

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS

We have audited the financial statements, set out on pages 3 to 20, of the Science and Technology Center in Ukraine as at 31 December 2001 at the request of the Board of Governors. The financial statements comprise the Statement of Revenues and Expenditure, the Balance Sheet, the Statement of Cash Flows and the Notes to the financial statements. These financial statements are the responsibility of the management of the Science and Technology Center in Ukraine. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following two paragraphs, we conducted our audit in accordance with International Standards on Auditing. These Standards require that we plan and perform the audit to obtain reasonable assurance that 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 and policies adopted and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The terms of the project agreements, concluded between the Science and Technology Center in Ukraine and the recipient institutes, state that grant costs for a specific period of time may not be claimed by the recipient institutes if they are receiving reimbursements from other funding sources for the same period of time. Due to our inability to access appropriate records of the recipient institutes we were unable to satisfy ourselves as to whether the claims made by the recipient institutes include amounts for which they may have received reimbursements from other sources. There were no alternative audit procedures that we could adopt to confirm the above.

As more fully explained in the Accounting Policies, fixed assets used for both the Center and the STCU funded projects, which have useful lives extending beyond the current year were expensed during the current and prior years as costs. The management of the Science and Technology Center in Ukraine believe that because of the unusual nature and circumstances of its activities this treatment properly matches the revenues specifically contributed by the funding parties with the related expenditure. International Accounting Standards require fixed assets to be capitalized and depreciated over their expected useful lives. Capitalization and depreciation of fixed assets used for projects would have a consequential effect on the accompanying financial statements if it were applied.

In our opinion, except 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 the Science and Technology Center in Ukraine as at 31 December 2001, and of the results of its operations and its cash flows for the year then ended and has been prepared in accordance with International Accounting Standards.

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INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS (Continued)

In forming our opinion, we have considered the adequacy of the disclosure made in the accounting policies included in the financial statements in respect of the problems that the STCU are experiencing with the occupation of its current premises. The STCU is currently in negotiations to resolve this matter, however the ultimate outcome of the matter cannot presently be determined and in view of this uncertainty we consider that this matter should be drawn to your attention, but our opinion is not qualified in this respect.

Lubbock Fine
7 MAY 2002
Lubbock Fine
London