

FINANCIAL STATEMENTS

Review of Financial Reporting for Fiscal 2005 Assets

- (1) Depreciation of tangible and intangible fixed assets is computed by using the straight-line method. Estimated useful life of major assets is as follows:
- Building: 15 years
 - Equipment: 4–8 years
 - Software: 5 years
- (2) With regard to software, an amount equivalent to the cost of software acquisition for corporate use is reported as part of intangible fixed assets.

Liabilities

- (1) In accordance with the Incorporated Administrative Agency Accounting Standards, grants from the government are recognized as "reserved grants for operational expenditure" in the Current Liabilities section upon receipt, which are then recognized as revenue in accordance with the progress of specific projects or operations for which the grants are designated. The amount reported in the financial statements represents the remaining outstanding balance—with the amount recognized as revenue deducted—as of term end. However, there is no remaining outstanding balance as of fiscal 2005 term end due to it being the last year of the first 5-year midterm plan.
- With respect to grant revenue recognition, a percentage-of-completion method based on results accomplished is adopted except for personnel expenses and general administration expenses which adopt a percentage-of-completion method based on term.
- (2) Employee retirement bonuses are to be covered by grants for operating expenditures and therefore, in accordance with the Incorporated Administrative Agency Accounting Standards, provisions for employee retirement bonuses are not separately reported. Estimated outstanding obligations for employee retirement bonuses as of the end of the reporting term stand at ¥ 358,135,067.

Equity

Retained earnings as of the end of fiscal 2005, including ¥ 61,503,396 in total earnings for the year, totaled ¥ 83,060,642.

Notes for Incorporated Administrative Agency Accounting Standards

Liabilities

The liabilities section includes two items that represent distinct features of the Incorporated Administrative Agency Standards. The first of these is "reserved grants for operating expenditure" in current liabilities. This item consists of the amount equivalent to the grants for operating expenditure total at the time it was received, less the amount recognized as income reflecting the current state of operations.

The second of these is "liabilities invested in capital assets" posted in the long-term liabilities section which represents depreciable assets purchased by grants for operating expenditure in line with the assumptions in the midterm business plan.

Equity

According to the Incorporated Administrative Agency Accounting Standard, the balance between current-term earnings and the carry-forward loss can be utilized for the purposes of surplus funds predetermined in the midterm plan with approval from the competent minister. If there is surplus after utilizing for such purposes, the surplus must be treated as reserve.

Balance Sheets (March 31, 2005 and 2006)

(¥)

| | FY2004 | FY2005 |
|---|----------------------|--------------------|
| Assets | | |
| I Current Assets | | |
| Cash and Bank Deposits | 1,055,715,799 | 580,173,941 |
| Unrealized Income from Research Activities | 2,033,356 | 951,634 |
| Inventories | 411,054 | 320,788 |
| Prepayment | 608,770 | 420,620 |
| Consumption Tax Refund Unreceivable | 943,500 | — |
| Others | 439,174 | 148,318 |
| Current Assets Total | 1,060,151,653 | 582,015,301 |
| II Fixed Assets | | |
| 1. Tangible Fixed Assets | | |
| Building | 15,101,822 | 16,693,328 |
| Accumulated Allowance for Depreciation | (1,434,672) | (2,348,739) |
| Tools, Appliance, and Equipment | 18,321,420 | 18,321,420 |
| Accumulated Allowance for Depreciation | (7,744,462) | (10,662,593) |
| Tangible Fixed Assets Total | 24,244,108 | 22,003,416 |
| 2. Intangible Fixed Assets | | |
| Software | 7,604,890 | 10,219,427 |
| Intangible Fixed Assets Total | 7,604,890 | 10,219,427 |
| Fixed Assets Total | 31,848,998 | 32,222,843 |
| Total Assets | 1,092,000,651 | 614,238,144 |
| Liabilities | | |
| I Current Liabilities | | |
| Reserved Grants for Operating Expenditure | 705,599,423 | — |
| Deposits Received | 7,653,899 | 11,284,619 |
| Account Payable | 318,613,465 | 482,649,149 |
| Accrued Consumption Tax | — | 8,300 |
| Accrued Expenses Payable | 6,727,620 | 5,012,591 |
| Current Liabilities Total | 1,038,594,407 | 498,954,659 |
| II Long-term Liabilities | | |
| Liabilities Invested in Capital Assets | | |
| Reserved Grants | 28,437,464 | 30,122,363 |
| Value of Donated Goods Put in Reserve | 3,411,534 | 2,100,480 |
| Long-term Liabilities Total | 31,848,998 | 32,222,843 |
| Total Liabilities | 1,070,443,405 | 531,177,502 |
| Equity | | |
| I Retained Earnings | | |
| Reserve | 11,489,058 | 21,557,246 |
| Unappropriated Retained Earnings | 10,068,188 | 61,503,396 |
| (Of which, total current-term earnings) | 10,068,188 | 61,503,396 |
| Retained Earnings Total | 21,557,246 | 83,060,642 |
| Total Equity | 21,557,246 | 83,060,642 |
| Total Liabilities / Equity | 1,092,000,651 | 614,238,144 |

Review of Financial Reporting for Fiscal 2005

Ordinary Income

(1) In fiscal 2005, ¥2,013,706,037 out of the budgeted ¥2,019,983,000 was recognized as revenue.

(2) During fiscal 2005, RIETI undertook a commissioned project: "Research project on supply-demand regime of the international oil market in fiscal 2005 (Research on the energy policy trends in Greek)" commissioned by the Institute of Energy Economics, Japan.

Net Income and Total Earnings

Net income and total earnings for fiscal 2005 totaled ¥61,503,396 each as compared to ¥2,020,807,494 in total ordinary income which includes ¥2,013,706,037 in grants for operating expenditures and ¥951,634 in commissions.

Notes for Incorporated Administrative Agency Accounting Standards

Earnings Statement

Expenses are listed at the top, followed by income. Ordinary expenses include operating expenses and general administrative expenses. Ordinary income includes, in addition to grant for operating expenditure, commissions and financial revenues.

Statements of Income (Years Ended March 31, 2005 and 2006)

(¥)

| | FY2004 | FY2005 |
|---|----------------------|----------------------|
| I Ordinary Expenses | | |
| 1. Research Expenses | | |
| (1) Operating Expenses | 519,725,419 | 655,545,413 |
| (2) Personnel Expenses | 366,789,174 | 352,664,249 |
| (3) Depreciation Expenses | 247,814 | 734,165 |
| (4) Others | 487,054,250 | 532,286,364 |
| Total | 1,373,816,657 | 1,541,230,191 |
| 2. General Administrative Expenses | | |
| (1) Personnel Expenses | 137,679,492 | 134,861,534 |
| (2) Depreciation Expenses | 3,570,512 | 5,026,376 |
| (3) Others | 289,939,636 | 278,177,644 |
| Total | 431,189,640 | 418,065,554 |
| 3. Miscellaneous Loss | 119,999 | 8,353 |
| Ordinary Expenses Total | 1,805,126,296 | 1,959,304,098 |
| II Ordinary Income | | |
| 1. Grant for Operating Expenditure | 1,808,851,012 | 2,013,706,037 |
| 2. Income from Dissemination of Material | | |
| (1) Editing Fees | 429,209 | 298,725 |
| (2) Document Sales | 23,700 | 38,700 |
| Total | 452,909 | 337,425 |
| 3. Commissioned Research | 2,033,356 | 951,634 |
| 4. Offsetting Revenues from Reserved Grants | 2,507,272 | 4,449,487 |
| 5. Offsetting Amount Corresponding to Depreciation of Donated Goods | 1,311,054 | 1,311,054 |
| 6. Financial Revenue | | |
| Interest Received | 13,055 | 796 |
| 7. Miscellaneous Income | 25,826 | 51,061 |
| Ordinary Income Total | 1,815,194,484 | 2,020,807,494 |
| III Net Ordinary Income | 10,068,188 | 61,503,396 |
| IV Net Income | 10,068,188 | 61,503,396 |
| V Total Earnings | 10,068,188 | 61,503,396 |

Notes for Incorporated Administrative Agency Accounting Standards

Cash Flows

Cash flow statements for incorporated administrative agencies constitutes a part of the financial statements, and as is the case with private-sector companies, these statements are divided into three areas of cash flows such as operational activities (referred to as operating activities in case of private-sector companies), investing activities and financial activities.

Review of Financial Reporting for Fiscal 2005

Costs of Providing Administrative Services

- (1) "Expected Retirement Bonus Increases Not Covered by Reserves" is reported in an amount increased during each reporting year in the pro forma employee retirement bonus obligations based on voluntary retirement.
- (2) An amount listed as "Opportunity Costs for Gratuitous Use of Government Assets," which primarily arises from the use of government building facilities, has been calculated based on rents charged for the use of nearby buildings.

Notes for Incorporated Administrative Agency Accounting Standards

Costs of Providing Administrative Services

The Statement of Costs of Providing Administrative Services is a financial statement required under Incorporated Administrative Agency Accounting Standards. Its purpose is to combine in one statement the costs (grant for operating expenditure, etc.) borne by taxpayers for the operation of an incorporated administrative agency for thorough information disclosure, and thus to contribute to the appraisal of the service provided to taxpayers. The specific contents of the costs are as follows:

- (1) Expenses listed on the incorporated administrative agency's income statement, less income other than that based on grant for operating expenditure
- (2) Depreciation amount of depreciable assets that has been calculated in accordance with "depreciation accounting procedures for specific depreciable assets"
- (3) Estimated increases in retirement bonuses when reserves are not recorded, in accordance with "accounting procedures for retirement benefits"
- (4) Opportunity costs arising from use of government assets

Statements of Cash Flows (Years Ended March 31, 2005 and 2006)

(¥)

| | FY2004 | FY2005 |
|---|---------------|---------------|
| I Cash Flows from Operational Activities | | |
| Expenditures for Purchases of Products and Services | (566,836,867) | (588,767,382) |
| Personnel Expenses | (557,452,156) | (543,878,255) |
| Other Operational Expenses | (612,807,469) | (649,377,382) |
| Grant for Operating Expenditure | 1,630,952,000 | 1,314,241,000 |
| Income from Dissemination of Material | 452,909 | 337,425 |
| Income from Commissioned Research | 84,770,000 | 2,033,356 |
| Miscellaneous Income | 25,826 | 51,061 |
| Subtotal | (20,895,757) | (465,360,177) |
| Interest Reserved | 12,323 | 1,528 |
| Net Cash Provided by Operational Activities | (20,883,434) | (465,358,649) |
| II Cash Flows from Investing Activities | | |
| Expenditures for Acquisition of Tangible Fixed Assets | (2,714,250) | (10,183,209) |
| Net Cash Used in Investing Activities | (2,714,250) | (10,183,209) |
| III Cash Flows from Financial Activities | 0 | 0 |
| IV Increases in Cash and Cash Equivalents | (23,597,684) | (475,541,858) |
| V Cash and Cash Equivalents at the Beginning of the Year | 1,079,313,483 | 1,055,715,799 |
| VI Cash and Cash Equivalents at the End of the Year | 1,055,715,799 | 580,173,941 |

Statements of Costs of Providing Administrative Services

(Years Ended March 31, 2005 and 2006)

(¥)

| | FY2004 | FY2005 |
|---|---------------|---------------|
| I Operating Expenses | 1,802,601,150 | 1,957,963,182 |
| Expenses Listed on Income Statement | | |
| Research Expenses | 1,373,816,657 | 1,541,230,191 |
| General Administrative Expenses | 431,189,640 | 418,065,554 |
| Miscellaneous Loss | 119,999 | 8,353 |
| Total | 1,805,126,296 | 1,959,304,098 |
| (Deductions) | | |
| Income from Dissemination Activities | (452,909) | (337,425) |
| Income from Commissioned Research | (2,033,356) | (951,634) |
| Income from Financial Activities | (13,055) | (796) |
| Miscellaneous Income | (25,826) | (51,061) |
| Total | (2,525,146) | (1,340,916) |
| II Expected Retirement Bonus Increases Not Covered by Reserves | 20,755,598 | 23,415,406 |
| III Opportunity Costs | | |
| Opportunity Costs for Gratuitous Use of Government Assets | 143,098,200 | 123,639,600 |
| IV Total Cost of Providing Administrative Services | 1,966,454,948 | 2,105,018,188 |

Statements of Appropriation of Retained Earnings (March 31, 2005 and 2006)

(¥)

| | FY2004 | FY2005 |
|---|------------|------------|
| I Unappropriated Retained Earnings | 10,068,188 | 61,503,396 |
| Total Earnings | 10,068,188 | 61,503,396 |
| II Total Appropriations | | |
| Reserve | 10,068,188 | 61,503,396 |