

**SCIENCE AND TECHNOLOGY
CENTER IN UKRAINE**

Financial Statements for the
Year Ended 31 December 2004

**Lubbock Fine
Chartered Accountants
Registered Auditors**

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

TABLE OF CONTENTS

	Page
Auditors' Report	1
Accounting Policies	2
Statement of Revenues and Expenditure	8
Balance Sheet	9
Statement of Cash Flows	10
Notes to the Accounts	11 to 21

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS

We have audited the financial statements, set out on pages 2 to 21, of the Science and Technology Center in Ukraine as at 31 December 2004 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 funding 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 projects funded by the Science and Technology Center in Ukraine, which have useful lives extending beyond the current year were expensed immediately on acquisition to the Statement of Revenues and Expenditure. 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 Standard 16 requires Property, plant and equipment to be capitalized and depreciated over their expected useful lives. Capitalization and depreciation of fixed assets used for the Center and 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 2004, and of the results of its operations and its cash flows for the year then ended and have been prepared in accordance with International Financial Reporting Standards.

Lubbock Fine
London

Lubbock
[Signature]
13 MAY 2005

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

ACCOUNTING POLICIES

Overview of the Science and Technology Center in Ukraine (STCU)

The Science and Technology Center in Ukraine (STCU) is an intergovernmental organization dedicated to nonproliferation of technologies and expertise related to weapons of mass destruction, including nuclear, biological and chemical weapons, and their delivery systems.

The United States, Canada, Sweden and Ukraine signed the agreement establishing the Science and Technology Center in Ukraine on October 25, 1993 (referred to as “the STCU agreement”). The European Communities acceded to the STCU agreement on November 26, 1998, and in so doing, replaced Sweden as a party to the STCU agreement.

The STCU helps develop, finance and monitor science and technology projects that engage the former Soviet weapons community in Ukraine, Azerbaijan, Uzbekistan, Georgia, and Moldova in peaceful civilian activities. The Funding Parties of STCU projects include: the signatories to the STCU agreement, Japan as a sponsor of the STCU agreement and Partners (government and non-government) approved by the Board of Governors.

The STCU is a legal entity and has been registered by the Ministry of Foreign Affairs of Ukraine as an intergovernmental organization with its headquarters in 21 Kameniariv, Kyiv, Ukraine 03138. The STCU has an international staff of 72 full time scientific, financial and administrative experts.

Basis of Preparation

The financial statements have been prepared under the historic cost convention and in accordance with applicable International Financial Reporting Standards (IFRS) except for International Accounting Standard (IAS) 16 relating to Property, plant and equipment as explained in the policy for Property, plant and equipment.

The financial statements have been prepared in United States Dollars (USD), as required by the STCU’s Financial Regulations.

Project Activity

The STCU authorizes and funds scientific projects which are performed at institutions within Ukraine, Azerbaijan, Uzbekistan Georgia and Moldova. 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 in the financial statements as follows:

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

ACCOUNTING POLICIES

Project Recognition

The projects are only recognized after signature of the project agreement between the STCU and the recipient institutes. Upon signature, the total project value is credited to the relevant Funding Parties Designated Capital Account in proportion to the level of funding agreed by each party. To the extent that the value of the signed projects are not covered by advance payments from the respective Funding Parties, a receivable is set up in the financial statements.

Project Expenditure

Project costs consist of three main components: grants to scientists, equipment and overhead. The STCU, being a non-profit making inter-governmental organization, does not envisage that any economic benefits will accrue to it in the foreseeable future from the financing of these projects. Accordingly all project costs incurred, including the purchase of project equipment, are charged immediately to the Statement of Revenues and Expenditure. Projects are performed on a cost reimbursable basis, with ceiling funds specified in the project agreements.

The STCU temporarily retains 50 percent of the allowable overhead for the individual projects, in accordance with the project agreements, until the submission, and acceptance of, the financial and technical reports prepared by the project recipients.

When a project has been completed, any funds committed in excess of actual costs are credited back to the relevant Funding Parties' Undesignated Capital Contributions Account.

Project Revenues

Project revenues recognized during the year in the Statement of Revenues and Expenditure are amounts equal to the total value of project expenditure incurred and written off during the year. These revenues are transferred from the Funding Parties' Designated Capital Accounts for Projects.

Administrative and Supplemental Revenues and Expenditure

Administrative Operating Budget

Administrative Revenues recognized in the Statement of Revenues and Expenditure during the year equate to the amounts approved by the Board of Governors for the Administrative Operating Budget for the year. The budget is set and agreed at meetings of the Board of Governors in the previous financial year. The agreed budgeted amounts are transferred from the Designated Capital

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

ACCOUNTING POLICIES

Accounts for Administrative Expenses of the United States, Canada, the European Union, and Ukraine.

Administrative Expenses are charged to the Statement of Revenues and Expenditure when incurred and are matched against the Administrative Revenues for the year.

Surplus Administrative Revenues arising during the year are re-allocated to the Undesignated Capital Contributions Accounts of the United States, Canada, and the European Union in the same ratio as the Administrative Revenues contributions.

Supplemental Budget

Supplemental Budgets are approved by the Board of Governors to provide funding for activities that are outside the scope of the Administrative Operating Budget and not directly related to the implementation of projects. Upon agreement of the Supplemental Budgets at Governing Board Meetings the total amount of such budgets approved are credited to the relevant Funding Parties Designated Capital Accounts for Supplemental Budgets in proportion to the level of funding agreed by each party.

Supplemental Budget expenses are charged to the Statement of Revenues and Expenditure when incurred. Supplemental Budget revenues recognized in the year are amounts equal to the value of the Supplemental Budget expenditure incurred in the year. These revenues are transferred from the Funding Parties Designated Capital Accounts for Supplemental Budgets.

Partner Fees and Interest

Partner projects may be charged a fee, usually 5% of the total project cost, for the services provided by the STCU to administer the project, which are recognized in the Statement of Revenues and Expenditure. The surplus partner fees are allocated to the Undesignated Capital Contributions Accounts of the United States, Canada, and the European Union in the same ratio as their Administrative Revenues contributions.

Interest earned on Funding Party bank accounts is recognized in the Statement of Revenues and Expenditure. Surplus interest earned is allocated to the Funding Parties Undesignated Capital Contributions Accounts, with the exception of Partner interest earned, which is allocated to the Undesignated Capital Contributions Accounts of the United States, Canada, and the European Union in the same ratio as their Administrative Revenues contributions. Interest earned on administrative and supplemental bank accounts is allocated to the Undesignated Capital Contributions Accounts of the United States, Canada, and

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

ACCOUNTING POLICIES

the European Union in the same ratio as their Administrative Revenues contributions.

Property, Plant and Equipment

Property, plant and equipment are acquired either for the Center's own use or for the projects and comprises of the following:

Center

Property and equipment acquired by the Center for administrative operations consist of vehicles, office furniture and equipment, including computer hardware and software and communications devices. All commitments and expenditures for administrative equipment are made in accordance with the Board's approved annual budget.

The cost of the Center's equipment is charged to the Statement of Revenues and Expenditure when acquired.

Project Equipment

Since the STCU does not expect to derive any foreseeable economic benefits from the ownership of project equipment, the expenditure incurred during the year on equipment under each project, is written off to the Statement of Revenues and Expenditure.

IAS 16 requires Property, plant and equipment with useful lives of beyond the current accounting period be capitalized and depreciated over their useful lives. The management believe 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 expenditure. Accordingly, the property, plant and equipment acquired for use by the Center and also the projects are charged in full upon acquisition to the Statement of Revenues and Expenditure in accordance with the accounting policy for property, plant and equipment set out above.

Cash at bank and in hand

Cash at bank and in hand includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Foreign Currency Transactions

All foreign currency transactions are converted into USD at the exchange rates prevailing at the date of the transaction. 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 Statement of Revenues and Expenditure under

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

ACCOUNTING POLICIES

the administrative operating budget in the period incurred. Activities in Azerbaijan, Uzbekistan, Georgia, and Moldova are transacted in USD and, therefore do not result in any gains or losses from currency exchanges.

European Union Funded Projects

Due to the fact that all projects financed by the European Union are funded in Euro and the requirement that the STCU financial statements are maintained in USD, all European Union funded projects have to be expressed in USD. The manner in which these commitments are expressed is set out below.

Projects Signed at or Subsequent to the 10th Board of Governors Meeting Conducted on June 1, 2000

Project agreements approved by the European Union at all Governing Board Meetings prior to the 10th Board of Governors Meeting are concluded in USD.

Project agreements approved by the European Union at all Governing Board Meetings including and subsequent to the 10th Board of Governors Meeting are concluded in Euros if solely funded by the European Union, and in USD if projects are jointly funded.

In relation to project agreement procedures for European Union projects approved at or subsequent to the 10th Board of Governors Meeting, concluded in USD, the Executive Director of the STCU assigns these projects a Euro to USD exchange rate on the date the Board funding table is signed. The exchange rate assigned incorporates a financial safety margin for each approved project in the amount of 5% of the exchange rate on the date of the signature of the Board funding table. The European Union then provides funding at some later date in Euros, and the STCU immediately converts the Euros upon receipt into USD. If a reserve remains, it is withheld by the STCU until the total amount of Euros provided by the European Union is converted into USD, and the total amount of USD provided by the European Union is known. The project agreements are then formally amended accordingly to match the amount of USD received, including the reserve if available.

Projects Signed at or subsequent to the 17th Board of Governors Meeting Conducted on December 4, 2003

Project agreements approved by the European Union at all Governing Board Meetings including and subsequent to the 17th Board of Governors Meeting are concluded in Euros if solely funded by the European Union, and in USD if projects are jointly funded.

The project agreement procedures for projects approved at or subsequent to the 17th Board of Governors Meeting, concluded in USD, differ from the

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

ACCOUNTING POLICIES

aforementioned procedures for projects financed by the European Union at or subsequent to the 10th STCU Board of Governors Meeting.

The European Union provides funding in Euros, before the projects are signed by the STCU Executive Director, and the STCU immediately converts the Euros upon receipt into USD. The total amount of USD provided by the European Union is therefore known before the start of the project, and thus the project agreements are written to match the amount of USD received.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

STATEMENT OF REVENUES AND EXPENDITURE
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 USD	2003 USD
REVENUES			
Project Revenue		17,675,237	17,937,532
Administrative Revenue			
- Administrative Operating Budget		1,891,037	1,755,512
- Supplemental Budget		1,946,671	1,483,183
New Building Fund		-	94,853
Partner Fees		124,146	129,587
Interest Income		404,958	318,952
		<u>22,042,049</u>	<u>21,719,619</u>
EXPENDITURE			
Project Expenditure	1	17,675,237	17,937,532
Administrative Expenditure	2		
- Administrative Operating Budget		1,816,549	1,731,469
- Supplemental Budget		1,946,671	1,483,183
New Building Fund		-	94,853
		<u>21,438,457</u>	<u>21,247,037</u>
NET SURPLUS	3	<u>603,592</u>	<u>472,582</u>

There are no recognised gains or losses other than the results for the year as set out above.

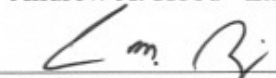
SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

BALANCE SHEET AT 31 DECEMBER 2004

	Note	2004 USD	2003 USD
CURRENT ASSETS			
Receivables			
Amounts due from funding parties	5	6,561,908	9,094,008
Other receivables	6	26,237	44,306
Prepayments and accrued income	7	80,362	42,776
Cash and cash equivalents		41,143,759	37,379,117
		<u>47,812,266</u>	<u>46,560,207</u>
CURRENT LIABILITIES			
Amounts payable – projects	8	(2,317,981)	(2,688,795)
Amounts payable – non-project		(236,715)	(187,803)
		<u>(2,554,696)</u>	<u>(2,876,598)</u>
TOTAL ASSETS LESS LIABILITIES		<u>45,257,570</u>	<u>43,683,609</u>
CAPITAL CONTRIBUTIONS			
Designated capital – projects	9	20,916,901	22,348,183
Designated capital – administration	10	1,959,358	1,726,214
Designated capital – supplemental	11	4,660,357	4,382,932
Undesignated capital	12	17,720,954	15,226,280
		<u>45,257,570</u>	<u>43,683,609</u>

Signed on behalf of
The Science and Technology Center in Ukraine 6 MAY 2005


Andrew A. Hood – Executive Director


Curtis M. Bjelajac – Chief Financial Officer

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE

STATEMENT OF CASH FLOWS AT 31 DECEMBER 2004

	Note	2004 USD	2003 USD
Cash Flows from Operations			
Cash Inflows			
Net Cash Received from Funding Parties	13	24,913,683	19,573,829
Interest Income and Partner Fees Received		487,134	456,894
Total Cash Inflows		<u>25,400,817</u>	<u>20,030,723</u>
Cash Outflows			
Project Expenditure		(18,046,051)	(16,467,892)
Administrative and Supplemental Expenditure		(3,590,124)	(3,281,855)
Total Cash Outflows		<u>(21,636,175)</u>	<u>(19,749,747)</u>
Net Cash Inflows From Operations		3,764,642	280,976
Cash and cash equivalents at 1 January		37,379,117	37,098,141
Cash and cash equivalents at 31 December		<u>41,143,759</u>	<u>37,379,117</u>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

1. Project Expenditure

	USD
Amounts charged to the Statement of Revenues and Expenditure:	
2004	17,675,237
2003	17,937,532
2002	12,317,194
2001	10,100,633
2000	7,096,198
1999	7,904,566
1998	7,351,641
1997	4,987,540
1996	1,339,245
1995	-
Cumulative project costs incurred to 31 December 2004	<u>86,709,786</u>

Project expenditure comprises of grants to scientists, equipment costs, travel costs and overhead costs.

Under the terms of the individual project agreements signed, title to equipment costing less than 2,500 USD is vested with the recipient institutes upon acquisition. The title to all other equipment provided to projects will remain with the Center until termination or completion of the project at which time the title will be vested in the recipient institutes unless prior to or on that date the Center informs the project of its intention to retain title.

2. Administrative Expenditure

	2004	2003
	USD	USD
a) Administrative Operating Budget		
Business Operations	282,685	334,611
Public Affairs	39,130	52,651
Personnel	646,432	603,006
Personnel Support and Development	118,749	123,590
Sustainability Group Operations	79,929	62,166
Legal, Auditing, and Banking	271,654	262,748
Fixed Assets	145,051	82,188
Headquarters and Branch Offices	232,919	210,509
	<u>1,816,549</u>	<u>1,731,469</u>

Included within 'Legal, auditing and banking' are exchange losses of 12,050 USD (2003 - 9,605 USD).

Personnel costs comprises grants made to the grantees in the STCU headquarters and six regional offices located in Lviv, Kharkiv, Dnipropetrovsk, Baku, Tashkent and Tbilisi.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

	2004	2003
	USD	USD
b) Supplemental Budget		
Technical, Collaborator and Contractor Travel Support	36,196	95,572
Information Technology Support	51,458	45,185
Communication Support	2,555	-
Business Training/ Sustainability Group Support	19	67
Patent Support	23,335	14,185
Travel and Mobility Support	210,870	214,101
Expert Review and Advisors	27,609	9,182
Seminars/ Workshops Support	86,034	36,523
Service Contracts	1,508,595	1,068,368
	<u>1,946,671</u>	<u>1,483,183</u>

3. Net Surplus Revenues Over Expenditure

The net surplus of 603,592 USD comprises the following;

	2004	2003
	USD	USD
Surplus Administrative Budget Revenues	76,109	18,161
Investment Income	404,958	318,952
Partner Fees	124,146	129,587
Other Revenue/(Expense)	(1,621)	5,882
	<u>603,592</u>	<u>472,582</u>

The net surplus set out above has been allocated to the Funding Parties in accordance with the accounting policies and agreed responsibilities.

4. Taxation

Under the terms of the agreement establishing the STCU and also the Statute approved by the Board of Governors, the STCU is exempted from any form of taxation. However, only since December 1999 has the relevant legal framework been implemented in Ukraine, allowing the STCU to recover its VAT on Administrative expenditures.

The VAT incurred on project expenditures has been charged to the Statement of Revenues and Expenditure as part of the project costs because, for the time being there is no practical process in place for the recovery of VAT for project purchases within Ukraine, Georgia, Uzbekistan, and Azerbaijan. Management of the STCU continues discussions with the Governments of Ukraine, Georgia, Uzbekistan, and Azerbaijan to investigate the possibility of establishing a procedure to recover project VAT for purchases made within these respective countries. However, the management of the STCU does not expect to recover the amounts incurred to date.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

Accordingly the VAT incurred on project expenditures has been charged to the Statement of Revenues and Expenditure as part of the project costs. Project items purchased abroad by the STCU and imported into Ukraine, Georgia, Uzbekistan, and Azerbaijan are exempt from VAT.

The VAT on administrative expenditures for 2004 has been credited back to the corresponding expense account to which it relates.

5. Amounts Due from Funding Parties – Due Within One Year

	2004	2003
	USD	USD
United States	2,370,527	2,147,035
Canada	233,372	229,222
European Union	1,164,132	2,588,104
Partners	1,591,908	3,091,467
	<u>5,359,939</u>	<u>8,055,828</u>

Amounts Due From Funding Parties – Due After One Year

	2004	2003
	USD	USD
European Union	625,888	579,611
Partners	576,081	458,569
	<u>1,201,969</u>	<u>1,038,180</u>
Total due from funding parties	<u>6,561,908</u>	<u>9,094,008</u>

6. Other receivables

	2004	2003
	USD	USD
VAT Recoverable	13,968	17,052
Other Receivables	12,269	27,254
	<u>26,237</u>	<u>44,306</u>

7. Prepayments and accrued income

	2004	2003
	USD	USD
Prepayments	24,342	21,772
Accrued Interest	56,020	21,004
	<u>80,362</u>	<u>42,776</u>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

8. Amounts payable projects

	2004	2003
	USD	USD
Grants Payable	1,475,083	1,900,822
Overhead Payable	234,828	228,397
Overhead Retainage	608,070	559,576
	<u>2,317,981</u>	<u>2,688,795</u>

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

9. Designated Capital Contributions - Projects

Designated Capital Contributions represent the amounts committed on signed projects net of project expenditures incurred to date.

	United States	Canada	Japan	European Union	Partners	Total
	USD	USD	USD	USD	USD	USD
Balance at January 1, 2004	9,634,007	366,306	-	4,567,134	7,780,736	22,348,183
New Projects Signed During 2004	7,660,992	185,772	145,000	4,235,033	4,054,958	16,281,755
2004 Adjustment	-	-	-	-	(30,736)	(30,736)
Revaluation of Project Agreements	-	-	-	369,329	48,035	417,364
Adjustment for Terminated Projects	-	-	-	-	(218,629)	(218,629)
Adjustment for Closed Projects	(29,093)	(716)	-	(13,577)	(162,413)	(205,799)
Transfer to Statement of Revenues and Expenditure						
Expenditure Incurred on Projects in 2004	(8,179,659)	(270,910)	(55,015)	(4,037,307)	(5,132,346)	(17,675,237)
Balance at December 31, 2004	9,086,247	280,452	89,985	5,120,612	6,339,605	20,916,901

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

	10. Designated Capital Contributions - Administration						Total
	United States	Sweden	Canada	European Union	Partners	Ukraine	
	USD	USD	USD	USD	USD	USD	USD
Balance at January 1, 2004	1,105,172	-	186,326	434,716	-	-	1,726,214
Additional Contribution for 2004	-	-	-	-	-	164,823	164,823
Transfer to Statement of Revenues and Expenditure	(1,105,172)	-	(186,326)	(434,716)	-	(164,823)	(1,891,037)
Administrative Budget 2005	1,270,885	-	196,492	491,981	-	-	1,959,358
Balance at December 31, 2004	1,270,885	-	196,492	491,981	-	-	1,959,358

	11. Designated Capital Contributions - Supplemental						Total
	United States	Sweden	Canada	European Union	Partners	Ukraine	
	USD	USD	USD	USD	USD	USD	USD
Balance at January 1, 2004	3,043,641	103,695	35,958	985,779	213,859	-	4,382,932
Supplemental Budgets Approved	1,566,693	-	71,623	483,876	85,000	-	2,207,192
Transfer from Undesignated Capital Contributions	-	505	-	-	-	-	505
Adjustment for Revaluation	-	-	-	16,399	-	-	16,399
Transfer to Statement of Revenues and Expenditure	(1,362,228)	(4,656)	(24,975)	(509,097)	(45,715)	-	(1,946,671)
Balance at December 31, 2004	3,248,106	99,544	82,606	976,957	253,144	-	4,660,357

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

12. Undesignated Capital Contributions

	United States	Sweden	Canada	Japan	European Union	Partners	Other	Total
	USD	USD	USD	USD	USD	USD	USD	USD
Balance at January 1, 2004	11,336,810	-	-	373,417	792,987	2,804,718	(81,652)	15,226,280
Advances Received from Funding Parties	9,950,259	-	-	-	5,368,498	2,496,743	-	17,815,500
Transfer to Designated Capital for Signed Projects	(7,660,992)	-	-	(155,150)	(2,500,973)	(1,021,036)	-	(11,338,151)
Adjustment for Closed Projects	29,093	-	716	-	13,577	162,413	-	205,799
Allocation of Surplus Income for 2004	465,954	505	33,895	2,691	103,742	-	-	606,787
Adjustment for 2004 Other Purposes	7,355	-	132	-	406	33,272	(1,621)	39,544
Adjustment for Revaluation	-	-	-	-	278,825	-	-	278,825
Transfers to ISTC	(1,000,000)	-	-	-	-	(746,770)	-	(1,746,770)
Transfer to A/P Non-Projects	-	-	-	-	-	(6,780)	-	(6,780)
Transfer to Designated Capital – Supplemental Budget	(1,413,098)	(505)	-	-	(198,003)	(57,000)	-	(1,668,606)
Transfer to Designated Capital - Administrative Budget	(1,200,980)	-	(34,743)	-	(455,751)	-	-	(1,691,474)
Balance at December 31, 2004	10,514,401	-	-	220,958	3,403,308	3,665,560	(83,273)	17,720,954

Note : The amount of 1,621 USD under 'Other' relates to the performance of the 2003 and 2004 audit. This amount is a timing difference between when the audit cost is accrued as an expense for financial statement purposes, and when the amount is accounted for in the Administrative Operating Budget. The audit cost is expensed in the year before it is included in the AOB. Thus, the 2004 audit cost is accrued as an expense in the 2004 Fiscal Year Financial Statements; however, the cash disbursement will affect the 2005 AOB.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

13. Net cash received from funding parties

	2004	2003
	USD	USD
Canada	414,994	400,685
Sweden	-	-
Ukraine	56,138	159,980
Partners	6,019,104	6,451,430
United States	8,956,524	7,765,580
European Union	9,466,923	4,796,154
Japan	-	-
	<u>24,913,683</u>	<u>19,573,829</u>

14. Financial commitments

a) **Science and Technology Center in Ukraine**

No material commitments existed at December 31, 2004.

b) **Funding parties**

At December 31, 2004 the funding parties had approved but not signed 31 projects with a total funding of 4,245,230 USD (2003 - 10,243,707 USD). The agreements for these projects are expected to be signed in 2005. As a result of political unrest in Ukraine at the end of 2004, the 19th STCU Governing Board meeting scheduled to be held on December 2, 2004 in Kyiv, was postponed until February 10, 2005, at which time the funding parties approved but not signed 25 projects with a total funding of 2,544,835 USD and 775,000 Euro (equivalent to 1,057,410 USD at December 31, 2004).

15. Expenditures borne directly by funding parties

Under the terms of the various agreements by which the funding parties set up the Science and Technology Center in Ukraine, certain executive and senior staff salaries are borne by the funding parties.

16. Financial Instruments

The STCU's financial instruments comprise:

- Cash, liquid resources and short term debtors and creditors that arise directly from the STCU's operations.

These financial instruments are initially recorded at their nominal value and are stated in the accounts at their nominal value reduced by appropriate allowances for estimated irrecoverable amounts.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE
NOTES TO THE FINANCIAL STATEMENTS

The main risks arising from the STCU's financial instruments are liquidity risk and foreign currency risk. The STCU management reviews and agrees policies for managing each of these risks and they are summarised below.

a) Liquidity Risk

The STCU's assets comprise mainly of cash and bank deposits which are readily realisable to meet funding commitments.

b) Foreign Currency Risk

The STCU's income and expenditure and net assets could be affected by currency translation movement as some of the STCU's assets and revenues are denominated in currencies other than USD.

At the year end, financial assets held by the STCU in currencies other than USD were as follows;

	2004		2003	
	Amounts due from Funding Parties USD	Cash at Bank USD	Amounts due from Funding Parties USD	Cash at Bank USD
Euro's	1,265,792	6,074,135	2,262,897	2,856,564
Ukrainian Hryvna	-	9,396	-	88,923
Azeri Manat	-	16		
	<u>1,265,792</u>	<u>6,083,547</u>	<u>2,262,897</u>	<u>2,945,487</u>

17. Former STCU Facility at 3 Laboratornyj Provulok, Kyiv, Ukraine, 01133

In accordance with the agreement establishing the STCU, the Government of Ukraine is responsible for providing, at its own expense, a facility suitable for use by the Center, along with maintenance, utilities and security. Accordingly the premises at 3 Laboratornyj Provulok were rented and made available to the STCU at the commencement of the STCU's activities.

Because the ownership of the STCU's former facility was unclear, the Ministry of Foreign Affairs stopped all rent payments until suitable ownership documents could be presented by the landlord. The rent from January 1, 2000 to May 31, 2000 (53,000 USD) was not paid.

In late January 2002 the landlord obtained an ownership document for the former facility. During the course of 2002, the Government of Ukraine attempted to negotiate with the landlord of the STCU's former facility, in order to resolve two issues:

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE NOTES TO THE FINANCIAL STATEMENTS

- (1) the unpaid rent from January 1, 2000, and
- (2) a new long-term lease for the STCU in the former facility.

In early October 2002, with no agreement reached between the former landlord and the Government of Ukraine on either of the aforementioned issues, the former landlord interrupted the electricity supply to the STCU's former facility. As per the decision of the STCU Board of Governors related to any interruption in STCU utilities, the Executive Director of the STCU declared "force majeure" (as described in Note 1) and the STCU moved into a temporary facility in mid-October 2002. The STCU returned the keys and the control of the former facility to the former landlord at the end of November 2002 and moved into its new premises at 21 Kameniariv, Kyiv in late December 2002.

On April 25, 2003, the former landlord filed suit (case #89-04/03) against the STCU and the Ministry of Foreign Affairs of Ukraine (as a co-defendant) in the Civil Court of the City of Kyiv in the amount of 318,848.17 UAH (59,804.59 USD) for unpaid rent at the STCU's former premises. On June 26, 2003, (decision #3/335) the court found in favour of the former landlord and against the STCU, but not the Ministry of Foreign Affairs of Ukraine.

On April 6, 2004, the former landlord collected 968.25 UAH (182.69 USD) of the aforementioned court award from the STCU's local bank account. As a result of this seizure of some of the STCU's funds, the STCU management decided to halt all financial operations related to Ukrainian projects, and clear the STCU's local bank accounts, until all STCU's Parties could reach agreement as to how to resolve the outstanding court award.

The Government of Ukraine, represented by the Ministry of Science and Education of Ukraine, provided 299,129.42 UAH (56,121.84 USD) to the STCU on May 7, 2004 as partial payment towards the outstanding court order. Furthermore, on May 27, 2004 the Prosecutor General of Ukraine filed a motion with the Supreme Arbitration Court of Ukraine to demand that the court decision (#3/335) in the previous case (case #89-04/03) be re-examined. This motion temporarily froze any collection activity related to decision #3/335 until the Prosecutor General's motion was ruled upon by the Supreme Arbitration Court of Ukraine. On May 27, 2004, the Ministry of Science and Education provided a written assurance to the Board of Governors of the STCU of the following: (1) that as of January 1, 2003 the Ministry of Science and Education is the branch of the Government of Ukraine responsible for the STCU, (2) that the Ministry of Science and Education will uphold Articles 9 and 11 of the Agreement to Establish the STCU related to the Government of Ukraine providing at its own expense, a facility including all payments of rent and communal services, and (3) that the Ministry of Science and Education guarantees to assume the protection and obligations of the STCU in case of the filing of any court case or legal claims by Ukrainian citizens or organizations against STCU, in particular, case No. 3/335 of the Civil Court of Kiev.

SCIENCE AND TECHNOLOGY CENTER IN UKRAINE NOTES TO THE FINANCIAL STATEMENTS

On July 2, 2004, as a result of the Prosecutor General of Ukraine's motion with the Supreme Arbitration Court of Ukraine, Solominsky District Court cancels the court decision #3/335.

On July 9, 2004, the Civil Court of Kyiv issues letter stating that a new case will be opened with the case #3/335-2/308, within which the STCU will be named as a defendant, along with the Cabinet of Ministers (instead of the Ministry of Foreign Affairs as stated previously in case #3/335).

In late July, 2004, the Government of Ukraine and the STCU agree to lodge a counter-claim against the STCU's former landlord, requesting repayment of rent and renovations paid by the STCU up until the date of documented ownership (December, 2000) by the STCU's former landlord. The amount of the counterclaim was 852,496.30 UAH (159,943.02 USD).

On November 12, 2004, the Supreme Arbitration Court of Ukraine provided a final verdict on both the original claim of the STCU's former landlord and the counterclaim advising that the court had declined to satisfy any claim from either party stating that the term of term or statute of limitation (counting from the initial lease signing date on May 26, 1995) had expired. The court provided 10 days for both sides to appeal. Neither side lodged an appeal. Thus, according to STCU's legal advisors, this seemingly constitutes a draw and unless either party decides to lodge a new case, the court decision (#3/335) in the previous case (case #89-04/03) is closed.

Finally, according to STCU's legal advisor's, the STCU's former landlord has until October 2005 to start a brand new case against the STCU before the statute of limitations on the period of unpaid rent expires. At that point in time, the STCU's former landlord should have no legal recourse to recover funds for unpaid rent at the STCU's previous facility.

With these Ukrainian Court actions and written assurances by the Ministry of Science and Education on behalf of the Government of Ukraine and having regard to the Agreement establishing the STCU, the management of the STCU believes that it is not liable for unpaid rent and utilities of its former premises located at Laboratornyj Provulok 3. Accordingly, the financial statements do not include any provision for the unpaid rent and utilities of the STCU's former facility.