

Charitable Organization
“Charitable Foundation “Klitschko Foundation”

IFRS Financial statements

As at 31 December 2019
with independent auditor's report

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Independent auditor's report

To the Management and Founders of
Charitable Organization "Charitable Foundation "Klitschko Foundation"

Opinion

We have audited the financial statements of Charitable Organization "Charitable Foundation "Klitschko Foundation" (the Foundation), which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive activities, statement of changes in charitable funds and statement of cash-flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

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

Responsibilities of management and Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements 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 Foundation'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 Foundation or to cease operations, or has no realistic alternative but to do so.

Supervisory Board is responsible for overseeing the Foundation's financial reporting process.

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

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

- ▶ Identify and assess the risks of material misstatement of the 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 Foundation'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 Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Supervisory Board 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.

Ernst & Young Audit Services LLC

Kyiv, Ukraine

16 March 2020

(in thousand hryvnas)

Statement of comprehensive activities

For the year ended 31 December 2019

	<i>Note</i>	<i>2019</i>	<i>2018</i>
Revenue			
Donations and grants	1	15 791	8 915
Interest earned		3 608	3 230
Expenditure			
Project costs	1	(15 555)	(9 403)
Management and administration	5	(3 053)	(2 225)
Foreign currency exchange loss, net		(791)	(517)
Net result		<u> -</u>	<u> -</u>

Signed and authorized for release on behalf of the Foundation on 16 March 2020:

Alina Nosenko
Director of Charitable Organization
"Charitable Foundation "Klitschko Foundation"

A. Nosenko

(in thousand hryvnas)

Statement of financial position

As at 31 December 2019

	<i>Note</i>	<i>As at 31 December 2019</i>	<i>As at 31 December 2018</i>
Assets			
Non-current assets			
Property, fixtures and equipment		463	230
Total non-current asset		463	230
Current assets			
Inventories	6	165	1 174
Accounts receivable		9	21
Prepayments made		109	18
Cash and cash equivalent	7	28 068	26 743
Total current assets		28 351	27 956
Total assets		28 814	28 186
Charitable funds and liabilities			
Charitable funds		28 753	28 138
Total charitable funds		28 753	28 138
Current liabilities			
Accounts payable		61	48
Total current liabilities		61	48
Total charitable funds and liabilities		28 814	28 186

The accompanying notes form an integral part of these financial statements.

(in thousand hryvnas)

Statement of cash flows

For the year ended 31 December 2019

	<u>2019</u>	<u>2018</u>
Cash balance as at 1 January	26 743	29 432
Contributions and charitable donations from legal entities and individual	16 408	6 839
Program disbursements made	(14 804)	(10 381)
Payroll and social payments	(1 703)	(1 349)
Other cash outflow	(1 413)	(491)
Interest received on bank accounts	3 628	3 209
	<u>28 859</u>	<u>27 259</u>
Foreign currency exchange loss	(791)	(516)
Cash balance as at 31 December	<u>28 068</u>	<u>26 743</u>

The accompanying notes form an integral part of these financial statements.

(in thousand hryvnas)

Statement of changes in charitable funds

As at 31 December 2019

	<i>Restricted funds</i>	<i>Unrestricted funds</i>	<i>Total funds</i>
As at 31 December 2018	1 394	26 744	28 138
Donations and grant received	10 688	5 720	16 408
Donations and grant used	(9 881)	(5 912)	(15 793)
Transfer of funds between programs	2 067	(2 067)	–
As at 31 December 2019	4 268	24 485	28 753
	<i>Restricted funds</i>	<i>Unrestricted funds</i>	<i>Total funds</i>
As at 31 December 2017	–	30 208	30 208
Donations and grant received	3 803	3 036	6 839
Donations and grant used	(4 422)	(4 487)	(8 909)
Transfer of funds between programs	2 013	(2 013)	–
As at 31 December 2018	1 394	26 744	28 138

The accompanying notes form an integral part of these financial statements.

(in thousand hryvnas)

1. General information

The Charitable Organization “Charitable Foundation “Klitschko Foundation” (hereinafter – the “Foundation”) is the All-Ukrainian charitable organization that was founded on 13 August 2003 by private persons – Vitali and Wladimir Klitschko. It is focused on the implementation of projects in the sphere of sport, education and active citizenship.

The mission of the Foundation is to develop civil society in Ukraine. Through non-formal education, adolescents, students, teachers acquire the skills important in the 21st century, introduce healthy lifestyles, become environmentally conscious, participate in intercultural exchanges, learn a project-based approach to life, study, and the future profession. Project graduates organize educational events for peers and colleagues. In this way, they become ambassadors for change in their cities and villages.

The Foundation is engaged in fundraising in four main directions:

- the contributions of founders and other philanthropists;
- the charitable contributions from private donors;
- partnership with Corporate Social Responsibility programs of profitable organizations;
- grants.

Major charitable and social projects of the Foundations in 2019 and 2018 were as follows:

- *Project “Success Packages”* – the project is designed to develop and support sport in Ukraine. The project’s goal is to teach physical education teachers modern effective methods of teaching sports and to engage students in active lifestyles, sports, both at and beyond school.
- *Project “Start to Success”* – the purpose of the project is to create necessary conditions for physical education, harmonious development and personality formation of Ukrainian youth, through the restoration of facilities and equipment of Children and youth’s sports schools of Ukraine.
- *Project “School of Success”* – is an educational project for 14-15 y.o. teenagers, that want to become socially active. The participants learn the skills of the XXI century through lectures, trainings, seminars and workshops from the leading specialists of different professions and areas of expertise. During the 10 days adolescents make preparations to realize their own project called “School of Success” in their communities. The aim of the project is to develop professional and life skills of teenagers that will help them to reach success in their lives.
- *Project “Zero Waste School”* – the aim is to non-formally teach students, teachers and principals to implement a waste-sorting culture and an eco-friendly lifestyle at their schools and community.
- *Project “Challenge Academy”* – an international educational project for 14-16 year old teenagers from Ukraine and Germany seeking to learn how to tackle challenges effectively, become eco-conscious and develop leadership skills.
- *Project “Realms of the future”* – the philosophical project that will help teenagers to learn to think critically, formulate goals for the future and determine one’s path in life.
- *Project “Internship”* – the project is designed to provide young people with the opportunity to experience all stages of employment: from interviewing to receiving recommendations for their next job. The internship at the Foundation gives the participants the chance to make a conscious choice of the future profession. In addition, the program promotes the practice of internships for students in Ukraine.
- *Project “Erasmus + Mobility Projects”* – an international project, in which 8 organization-partners from 7 countries take part. The goal is to conduct trainings to motivate physical education teachers, trainers and representatives of sports organizations to develop their professional skills, which also provides an opportunity to share experiences with colleagues, create a network of acquaintances to spread ideas and knowledge.
- *Project “Okhmatdyt – Lviv”* - providing the hospital with high-quality equipment that will reduce the number of new diseases and the spread of bacteria.
- *Project “KF – Hub”* – the purpose of the project is carrying out of educational events for charity sector representatives through the provision of the location to a newly established charitable or non-governmental organizations, and also organizing events for sharing knowledge and experience.
- *Project “Z-Interns”* – the project is designed to develop a culture of internship in Ukraine and to show that interns can solve the tasks of large companies. This will allow companies to understand that even the younger generation can be effective in collaborative work, and help interns find their place in the company and work better.

(in thousand hryvnas)

1. General information (continued)

- *Project “Call your friends - let’s play together!”* – the purpose of the project is to return communities and children love for sports, interest in physical education and help to improve children’s and youth’s health by creating a network of sports playgrounds in Ukraine. In 2019 the support of the project was suspended.
- *Project “International Youth Boxing Tournament Class 'A' for Klitschko Brothers Prizes” (“Klitschko Tournament”)* – the aim of the project is an organization of international boxing tournament among youth class "A" to promote boxing and support talented athletes. In 2018 the support of the project was suspended.

2. Basis of preparation

These financial statements have been prepared on a historical cost basis. The financial statements are presented in Ukrainian hryvnia (“UAH”) and all values are rounded to the nearest thousand unless otherwise indicated. These financial statements were authorized for issue on 16 March 2020.

Statement of Compliance

The financial statements of the Foundation have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB and Standing Interpretations Committee (“SIC”) interpretations approved by the International Accounting Standards Committee (“IASC”) that remain in effect.

3. Summary of significant accounting policies and estimates

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of six months or less. Their carrying values equate to fair value by reason of their short term nature.

Inventories

Inventories represent goods and sport equipment that will be subsequently used in charitable and social projects implementation.

Revenue and expenses recognition

Revenue is recognized when expenses directly related to the specific projects are incurred.

Expenses are recognized when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Charitable funds

Restricted project funds are advances by donors to fund specific projects or a collection of projects. The balance represents the unspent portion at the year-end. The advanced funds will be spent over the remaining lives of the projects. A restricted project is undertaken only when the planned funding requirement has been received.

Unrestricted project funds have been allocated in line with the budget of the Foundation.

(in thousand hryvnas)

4. Application of new and revised international financial reporting standards

The following standards and amendments have been adopted by the Foundation for the first time for the financial year beginning on or after 1 January 2019:

Amendments to IFRS 9 Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments did not have any impact on the financial statements of the Foundation.

LAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. These amendments did not have any impact on the financial statements of the Foundation.

5. Administrative expenses

Administrative expenses represent cash disbursements related to management of the projects, maintenance of the Foundation and popularization of the Foundation’s activities:

	<u>2019</u>	<u>2018</u>
Payroll and related expenses	1 707	1 368
Other expenses	1 346	857
	<u>3 053</u>	<u>2 225</u>

6. Inventories

	<u>2019</u>	<u>2018</u>
Project “Success Packages”	151	696
Project “Call your friends – let’s play together”	–	288
Project “School of Success”	–	175
Other projects	14	15
	<u>165</u>	<u>1 174</u>

7. Cash and cash equivalent

Cash and cash equivalents represent short-term deposit and Special purpose funding:

	<u>2019</u>	<u>2018</u>
Cash in bank and in hands	25 000	23 416
Short term deposits	3 068	3 327
	<u>28 068</u>	<u>26 743</u>

(in thousand hryvnas)

7. Cash and cash equivalent (continued)

Denominated in the following currencies:

	<u>2019</u>	<u>2018</u>
Ukrainian hryvnas	25 107	23 803
US dollars	–	277
EUR	2 961	2 663
	<u>28 068</u>	<u>26 743</u>

8. Operating environment and economic conditions

The Foundation conducts its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, certain structural imbalances, low capital market liquidity, relatively high inflation and a significant level of domestic and foreign state debt.

Following the significant decline in 2014-2016, the Ukrainian economy started to demonstrate certain signs of recovery and growth. Main risks affecting the sustainability of the emerging economic trends are represented by the continuing tensions in geopolitical relations with the Russian Federation; lack of the clear consensus as to the directions of the institutional reforms, including public administration, judiciary system and reforms in core sectors of the economy; acceleration of labor emigration and low level of capital inflow.

9. Tax and other regulatory compliance matters

The Foundation has the status of charitable non-for-profit organisation that is generally exempt from the income tax and other taxes, which would otherwise be applicable to their activities, including passive income earned, subject to their continued compliance with this status.

Management believes that its interpretation of the relevant applicable legislation is appropriate and that the Foundation has complied with all regulations and continues to maintain their non-for-profit status. All due statutory withholdings, including employment related taxes have been paid timely and properly. At the same time, it is possible that transactions and interpretations that have not been challenged in the past may be challenged by the authorities in the future, although this risk significantly diminishes after with passage of time. It is not practical to determine the amount of unasserted claims that may manifest, if any, or the likelihood of any unfavourable outcome.

10. Commitments and contingencies

Legal

In the ordinary course of activities, the Foundation may become subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Foundations.

Appropriation of donations

Prior to entering into the projects, management evaluates the compliance of the proposed projects with the statutory goals of the Foundation as well as with the statutory requirements for the charitable and non-for-profit activities. Further, in course of the projects’ implementation, management monitors, to the extent practical and possible, their alignment with the declared goals based on the reports and other documentation provided by the other participants of the projects and donation recipients as well as selective inspections.

However, because of the limited ability of the Foundation’s management to assess and monitor eligibility and actual appropriation of the funding by the other project participants and the end recipients, misappropriation of the funds extended to the projects by the Foundation may take place and not be detected. As with other contingencies, management believes that the ultimate liability of the Foundation arising from such cases, if any, will not have a material adverse effect on the financial condition or the results of future operations of the Foundation.