

## Review of Financial Reporting for Fiscal 2002

### 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:

- 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 first 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. Such reserved grants carried over for the next fiscal year onward consist of (1) amounts to be expensed on the unexecuted portion of multiyear projects and operations, and (2) costs saved as a result of efficient implementation of projects and operations.

With respect to grant revenue recognition, a percentage-of-completion method based on expenditure, under which government grants are recognized up to the amount equal to expenditures on the relevant operations, has been used for fiscal 2001 and 2002. From fiscal 2003 onward, however, a percentage-of-completion method based on results accomplished (a percentage-of-completion method based on term with regard to personnel expenses and general administration expenses) will be adopted so that grants carried over for the future implementation of planned but unexecuted operations and those attributable to cost reduction efforts can be clearly distinguished to promote efficient use of government grants.

(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 ¥289,425,326.

### Equity

Retained earnings as of the end of fiscal 2002, including ¥1,090,452 in total earnings for the year, totaled ¥1,650,107.

## Balance Sheets (March 31, 2002 and 2003)

	FY2001	FY2002
<b>Assets</b>		
<b>I Current Assets</b>		
Cash and Bank Deposits	1,263,894,505	1,195,749,459
Unrealized Income from Research Activities	118,016,010	109,995,405
Inventories	109,032	176,959
Prepayment	7,776,780	2,279,264
Others	73,438	410,103
<b>Current Assets Total</b>	<b>1,389,869,765</b>	<b>1,308,611,190</b>
<b>II Fixed Assets</b>		
<b>1. Tangible Fixed Assets</b>		
Equipment	9,204,900	11,485,920
Accumulated Allowance for Depreciation	(1,321,351)	(2,813,095)
<b>Tangible Fixed Assets Total</b>	<b>7,883,549</b>	<b>8,672,825</b>
<b>2. Intangible Fixed Assets</b>		
Software	—	616,896
<b>Intangible Fixed Assets Total</b>	<b>—</b>	<b>616,896</b>
<b>Fixed Assets Total</b>	<b>7,883,549</b>	<b>9,289,721</b>
<b>Total Assets</b>	<b>1,397,753,314</b>	<b>1,317,900,911</b>
<b>Liabilities</b>		
<b>I Current Liabilities</b>		
Reserved Grants for Operating Expenditure	716,724,669	894,320,433
Deposits Received	5,792,255	6,376,840
Account Payable	655,143,716	400,535,460
Accrued Expenses Payable	11,649,470	5,728,350
<b>Current Liabilities Total</b>	<b>1,389,310,110</b>	<b>1,306,961,083</b>
<b>II Long-term Liabilities</b>		
<b>Liabilities Invested in Capital Assets</b>		
Reserved Grants	538,853	3,256,079
Value of Donated Goods Put in Reserve	7,344,696	6,033,642
<b>Long-term Liabilities Total</b>	<b>7,883,549</b>	<b>9,289,721</b>
<b>Total Liabilities</b>	<b>1,397,193,659</b>	<b>1,316,250,804</b>
<b>Equity</b>		
<b>I Retained Earnings</b>		
Reserve	—	559,655
Unappropriated Retained Earnings	559,655	1,090,452
(Of which, total current-term earnings)	559,655	1,090,452
<b>Retained Earnings Total</b>	<b>559,655</b>	<b>1,650,107</b>
<b>Total Equity</b>	<b>559,655</b>	<b>1,650,107</b>
<b>Total Liabilities/Equity</b>	<b>1,397,753,314</b>	<b>1,317,900,911</b>

## Notes for Incorporated Administrative Agency Accounting Standards

### Assets

Assets listed in corporate accounts consist of three types: current assets, fixed assets and deferred assets. Deferred assets, however, are not recognized under incorporated administrative agency accounting standards, and so assets in these statements are comprised of only current and fixed assets. Taking into consideration that the necessary financial resource measures are undertaken for the incorporated administrative agency each fiscal year, it is not appropriate for incorporated administrative agencies to record deferred assets. These will be handled as expenses incurred during the appropriate fiscal year.

### 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. 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 in that it reflects the current state of operations.

Liabilities invested in capital assets are posted in the long-term liabilities section. This entry represents, in line with the assumptions contained in the medium-term business plan, depreciable assets purchased by grant for operating expenditure or money donated in accordance with the intentions of donors, or for predefined applications.

### Ordinary Expenses

(1) Of the amount reported as "Others" in the General Administrative Expenses section, ¥93,931,968 concerns properties donated by the government and the corresponding amount is reported as "Donated Goods" in the Ordinary Income section.

### Ordinary Income

(1) A percentage-of-completion method based on expenditure, under which revenue is recognized up to the amount of expenses on the relevant operations and projects, is used for revenue recognition with respect to government grants for operating expenditures in fiscal 2001 and 2002. In fiscal 2002, ¥1.858 billion, which represents more than 90% of the budgeted ¥2.039 billion, was recognized as revenue from research activities and other operations as RIETI shifted into full swing.

(2) During fiscal 2002, RIETI undertook two commissioned projects which were a "project for establishing environments that facilitate university-oriented venture businesses" commissioned by the Ministry of Economy, Trade and Industry, and a "comprehensive research project on science and technology" commissioned by the Ministry of Education, Culture, Sports, Science and Technology.

(3) Miscellaneous income for fiscal 2002 represents the amount of foreign exchange gain on the payment of foreign currency denominated commissions for services provided by external sources.

### Net Income and Total Earnings

Net income and total earnings for fiscal 2002 totaled ¥1,090,452 each as compared to ¥1,971,014,344 in total ordinary income which includes ¥1,858,071,456 in grants for operating expenditures and ¥109,995,405 in commissions.

## Statements of Income (Years Ended March 31, 2002 and 2003)

(¥)

	FY2001	FY2002
<b>I Ordinary Expenses</b>		
1. Research Expenses:		
(1) Operating Expenses	675,922,570	726,285,574
(2) Personnel Expenses	434,356,952	427,173,570
(3) Depreciation Expenses	—	33,933
(4) Others	406,619,632	548,187,222
Total	1,516,899,154	1,701,680,299
2. General Administrative Expenses:		
(1) Personnel Expenses	123,092,110	109,040,483
(2) Depreciation Expenses	1,321,351	1,566,675
(3) Others	200,891,522	157,636,435
Total	325,304,983	268,243,593
<b>Ordinary Expenses</b>		
<b>Total</b>	<b>1,842,204,137</b>	<b>1,969,923,892</b>
<b>II Ordinary Income:</b>		
1. Grant for Operating Expenditure	1,331,645,181	1,858,071,456
2. Income from Dissemination of Material		
(1) Editing Fees	292,950	479,976
(2) Document Sales	121,000	271,304
Total	413,950	751,280
3. Commissioned Research	415,256,010	109,995,405
4. Donated Goods	93,931,968	—
5. Offsetting Revenues		
from Reserved Grants	10,297	289,554
6. Offsetting Amount Corresponding		
to Depreciation of Donated Goods	1,311,054	1,311,054
7. Financial Activities		
Interest Income	181,416	23,526
8. Miscellaneous Income	13,916	572,069
<b>Ordinary Income</b>		
<b>Total</b>	<b>1,842,763,792</b>	<b>1,971,014,344</b>
<b>III Net Ordinary Income</b>	559,655	1,090,452
<b>IV Net Income</b>	559,655	1,090,452
<b>V Total Earnings</b>	559,655	1,090,452

### Ordinary Expenses Ordinary Income

In the incorporated administrative agency standard organization of earnings statements, expenses are listed at the top, followed by income.

Ordinary expenses include operating expenses, general administrative expenses, financial expenses and miscellaneous losses. Ordinary income includes, in addition to grant for operating expenditure, money donated, commissions, financial revenues and miscellaneous income.

**Statements of Cash Flows** (Years Ended March 31, 2002 and 2003) (¥)

	FY2001	FY2002
<b>I Cash Flows from Operational Activities:</b>		
Expenditures for Purchases of Products and Services	(125,958,274)	(1,012,725,396)
Personnel Expenses	(583,191,765)	(587,980,442)
Other Operational Expenses	(373,165,919)	(623,317,982)
Grant for Operating Expenditure	2,048,919,000	2,038,674,000
Income from Dissemination of Material	413,950	751,280
Income from Commissioned Research	297,240,000	118,016,010
Miscellaneous Income	13,916	572,069
Subtotal	1,264,270,908	(66,010,461)
Interest Reserved	172,747	32,195
Net Cash Provided by Operational Activities	1,264,443,655	(65,978,266)
<b>II Cash Flows from Investing Activities:</b>		
Expenditures for Acquisition of Tangible Fixed Assets	(549,150)	(2,166,780)
Net Cash Used in Investing Activities	(549,150)	(2,166,780)
<b>III Cash Flows from Financial Activities</b>	0	0
<b>IV Increases in Cash and Cash Equivalents</b>	1,263,894,505	(68,145,046)
<b>V Cash and Cash Equivalents at the Beginning of the Year</b>	0	1,263,894,505
<b>VI Cash and Cash Equivalent at the End of the Year</b>	1,263,894,505	1,195,749,459

**Cash Flows**

Cash flow statements for incorporated administrative agencies must be included as one part of the financial statements, and similarly to those of private-sector companies, these statements are divided into the three areas of cash flows from operational activities (for private-sector companies, operating activities for the purpose of commercial gain), investing activities and financial activities.

**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.

**Statements of Costs of Providing Administrative Services**

(Years Ended March 31, 2002 and 2003)

(¥)

	FY2001	FY2002
<b>I Operating Expenses</b>	1,426,338,845	1,858,581,612
Expenses Listed on Income Statement		
Research Expenses	1,516,899,154	1,701,680,299
General Administrative Expenses	325,304,983	268,243,593
Total	1,842,204,137	1,969,923,892
(Deductions)		
Income from Dissemination Activities	(413,950)	(751,280)
Income from Commissioned Research	(415,256,010)	(109,995,405)
Income from Financial Activities	(181,416)	(23,526)
Miscellaneous Income	(13,916)	(572,069)
Total	(415,865,292)	(111,342,280)
<b>II Expected Retirement Bonus Increases Not Covered by Reserves</b>	20,254,911	26,322,215
<b>III Opportunity Costs</b>		
Opportunity Costs for Gratuitous Use of Government Assets	154,233,800	144,188,800
<b>IV Total Cost of Providing Administrative Services</b>	1,600,827,556	2,029,092,627

**Statements of Appropriation of Retained Earnings** (March 31, 2002 and 2003) (¥)

	FY2001	FY2002
<b>I Unappropriated Retained Earnings</b>	559,655	1,090,452
Total Earnings	559,655	1,090,452
<b>II Total Appropriations</b>		
Reserve	559,655	1,090,452

**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, and by means of thorough information disclosure contribute to the evaluation and decision-making processes regarding the service provided for the taxpayers. The specific contents of this statement 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 Section 77 - Depreciation Accounting Procedures for Specific Depreciable Assets
- (3) Estimated increases in retirement bonuses when reserves are not recorded, in accordance with Section 78—Accounting Procedures for Retirement Benefits
- (4) Opportunity costs arising from use of government assets