter "STCU"), which comprise the statement of financial position as at 31 December 2014, the statements of revenues and expenditure, movements in capital contributions and cash flows for the year then ended, as set out on pages 12 to 16, and notes, comprising a summary of significant accounting policies, as set out on pages 3 to 11, and other explanatory notes, as set out on pages 17 to 32.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Qualified Opinion

The terms of the project agreements, concluded between the Science and Technology Center in Ukraine and the recipient institutes, state that grant costs for a specific period of time may not be claimed by the recipient institutes if they are receiving reimbursements from other funding sources for the same period of time. Due to our inability to access appropriate records of the recipient institutes we were unable to satisfy ourselves as to whether the grant claims made by the recipient institutes include amounts for which they may have received reimbursements from other funding sources. There were no alternative audit procedures that we could adopt to confirm this.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to funding from multiple resources, the financial statements give a true and fair view of the financial position of the Science and Technology Center in Ukraine as at 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphases of Matter

Without further qualifying our opinion we draw attention to accounting policies on Property and equipment disclosed on pages 7 to 8 of these financial statements. Property and equipment used for both the STCU administrative purposes and the projects funded by the STCU, which have useful lives extending beyond the current year, were expensed immediately on acquisition to the statement of revenues and expenditure. The management of the Science and Technology Center in Ukraine believes that because of the unusual nature and circumstances of its activities this treatment properly matches the revenues specifically contributed by the Funding Parties with the related expenditure, despite departing from the requirements of International Accounting Standard 16 Property, plant and equipment.

We also draw attention to section Political and Economic Situation in Ukraine of the summary of significant accounting policies, which describe the significant deterioration in Ukraine's political and economic situation since late November 2013 and the events in Crimea in March 2014, and management's assessment of potential impact of the events in Ukraine on the STCU's operating activities, its ability to continue as a going concern, and the financial statements as at and for the year ended 31 December 2014.

KPMG Baltics SIA

Armine Movsisjana
Member of the Board
Riga, Latvia
20 April 2015

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 Communities 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 an international staff of 40 (2013 – 43) full time scientific, financial and administrative experts.

Political and Economic Situation in Ukraine

Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit and a depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings.

In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime. In March 2014, various events in Crimea led to the accession of the Republic of Crimea to the Russian Federation. This event resulted in a significant deterioration of the relationship between Ukraine and the Russian Federation.

Following a decision taken at the 39th Governing Board meeting, STCU ceased to fund activities in occupied Crimea and started the process of termination of the current projects in Crimea, in accordance with the terms of their respective project agreements. At 31 December 2014, all projects had ceased operations with four projects having remaining balances of accounts receivable, accounts payable and capital (At 31 December 2013 the STCU had sixteen projects ongoing at organizations located in Crimea) see Note 17 for further details.

Following the instability in Crimea, regional tensions have spread to the Eastern regions of Ukraine, primarily Donetsk and Lugansk regions. In May 2014, protests in Donetsk and Lugansk regions escalated into military clashes and armed conflict between armed supporters of the self-declared republics of the Donetsk and Lugansk regions and the Ukrainian forces. As at the date these financial statements were authorized for issue, the instability and unrest continue, and part of the Donetsk and Lugansk regions remains under control of the self-proclaimed republics. As a result, Ukrainian authorities are not currently able to fully enforce Ukrainian laws on this territory.

The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

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 20 April 2015. 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.

The STCU temporarily retains 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, Canada 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, Canada, 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. The surplus partner fees are allocated to the Undesignated Capital Contributions Accounts of the United States, Canada, 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, Canada, 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, Canada, 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:

	2014 **USD**
2009	1,635,384
2010	1,605,175
2011	1,082,115
2012	1,725,653
2013	717,196
2014	1,139,536
	7,905,059

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.

Fair values are calculated as set out in Note 16 and credit risk exposures are summarized in Note 15.

New Standards and Interpretations not yet adopted

The following major new Standards and Interpretations are not yet effective for the annual period ended 31 December 2014 and have not been applied in preparing these financial statements:

IFRS 9 Financial Instruments (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.)

IFRS 14 Regulatory deferral accounts (Effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted.)

IFRS 15 Revenue from contracts with customers (Effective for annual periods beginning on or after 1 January 2017. Earlier application is permitted.)

Amendments to IAS 1 (Effective for annual periods beginning on or after 1 January 2016. Early application is permitted.)

Annual Improvements to IFRSs. Annual improvements to IFRSs 2012-2014 cycle were issued on 25 September 2014 and introduces five amendments to four standards that result in accounting changes for presentation, recognition or measurement purposes. The amendments are effective for annual periods beginning on or after 1 January 2016. Earlier application is permitted. Annual Improvements to IFRSs 2010-2012 and 2011-2013 Cycles were issued by the IASB in December 2013 and introduce eleven amendments to nine standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. Most amendments are applicable to annual periods beginning on or after 1 July 2014, with earlier adoption 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 2014 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 2014

	Note	2014 USD	2013 USD
Revenues			
Project Revenue		11,723,405	12,969,568
Administrative Revenue			
- Administrative Operating Budget		1,309,827	1,420,299
- Supplemental Budget		1,082,530	1,287,993
Partner Fees		227,108	49,200
Finance Income		162,845	184,467
		14,505,715	15,911,527
Expenditure			
Project Expenditure	**1**	11,723,405	12,969,568
Administrative Expenditure	**2**		
- Administrative Operating Budget		1,183,668	1,131,313
- Supplemental Budget		1,082,530	1,287,993
		13,989,603	15,388,874
Net Surplus	**3**	516,112	522,653
Other Comprehensive Result			
Revaluation result of capital contributions	**15**	(2,092,722)	491,260
Net Surplus and Other Comprehensive Result		(1,576,610)	1,013,913

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 3 – 11 and notes, as set out on pages 17 – 32, form an integral part of these financial statements.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014

	Note	2014 USD	2013 USD
Non – Current Assets			
Receivables			
Amounts due from Funding Parties	4	2,538,082	1,868,993
		2,538,082	1,868,993
Current Assets			
Receivables			
Amounts due from Funding Parties	4	6,593,602	5,976,225
Other Receivables	5	23,394	8,181
Prepayments and Accrued Income	6	133,684	147,037
Cash and Cash Equivalents	7	26,853,995	31,912,535
		33,604,675	38,043,978
Non – Current Liabilities			
Amounts Payable – Projects	8	(112,666)	(76,787)
		(112,666)	(76,787)
Current Liabilities			
Amounts Payable – Projects	8	(1,577,800)	(1,486,461)
Amounts Payable – Non-project		(165,422)	(165,277)
Amounts Payable – Canada		-	(78,809)
		(1,743,222)	(1,730,547)
Total Assets less Liabilities		34,286,869	38,105,637
Capital Contributions			
Designated Capital – Projects	9	18,215,796	18,833,716
Designated Capital – Administration	10	1,182,240	1,309,827
Designated Capital – Supplemental	11	1,595,261	2,037,412
Undesignated Capital	12	13,293,572	15,924,682
		34,286,869	38,105,637

Accompanying summary of accounting policies, as set out on pages 3 – 11 and notes, as set out on pages 17 – 32, form an integral part of these financial statements.

Signed on behalf of
The Science and Technology Center in Ukraine 20 April 2015.

Curtis M. Bjelajac
Executive Director

Anthony Nichol
Chief Financial Officer

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 USD	2013 USD
Cash Flows from Operations			
Cash Inflows			
Net Cash Received from Funding Parties	**13**	10,258,951	14,552,077
Partner Fees Received		227,108	49,200
Interest Received		177,793	280,956
Total Cash Inflows		10,663,852	14,882,233
Cash Outflows			
Project Expenditure		(11,596,187)	(13,147,964)
Administrative and Supplemental Expenditure		(2,361,670)	(2,284,642)
Total Cash Outflows		(13,957,857)	(15,432,606)
Net Cash (Outflows) from Operations		(3,294,005)	(550,373)
Net Revaluation (Losses)/Gains		(1,764,537)	309,482
Cash and Cash Equivalents at 1 January		31,912,535	32,153,426
Cash and Cash Equivalents at 31 December	**7**	26,853,995	31,912,535

Accompanying summary of accounting policies, as set out on pages 3 – 11 and notes, as set out on pages 17 – 32, form an integral part of these financial statements.

STATEMENT OF MOVEMENTS IN CAPITAL CONTRIBUTIONS FOR THE YEAR ENDED 31 DECEMBER 2014

	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 2014	**18,833,716**	**1,309,827**	**2,037,412**	**15,924,682**	**38,105,637**
Advances Received from Funding Parties	-	-	-	10,326,904	10,326,904
Budgets Approved	17,835,207	1,182,240	1,110,493	-	20,127,940
Adjustments for Closed Projects	(4,325,728)	-	(513,250)	4,838,978	-
Transfers from Advances Received to offset the amounts due & Designated Capital Contributions	-	-	80,645	(17,475,530)	(17,394,885)
Adjustments for Closed Projects to offset the amounts due	(1,118,402)	-	-	-	(1,118,402)
Funds Repaid to Funding Parties	-	-	-	(67,953)	(67,953)
Transfers to Statement of Revenues and Expenditure	(11,723,405)	(1,309,827)	(1,082,530)	-	(14,115,762)
Allocation of Net Surplus	-	-	-	516,112	516,112
Revaluation Result of Capital Contributions	(1,285,592)	-	(37,509)	(769,621)	(2,092,722)
Balance at 31 December 2014	**18,215,796**	**1,182,240**	**1,595,261**	**13,293,572**	**34,286,869**

Accompanying summary of accounting policies, as set out on pages 3 – 11 and notes, as set out on pages 17 – 32, form an integral part of these financial statements.

STATEMENT OF MOVEMENTS IN CAPITAL CONTRIBUTIONS FOR THE YEAR ENDED 31 DECEMBER 2014

	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 2013	**22,173,613**	**1,420,299**	**2,688,797**	**13,099,472**	**39,382,181**
Advances Received from Funding Parties	-	-	-	14,556,577	14,556,577
Budgets Approved	9,883,873	1,309,827	1,685,342	-	12,879,042
Adjustments for Closed Projects	(119,636)	-	(238,654)	358,290	-
Transfers from advances received to offset the amounts due & Designated Capital Contributions	-	-	38,963	(12,695,151)	(12,656,188)
Adjustments for Closed Projects to offset the amounts due	(449,130)	-	-	-	(449,130)
Transfer from Supplemental DCC to Projects DCC	-	-	(859,589)	-	(859,589)
Funds Repaid to Funding Parties	-	-	-	(83,309)	(83,309)
Transfers to Statement of Revenues and Expenditure	(12,969,568)	(1,420,299)	(1,287,993)	-	(15,677,860)
Allocation of Net Surplus	-	-	-	522,653	522,653
Revaluation Result of Capital Contributions	314,564	-	10,546	166,150	491,260
Balance at 31 December 2013	**18,833,716**	**1,309,827**	**2,037,412**	**15,924,682**	**38,105,637**

Accompanying summary of accounting policies, as set out on pages 3 – 11 and notes, as set out on pages 17 – 32, form an integral part of these financial statements.

1. Project Expenditure

	USD
Amounts charged to the Statement of Revenues and Expenditure:	
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 2014	242,108,456

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

2. Administrative Expenditure

	2014 USD	2013 USD
a) Administrative Operating Budget		
Business Operations	153,319	210,350
Public Affairs	6,979	19,177
Personnel	660,125	663,996
Personnel Support and Development	139,041	150,591
Legal, Auditing and Banking	137,462	162,926
Property and Equipment	13,638	16,185
Net Foreign Exchange Losses/(Gains)	48,437	(118,593)
Headquarters and Branch Offices	24,667	26,681
	1,183,668	1,131,313

2. Administrative Expenditure *(continued)*

Personnel costs comprises 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 2014 the estimated fair value of the rent, utility and security benefit is USD 158,770 (2013 – USD 203,269).

	2014 USD	2013 USD
b) Supplemental Budget		
Technical, Collaborator and Contractor Travel Support	13,519	6,774
Business Training/ Sustainability Group Support	69,414	63,246
Patent Support	(1,942)	4,107
Travel and Mobility Support	136,956	74,487
Expert Review and Advisors	20,410	22,021
Seminars/ Workshops Support	417	-
Service Contracts (Key management remuneration)	585,227	916,646
Partner Promotion and Support	144,856	163,778
Consulting Projects	113,673	36,934
	1,082,530	1,287,993

3. Net Surplus Revenues over Expenditure

The net surplus comprises the following:

	2014 USD	2013 USD
Surplus Administrative Budget Revenues	126,159	288,986
Finance Income	162,845	184,467
Partner Fees	227,108	49,200
	516,112	522,653

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

	2014 USD	2013 USD
European Union	3,427,846	275,358
United States	-	1,035,513
Partners	3,165,756	4,665,354
	6,593,602	5,976,225

Amounts Due from Funding Parties – Due after One Year

	2014 USD	2013 USD
European Union	299,605	39,872
Partners	2,238,477	1,829,121
	2,538,082	1,868,993
Total due from Funding Parties	9,131,684	7,845,218

Included within Amounts Due from Funding Parties at 31 December 2014 is USD 105,915 (2013 - USD 782,854) relating to the Crimean projects in termination process. Please refer to Note 17 for further details.

5. Other Receivables

	2014 USD	2013 USD
VAT Recoverable	11,262	6,224
Other Receivables	12,132	1,957
	23,394	8,181

6. Prepayments and Accrued Income

	2014 USD	2013 USD
Prepayments	7,173	5,578
Accrued Interest	126,511	141,459
	133,684	147,037

7. Cash and Cash Equivalents

	2014 USD	2013 USD
Cash on Hand	7,331	3,258
Non-interest Bearing Accounts	319,854	400,212
Short-term Deposits	26,526,810	31,509,065
	26,853,995	31,912,535

Cash and cash equivalents are placed in Ukranian and foreign banks. Interest rates earned on interest bearing deposits is between 0.10% and 3.00% depending on the risk profile of the country of placement.

8. Amounts Payable – Projects

	2014 USD	2013 USD
Grants Payable	1,146,389	1,036,024
Overhead Payable	51,479	61,647
Overhead Retainage	492,598	465,577
	1,690,466	1,563,248

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 112,666 (2013 – USD 76,787) in relation to projects with a completion date after more than one year from the balance sheet date.

Included within Amounts payable - projects at 31 December 2014 is USD 99,783 (2013 - USD 70,749) relating to the Crimean projects in termination process. Please refer to Note 17 for further details.

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	Canada	European Union	Partners	Total
	USD	**USD**	**USD**	**USD**	**USD**
Balance at 1 January 2014	**176,602**	**-**	**6,165,810**	**12,491,304**	**18,833,716**
New Projects Signed During 2014	553,438	-	10,788,657	6,493,112	17,835,207
Adjustment for Closed Projects	(812)	-	(4,231,149)	(1,212,169)	(5,444,130)
Transfer to Statement of Revenues and Expenditure					
Expenditure Incurred on Projects in 2014	(435,391)	-	(1,776,715)	(9,511,299)	(11,723,405)
Revaluation of Project Agreements	-	-	(879,627)	(405,965)	(1,285,592)
Balance at 31 December 2014	**293,837**	**-**	**10,066,976**	**7,854,983**	**18,215,796**

Included within DCC - projects at 31 December 2014 is USD 2,313 relating to the Crimean projects in termination process. Please refer to Note 17 for further details.

9. Designated Capital Contributions – Projects *(continued)*

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

	United States	Canada	European Union	Partners	Total
	USD	**USD**	**USD**	**USD**	**USD**
Balance at 1 January 2013	**548,266**	**134,034**	**6,519,719**	**14,971,594**	**22,173,613**
New Projects Signed During 2013	160,571	-	1,426,990	8,296,312	9,883,873
Adjustment for Closed Projects	(2,708)	(1,960)	(3,665)	(560,433)	(568,766)
Transfer to Statement of Revenues and Expenditure					
Expenditure Incurred on Projects in 2013	(529,527)	(132,074)	(2,020,609)	(10,287,358)	(12,969,568)
Revaluation of Project Agreements	-	-	243,375	71,189	314,564
Balance at 31 December 2013	**176,602**	**-**	**6,165,810**	**12,491,304**	**18,833,716**

Included within DCC - projects at 31 December 2013 is USD 5,442,179 relating to the ongoing projects in Crimea. Please refer to Note 17 for further details.

10. Designated Capital Contributions – Administration

	United States	Canada	European Union	Total
	USD	USD	USD	USD
Balance at 1 January 2013	**723,192**	**116,445**	**580,662**	**1,420,299**
Transfer to Statement of Revenues and Expenditure	(723,192)	(116,445)	(580,662)	(1,420,299)
Administrative Budget 2014	753,579	-	556,248	1,309,827
Balance at 1 January 2014	**753,579**	**-**	**556,248**	**1,309,827**
Transfer to Statement of Revenues and Expenditure	(753,579)	-	(556,248)	(1,309,827)
Administrative Budget 2015	426,880	-	755,360	1,182,240
Balance at 31 December 2014	**426,880**	**-**	**755,360**	**1,182,240**

11. Designated Capital Contributions – Supplemental

	United States	European Union	Partners	Total
	USD	USD	USD	USD
Balance at 1 January 2013	**514,500**	**608,028**	**1,566,269**	**2,688,797**
Supplemental Budgets Approved	560,000	633,323	492,019	1,685,342
Transfer to Undesignated Capital Contributions	(60,187)	(97,468)	(80,999)	(238,654)
Transfer from Undesignated Capital Contributions	-	-	38,963	38,963
Transfer to DCC – Projects INTAS Projects Signed	-	-	(74,073)	(74,073)
Transfer to DCC – Projects GIPP CTCO Projects Signed	-	-	(785,516)	(785,516)
Transfer to Statement of Revenues and Expenditure	(454,313)	(520,830)	(312,850)	(1,287,993)
Adjustment for Revaluation	-	10,270	276	10,546
Balance at 1 January 2014	**560,000**	**633,323**	**844,089**	**2,037,412**
Supplemental Budgets Approved	565,000	446,744	98,749	1,110,493
Transfer to Undesignated Capital Contributions	(270,771)	(182,365)	(60,114)	(513,250)
Transfer from Undesignated Capital Contributions	-	18,527	62,118	80,645
Transfer to Statement of Revenues and Expenditure	(289,229)	(433,657)	(359,644)	(1,082,530)
Adjustment for Revaluation	-	(35,828)	(1,681)	(37,509)
Balance at 31 December 2014	**565,000**	**446,744**	**583,517**	**1,595,261**

12. Undesignated Capital Contributions

	United States USD	Canada USD	European Union USD	Partners USD	Total USD
Balance at 1 January 2014	**6,701,676**	**-**	**7,269,407**	**1,953,599**	**15,924,682**
Advances Received from Funding Parties	1,372,275	-	2,944,010	6,010,619	10,326,904
Transfer of result of Closed Projects	812	-	3,977,417	347,499	4,325,728
Transfer from Designated Capital – Supplemental Budget	270,771	-	182,365	60,114	513,250
Transfer to Designated Capital for Signed Projects	(553,438)	-	(7,821,857)	(6,644,545)	(15,019,840)
Transfer to Designated Capital – Supplemental Budget	(1,125,000)	-	(92,906)	(179,220)	(1,397,126)
Transfer to Designated Capital - Administrative Budget	(902,392)	-	(156,172)	-	(1,058,564)
Returned to Funding Parties	-	-	-	(67,953)	(67,953)
Transferred Between Funding Parties	25,147	-	-	(25,147)	-
Allocation of Surplus Income for 2014	273,724	-	242,388	-	516,112
Adjustment for Revaluation	-	-	(769,798)	177	(769,621)
Balance at 31 December 2014	**6,063,575**	**-**	**5,774,854**	**1,455,143**	**13,293,572**

Undesignated Capital Contributions *(continued)*

	United States	Canada	European Union	Partners	Total
	USD	USD	USD	USD	USD
Balance at 1 January 2013	**5,400,956**	**7,944**	**5,289,072**	**2,401,500**	**13,099,472**
Advances Received from Funding Parties	1,955,857	-	4,057,236	8,543,484	14,556,577
Transfer of result of Closed Projects	2,708	1,960	3,665	111,303	119,636
Transfer from Designated Capital – Supplemental Budget	60,187	-	97,468	80,999	238,654
Transfer to Designated Capital for Signed Projects	(160,571)	-	(1,388,180)	(8,409,999)	(9,958,750)
Transfer to Designated Capital – Supplemental Budget	(514,500)	-	(633,323)	(510,023)	(1,657,846)
Transfer to Designated Capital - Administrative Budget	(522,307)	-	(556,248)	-	(1,078,555)
Returned to Funding Parties	-	(78,809)	-	(4,500)	(83,309)
Transferred Between Funding Parties	261,467	-	-	(261,467)	-
Allocation of Surplus Income for 2013	217,879	68,905	235,869	-	522,653
Adjustment for Revaluation	-	-	163,848	2,302	166,150
Balance at 31 December 2013	**6,701,676**	**-**	**7,269,407**	**1,953,599**	**15,924,682**

Included within UCC at 31 December 2013 is USD 104,830 relating to the ongoing projects in Crimea. Please refer to Note 17 for further details.

13. Net Cash Received from Funding Parties

	2014 USD	2013 USD
Partners	5,942,666	8,538,984
United States	1,372,275	1,955,857
European Union	2,944,010	4,057,236
	10,258,951	14,552,077

14. Financial Commitments

a) **Science and Technology Center in Ukraine**

No material commitments existed at 31 December 2014 or 2013.

b) **Funding Parties**

At 31 December 2014 the Funding Parties had approved but not signed 40 projects with a total funding of USD 2,777,426 (2013 – USD 2,767,099). The agreements for these projects are expected to be signed in 2015.

15. Financial Risks

The STCU's financial instruments comprise:

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

	2014 USD	2013 USD
Financial Assets		
Amounts due from Funding Parties	9,131,684	7,845,218
Cash and Cash Equivalents	26,853,995	31,912,535
Financial Liabilities		
Amounts Payable	1,855,888	1,807,334

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 2014 the maximum credit risk represented by the net amount of receivables due from Funding Parties and the related Designated Capital Contributions received was USD 919,237 (2013 – USD 768,949).

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

	2014 USD	**2013 USD**
Not past due	8,190,205	6,908,370
Past due < 1 year	759,298	929,939
Past due > 1 year	182,181	6,909
	9,131,684	7,845,218

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:

	2014		
	Amounts due from Funding Parties USD	**Cash and cash equivalents USD**	**Amounts payable USD**
Euros	5,288,189	14,029,812	556,104
Ukrainian Hryvnia	-	17,394	48,488
Other	-	54	-
	5,288,189	14,047,260	604,592

	2013		
	Amounts due from Funding Parties USD	**Cash and cash equivalents USD**	**Amounts payable USD**
Euros	1,183,094	14,354,551	454,594
Ukrainian Hryvnia	-	25,066	19,608
Other	-	576	-
	1,183,094	14,380,193	474,202

The following table details the effect on the Net Surplus and Other Comprehensive Result at 31 December 2014 from a 10% change in US dollar exchange rates against the exposed currencies listed above, with all other variables held constant.

	2014		2013	
	Effect on Net Surplus USD	**Effect on Other Comprehensive Result USD**	**Effect on Net Surplus USD**	**Effect on Other Comprehensive Result USD**
USD increase by 10% against:				
Euros	(25,651)	(1,850,539)	(72,266)	(1,527,958)
Ukrainian Hryvnia	3,109	-	(546)	-
Other	(6)	-	(58)	-
	(22,548)	(1,850,539)	(72,870)	(1,527,958)
USD decrease by 10% against:				
Euros	25,651	1,850,539	72,266	1,527,958
Ukrainian Hryvnia	(3,109)	-	546	-
Other	6	-	58	-
	22,548	1,850,539	72,870	1,527,958

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 2014 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	**2014 USD**	**2013 USD**
Deutsche Bank	USA	12,469,673	17,358,899
BNP Paribas	Belgium	13,983,073	14,342,420
OTP Bank	Ukraine	324,064	128,016
Other	Various	77,185	83,200
		26,853,995	31,912,535

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.

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 2014 and 2013.

17. Terminated Operations

Due to Ukraine's political and economic situation and the annexation of the Ukrainian territory of Crimea Governing Board decided that STCU should cease all project activities in occupied Crimea and started the process of termination of the current projects in Crimea, in accordance with the terms of their respective project agreements. At 31 December 2014, all projects had ceased operations, with four projects having remaining balances (2013 – 16 ongoing projects) with the following effect on the STCU’s financial position as at 31 December 2014:

	2014 USD	2013 USD
ASSETS		
Amounts due from Funding Parties	105,915	782,854
LIABILITIES		
Amounts Payable	99,783	70,749
CAPITAL CONTRIBUTIONS		
Designated Capital – Projects	2,313	5,442,179
Undesignated Capital	-	104,830

Management are of the view that there are no foreseeable reasons why these amounts will not be received from the Funding Parties. Project agreements require the corresponding accounts payable to be paid only on receipt from the Funding Parties and so no loss is likely to be incurred by STCU.

18. Related Parties

Other than the parties to the agreement (The United States, Canada, Ukraine and the European Communities), there are no related parties. (2013 - None) All transactions with related parties have been undertaken on arm's length terms and are disclosed within capital contributions movements.

19. Contingent Liabilities

There are no contingent liabilities to report in 2014 (2013 – None).