

FINANCIAL STATEMENTS

Review of Financial Reporting for Fiscal 2004

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 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.

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 ¥304,725,899.

Equity

Retained earnings as of the end of fiscal 2004, including ¥10,068,188 in total earnings for the year, totaled ¥21,557,246.

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 medium-term business plan.

Equity

According to the incorporated administrative agency's 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 medium-term objectives 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, 2004 and 2005)

(¥)

	FY2003	FY2004
Assets		
I Current Assets		
Cash and Bank Deposits	1,079,313,483	1,055,715,799
Unrealized Income from Research Activities	84,770,000	2,033,356
Inventories	220,458	411,054
Prepayment	511,780	608,770
Consumption Tax Refund Unreceivable	—	943,500
Others	1,365,155	439,174
Current Assets Total	1,166,180,876	1,060,151,653
II Fixed Assets		
1. Tangible Fixed Assets		
Building	15,101,822	15,101,822
Accumulated Allowance for Depreciation	(528,563)	(1,434,672)
Tools, Appliance, and Equipment	16,658,220	18,321,420
Accumulated Allowance for Depreciation	(5,100,759)	(7,744,462)
Tangible Fixed Assets Total	26,130,720	24,244,108
2. Intangible Fixed Assets		
Software	471,744	7,604,890
Intangible Fixed Assets Total	471,744	7,604,890
Fixed Assets Total	26,602,464	31,848,998
Total Assets	1,192,783,340	1,092,000,651
Liabilities		
I Current Liabilities		
Reserved Grants for Operating Expenditure	892,563,295	705,599,423
Deposits Received	5,275,884	7,653,899
Account Payable	246,367,918	318,613,465
Accrued Consumption Tax	1,976,300	—
Accrued Expenses Payable	8,505,324	6,727,620
Others	3,097	—
Current Liabilities Total	1,154,691,818	1,038,594,407
II Long-term Liabilities		
Liabilities Invested in Capital Assets		
Reserved Grants	21,879,876	28,437,464
Value of Donated Goods Put in Reserve	4,722,588	3,411,534
Long-term Liabilities Total	26,602,464	31,848,998
Total Liabilities	1,181,294,282	1,070,443,405
Equity		
I Retained Earnings		
Reserve	1,650,107	11,489,058
Unappropriated Retained Earnings	9,838,951	10,068,188
(Of which, total current-term earnings)	9,838,951	10,068,188
Retained Earnings Total	11,489,058	21,557,246
Total Equity	11,489,058	21,557,246
Total Liabilities / Equity	1,192,783,340	1,092,000,651

Review of Financial Reporting for Fiscal 2004**Ordinary Income**

- (1) In fiscal 2004, ¥1.808 billion out of the budgeted ¥1.918 billion was recognized as revenue.
- (2) During fiscal 2004, RIETI undertook a commissioned project: "Case study of support projects for revival of SMEs done by the Council of SMEs revival support in FY 2004" commissioned by the Small and Medium Enterprise Agency, the Ministry of Economy, Trade and Industry.

Net Income and Total Earnings

Net income and total earnings for fiscal 2004 totaled ¥10,068,188 each as compared to ¥1,815,194,484 in total ordinary income which includes ¥1,808,851,012 in grants for operating expenditures and ¥2,033,356 in commissions.

Earnings Statement**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 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, 2004 and 2005)

(¥)

	FY2003	FY2004
I Ordinary Expenses		
1. Research Expenses:		
(1) Operating Expenses	533,882,864	519,725,419
(2) Personnel Expenses	466,175,344	366,789,174
(3) Depreciation Expenses	203,600	247,814
(4) Others	405,487,280	487,054,250
Total	1,405,749,088	1,373,816,657
2. General Administrative Expenses:		
(1) Personnel Expenses	110,972,868	137,679,492
(2) Depreciation Expenses	2,757,779	3,570,512
(3) Others	267,585,386	289,939,636
Total	381,316,033	431,189,640
3. Miscellaneous Loss	—	119,999
Ordinary Expenses Total	1,787,065,121	1,805,126,296
II Ordinary Income:		
1. Grant for Operating Expenditure	1,704,430,016	1,808,851,012
2. Income from Dissemination of Material		
(1) Editing Fees	1,268,754	429,209
(2) Document Sales	106,000	23,700
Total	1,374,754	452,909
3. Commissioned Research	87,920,000	2,033,356
4. Offsetting Revenues from Reserved Grants	1,650,325	2,507,272
5. Offsetting Amount Corresponding to Depreciation of Donated Goods	1,311,054	1,311,054
6. Financial Revenue		
Interest Received	12,003	13,055
7. Miscellaneous Income	205,920	25,826
Ordinary Income Total	1,796,904,072	1,815,194,484
III Net Ordinary Income	9,838,951	10,068,188
IV Net Income	9,838,951	10,068,188
V Total Earnings	9,838,951	10,068,188

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 from operational activities (for private-sector companies, operating activities for the purpose of commercial gain), investing activities and financial activities.

Review of Financial Reporting for Fiscal 2004

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, 2004 and 2005)

(¥)

	FY2003	FY2004
I Cash Flows from Operational Activities:		
Expenditures for Purchases of Products and Services	(736,931,191)	(566,836,867)
Personnel Expenses	(635,509,524)	(557,452,156)
Other Operational Expenses	(560,566,221)	(612,807,469)
Grant for Operating Expenditure	1,722,947,000	1,630,952,000
Income from Dissemination of Material	1,374,754	452,909
Income from Commissioned Research	113,145,405	84,770,000
Miscellaneous Income	205,920	25,826
Subtotal	(95,333,857)	(20,895,757)
Interest Reserved	12,003	12,323
Net Cash Provided by Operational Activities	(95,321,854)	(20,883,434)
II Cash Flows from Investing Activities:		
Expenditures for Acquisition of Tangible Fixed Assets	(21,114,122)	(2,714,250)
Net Cash Used in Investing Activities	(21,114,122)	(2,714,250)
III Cash Flows from Financial Activities	0	0
IV Increases in Cash and Cash Equivalents	(116,435,976)	(23,597,684)
V Cash and Cash Equivalents at the Beginning of the Year	1,195,749,459	1,079,313,483
VI Cash and Cash Equivalents at the End of the Year	1,079,313,483	1,055,715,799

Statements of Costs of Providing Administrative Services

(Years Ended March 31, 2004 and 2005)

(¥)

	FY2003	FY2004
I Operating Expenses	1,697,552,444	1,802,601,150
Expenses Listed on Income Statement		
Research Expenses	1,405,749,088	1,373,816,657
General Administrative Expenses	381,316,033	431,189,640
Miscellaneous Loss	0	119,999
Total	1,787,065,121	1,805,126,296
(Deductions)		
Income from Dissemination Activities	(1,374,754)	(452,909)
Income from Commissioned Research	(87,920,000)	(2,033,356)
Income from Financial Activities	(12,003)	(13,055)
Miscellaneous Income	(205,920)	(25,826)
Total	(89,512,677)	(2,525,146)
II Expected Retirement Bonus Increases Not Covered by Reserves	19,956,196	20,755,598
III Opportunity Costs		
Opportunity Costs for Gratuitous Use of Government Assets	143,098,200	143,098,200
IV Total Cost of Providing Administrative Services	1,860,606,840	1,966,454,948

Statements of Appropriation of Retained Earnings (March 31, 2004 and 2005)

(¥)

	FY2003	FY2004
I Unappropriated Retained Earnings	9,838,951	10,068,188
Total Earnings	9,838,951	10,068,188
II Total Appropriations		
Reserve	9,838,951	10,068,188