

*Financial Statements of*

**INTERNATIONAL SCIENCE AND  
TECHNOLOGY CENTER**

*December 31, 2006 and 2005*

## Independent Auditors' Report

To the Board of Governors of  
International Science and Technology Center

We have audited the accompanying financial statements of International Science and Technology Center which comprise the balance sheets as at December 31, 2006 and 2005, and the statements of revenues and expenses and cash flow for the years then ended and a summary of significant accounting policies and other explanatory notes.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits, except as noted in the following paragraphs; we conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance whether the financial statements are free from material misstatement.

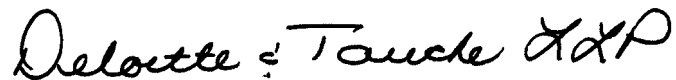
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

International Science and Technology Center requires all funded institutions to provide written representation that they do not receive funding from multiple sources. Funding received from multiple sources may result in certain misclassifications of project costs. We were, however, unable to confirm that the funded institutions do not receive funding from multiple sources due to restricted access to institute records. There were no alternative audit procedures that we could adopt to confirm the above.

As discussed in Note 2, fixed assets including computer software costs, which have useful lives extending beyond one year, were expensed when acquired during the current and prior years. International Financial Reporting Standards require these assets to be capitalized and depreciated over their expected useful economic lives. Capitalization of fixed assets used for projects and the related depreciation would have a significant impact on the accompanying financial statements if applied.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to funding from multiple resources and except for the effect on the financial statements of the matter referred to in the preceding paragraph, the financial statements give a true and fair view of the financial position of International Science and Technology Center as of December 31, 2006 and 2005, and of its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "Deloitte : Touche LLP". The signature is written in a cursive, flowing style.

Chartered Accountants  
Licensed Public Accountants

Toronto, Ontario  
March 23, 2007

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Table of Contents

December 31, 2006 and 2005

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	<u>Page</u>
Balance Sheets	1
Statements of Revenues and Expenses	2
Statements of Cash Flows	3
Notes to the Financial Statements	4-19

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Balance Sheets

December 31, 2006 and 2005

(Thousands of U.S. Dollars)

	2006	2005
		(Note 3)
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents (Note 4)	\$ 193,060	\$ 182,633
Receivables		
Amounts due from funding parties (Note 5)	10,082	5,140
Project advances	269	521
Other receivables (Note 6)	6	48
Accrued income receivable	742	610
Loan receivable (Note 7)	207	202
Other assets	1,900	520
	206,266	189,674
<b>NON-CURRENT RECEIVABLES FROM FUNDING PARTIES (Note 5)</b>	887	5,708
	\$ 207,153	\$ 195,382
<b>LIABILITIES AND CAPITAL CONTRIBUTIONS</b>		
<b>CURRENT</b>		
Accounts payable		
Projects	\$ 3,454	\$ 3,546
Administration and project vendors	1,599	2,630
Grants payable to institutes	9,572	8,741
	14,625	14,917
<b>CAPITAL CONTRIBUTIONS (Note 8)</b>		
<b>DESIGNATED CAPITAL CONTRIBUTIONS ("DCC") - PROJECTS</b>	100,074	99,132
<b>DESIGNATED CAPITAL CONTRIBUTIONS ("DCC") - OPERATING</b>		
Administrative budget	46	703
Supplemental budget	6,353	3,832
<b>UNDESIGNATED CAPITAL CONTRIBUTIONS ("UCC")</b>	86,055	76,798
	192,528	180,465
<b>TOTAL LIABILITIES AND CAPITAL CONTRIBUTION</b>	\$ 207,153	\$ 195,382

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Statements of Revenues and Expenses

Years ended December 31, 2006 and 2005

(Thousands of U.S. Dollars)

	<u>2006</u>	<u>2005</u>
<b>REVENUES</b>		
Project revenues (Note 8(a))	\$ 67,454	\$ 72,476
Operating revenues		
Administrative budget (Note 8(b))	8,257	9,560
Supplemental budget (Note 8(b))	12,235	9,940
Investment income	8,506	5,714
Other income (Note 11)	2,036	-
	<u>98,488</u>	<u>97,690</u>
<b>EXPENSES</b>		
Project expenses (Note 9)		
On-going projects	65,276	69,735
Completed projects	2,178	2,741
Operating expenses (Note 10)		
Administrative budget	8,257	8,932
Supplemental budget	12,235	9,940
Other expenses (Note 11)	6	1,171
	<u>87,952</u>	<u>92,519</u>
<b>EXCESS OF REVENUES OVER EXPENSES (Note 12)</b>	<u>\$ 10,536</u>	<u>\$ 5,171</u>

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Statements of Cash Flows

Years ended December 31, 2006 and 2005

(Thousands of U.S. Dollars)

	2006	2005
<b>NET INFLOW (OUTFLOW) OF CASH AND CASH EQUIVALENTS RELATED TO THE FOLLOWING ACTIVITIES</b>		
<b>OPERATING</b>		
Inflows		
Cash received from funding parties (Note 13)	\$ 90,449	\$ 71,749
Investment income	8,374	5,422
Net foreign exchange gain	877	-
Other	72	68
	99,772	77,239
Outflows		
Project expenditures	(68,260)	(72,195)
Administrative budget	(9,230)	(7,886)
Supplemental budget	(11,855)	(10,636)
Net foreign exchange loss	-	(1,239)
	(89,345)	(91,956)
<b>CASH INFLOW (OUTFLOW) FOR THE YEAR</b>	10,427	(14,717)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 4)</b>	182,633	197,350
<b>CASH AND CASH EQUIVALENTS, END OF YEAR (Note 4)</b>	\$ 193,060	\$ 182,633

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

December 31, 2006 and 2005

(Thousands of U.S. Dollars)

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### 1. ORGANIZATION AND BUSINESS

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

The objectives of ISTC are set forth in Article II of the agreement. ISTC develops, approves, finances and monitors science and technology projects for peace 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. Funding parties which contribute to the ISTC include both Government organizations and private contributors.

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 as a reliable estimate cannot be obtained.

ISTC's registered office is located at Krasnoproletarskaya ulitsa, 32-34, 127473, Moscow, Russian Federation.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### *a. Basis of preparation*

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) except as described below:

International Accounting Standard ("IAS") 16 "Property, plant and Equipment" requires fixed assets to be capitalized and depreciated over their useful economic lives and IAS 38 "Intangible Assets" requires computer software costs be capitalized and amortized over its useful economic life. Due to the nature of ISTC's operations, management believes the application of these requirements would improperly match the revenues contributed by the funding parties with the related expenses. Accordingly, fixed assets acquired for use by ISTC and participating institutes are charged to the statement of revenues and expenses upon acquisition (2006- \$9,754, 2005 - \$11,718).

#### *b. Functional currency*

The U.S. dollar is the functional currency for the ISTC. Accordingly, these financial statements have been prepared using U.S. dollars as the reporting currency. Use of the U.S. dollar best reflects the economic substance of the transactions and circumstances of the ISTC.

#### *c. Project activity*

ISTC authorizes and funds scientific projects which are carried out at institutes within CIS and Georgia. 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.



# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

December 31, 2006 and 2005

(Thousands of U.S. Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### c. *Project activity (continued)*

The project activity is accounted for in the financial statements as follows:

##### Projects

Projects are recognized upon the later occurrence of either the signing date of the project agreement between ISTC, the recipient institutes and the partners or the project commencement date. Upon recognition of a project, the total amount of the funding is credited to the relevant funding parties' designated capital accounts in proportion to the level of funding agreed to by each party. To the extent that the signed projects are not funded by advance payments from the respective funding parties, a receivable is recorded in the accounting records.

##### Project expenses

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

Projects that have not completed the project closing procedures are presented as on-going projects in the statements of revenues and expenses.

##### Project revenues

Project revenues recognized during the year in the statements of revenues and expenses are amounts equal to the total value of project expenses incurred during the year.

#### d. *Operating revenues and expenses*

##### Administrative operating budget ("AOB")

Administrative operating budget revenues recognized in the statements of revenues and expenses during the year are amounts approved by the funding parties for the administrative operating budget for the year and transferred from the funding parties' designated capital contributions – administrative –operating budget.

Revenues in excess of expenses are generally reallocated to the funding parties' undesignated capital contributions accounts in the same proportion as the administrative revenues contributions or upon the Governing Boards approval can be allocated in total or a portion to the AOB and/or SOB in the same method as described above.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

December 31, 2006 and 2005

(Thousands of U.S. Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### d. *Operating revenues and expenses (continued)*

##### Supplemental operating budget ("SOB")

Supplemental operating budget revenues recognized in the year in the statements of revenues and expenses are amounts equal to expenses incurred during the year.

Operating expenses are charged to the statements of revenues and expenses when incurred.

Any surplus in funds upon completion of the programs within the supplemental operating budget are transferred to the funding parties' undesignated capital contribution account.

#### e. *Investment income*

Investment income is comprised of interest and dividends generated during the year.

Investment income is initially credited to the statements of revenues and expenses and allocated to undesignated capital contributions accounts of each funding parties based on the average cash balance of the funding parties.

#### f. *Cash and cash equivalents*

Cash and cash equivalents include cash and highly liquid short-term investments with maturity dates of less than 90 days.

#### g. *Accounts receivable recognition*

Amounts due from funding parties/private partners are recognized when the project agreement is signed per the obligation schedule of payments (see Note 3).

#### h. *Fixed assets*

Fixed assets are acquired for the ISTC's own use or for the projects and other activities and are comprised of the following:

##### ISTC equipment

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

##### Project equipment

Since ISTC does not expect to derive any foreseeable economic benefits from the ownership of project equipment, expenses incurred for equipment under each project is recorded as an expense in the statements of revenues and expenses together with other project expenses incurred during the year

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

December 31, 2006 and 2005

(Thousands of U.S. Dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *i. Foreign currency transactions*

Foreign currency transactions are translated into U.S. dollars at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars at the rate of exchange prevailing at the balance sheet date. Foreign currency translation gains and losses are charged to the statements of revenues and expenses with the exception of translation gains and losses arising from project funding related transactions involving the European Union. Foreign currency translation gains and losses arising from these transactions, denominated in Euros, are charged directly to the European Union's capital contribution accounts and are not included in the statements of revenues and expenses as the projects themselves bear the foreign exchange risk and ISTC's operations are not affected.

#### *j. Taxation*

Under the terms of the agreement establishing ISTC with the Russian Federation Government, ISTC is exempt from income taxes. In addition, ISTC does not pay custom duties and Value Added Taxes ("VAT") on imported goods but does pay VAT on purchases within Russia.

Collectibility of VAT incurred on purchases continues to be uncertain. Accordingly, an allowance for doubtful accounts has been recorded for the VAT that has been recorded as receivables. In the current year, bad debt expense of \$198 (\$535 in 2005) is included as part of the operating expenses - administrative budget.

The VAT incurred on project expenses has been charged to the statements of revenues and expenses as part of the projects costs and a related receivable has not been established.

#### *k. Use of estimates*

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities at the date of the financial statements and revenue and expenses for the period reported.

Actual results could differ from management's best estimate as additional information becomes available in the future.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

December 31, 2006 and 2005

(Thousands of U.S. Dollars)

### 3. CHANGE IN ACCOUNTING POLICY

In prior years, the amount due from funding parties included amounts to which the funding parties had committed (for the next fiscal year's projects, supplemental budgets and administrative budgets) but for which an invoice had not been issued. The amount was recorded as an accounts receivable and as an appropriate capital contribution.

In the current year, ISTC reviewed and revised this policy and now the amounts which have been obligated by the funding parties for the next fiscal year's projects, supplementary budgets and administrative budgets are recorded as accounts receivable and as a capital contribution in the next fiscal year. This change was applied retrospectively and has no impact on the statement of revenues and expenses. The prior year, AOB, SOB and UCC capital accounts and accounts receivable were adjusted as follows:

Year	Debit		(Credit)	Accounts Receivable
	Administrative Operating Budget	Supplemental Operating Budget	Undesignated Capital Contributions	
<b>2005 Opening Balance</b>	\$ 6,678	\$ 11,907	\$ 22,635	\$ (41,220)
<b>Net change in 2005 activity:</b>				
Contributions	\$ (6,859)	\$ (5,175)	\$ (7,237)	\$ 19,271
Transfers form AOB	-	-	(3,569)	3,569
Transfers from SOB	-	-	(8,377)	8,377
Transfers to SOB	(105)	-	-	105
Transfers to UCC	-	8,377	-	(8,377)
2006 Budget	7,743	-	-	(7,743)
	779	3,202	(19,183)	15,202
<b>Closing Balance</b>	\$ 7,457	\$ 15,109	\$ 3,452	\$ (26,018)
<b>2006 Opening Balance</b>	\$ 7,457	\$ 15,109	\$ 3,452	\$ (26,018)

### 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are made up of the following amounts:

	2006	2005
Cash	\$ 174,635	\$ 165,071
Short-term investments	18,425	17,562
	\$ 193,060	\$ 182,633

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

December 31, 2006 and 2005

(Thousands of U.S. Dollars)

### 5. AMOUNTS DUE FROM FUNDING PARTIES

Amounts due from funding parties at December 31 were as follows:

	<u>2006</u>	<u>2005</u>
Due within one year		
European Union	\$ -	\$ -
Japan	100	100
Canada	5,605	1,271
Norway	-	-
United States	2,797	961
South Korea	-	-
Other funding parties	1,580	2,808
	<u>\$ 10,082</u>	<u>\$ 5,140</u>
Due after one year		
Japan	\$ 200	\$ 300
Canada	539	119
United States	-	5,069
Other funding parties	148	220
	<u>\$ 887</u>	<u>\$ 5,708</u>

### 6. OTHER RECEIVABLES

Other receivables comprise the following:

	<u>2006</u>	<u>2005</u>
Recoverable taxes	\$ 1,740	\$ 1,542
Staff advances	8	11
Other receivables	9	48
	<u>1,757</u>	<u>1,601</u>
Less allowance for doubtful receivables	<u>(1,751)</u>	<u>(1,553)</u>
Net other receivables	<u>\$ 6</u>	<u>\$ 48</u>

### 7. LOAN RECEIVABLE

During the year ended December 31, 2003, ISTC acquired a bank note in the amount of 10,328 thousand rubles (\$351) maturing on July 1, 2004 as part of an agreement with the bank to provide a loan to a Russian governmental agency. As this governmental agency was not able to repay its loan to the bank by July 1, 2004, ISTC paid the bank and assumed a loan receivable of 10,000 thousand rubles (\$343) from the Russian government agency. The loan is an interest-free loan.

During the year ended December 31, 2006, the Russian government agency repaid 361 thousand rubles (\$13) (2005 - 3,200 thousand rubles (\$122)) to ISTC. Due to the uncertainty of payment terms, the fair value of the loan could not be determined. The foreign exchange gain on the loan for the year was \$18 (2005; \$0).

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

December 31, 2006 and 2005  
(Thousands of U.S. Dollars)

### 8. MOVEMENTS IN CAPITAL

Movements in capital accounts during fiscal years 2006 and 2005 are shown by capital account of the pages which follow:

*a. Designated Capital Contributions ("DCC") - Projects*

Designated capital contribution – Projects represent amounts committed on signed projects net of project expenses incurred to date.

	EU	U.S.	CA	Japan	Norway	Sweden	South Korea	Other Parties	Total
DCC projects - January 1, 2005	\$ 29,345	\$ 58,135	\$ 2,134	\$ 3,539	\$ 9	\$ -	\$ 342	\$ 5,809	\$ 99,313
Transfers to statement of revenues and expenses	(21,068)	(37,946)	(2,997)	(3,542)	(14)	-	(302)	(6,607)	(72,476)
New projects signed during 2005	18,950	35,310	7,796	2,864	51	-	380	6,702	72,053
Funding received in excess of expenses transferred to UCC	(74)	(174)	-	(33)	-	-	(1)	(15)	(297)
Funding received in excess of expenses transferred to DCC - operating - supplemental budget	(19)	(22)	-	-	-	-	-	-	(41)
Foreign exchange difference	560 *	-	-	-	-	-	-	20	580
DCC projects - December 31, 2005 and January 1, 2006	27,694	55,303	6,933	2,828	46	-	419	5,909	99,132
Transfers to statement of revenues and expenses	(20,728)	(34,100)	(5,236)	(1,468)	(22)	-	(383)	(5,517)	(67,454)
New projects signed during 2006	21,284	30,529	9,645	388	-	-	626	6,030	68,502
Funding received in excess of expenses transferred to UCC	(113)	(439)	(3)	(59)	-	-	(1)	(14)	(629)
Funding received in excess of expenses transferred to DCC - operating - supplemental budget	-	(204)	(17)	-	-	-	-	-	(221)
Foreign exchange difference	680 *	-	-	-	-	-	-	64	744
DCC projects - December 31, 2006	\$ 28,817	\$ 51,089	\$ 11,322	\$ 1,689	\$ 24	\$ -	\$ 661	\$ 6,472	\$ 100,074

\* Appreciation of the Euro against the U.S. dollar has resulted in an increase in the funds available to the institutes in which the EU is a funding party. Projects in which there is a receivable from the EU at year end denominated in Euro are converted to U.S. dollar at the year end exchange rate and the related DCC project amount is adjusted accordingly.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

December 31, 2006 and 2005  
(Thousands of U.S. Dollars)

### 8. MOVEMENTS IN CAPITAL (continued)

*b. Designated Capital Contributions ("DCC") - Operating (Note 3)*

Administrative operating budget represents amount committed for the administration budget for the next fiscal year.

	EU	U.S.	Canada	Japan	Norway	South Korea	Russia	Other Parties	Total
Administrative operating budget - January 1, 2005	\$ -	\$ 158	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56	\$ 214
Transfer to statement of revenues and expenses	(2,197)	(4,123)	(1,391)	(1,103)	(298)	(310)	(50)	(88)	(9,560)
Additional contribution (net of adjustments)	2,197	4,146	1,391	1,103	298	310	50	98	9,593
Revenues in excess of expenses for the year	160	315	84	58	5	6	-	-	628
Transfer to UCC for revenues in excess of expenses	(70)	(139)	(37)	(26)	(2)	(3)	-	-	(277)
Transfer to SOB	-	105	-	-	-	-	-	-	105
Administrative operating budget - December 31, 2005 and January 1, 2006	90	462	47	32	3	3	-	66	703
New budget approved 2006	1,941	3,569	1,117	696	52	82	-	-	7,457
Transfer to statement of revenues and expenses	(2,031)	(4,081)	(1,164)	(728)	(55)	(85)	(50)	(63)	(8,257)
Additional contribution (net of adjustments)	-	50	-	-	-	-	50	43	143
Administrative budget - December 31, 2006	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46	\$ 46

**INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER**  
**Notes to Financial Statements**  
December 31, 2006 and 2005  
(Thousands of U.S. Dollars)

**8. MOVEMENTS IN CAPITAL (continued)**

*b. Designated Capital Contributions ("DCC") - Operating (continued)*

SOB represents amounts committed to programs and program activities net of related expenses incurred to date.

	EU	U.S.	Canada	Japan	South Korea	Other Parties	Total
Supplemental operating budget ("SOB") ("SOB") - January 1, 2005	\$ 1,532	\$ 5,966	\$ 2,673	\$ 657	\$ 79	\$ 74	\$ 10,981
Transfer to statement of revenues and expenses	(2,977)	(5,185)	(1,002)	(435)	(243)	(98)	(9,940)
Additional contribution	6,592	7,691	3,267	440	242	216	18,448
Transfer to DCC - projects	(1,354)	(1,365)	(1,544)	-	-	-	(4,263)
Transfer to UCC for unused funds	(3,369)	(3,609)	(3,329)	(662)	(78)	-	(11,047)
Transfer from DCC - projects for unused funds	19	22	-	-	-	-	41
Transfer to AOB	-	(105)	-	-	-	-	(105)
Foreign exchange differences	(282)	-	-	-	-	-	(282)
Supplemental budget - December 31, 2005 and January 1, 2006	161	3,415	65	-	-	192	3,833
Transfer to statement of revenues and expenses	(3,092)	(5,856)	(2,344)	(493)	(286)	(164)	(12,235)
Additional contribution	6,037	9,944	5,358	1,315	369	272	23,295
Transfer to DCC - projects	(503)	(997)	(1,303)	-	-	-	(2,803)
Transfer to UCC for unused funds	(2,766)	(1,667)	(1,186)	(613)	(43)	-	(6,275)
Transfer from DCC - projects for unused funds	-	204	17	-	-	-	221
Foreign exchange differences	317	-	-	-	-	-	317
Supplemental operating budget - December 31, 2006	\$ 154	\$ 5,043	\$ 607	\$ 209	\$ 40	\$ 300	\$ 6,353



# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

December 31, 2006 and 2005  
(Thousands of U.S. Dollars)

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### 8. MOVEMENTS IN CAPITAL (continued)

c. *Undesignated Capital Contributions ("UCC") (Note 3)*

Undesignated capital contributions are the amounts paid or committed by the funding parties which have not yet been designated for the operating budget or project purposes. In addition, in the case of projects funded by the 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 issued 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 appropriation is made between the designated and undesignated capital contributions account.

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

**INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER**  
**Notes to Financial Statements**  
December 31, 2006 and 2005  
(Thousands of U.S. Dollars)

**8. MOVEMENTS IN CAPITAL (continued)**

*c. Undesignated Capital Contributions ("UCC") (continued)*

	EU	U.S.	CA	Japan	Norway	Finland	Sweden	South Korea	Other Parties	Total
UCC - January 1, 2005	\$ 12,678	\$ 53,172	\$ 6,788	\$ 4,129	\$ 982	\$ 180	\$ 430	\$ 452	\$ 1,177	\$ 79,988
Increase of capital										
Contributions from parties	19,191	24,761	1,359	980	-	-	-	234	1,959	48,484
Investment income allocation	1,570	3,325	350	236	18	3	12	26	174	5,714
Transfer from DCC for revenues in excess of expenses in operating - administrative budget	70	139	37	26	2	-	-	3	-	277
Transfer from DCC for unused funds on programs under operating - supplemental budget	3,369	3,609	3,329	662	-	-	-	78	-	11,047
Transfer from DCC - projects for approved funding in excess of expenses	74	174	-	33	-	-	-	1	15	297
Foreign exchange differences	(1,178)	-	-	-	-	-	-	-	7	(1,171)
Decrease of capital										
Transfer to DCC - projects for signed projects	(18,175)	(31,009)	(5,570)	(2,278)	(51)	-	-	(100)	(780)	(57,963)
Transfer to DCC for operating - administrative budget	(492)	(773)	(492)	(492)	(246)	-	-	(246)	(10)	(2,751)
Transfer to DCC for operating - supplemental budget	-	(5,682)	-	-	-	-	-	(64)	(147)	(5,893)
Return of funds	(81)	(1,000)	-	(4)	-	-	-	-	(146)	(1,231)
UCC - December 31, 2005	\$ 17,026	\$ 46,716	\$ 5,801	\$ 3,292	\$ 705	\$ 183	\$ 442	\$ 384	\$ 2,249	\$ 76,798

**INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER**  
**Notes to Financial Statements**  
December 31, 2006 and 2005  
(Thousands of U.S. Dollars)

**8. MOVEMENTS IN CAPITAL (continued)**

*c. Undesignated Capital Contributions ("UCC") (continued)*

	EU	U.S.	CA	Japan	Norway	Finland	Sweden	South Korea	Other Parties	Total
UCC - December 31, 2005	\$ 17,026	\$ 46,716	\$ 5,801	\$ 3,292	\$ 705	\$ 183	\$ 442	\$ 384	\$ 2,249	\$ 76,798
Increase of capital										
Contributions from parties	19,513	42,718	3,129	1,918	-	-	-	212	4,188	71,678
Investment income allocation	2,316	4,862	521	297	33	5	20	47	405	8,506
Transfer from DCC for unused funds on programs under operating - supplemental budget	2,766	1,667	1,186	613	-	-	-	43	-	6,275
Transfer from DCC - projects for approved funding in excess of expenses	113	439	3	59	-	-	-	1	14	629
Foreign exchange differences	2,035	-	-	-	-	-	-	-	1	2,036
Decrease of capital										
Transfer to DCC - projects for signed projects	(21,462)	(30,421)	(2,787)	(388)	-	-	-	(400)	(2,729)	(58,187)
Transfer to DCC for operating - administrative budget	-	(3,619)	(1,117)	-	-	-	-	-	-	(4,736)
Transfer to DCC for operating - supplemental budget	(3,011)	(9,158)	(3,271)	(1,062)	-	-	-	(118)	(170)	(16,790)
Other	(2)	(2)	-	(2)	-	-	-	-	-	(6)
Return of funds	-	-	-	(77)	-	-	-	-	(71)	(148)
UCC - December 31, 2006	\$ 19,294	\$ 53,202	\$ 3,465	\$ 4,650	\$ 738	\$ 188	\$ 462	\$ 169	\$ 3,887	\$ 86,055

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

December 31, 2006 and 2005

(Thousands of U.S. Dollars)

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### 9. PROJECT EXPENSES

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

2006	\$ 67,454
2005	72,476
2004	77,102
2003	75,715
2002	68,215
2001	52,690
2000	43,923
1999	36,039
1998	33,320
1997	31,029
1996	28,459
1995	22,001
1994	1,765
<hr/>	
Cumulative project expenses incurred as of December 31, 2006	\$ 610,188

Cumulative project expenses amounting to \$610,188 (2005 - \$542,734) reflect actual expenses incurred on ongoing projects and completed projects. Such expenses consisted of the following in 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Grants to scientists	\$ 41,018	\$ 43,794
Equipment	9,754	11,718
Other project costs	16,682	16,964
	<hr/>	<hr/>
	\$ 67,454	\$ 72,476

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

December 31, 2006 and 2005

(Thousands of U.S. Dollars)

### 10. OPERATING EXPENSES

Operating expenses incurred during 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Administrative budget		
Personnel	\$ 4,916	\$ 3,925
Center operations	2,122	1,931
Center facilities and equipment	737	633
Information and branch offices	69	62
Internal programs	413	2,381
	<u>\$ 8,257</u>	<u>\$ 8,932</u>
	<u>2006</u>	<u>2005</u>
Supplemental budget		
Training	\$ 791	\$ 565
Seminars	3,101	1,585
Management information systems	265	104
Expert participation		
United States	4,371	4,301
European Union	2,288	2,381
Canada	951	568
Japan	308	280
South Korea	143	139
Russia	17	17
	<u>\$12,235</u>	<u>\$ 9,940</u>

### 11. OTHER INCOME AND EXPENSES

Other income (expenses) during 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Other income (expenses)		
Net foreign exchange (loss)/gain	\$ 2,036	\$ (1,171)
Write-off of project receivables	-	-
Other income	-	-
Other expenses	(6)	-
	<u>\$ 2,030</u>	<u>\$ (1,171)</u>

Other expenses represent amounts not specifically contributed through the operating budgets.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

December 31, 2006 and 2005

(Thousands of U.S. Dollars)

### 12. FUNDING PARTY INFORMATION

The revenues in excess of expenses during the year have been allocated to the funding parties as follows:

	Project Revenues	Administrative Budget	Supplemental Budget Revenues	Investment Income	Project Expenses	Supplemental Budget Expenses	Other Income (Expenses)	Total
<u>2006</u>								
Canada	\$ 5,236	\$ -	\$ 2,344	\$ 521	\$ (5,236)	\$ (2,344)	\$ -	\$ 521
European Union	20,728	-	3,092	2,316	(20,728)	(3,092)	2,033	4,349
Finland	-	-	-	5	-	-	-	5
Japan	1,468	-	493	297	(1,468)	(493)	(2)	295
Sweden	-	-	-	20	-	-	-	20
United States	34,100	-	5,856	4,862	(34,100)	(5,856)	(2)	4,860
Norway	22	-	-	33	(22)	-	-	33
South Korea	383	-	286	47	(383)	(286)	-	47
Other parties	5,517	-	164	405	(5,517)	(164)	1	406
	<u>\$ 67,454</u>	<u>\$ -</u>	<u>\$ 12,235</u>	<u>\$ 8,506</u>	<u>\$ (67,454)</u>	<u>\$ (12,235)</u>	<u>\$ 2,030</u>	<u>\$ 10,536</u>
<u>2005</u>								
Canada	\$ 2,997	\$ 84	\$ 1,002	\$ 350	\$ (2,997)	\$ (1,002)	\$ -	\$ 434
European Union	21,068	160	2,977	1,570	(21,068)	(2,977)	(1,178)	552
Finland	-	-	-	3	-	-	-	3
Japan	3,542	58	435	236	(3,542)	(435)	-	294
Sweden	-	-	-	12	-	-	-	12
United States	37,946	315	5,185	3,325	(37,946)	(5,185)	-	3,640
Norway	14	5	-	18	(14)	-	-	23
South Korea	302	6	243	26	(302)	(243)	-	32
Other parties	6,607	-	98	174	(6,607)	(98)	7	181
	<u>\$ 72,476</u>	<u>\$ 628</u>	<u>\$ 9,940</u>	<u>\$ 5,714</u>	<u>\$ (72,476)</u>	<u>\$ (9,940)</u>	<u>\$ (1,171)</u>	<u>\$ 5,171</u>

All revenues in excess of expenses arising during the year have been allocated to the funding parties UCC accounts based on the funding levels of the sponsors.

# INTERNATIONAL SCIENCE AND TECHNOLOGY CENTER

## Notes to Financial Statements

December 31, 2006 and 2005

(Thousands of U.S. Dollars)

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### 13. AMOUNTS RECEIVED FROM FUNDING PARTIES

Amounts received during the year from the funding parties have either been recorded against accounts receivable or directly against the parties' capital contributions accounts (see Note 8). Such amounts received during 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
European Union	\$ 25,955	\$ 27,186
Japan	2,890	1,162
United States	45,929	31,797
Norway	52	52
South Korea	771	756
Canada	6,017	4,038
Other parties	8,835	6,758
	<u>\$ 90,449</u>	<u>\$ 71,749</u>

### 14. FINANCIAL COMMITMENTS

The funding parties have approved but not yet signed 57 (2005 - 91) projects with a total funding of \$17,541 (2005 - \$26,007) including € 6,250 thousand; (2005 - €10,866 thousand) denominated pledges at December 31, 2006 and 2005.

The agreements for projects unsigned as of December 31, 2006 are expected to be signed in 2007.

The Governing Board approved the 2007 Administrative Operating Budget (\$7,826) and the 2007 Supplementary Operating Budget (\$10,192) at its December 7, 2006 meeting. The budgets will be funded by the various parties in a predetermined formula.

### 15. FINANCIAL INSTRUMENTS

The fair value of financial instruments approximates their carrying value unless otherwise noted. Funding Parties have the option to terminate a project agreement provided that notification to do so is submitted within the period specified by each agreement. The fair value of the long term amounts is not readily determinable. For Accounts Receivable beyond one year, fair values were not obtained as there is no benefit in obtaining this information.