

**Joint Stock Insurance Company  
Lemma**

**Consolidated Financial Statements  
for the year 2002**

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**INFORMATION ABOUT THE MOTHER COMPANY**

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Name of the company	Lemma	
Legal status	Closed Joint Stock Insurance Company	
Registration No., place and date	Nr 22623173, 4 December 1996	
Share capital	UAH 110 000 thousand	
Legal address	310166, Harkov, Kolomenskaya str. 3	
Mailing address	310166, Harkov, Kolomenskaya str. 3	
President	S. Chernishov	
Accounting year	31.12.2001-31.12.2002	
Auditor(s):	“BDO Invest Rīga” 19/1 Pulkveža Brieža street Rīga, LV-1010	Aivars Putniņš Sworn auditor Licence No.123

## **CONSOLIDATED MANAGEMENT REPORT**

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The activity of the Concern, which is formed by JSC Lemma (the Mother Company) and its subsidiaries, in the year 2002 has been directed towards the improvement of management system, that ensures stable and integrated operation in all units of the Concern. In the year 2002 active work has been carried out with the clients, as a result the assets of the Mother Company have increased by 90% reaching UAH 464 708 thousand. In 2002 the share capital of JSC Lemma has increased and currently amounts to UAH 110 000 thousand. According to these indicators the JSC Lemma has reached the first position among the Ukrainian insurance companies.

The management of the Mother Company has prepared the financial statements according to the requirements of the Ukrainian legislation. These financial statements fairly present the Mother Company's financial position as at the end of the year, as well as results of its operations in the reporting period.

The management is responsible for maintaining appropriately the accounting records of the Concern in compliance with the provisions of the Ukrainian legislation, as well as for safeguarding the assets of the Concern and for preventing immediately fraud and other irregularities.

In 2002 the financial statements have been prepared according to the International Accounting Standards, estimates and judgments made by the management about the preparation of the financial statements have been prudent and reasonable. The financial statements have been prepared on the basis of going concern assumption and on books of prime entry. After the end of the reporting period, no significant events have taken place, which have not been reflected in the Consolidated Management Report and which would leave an impact on future operating activities of the Concern.

On behalf of the JSC Lemma

Sergey Chernishov  
President

1 September 2003

**CONSOLIDATED PROFIT AND LOSS ACCOUNT  
FOR THE YEARS ENDED 31 DECEMBER 2002**

	<b>Notes</b>	<b>2002 UAH `000</b>
Written premiums		
Gross written premiums	1	448 978,8
Reinsurers' share	2	(438 358,6)
Change in reserve for unearned premiums		
Gross written premiums	13	(64 364,9)
Reinsurers' share	13	62 243,2
<b>Net earned premiums</b>		<b><u>8 498,5</u></b>
Claims paid		(10 538,1)
		9 744,2
Total net change in other technical reserves		324,2
Policy acquisition costs		(231,5)
<b>Technical result</b>		<b><u>7 797,3</u></b>
Other operating income		3 067,3
Administrative expenses		(1 529,9)
Selling expenses		(151,1)
Other operating expenses		(7 291,6)
<b>Total net operating result</b>		<b><u>1 892,0</u></b>
Income from financial operations	3	917 381,7
	4	(919 905,7)
		854,0
Interest expenses		(1 162,4)
<b>Loss before tax</b>		<b><u>(940,4)</u></b>
Corporate income tax		(417,3)
		<b><u>(1 357,7)*</u></b>

\* the losses of the reporting year are linked with the translation of financial statements issued in accordance with the Ukrainian Accounting Standards (UAS) into the financial statements issued in accordance with the International Accounting Standards (IAS).

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Sergey Chernishov  
President

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2002**

Assets	Note no.	31.12.2002 UAH `000
<b>1. Non current assets</b>		
<b>I. Intangible assets</b>		
Software, licenses	5	0,2
<b>Intangible assets total</b>		<b>0,2</b>
<b>II. Fixed assets</b>		
Office equipment	6	64,3
<b>Fixed assets total</b>		<b>64,3</b>
<b>III. Long term investments</b>		
Investments in securities	7	23 226,8
Subordinated debt	8	8 500,0
Long term deposits		250,0
<b>Long term investments total</b>		<b>31 976,8</b>
	<b>Non current assets total</b>	<b>32 041,3</b>
<b>2. Current assets</b>		
<b>I. Stock</b>		
Materials		13,6
<b>Stock total</b>		<b>13,6</b>
<b>II. Accounts receivable</b>		
Trade accounts receivable	9	220 500,2
Prepayments and deferred expenses		93,8
Securities for sale	10	69 422,0
<b>Accounts receivable total</b>		<b>290 016,0</b>
<b>III. Cash funds</b>		
	11	135 650,7
	<b>Current assets total</b>	<b>425 680,3</b>
<b>Assets total</b>		<b>457 721,6</b>

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Sergey Chernishov  
President

Joint Stock Insurance Company Lemma  
Consolidated Financial Statements for the year 2002

**CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2002**

<b>Equity and Liabilities</b>	<b>Note no.</b>	<b>31.12.2002</b> <b>UAH</b> <b>`000</b>
<b>1. Equity and reserves</b>		
Share capital	12	110 000,0
Ordinary share issue		54 850,6
Reserves		532,6
Consolidation reserve		2 663,7
<b>Equity and reserves total</b>		<u><b>168 046,9</b></u>
<b>2. Technical reserves</b>		
Gross amount	13	177 390,7
Reinsurers' share	13	(172 238,2)
<b>Technical reserves total</b>		<u><b>5 152,5</b></u>
<b>3. Accounts payable</b>		
<b>I. Current liabilities</b>		
Loan from credit institution		1 862,6
Trade accounts payable	14	282 297,4
Other creditors		362,2
<b>Current liabilities total</b>		<u><b>284 522,2</b></u>
<b>Equity and Liabilities total</b>		<u><u><b>457 721,6</b></u></u>

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Sergey Chernishov  
President

**CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2002**

	Note no.	2002 UAH `000
<b>Cash flow from operating activities</b>		
(Loss) for the year before tax		(940,4)
Adjustments for:		
Accumulated depreciation	5, 6	18,3
Bad debt provision	9	2 461,0
Change in unearned premium reserve	13	1 797,5
(Loss) from non-operating activities	3, 4	2 705,7
Interest income		(854)
Interest expense		1 162,4
Decrease in stock		10,1
(Increase) in debtors		(103 119,6)
(Increase) in deferred expenses		(84,8)
Increase in the current liabilities		228 832,5
Interest (paid)		(1 162,4)
Corporate income tax (paid)		(294,2)
<b>Net cash from operating activities</b>		<b><u>130 532,1</u></b>
<b>Cash flow from investment activities</b>		
Cash received from sale of financial investments		745 855,0
Interest received		854,0
Cash (used) for other investments		(16 545,6)
(Purchase) of financial investments		(754 423,5)
<b>Net cash (used) for investment activities</b>		<b><u>(24 260,1)</u></b>
<b>Cash flow from financing activities</b>		
Received credit		9 217,8
(Paid) credit		(18 526,8)
<b>Net cash (used) for financing activities</b>		<b><u>(9 309,0)</u></b>
<b>Net increase of cash</b>		<b>96 963,0</b>
<b>Cash at the beginning of the period</b>		<b><u>38 687,7</u></b>
<b>Cash at the end of the period</b>	11	<b><u>135 650,7</u></b>

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Sergey Chernishov  
President

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEARS ENDED 31 DECEMBER**

	<b>Share capital</b>	<b>Share issue premium</b>	<b>Reserves</b>	<b>Consolidation reserve</b>	<b>Equity and reserves total</b>
	<b>UAH `000</b>	<b>UAH `000</b>	<b>UAH `000</b>	<b>UAH `000</b>	<b>UAH `000</b>
<b>31 December 2001</b>	<b>100 000,0</b>	<b>54 850,6</b>	<b>532,6</b>	<b>14 021,4*</b>	<b>169 404,6</b>
Increase of share capital	10 000,0	-	-	(10 000,0)	-
Net (loss) for the year	-	-	-	(1 357,7)	(1 357,7)
<b>31 December 2002</b>	<b>110 000,0</b>	<b>54 850,6</b>	<b>532,6</b>	<b>2 663,7</b>	<b>168 046,9</b>

\* Retained losses of prior periods for the total amount UAH 3 173,8 thousand have been excluded from the initial consolidation reserve balance which as at 31 December 2001 amounted to UAH 17 195,2 thousand. Retained losses have been distributed as follows:

	<b>UAH `000</b>
Subsidiaries	9,7
Mother Company	3 164,1
<b>Total</b>	<b>3 173,8</b>

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Sergey Chernishov  
President

## STATEMENT ON APPLIED ACCOUNTING POLICIES

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### (1) Basis of preparation

These consolidated financial statements for the year 2002 have been prepared for the first time in accordance with the International Financial Reporting Standards (IFRS). There has been no consolidation carried out in 2001, because of this comparable data has not been provided. IFRS do not contain guidelines governing the accounting treatment of certain transactions including those that are specific to insurance products. When a specific topic is not addressed by the standards, the IFRS Framework permits reference to another comprehensive body of accounting principles. In these cases the Concern refers to legislation of the Republic of Ukraine.

The entities of the Concern maintain its accounting records in accordance with the Ukrainian legislation. These financial statements have been prepared from those accounting records. Balance sheet as at 31 December 2002 reflects the financial position of the Concern as at the close of business on that date.

The measurement basis used for accounting policies is historical cost method, modified by the revaluation of certain types of investments in accordance with accounting policies as set out below. All amounts presented in the financial statements are denominated in Ukrainian grivnas (UAH), if not stated otherwise.

### (2) Accounting principals applied

The items in the financial statements are evaluated in accordance with the following accounting principles:

- a) assumed that the company will continue its operations
- b) by applying the same accounting methods that were used in the previous year
- c) applying the principle of due caution evaluating the items:
  - the financial statements reflect only the profit gained by the date of closing the balance sheet
  - taking into account all predictable risk amounts and loss incurred in the accounting year or in the previous years, also where they have become known in the period of time between the date of drawing up the balance sheet and the respective financial statements
  - all amounts that reduce the value, as well as depreciation amounts have been calculated and taken into account, irrespective of whether the accounting year has been completed with profit or loss.
- d) income and expenses related to the accounting year have been taken into account, irrespective of the date on which the payment was effected and the date of the receipt or drawing of the invoice. The expenses are coordinated with income in the accounting period
- e) sub-items of items of Assets and Liabilities have been evaluated separately
- f) all items, which could essentially affect the assessment or decision-making by the users of these financial statements, have been presented; miscellaneous items are consolidated and a detailed breakdown of these items is given in the Notes
- g) Commercial transactions in the financial statements are reflected, taking into account their economic character and relevance, rather than their legal form.

### (3) Accounting period

Accounting period is 12 month from January 1, 2002 to December 31, 2002.

## STATEMENT ON APPLIED ACCOUNTING POLICIES

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### (4) Consolidation

Subsidiary undertakings, which are those companies in which the Concern directly or indirectly has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Concern and consolidation is terminated at the date of disposal of the subsidiary. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between the Concern companies have been eliminated.

### (5) Premiums

Written non-life insurance premiums comprise the premium on contracts, which become effective during the year, irrespective of whether the premium has become due or not. All written premiums are decreased by the amount of premiums cancelled or suspended during the year.

### (6) Claims incurred

Claims incurred comprise claims attributable to the period and expenses of claim regulating.

### (7) Investment income and expense

Investment income represents the income earned on the investment portfolio held by the Concern during the period. Investment expense represents the management expense, regarding the above mentioned investment portfolio, as well as loss from investment realization and non-realized loss from revaluation of the investments, using accruals method.

Interest income is not accrued on loans and securities if recoverability of outstanding amounts is considered doubtful. The interest income is recognized in the profit and loss account only after receipt

### (8) Investments

- a) long-term investments in debt and other securities held for investment purposes are stated at cost value. Carrying value is changed where management is of the opinion that there is another than temporary diminution in value;
- b) dealing securities are stated at the lower of cost or market value.

### (9) Provisions

Specific provisions on credit risk are created if the Concern's management considers that the recoverability of the outstanding part of the debt is doubtful. Provision costs are included in the profit and loss account. In the balance sheet debtors are stated at net value.

### (10) Debtors

Debtors include accounts receivable from policyholders and intermediaries. Amounts that are overdue are reversed against premium written once the policy is cancelled. No provision is made in respect of amounts that have not yet become due if no portion of the premium earned and is taken to income. Other debtors are stated at the anticipated amount to be collected with provision for those specific amounts that are considered doubtful.

## STATEMENT ON APPLIED ACCOUNTING POLICIES

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### (11) Depreciation of intangible assets and fixed assets

All fixed assets in the balance sheet are reflected in their acquisition prices less depreciation. Depreciation has been calculated using regression method for fixed assets and the following depreciation rates:

	%
Fixed assets	
Other fixed assets	25

Amortization of intangible assets has been calculated using straight-line method and the following depreciation rates:

	%
Intangible assets:	
Software, licenses	20

Gains and losses on disposals of fixed assets are recorded in the profit and loss account in the period of disposal. Repairs and renewals extending the useful life of the building or increasing its value are depreciated over their useful economic life while other repairs and renewals are charged directly to the profit and loss account when the expenditure is incurred.

### (12) Technical reserves

The reserve for unearned premiums represents the proportion of premiums written which relates to the period of risk subsequent to the reporting period. Reserves are calculated in accordance with the requirements of the Ukrainian legislation. The reserve has been calculated using the floating quarters method.

### (13) Foreign currency translation

All assets and liabilities denominated in foreign currencies are translated into Ukrainian grivnas (UAH) using the period end rates of exchange set by the National Bank of Ukraine (NBU). Gains and losses arising from this translation are included in the profit and loss account. The applicable rates for the principal currencies held by the Concern as at December 31 were as follows:

	<b>31.12.2002</b>
	<b>1 UAH</b>
1 USD	5,332400
1 EUR	5,532898

Transactions denominated in foreign currency are recorded at the rate set by NBU and prevailing on the date of the transaction. Exchange differences arising from the settlement of transactions denominated in foreign currency are included in the results of operations at the time of settlement using the exchange rate set by NBU and prevailing at that date.

### (14) Taxation

The charge for current taxation is based on computations made by management separately for each of the Concern companies in accordance with the tax legislation of Ukraine.

## **STATEMENT ON APPLIED ACCOUNTING POLICIES**

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### **(15) Cash flow statement**

Cash flow statement is prepared using indirect method. For the purposes of cash flow statement cash comprises cash on hand and deposits held at call with banks.

### **(16) Fair values**

The Concern's major monetary assets and liabilities are cash with bank, investments, debtors and creditors. Fair value represent value, at which an asset can be exchanged into an equivalent asset or liability settled at market rates. If the management believes that there is a substantial difference between the fair value and carrying value, fair value is revaluated.

### **(17) Long-term and short-term items**

Amounts presented in long-term items are the amounts with the maturity term for receipt, payment or write-off coming into effect more than a year after the completion of the respective accounting year. Amounts receivable, payable or to be written-off within a year are presented as short-term items.

### **(18) Evaluation of stock**

Stock in the Balance Sheet has been presented in acquisition cost prices. If necessary, slow moving, damaged or worn out stock is revaluated or written off as at the balance sheet date. When stock is realized, the weighted average method is applied. Stock balances are verified at annual inventories.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 1. Gross written premiums

<b>By geographical distribution</b>	<b>2002</b>
	<b>UAH</b>
	<b>`000</b>
Local market	411 245,3
Foreign market	37 733,5
<b>Total</b>	<b>488 978,8</b>

<b>By type of insurance contracts</b>	<b>2002</b>
	<b>UAH</b>
	<b>`000</b>
Insurance from accidents	5 475,4
Civil liabilities insurance	1 865,3
Transport insurance, excluding railway	5 330,5
Cargo and lost baggage insurance	41 555,7
Loan insurance	19 839,8
Financial risk insurance	322 085,8
Insurance of issued and received guarantees	8 942,5
Property insurance	41 355,1
Other types of insurance	42 528,7
<b>Total</b>	<b>488 978,8</b>

### 2. Reinsurer's share of written premiums

<b>By geographical distribution</b>	<b>2002</b>
	<b>UAH</b>
	<b>`000</b>
Local market	(127 028,3)
Foreign market	(311 330,3)
<b>Total</b>	<b>(438 358,6)</b>

### 3. Income from financial operations

	<b>2002</b>
	<b>UAH</b>
	<b>`000</b>
Income from investments in share capital	2 174,3
Income from trade in securities	915 025,7
Other income	181,7
<b>Total</b>	<b>917 381,7</b>

The notes on pages 14 to 18 are an integral part of these consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 4. Expenses from financial operations

	<b>2002</b> <b>UAH</b> <b>`000</b>
Expenses from investments in share capital	(1 854,7)
Expenses from revaluation of investments in share capital	(2 465,5)*
Expenses from trade in securities	(915 585,5)
<b>Total</b>	<b>(919 905,7)</b>

\* are linked with the translation of financial statements from the UAS into the IAS.

### 5. Movement of intangible assets

	<b>UAH</b> <b>`000</b>
<b>Cost value</b>	
<b>31.12.01</b>	<b>1,2</b>
Acquisition	-
<b>31.12.02</b>	<b>1,2</b>
<b>Accumulated depreciation</b>	
<b>31.12.01</b>	<b>0,4</b>
Depreciation calculated	0,6
<b>31.12.02</b>	<b>1,0</b>
<b>Book value 31.12.02</b>	<b>0,2</b>

### 6. Movement of fixed assets

	<b>Office equipment</b>	<b>Construction in Progress</b>	<b>Total</b>
	<b>UAH</b> <b>`000</b>	<b>UAH</b> <b>`000</b>	<b>UAH</b> <b>`000</b>
<b>Cost value</b>			
<b>31.12.01</b>	<b>136,0</b>	-	<b>136,0</b>
Acquisition	11,9	0,7	12,6
<b>31.12.02</b>	<b>147,9</b>	<b>0,7</b>	<b>148,6</b>
<b>Accumulated depreciation</b>			
<b>31.12.01</b>	<b>66,6</b>	-	<b>66,6</b>
Depreciation calculated	17,7	-	17,7
<b>31.12.02</b>	<b>84,3</b>	-	<b>84,3</b>
<b>Book value 31.12.02</b>	<b>63,6</b>	<b>0,7</b>	<b>64,3</b>

The notes on pages 14 to 18 are an integral part of these consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 7. Investments in securities

	31.12.2002 UAH `000
Gross value	26 161,6
Evaluated as loss in prior periods	(2 934,8)
<b>Net value</b>	<b>23 226,8</b>

### 8. Subordinated debt

	31.12.2002 UAH `000
Avtokrazbank	3 000,0
Bank Mercury	5 500,0
<b>Total</b>	<b>8 500,0</b>

### 9. Trade accounts receivable

	31.12.2002 UAH `000
Promissory notes issued	7 908,0
Receivables from insurance operations	45 450,5
Taxes overpaid	10,4
Other debtors, gross	169 592,3
Bad debt provision	(2 461,0)*
Other debtors, net	167 131,3
<b>Total</b>	<b>220 500,2</b>

\* are linked with the translation of financial statements from the UAS into the IAS.

### 10. Securities for sale

	31.12.2002 UAH `000
Securities traded in stock exchange	25 709,8
Securities not traded in stock exchange, gross	20 605,0
Provisions made on losses	(2 430,0)*
Evaluated as loss in prior periods	(0,9)
Securities not traded in stock exchange, net	18 174,1
Fixed income securities, gross	26 334,4
Provisions made on losses	(570,0)*
Evaluated as loss in prior periods	(228,4)
Fixed income securities, net	25 536,0
<b>Total</b>	<b>69 419,9</b>

\* are linked with the translation of financial statements from the UAS into the IAS.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**11. Cash**

	<b>31.12.2002</b> <b>UAH</b> <b>`000</b>
Cash at hand	4,6
Cash in bank	59 185,1
Short term deposits with banks	76 461,0
<b>Total</b>	<b>135 650,7</b>

**12. Share capital**

The share capital of the Concern is comprised of shareholders' investment in amount UAH 110 000 thousand, consisting of 110 000 shares the value of one share being UAH 1 000. The shareholders are 15 legal entities and 6 physical persons.

**13. Technical reserves**

	<b>31.12.2002</b> <b>UAH</b> <b>`000</b>	<b>31.12.2001</b> <b>UAH</b> <b>`000</b>
Gross amount		
Unearned premiums reserve	177 055,0	112 690,1
Outstanding claims reserve	335,7	461,4
Total gross amount	<b>177 390,7</b>	<b>113 151,5</b>
Reinsurer's share		
Unearned premiums reserve	(172 039,7)	(109 796,5)
Outstanding claims reserve	(198,5)	-
Total reinsurers' share	<b>(172 238,2)</b>	<b>(109 796,5)</b>
<b>Total technical reserves</b>	<b>5 152,5</b>	<b>3 355,0</b>

**14. Trade accounts payable**

	<b>31.12.2002</b> <b>UAH</b> <b>`000</b>
Promissory notes	112 464,5
Trade accounts payable	71 591,1
Reinsurance	98 231,3
Wages payable	10,5
<b>Total</b>	<b>282 297,4</b>

The notes on pages 14 to 18 are an integral part of these consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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### 15. Investments in subsidiaries

	<b>UAH `000</b>
<b>Balance as at 31 December 2001</b>	<b>2 629,2</b>
Liquidated and written off subsidiaries during the year	(1 748,7)
Written off investments in subsidiaries due to negative share capital of subsidiaries	(35,5)*
Written off investments in subsidiaries as a result of consolidation	(845,0)
<b>Balance as at 31 December 2002</b>	<b>-</b>

\* are linked with the translation of financial statements from the UAS into the IAS.

Name of consolidated subsidiary	Investments in share capital	Share capital 31.12.2002
	%	UAH `000
Lemma Avenju	100%	15,0
Lemma Kiev	100%	10,0
Lemma Harkov	100%	500,0
Lemma Akvizit	100%	20,0
NIK	100%	300,0
<b>Total</b>		<b>845,0</b>

### 16. Other information about the Mother Company

The average number of persons employed by the Mother Company in 2002 was 14 people.

The Company is renting its premises.

Riga, September 1, 2003

## AUDITOR'S REPORT

To the management and shareholders of "Lemma" insurance JSC.

We have audited the consolidated financial statements of "Lemma" insurance JSC, registration No. 22623173, as of 31 December 2002. The consolidated financial statements comprise the Balance Sheet as of 31 December 2002, the Profit and Loss Account, the Report on the Changes in Equity, the Cash Flow Statement for the year ended 31 December 2002 and the Appendix. The management of the Company is responsible for the presentation of the financial statements. We are responsible for the presentation, on the basis of the audit performed, of the Auditor's Report on the financial statements.

The audit was conducted according to the International Audit Standards, issued by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements do not contain any material misstatement. The audit included examining, on a test basis, of the substantiation of the amounts presented in the reports and explanatory notes. The audit also included the valuation of the accounting principles practiced, as well as evaluating the overall financial statement presentation. The duly authorized representatives of the company have provided the auditors with the information requested and have supplied all the necessary explanations. We consider that the audit provides us with sufficient ground for expressing our opinion.

In our opinion, the consolidated financial statements for the year ended 31 December 2002 present a fair view, in all its material aspects, of the Concern's financial state at the end of accounting year, as well as performance results and cash flow in the accounting year, and have been presented in accordance with the International Accounting Standards.

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A.Deniņš  
Identity No. 230757 – 11563  
International Liaison Partner  
"BDO Invest Riga" Ltd.  
Commercial Company Licence No. 82

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A.Putniņš  
Identity No. 180156 – 11011  
Sworn Auditor  
Certificate No.123