
***International Science &
Technology Center***

*Financial Statements for the
Years Ended December 31, 1999 and 1998,
and Independent Auditors' Report*



INDEPENDENT AUDITORS' REPORT

To the Board of Governors of
International Science & Technology Center:

We have audited the accompanying balance sheets of International Science & Technology Center as of December 31, 1999 and 1998, and the related statements of revenues and expenditures and cash flows for the years then ended as required by Article VIII of the agreement which established the International Science & Technology Center in 1992. These financial statements are the responsibility of the management of International Science & Technology Center. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the following two paragraphs, we conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Although International Science & Technology Center requires all funded institutions to provide written representation that they do not receive funding from multiple sources, we were unable to confirm this fact due to restricted access to institutes' records. There were no alternative auditing procedures that we could adopt to confirm the above.

Fixed assets used for projects which have useful lives extending beyond the current year were expensed during the current and prior years as project costs. International Accounting Standards require fixed assets to be capitalized and depreciated over their expected useful lives. Management believes expensing such fixed assets is appropriate because it matches the expenses incurred with the benefits received during the duration of the projects. Capitalization and depreciation of fixed assets used for projects would have a significant effect on the accompanying financial statements if it were applied.

In our opinion, except for the change which we concur in the accounting for administrative revenues and expenditures as discussed in Note 2 and for adjustments that might be necessary as a result of the matters noted above, the financial statements give a true and fair view of the financial position of International Science & Technology Center as of December 31, 1999 and 1998, and of the results of its operations and its cash flows for the years then ended in accordance with International Accounting Standards.

Deloitte Touche Tohmatsu

March 27, 2000

International Science & Technology Center

Balance Sheets

December 31, 1999 and 1998

| | Thousands of U.S. Dollars | |
|---|------------------------------|-----------------|
| | <u>1999</u> | <u>1998</u> |
| <u>ASSETS</u> | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents (Note 3) | \$ 88,931 | \$51,771 |
| Receivables: | | |
| Amounts due from funding parties (Note 4) | 19,037 | 16,154 |
| Unliquidated project advances | 522 | 504 |
| Other receivables (Note 5) | 53 | 365 |
| Accrued income receivable | 337 | 8 |
| Project equipment pool (Note 6) | <u>128</u> | <u>144</u> |
| Total current assets | 109,008 | 68,946 |
| NON-CURRENT RECEIVABLES FROM FUNDING PARTIES (Note 4) | <u>4,220</u> | <u>7,093</u> |
| TOTAL | <u>\$113,228</u> | <u>\$76,039</u> |
| <u>LIABILITIES AND CAPITAL CONTRIBUTIONS</u> | | |
| CURRENT LIABILITIES: | | |
| Accounts payable: | | |
| Projects | \$ 1,450 | \$ 1,093 |
| Administration and project vendors | 817 | 1,203 |
| Grants payable | 4,840 | 3,896 |
| Other payable | <u>27</u> | <u></u> |
| Total current liabilities | <u>7,134</u> | <u>6,192</u> |
| CAPITAL CONTRIBUTIONS (Note 7): | | |
| Designated capital contributions—projects | 48,270 | 42,300 |
| Designated capital contributions—administration: | | |
| Operating budget | 2,807 | 2,366 |
| Supplemental budget | 4,992 | 4,009 |
| Undesignated capital contributions | <u>50,025</u> | <u>21,172</u> |
| Total capital contributions | <u>106,094</u> | <u>69,847</u> |
| TOTAL | <u>\$113,228</u> | <u>\$76,039</u> |

See notes to financial statements.

International Science & Technology Center

Statements of Revenues and Expenditures Years Ended December 31, 1999 and 1998

| | Thousands of U.S. Dollars | |
|---------------------------------------|------------------------------|---------------------------------|
| | 1999 | 1998 (Restated, Note 2.b) |
| REVENUES: | | |
| Project revenues | \$36,039 | \$33,320 |
| Administrative revenues: | | |
| Operating budget | 2,313 | 2,243 |
| Supplemental budget | 4,203 | 2,001 |
| Investment income | 2,773 | 2,998 |
| Other income | | 13 |
| | <u>45,328</u> | <u>40,575</u> |
| Total revenues | | |
| EXPENDITURES: | | |
| Project expenditures (Note 8): | | |
| On-going projects | 35,091 | 32,199 |
| Completed projects | 948 | 1,121 |
| Administrative expenditures (Note 9): | | |
| Operating budget | 2,289 | 2,092 |
| Supplemental budget | 4,203 | 2,001 |
| Other expenditures (Note 10) | 263 | 224 |
| | <u>42,794</u> | <u>37,637</u> |
| Total expenditures | | |
| NET SURPLUS (Note 11) | <u>\$ 2,534</u> | <u>\$ 2,938</u> |

See notes to financial statements.

International Science & Technology Center

Statements of Cash Flows Years Ended December 31, 1999 and 1998

| | Thousands of U.S. Dollars | |
|---|------------------------------|-----------------|
| | <u>1999</u> | <u>1998</u> |
| CASH FLOWS FROM OPERATIONS: | | |
| Cash inflows: | | |
| Cash received from funding parties (Note 12) | \$79,144 | \$34,969 |
| Investment income | 2,440 | 2,993 |
| Other | 49 | — |
| Total cash inflows | <u>81,633</u> | <u>37,962</u> |
| Cash outflows: | | |
| Project expenditure and projects equipment pool | (34,940) | (32,715) |
| Transfer of funds <i>(Yopawera + %)</i> | (2,891) | (1,101) |
| Administrative expenditures (including taxation) | (6,412) | (2,140) |
| Other sundry expenditure | — | (615) |
| Net foreign exchange loss | (230) | — |
| Total cash outflows | <u>(44,473)</u> | <u>(36,571)</u> |
| NET CASH INFLOWS FROM OPERATIONS | 37,160 | 1,391 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 3) | <u>51,771</u> | <u>50,380</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR (Note 3) | <u>\$88,931</u> | <u>\$51,771</u> |

See notes to financial statements.

International Science & Technology Center

Notes to Financial Statements Years Ended December 31, 1999 and 1998

1. ORGANIZATION AND BUSINESS

International Science & Technology Center ("ISTC" hereinafter) was established in 1992 pursuant to an agreement signed in Moscow within the Russian Federation.

The objectives of ISTC are laid down in Article II of the agreement. ISTC develops, approves, finances and monitors science and technology projects for peaceful purposes, which are to be carried out primarily at institutions and facilities located in the Russian Federation and other states of the Commonwealth of Independent States ("CIS") and Georgia.

Based on Article IX of the agreement, the Government of the Russian Federation provides ISTC with free office space and other facilities, along with maintenance, utilities and security for the facility. The value of such items provided is not recorded in the accompanying financial statements.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements are prepared in accordance with International Accounting Standards ("IAS") except as described below.

In view of the international nature of ISTC's operations, the amounts shown in these financial statements are presented in U.S. dollars.

IAS 16 requires fixed assets with useful lives beyond the current accounting period to be capitalized based on the original acquisition cost, and depreciated over their useful lives. The management of ISTC believes that because of the unusual nature and circumstances of its activities, strict interpretation and application of this standard would not properly match the revenues specifically contributed by the funding parties with the related expenditures. Accordingly, fixed assets acquired for use by ISTC are charged to expense upon acquisition.

- a. Project Activity**—ISTC authorizes and funds scientific projects which are performed at institutions within CIS. 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 for in the financial statements as follows:

Project recognition

The projects are recognized upon signature of the project agreement between ISTC and the recipient institutes. Upon signature, the total amount of the project is credited to the relevant funding parties designated capital accounts in proportion to the level of funding agreed by each party. To the extent that the signed projects are not covered by the advance payments from the respective funding parties, a receivable is set up in the accounting records.

Project expenditures

Project costs consist of three primary components: grants to scientists, equipment and other sundry project expenses.

Projects that have not finalized the project completion procedures are presented as on-going projects in the statements of revenues and expenditures.

Project revenues

Project revenues recognized during the year in the statements of revenues and expenditures are amounts equal to the total value of project expenditures incurred during the year and transferred from the funding parties' designated capital contributions-projects accounts.

- b. *Administrative Revenues and Expenditure***—Administrative revenues—operating budget recognized in the statements of revenues and expenditures during the year are amounts approved by the funding parties for the administrative expenses—operating budget for the year and transferred from the funding parties designated capital contributions—administration accounts.

Surplus administrative revenues operating budget arising during the year in respect of the operating budget are reallocated to the funding parties' undesignated capital contributions accounts in the same ratio as the administrative revenues contributions.

For the supplemental budget, ISTC has changed its revenue recognition policies to better match the expenses with revenues. In prior years, amounts agreed to at the meeting of the Board of Governors were recognized as revenue for the year. However, due to the lengthening of the various supplemental budget program periods, the agreed funding amounts are not necessarily used in the period the revenues are recognized. As a result, the revenue recognition policy was changed so that supplemental budget revenue recognized in the year in the statements of revenues and expenditures are amounts equal to the total value of supplemental budget expenditures incurred during the year and transferred from the funding parties' designated capital contributions account for administrative expenses. The effect of the change in accounting policy does not have an effect on the capital contribution accounts. This change in accounting policy has been accounted for retrospectively. The comparative statements for 1998 have been restated to conform to the changed policy. The effect of the change is a decrease in administrative revenues supplemental budget of \$3,992 thousand for 1999 and decrease of \$2,738 thousand for 1998.

Administrative expenses are charged to the statements of revenues and expenditures when incurred and are matched against the administrative revenues for the year.

- c. *Investment Income***—Investment income is comprised of interest and dividends generated during the year.

Investment income generated is initially credited to the statements of revenues and expenditures. The investment income arising during the year is then allocated to the undesignated capital contributions accounts pro-rata to the level of funds deposited that are in excess to the immediate expenditure requirements of ISTC.

- d. *Fixed Assets***—Fixed assets are acquired for the Secretariat's own use or for the projects and are comprised of the following:

Secretariat

The costs of the Secretariat's equipment, information technology related purchases and facility improvements are charged to administrative expenditures when acquired.

Project equipment

Since ISTC does not expect to derive any foreseeable economic benefits from the ownership of project equipment, the expenditure incurred on equipment under each project is written off on the statements of revenues and expenditures together with other project expenditure incurred during the year.

- e. **Project Equipment Pool**—Project equipment pool, which consists mainly of computer hardware, is valued at the lower of acquisition cost and net realizable value.
- f. **Foreign Currency Transactions**—All foreign currency transactions, other than those in Russian rubles, are converted into U.S. dollars at the exchange rates prevailing at the date of the transactions. Transactions in Russian rubles are converted into U.S. dollars at the average ruble exchange rate for the month. 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 statements of revenues and expenditures.

The gains and losses from the year-end translation are also charged to the statements of revenues and expenditures.

- g. **Taxation**—Under the terms of the agreement establishing ISTC with the Russian Federation Government, ISTC is exempted from taxation. However, since the relevant legal framework has not been implemented in the Russian Federation with respect to Value Added Taxes ("VAT"), ISTC has paid VAT on its local expenditures in relation to administrative and project costs.

Uncertainty regarding the collectibility of VAT incurred on administrative expenditures continue to exist. As such, an allowance for doubtful account has been recorded for the VAT that were recorded as receivable in the current year. In the current year bad debt expense of \$58 thousand related to VAT receivable is included as part of administrative expenses operating budget and not separately disclosed.

The VAT incurred on project expenditure has been charged to the statements of revenues and expenditures as part of the projects costs because the relevant claim documentation has not yet been considered by the tax authorities.

Customs duties on the imported equipment are exempted subject to maintenance of perpetual records.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash at banks, petty cash and Managed Dollar Fund which is a highly-liquid short-term investments. The Managed Dollar Funds are held with BT Fund Managers (Ireland) Limited based in Dublin, Ireland. Amount invested in the Managed Dollar Funds is \$64,277 thousand (\$50,417 thousand in 1998). The Managed Dollar Funds are valued at market value.

4. AMOUNTS DUE FROM FUNDING PARTIES

| | Thousands of U.S. Dollars | |
|-----------------------|------------------------------|-----------------|
| | 1999 | 1998 |
| Due within one year: | | |
| European Union | \$16,130 | \$11,399 |
| Japan | 758 | 3,004 |
| South Korea | 269 | |
| Other funding parties | 1,880 | 1,751 |
| Total | <u>\$19,037</u> | <u>\$16,154</u> |

| | Thousands of U.S. Dollars | |
|-----------------------|------------------------------|----------------|
| | <u>1999</u> | <u>1998</u> |
| Due after one year: | | |
| European Union | \$3,878 | \$6,957 |
| Japan | 264 | 136 |
| Other funding parties | <u>78</u> | <u> </u> |
| Total | <u>\$4,220</u> | <u>\$7,093</u> |

5. OTHER RECEIVABLES

| | Thousands of U.S. Dollars | |
|---|------------------------------|--------------|
| | <u>1999</u> | <u>1998</u> |
| Recoverable taxes | \$271 | \$213 |
| Staff advances | 12 | 65 |
| Advances to suppliers | | 213 |
| Other receivables | <u>52</u> | <u>98</u> |
| Total | 335 | 589 |
| Less allowance for doubtful receivables | <u>(282)</u> | <u>(224)</u> |
| Net other receivables | <u>\$ 53</u> | <u>\$365</u> |

6. PROJECTS EQUIPMENT POOL

| | Thousands of U.S. Dollars | |
|--|------------------------------|--------------|
| | <u>1999</u> | <u>1998</u> |
| Cost: | | |
| Balance, beginning of year | \$161 | \$136 |
| Additions, net of transfers to projects | <u>(16)</u> | <u>25</u> |
| Balance, end of year | <u>145</u> | <u>161</u> |
| Provision for obsolete equipment: | | |
| Balance, beginning of year | (17) | (22) |
| Adjustments made during the year | <u> </u> | <u>5</u> |
| Balance, end of year | <u>(17)</u> | <u>(17)</u> |
| Net book value | <u>\$128</u> | <u>\$144</u> |
| Projects equipment pool valued at cost | \$112 | \$128 |
| Projects equipment pool valued at net realizable value | <u>16</u> | <u>16</u> |
| Total | <u>\$128</u> | <u>\$144</u> |

The projects equipment pool consists of computer hardware and consumables held at ISTC in order to meet the demand of the projects which requisition such items on a regular basis. A regular review of the items in the pool has been carried out during the year and provisions made to take into account obsolescence of some of the items. Any such provisions are charged to the statements of revenues and expenditures and then allocated to the funding parties designated capital project accounts.

7. MOVEMENTS IN CAPITAL

Movements in capital accounts during fiscal years 1999 and 1998 were as follows:

a. Designated Capital Contributions ("DCC")—Projects

| | Thousands of U.S. Dollars | | | | | | | | |
|--|---------------------------|----------|---------|--------|---------|---------|-------------|---------------|----------|
| | EU | U.S. | Japan | Norway | Finland | Sweden | South Korea | Other Parties | Total |
| DCC—January 1, 1998 | \$14,786 | \$18,410 | \$7,311 | \$303 | \$1,940 | \$824 | | | \$43,574 |
| Transfers to statement of revenues and expenditure | (12,440) | (12,981) | (5,137) | (45) | (188) | (1,267) | | (1,262) | (33,320) |
| New projects signed during 1998 | 15,072 | 10,836 | 2,655 | 475 | | 806 | | 2,666 | 32,510 |
| Funding received in excess of costs transferred to UCC | (6) | (13) | (32) | | (4) | | | | (55) |
| Other | (16) | (374) | 70 | | (77) | (1) | | (11) | (409) |
| DCC—December 31, 1998 | 17,396 | 15,878 | 4,867 | 430 | 34 | 1,478 | | 2,217 | 42,300 |
| Transfers to statement of revenues and expenditure | (14,248) | (13,138) | (4,596) | (455) | (33) | (899) | | (2,644) | (36,039) |
| New projects signed during 1998 | 19,409 | 13,523 | 3,311 | 892 | | 133 | | 4,590 | 42,058 |
| Funding received in excess of costs transferred to UCC | (11) | (21) | (15) | | (1) | | | (1) | (49) |
| DCC—December 31, 1999 | \$22,546 | \$16,242 | \$3,567 | \$867 | Nil | \$712 | \$174 | \$4,162 | \$48,270 |

Designated capital contributions represent amounts committed on signed projects net of project expenditures incurred to date.

b. Designated Capital Contributions ("DCC")—Administration (Restated for 1998, Note 2.b)

| | Thousands of U.S. Dollars | | | | | | | | |
|--|---------------------------|-------|-------|--------|---------|--------|-------------|---------------|---------|
| | EU | U.S. | Japan | Norway | Finland | Sweden | South Korea | Other Parties | Total |
| Operating budget—January 1, 1998 | \$598 | \$598 | \$598 | \$225 | | | \$224 | | \$2,243 |
| Reallocation of operating budget | 28 | 28 | 28 | 9 | | | (93) | | |
| Additional contribution (net of adjustments) | (626) | (626) | (626) | (234) | | | (131) | \$ 53 | 53 |
| Transfer to revenues | 42 | 42 | 42 | 16 | | | 9 | | (2,243) |
| Surplus for the year (see Note 10) | (42) | (42) | (42) | (16) | | | (9) | | 151 |
| Transfer to UCC for surplus | 617 | 617 | 617 | 231 | | | 231 | | (151) |
| New budget approved | | | | | | | | | 2,313 |
| Operating budget—December 31, 1998 | 617 | 617 | 617 | 231 | | | 231 | 53 | 2,366 |
| Reallocation of operating budget | | | | | | | | | |
| Additional contribution (net of adjustments) | (617) | (617) | (617) | (231) | | | (231) | 61 | 61 |
| Transfer to revenues | 6 | 6 | 6 | 3 | | | 3 | | (2,313) |
| Surplus for the year (see Note 10) | (6) | (6) | (6) | (3) | | | (3) | | 24 |
| Transfer to UCC for surplus | 718 | 718 | 718 | 270 | | | 269 | | (24) |
| New budget approved | | | | | | | | | 2,693 |
| Operating budget—December 31, 1999 | \$718 | \$718 | \$718 | \$270 | | | \$269 | \$114 | \$2,807 |

Thousands of U.S. Dollars

| | EU | U.S. | Japan | Norway | Finland | Sweden | South Korea | Other Parties | Total |
|--|----------------|----------------|----------------|------------|---------|--------|-------------|---------------|----------------|
| Supplemental budget—January 1, 1998 | \$2,330 | \$ 273 | \$ 180 | | | | | | \$2,783 |
| Additional contribution (net of adjustments) | (98) | 1,227 | 827 | | | | | | 1,956 |
| Transfers to statement of revenues and expenditure | (1,068) | (504) | (429) | | | | | | (2,001) |
| Transfer to UCC for unused funds | (1,164) | | | | | | | | (1,164) |
| New budget approved | <u>2,435</u> | | | | | | | | <u>2,435</u> |
| Supplemental budget—December 31, 1998 | 2,435 | 996 | 578 | | | | | | 4,009 |
| Additional contribution (net of adjustments) | 1,066 | 3,270 | 1,610 | \$40 | | | | | 5,986 |
| Transfer to DCC projects | (599) | (543) | (618) | (40) | | | | | (1,800) |
| Transfers to statement of revenues and expenditure | (1,618) | (2,192) | (393) | | | | | | (4,203) |
| Transfer to UCC for unused funds | (857) | | | | | | | | (857) |
| New budget approved | <u>1,857</u> | | | | | | | | <u>1,857</u> |
| Supplemental budget—December 31, 1999 | <u>\$2,284</u> | <u>\$1,531</u> | <u>\$1,177</u> | <u>Nil</u> | | | | | <u>\$4,992</u> |

c. **Undesignated Capital Contributions ("UCC")** (Restated for 1998, Note 2.b)

Undesignated capital contributions are the amounts paid or committed by the funding parties which have not yet been designated for the administrative budget or project purposes. In addition, in the case of projects funded by European Union, the protocol signed between ISTC and the European Union allows a certain proportion of project amounts to be invoiced on approval of the projects. The invoices raised during the year on these projects have been recognized in the financial statements by including them in the European Union's undesignated capital contributions account.

Subsequently, when these projects are finally signed, an appropriated adjustment is made between the designated and undesignated capital contributions account.

Transfer of funds represents funds transferred to other non-ISTC related entities upon receiving instructions from the funding parties to do so.

| | Thousands of U.S. Dollars | | | | | | | | |
|---|---------------------------|----------|---------|---------|---------|---------|-------------|---------------|----------|
| | EU | U.S. | Japan | Norway | Finland | Sweden | South Korea | Other Parties | Total |
| UCC, January 1, 1998 | \$3,107 | \$13,449 | \$2,052 | \$1,004 | \$ 76 | \$1,046 | | \$ 10 | \$20,744 |
| Increase of capital: | | | | | | | | | |
| Contributions from parties | 1,155 | 11,600 | 2,260 | 1,358 | | | \$468 | 30 | 16,871 |
| Investment income allocation | 390 | 1,952 | 409 | 70 | 28 | 139 | 1 | 9 | 2,998 |
| Transfer from DCC for surplus of operating budget | 42 | 42 | 42 | 16 | | | 9 | | 151 |
| Transfer from DCC for unused funds allocated to supplemental budget | 1,164 | | | | | | | | 1,164 |
| Transfer from DCC projects for approved funding in excess of cost | 6 | 13 | 32 | | 4 | | | | 55 |
| Decrease of capital: | | | | | | | | | |
| Transfer to DCC for signed projects | (3,240) | (10,831) | (1,284) | (475) | | (806) | | | (16,636) |
| Transfer to DCC for operating budget | | (645) | (645) | (241) | | | (231) | | (1,762) |
| Transfer to DCC for supplemental budget | (27) | (1,227) | | | | | | | (1,254) |
| Other usages for DCC | (30) | (223) | (1) | | | | | | (254) |
| Transfer of funds | | (101) | (1,000) | | | | | | (1,101) |
| Miscellaneous adjustment | 59 | 59 | 59 | 19 | | | | | 196 |
| UCC, December 31, 1998 | \$2,626 | \$14,088 | \$1,924 | \$1,751 | \$108 | \$ 379 | \$247 | \$49 | \$21,172 |

Miscellaneous adjustments consist of the provision for doubtful accounts and other items which are allocated to funding parties based on the countries' approved contribution to the administrative operating budget (see Note 10).

| | Thousands of U.S. Dollars | | | | | | | | |
|--|---------------------------|----------|----------|---------|---------|--------|-------------|---------------|----------|
| | EU | U.S. | Japan | Norway | Finland | Sweden | South Korea | Other Parties | Total |
| UCC, January 1, 1999 | \$2,626 | \$14,088 | \$ 1,924 | \$1,751 | \$108 | \$379 | \$247 | \$ 49 | \$21,172 |
| Increase of capital: | | | | | | | | | |
| Contributions from parties | 294 | 25,263 | 21,930 | | | | 870 | 3,275 | 51,632 |
| Investment income allocation | 292 | 1,675 | 406 | 100 | 19 | 73 | 32 | 176 | 2,773 |
| Transfer from DCC for surplus of operating budget | 6 | 6 | 6 | 3 | | | 3 | | 24 |
| Transfer from DCC for unused funds on programs under supplemental budget | 857 | | | | | | | | 857 |
| Transfer from DCC projects for approved funding in excess of cost | 11 | 21 | 15 | | 1 | | | 1 | 49 |
| Decrease of capital: | | | | | | | | | |
| Transfer to DCC for signed projects | (984) | (12,496) | (607) | (852) | | (132) | (200) | (2,071) | (17,342) |
| Transfer to DCC for operating budget | | (718) | (718) | (269) | | | | | (1,705) |
| Transfer to DCC for supplemental budget | (534) | (3,018) | (660) | (40) | | | | | (4,252) |
| Transfer of funds | | (2,815) | (105) | | | | | | (2,920) |
| Foreign exchange differences | (263) | | | | | | | | (263) |
| UCC, December 31, 1999 | \$2,305 | \$22,006 | \$22,191 | \$ 693 | \$128 | \$320 | \$952 | \$1,430 | \$50,025 |

Revaluation of the Euro denominated account expected to be utilized for EU's future obligations resulted in foreign exchange differences (see Note 10).

8. PROJECT EXPENDITURES

Project expenditures charged to the statements of revenues and expenditures during each year ended December 31 since inception are as follows:

| | Thousands of U.S. Dollars |
|---|------------------------------|
| 1999 | \$ 36,039 |
| 1998 | 33,320 |
| 1997 | 31,029 |
| 1996 | 28,459 |
| 1995 | 22,001 |
| 1994 | <u>1,765</u> |
| Cumulative project costs incurred as of December 31, 1999 | <u>\$152,613</u> |

Cumulative project expenditures amounting to \$152,613 thousand reflect actual expenditures incurred on on-going projects and completed projects.

Project expenditures incurred in 1999 and 1998 consisted of the following:

| | Thousands of U.S. Dollars | |
|----------------------|------------------------------|-----------------|
| | <u>1999</u> | <u>1998</u> |
| Grants to scientists | \$24,373 | \$22,265 |
| Equipment | 4,605 | 3,010 |
| Other project costs | <u>7,061</u> | <u>8,045</u> |
| Total | <u>\$36,039</u> | <u>\$33,320</u> |

For individual project agreements signed before April 14, 1995, title to equipment costing less than \$2,500 was vested with the recipient institutes upon acquisition. The title to all other equipment provided to projects remains with ISTC until termination or completion of the project. At that time, the title will be vested with the recipient institutes unless prior to or as of that date ISTC informs the institute of its intention to retain title.

For project arrangements signed after April 14, 1995, title to all such purchased equipment remains with ISTC. For legal reasons, upon completion of each project a Memorandum of Understanding is drawn up with each recipient which allows them to continue to use such ISTC-owned equipment.

9. ADMINISTRATIVE EXPENDITURES

Administrative expenditures incurred during 1999 and 1998 consisted of the following:

| | Thousands of U.S. Dollars | |
|---------------------------------|------------------------------|----------------|
| | <u>1999</u> | <u>1998</u> |
| Operating budget: | | |
| Center operations | \$1,381 | \$1,333 |
| Center facilities and equipment | 191 | 218 |
| Information and branch offices | 137 | 84 |
| Project development support | <u>580</u> | <u>457</u> |
| Total | <u>\$2,289</u> | <u>\$2,092</u> |
| Supplemental budget: | | |
| Training | \$ 650 | \$ 230 |
| Seminars | 132 | 143 |
| Management Information Systems | 59 | 11 |
| Expert participation: | | |
| United States | 1,680 | 503 |
| European Union | 1,445 | 862 |
| Japan | <u>237</u> | <u>252</u> |
| Total | <u>\$4,203</u> | <u>\$2,001</u> |

10. OTHER EXPENDITURES

Other expenditures incurred during 1999 and 1998 consisted of the following:

| | Thousands of U.S. Dollars | |
|------------------------------|------------------------------|-------------|
| | <u>1999</u> | <u>1998</u> |
| Foreign exchange differences | \$263 | |
| Bad debt expense | | \$224 |

Other expenditures represent amounts not specifically contributed through the operating budget or the supplemental budget.

11. SEGMENT INFORMATION

The net surplus earned during the year has been allocated to the funding parties as follows:

| | Thousands of U.S. Dollars | | | | | | | |
|----------------|---------------------------|--------------------------|------------------------------|-------------------|----------------------|----------------------------------|----------------|----------------|
| | Project Revenues | Surplus Operating Budget | Supplemental Budget Revenues | Investment Income | Project Expenditures | Supplemental Budget Expenditures | Other Costs | Total |
| <u>1999</u> | | | | | | | | |
| European Union | \$14,248 | \$ 6 | \$1,618 | \$ 292 | \$(14,248) | \$(1,618) | \$(263) | \$ 35 |
| Finland | 33 | | | 19 | (33) | | | 19 |
| Japan | 4,596 | 6 | 393 | 406 | (4,596) | (393) | | 412 |
| Sweden | 899 | | | 73 | (899) | | | 73 |
| United States | 13,138 | 6 | 2,192 | 1,675 | (13,138) | (2,192) | | 1,681 |
| Norway | 455 | 3 | | 100 | (455) | | | 103 |
| South Korea | 26 | 3 | | 32 | (26) | | | 35 |
| Other parties | 2,644 | | | 176 | (2,644) | | | 176 |
| Total | <u>\$36,039</u> | <u>\$ 24</u> | <u>\$4,203</u> | <u>\$2,773</u> | <u>\$(36,039)</u> | <u>\$(4,203)</u> | <u>\$(263)</u> | <u>\$2,534</u> |
| <u>1998</u> | | | | | | | | |
| European Union | \$12,440 | \$ 42 | \$1,068 | \$ 390 | \$(12,440) | \$(1,068) | \$(32) | \$ 400 |
| Finland | 188 | | | 28 | (188) | | | 28 |
| Japan | 5,137 | 42 | 429 | 409 | (5,137) | (429) | (21) | 430 |
| Sweden | 1,267 | | | 139 | (1,267) | | (11) | 128 |
| United States | 12,981 | 42 | 504 | 1,952 | (12,981) | (504) | (137) | 1,857 |
| Norway | 45 | 16 | | 70 | (45) | | (10) | 76 |
| South Korea | | 9 | | 1 | | | | 10 |
| Other parties | 1,262 | | | 9 | (1,262) | | | 9 |
| Total | <u>\$33,320</u> | <u>\$151</u> | <u>\$2,001</u> | <u>\$2,998</u> | <u>\$(33,320)</u> | <u>\$(2,001)</u> | <u>\$(211)</u> | <u>\$2,938</u> |

All surplus arising during the year have been allocated to the funding parties UCC accounts, in accordance with the method agreed upon between the various funding parties.

12. CASH RECEIVED FROM FUNDING PARTIES

| | Thousands of U.S. Dollars | |
|----------------|------------------------------|-----------------|
| | <u>1999</u> | <u>1998</u> |
| European Union | \$19,542 | \$16,091 |
| Japan | 27,085 | 3,632 |
| United States | 25,998 | 11,750 |
| Norway | | 1,358 |
| South Korea | 870 | 599 |
| Other parties | <u>5,649</u> | <u>1,539</u> |
| Total | <u>\$79,144</u> | <u>\$34,969</u> |

Cash contributions received during the year from the funding parties has either been recorded against accounts receivable or directly against the parties' capital contributions accounts (see Note 7).

13. FINANCIAL COMMITMENTS

The funding parties had approved but not yet signed 120 projects with a total funding of \$28,945 thousand at December 31, 1999, and 140 projects with a total funding of \$30,818 thousand at December 31, 1998.

The agreements for projects unsigned as of December 31, 1999, are expected to be signed in 2000.

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