001907/15

CLOSED JOINT STOCK COMPANY
"UKRAINE INTERNATIONAL AIRLINES"

Consolidated Financial Statements
Year Ended 31 December 2001
Prepared in Accordance with
International Accounting Standards

FC018106

Table of contents

STATEMENT OF MANAGEMENT RESPONSIBILITIES

To the Supervisory Board and Shareholders
of the CJSC "Ukraine International Airlines"

1. We present the financial statements as at and for the year ended 31 December 2001 of CJSC "Ukraine International Airlines"("the Company") prepared in accordance with International Accounting Standards.

2. Management is responsible for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable it to ensure that the financial statements comply with International Accounting Standards and that its statutory accounting reports comply with Ukrainian laws and regulations. Management also has a general responsibility for taking such steps as are reasonably available to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

3. Management considers that, in preparing the financial statements set out on pages 4 to 30 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that appropriate International Accounting Standards have been followed, except for the matters described in the accounting policy Note A in the accompanying financial statements.

4. The most important of the matters mentioned in paragraph 3 above is in respect of route rights. Management and the Audit Committee believe that adoption of IAS No 38 "Intangible Assets", which under IAS should be used for accounting treatment of the route rights, would not give a true and fair view of the accounts. This position is supported by a route rights impairment review report completed by an independent expert in June 2002.

5. These financial statements are not the statutory financial statements of the Company. The financial statements, which are based on the statutory accounting records, have been restated in accordance with International Accounting Standards and are hereby approved on behalf of the Management and submitted for approval by the Supervisory Board and Shareholders.

Potemskiy V. M.
President

19 June 2002

R.W. Creagh
Deputy President

19 June 2002

14 Peremohy Avenue,
Kyiv, 01135
Ukraine

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INDEPENDENT AUDITOR'S REPORT

To the Management and Shareholders
of the CJSC "Ukraine International Airlines"

1. We have audited the accompanying consolidated balance sheet of CJSC "Ukraine International Airlines" (the "Company") as at 31 December 2001 and the related consolidated statements of operations, of changes in shareholders' equity and of cash-flows (the "financial statements") for the year then ended. These financial statements set out on pages 4 to 30, which have been prepared from the Ukrainian statutory records and adjusted to comply with International Accounting Standards, are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

3. As described in the accompanying accounting policy Note E, the Company has not amortised its route rights, contrary to the requirements of International Accounting Standard 38 "Intangible Assets". Based on straight line amortisation over the period of guaranteed exclusivity, the carrying value of route rights as at 31 December 2001 would be reduced by the amount of accumulated amortisation of USD 13,483 thousand, the profit for the year ended 31 December 2001 would be reduced by USD 2,344 thousand and equity as at 31 December 2001 would be reduced by USD 13,483 thousand.

4. As described in the accompanying Note 16, the Company has not made a provision for deferred tax liabilities as at 31 December 2001, contrary to the requirements of International Accounting Standard 12 "Income Taxes". Had a provision for deferred taxation been recorded, net profit would be decreased by USD 339 thousand for the year ended 31 December 2001, deferred tax liabilities would have been increased by USD 1,020 thousand and equity reduced by USD 1,020 thousand as at 31 December 2001.

5. In our opinion, except for the effects of the matters described in the paragraphs 3 and 4 above, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2001, and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

6. Without further qualifying our opinion we draw your attention to the accompanying accounting policy Note A. The accompanying financial statements disclose that the Company's current liabilities significantly exceed its current assets as at 31 December 2001, with borrowings totalling USD 8,290 thousand repayable during 2002. Accounting policy Note A describes Management's actions regarding improving the financial condition of the Company and the reasons why management believe the Company will continue as a going concern. Note 15 describes the rescheduling programme agreed with the shareholders and bankers. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern and, consequently, do not include any adjustments that might be required if the Company proves not to be a going concern.

19 June 2002
Kyiv, Ukraine

General Director
Limited Liability company
Audit firm "PricewaterhouseCoopers (Audit)"
Certificate of Registration as an Audit Entity
#0152 dated 26 January 2001

Oleg Tymkiv
Certificate A # 000531 of
30 November 1995

General information

Management present the financial statements of the Closed Joint Stock Company "Ukraine International Airlines" ("the Company" or "UIA") for the year ended 31 December 2001 prepared in accordance with International Accounting Standards ("IAS"). These financial statements are not the statutory financial statements of the Company.

Nature of business and principal activities

The Company was incorporated in Ukraine on October 29, 1992 as a joint venture between the Ukrainian Association of Civil Aviation ("UACA") and Guinness Peat Aviation ("GPA"). Pursuant to Ukrainian legislation enacted by the Ukrainian government during 1994, the State Property Fund of Ukraine ("SPFU") became the successor shareholder to UACA. These changes came into effect in May 1996 upon re-registration of the Company's charter. In November 1996, the Company was again re-registered to reflect the investment made by UIA Beteiligungsgesellschaft GmbH ('UIAB"), a company incorporated in Austria and owned by Austrian Airlines and Swissair. In November 1998, GPA changed its name to AerFi Group PLC ("AerFi") and was subsequently acquired in 2000 by debis AirFinance. During 2000 the Company increased its share capital through the sale of preference shares to the European Bank for Reconstruction and Development ("EBRD").

The principal activities of the Company consist of the provision of commercial passenger and cargo transportation services primarily between selected destinations in Western Europe and Ukraine.

At 31 December 2001, the number of employees of the Company was 703 (31 December 2000: 704) including 104 people engaged in jointly controlled operations "Avicon KBP" (from 1 April 2002 it was renamed into Ukraine International Passenger Handling).

The Company's registered office is located at:

14 Peremohy Avenue,
Kyiv, 01135
Ukraine.

Consolidated statement of operations

(all amounts are stated in thousands of United States dollars)

	Notes	Year ended 31 December 2001	Year ended 31 December 2000 (restated – Note 1)
Revenue	2	68,626	58,919
Operating expenses	3	(66,140)	(57,765)
Operating profit		2,486	1,154
Foreign exchange (loss) / gain		(115)	224
Finance costs, net	5	(823)	(1,431)
Other expenses		(716)	(620)
Net profit / (loss) before tax		832	(673)
Taxation	6	(172)	-
Net profit / (loss) after tax		660	(673)

The accounting policies on pages 10 to 16 and the notes on pages 17 to 30 form an integral part of these financial statements

Consolidated balance sheet

(all amounts are stated in thousands of United States dollars)

	Notes	31 December 2001		31 December 2000 (restated – Note 1)	
ASSETS					
Non-current assets					
Property and equipment	7	4,216		3,796	
Route rights	8	32,829		32,829	
Aircraft purchase advance payments	9	2,084		1,043	
Restricted cash deposits	10	2,085		2,703	
			41,214		40,371
Current assets					
Spare parts and supplies		897		838	
Receivables and prepayments	11	8,118		5,798	
Trading investments	12	-		565	
Restricted cash deposits	10	1,137		-	
Cash and cash equivalents	13	891		3,624	
Other assets		-		113	
			11,043		10,938
Total assets			52,257		51,309
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	17	54,400		54,400	
Accumulated deficit		(21,335)		(21,611)	
			33,065		32,789
Non-current liabilities					
Borrowings	15	395		5,653	
			395		5,653
Current liabilities					
Borrowings	15	8,290		1,510	
Accounts payable and accrued liabilities	14	8,219		8,819	
Current tax liabilities		103		-	
Air traffic liability		2,185		2,538	
			18,797		12,867
Total liabilities			19,192		18,520
Total equity and liabilities			52,257		51,309

The accounting policies on pages 10 to 16 and the notes on pages 17 to 30 form an integral part of these financial statements

Consolidated statement of changes in shareholders' equity

(all amounts are stated in thousands of United States dollars)

	Share capital	Accumulated deficit	Total equity
Year ended 31 December 2000			
Balance at 1 January 2000 as previously reported	49,000	(21,093)	27,907
Change in accounting policy with respect to capitalisation of interest (Note 5) *	-	81	81
Balance at 1 January 2000 as restated	49,000	(21,012)	27,988
Increase in share capital via sale of preference shares to EBRD	5,400	-	5,400
Net loss for the year	-	(673)	(673)
Balance at 31 December 2000	54,400	(21,685)	32,715
Year ended 31 December 2001			
Balance at 1 January 2001 as previously reported	54,400	(21,456)	32,944
Change in accounting policy with respect to capitalisation of interest (Note 5) *	-	176	176
Correction of fundamental errors (Note 1) *	-	(405)	(405)
Recognition of retained earnings on joint activity (Note 1)	-	74	74
Balance at 1 January 2001 as restated	54,400	(21,611)	32,789
Net profit for the year	-	660	660
Dividends paid to EBRD (Note 17)	-	(384)	(384)
Balance at 31 December 2001	54,400	(21,335)	33,065

* Amounts are grossed up for income tax as the effect of deferred taxation is not accounted for by the Company (accounting policy Note A)

Consolidated cash-flow statement

(all amounts are stated in thousands of United States dollars)

	Notes	Year ended 31 December 2001	Year ended 31 December 2000 (restated – Note 1)
Cash flows from operating activities			
Operating activities			
Net profit/(loss) before tax		832	(673)
Adjustments to reconcile changes in net profit/(loss) to net cash provided by operating activities:			
Depreciation	7	496	516
Bad debt provision	11	(126)	38
Loss on disposal of property and equipment		18	96
Loss on disposal of a/c spare parts		152	217
Interest expense	5	921	1,480
Interest income	5	(98)	(49)
Unrealised profits from SITA depository certificates		-	(565)
Loss on disposal of France Telecom shares	12	179	-
Cash flow before working capital changes		2,374	1,060
Changes in operating assets and liabilities:			
Increase in trade accounts receivable, gross		(1,401)	(1,190)
Increase in other receivables and advances		(682)	(6)
Increase in inventory		(59)	(178)
(Decrease) / increase in accounts payable and accrued liabilities		(462)	806
Decrease in air traffic liability		(353)	(95)
Cash (used in) / generated from operations		(583)	397
Income taxes paid		(69)	-
Net cash (used in) / from operating activities		(652)	397

The accounting policies on pages 10 to 16 and the notes on pages 17 to 30 form an integral part of these financial statements

Consolidated cash-flow statement (continued)

(all amounts are stated in thousands of United States dollars)

	Notes	Year ended 31 December 2001	Year ended 31 December 2000 (restated – Note 1)
Cash flows from investing activities			
Proceeds from disposal of property and equipment		23	-
Sale of France Telecom shares	12	386	-
Aircraft purchase advance payments made		(914)	(224)
Interest on aircraft advance payments		(127)	(95)
Purchases of rotables and improvements on leased assets	7	(925)	(634)
Purchases of property and equipment	7	(183)	(105)
Net cash used in investing activities		(1,740)	(1,058)
Cash flows from financing activities			
Proceeds from sales of preference shares to EBRD		-	5,400
Dividends paid on preference shares	17	(384)	-
Net proceeds from/(repayments of) borrowings		1,523	(797)
Interest paid		(961)	(1,400)
Restricted cash deposits (paid) / returned, net		(519)	422
Net cash (used in) / provided by financing activities		(341)	3,625
(Decrease) / increase in cash and cash equivalents		(2,733)	2,964
Movements in cash and cash equivalents			
At start of year	13	3,624	660
(Decrease) / increase		(2,733)	2,964
At end of year	13	891	3,624

The accounting policies on pages 10 to 16 and the notes on pages 17 to 30 form an integral part of these financial statements

Accounting policies

The principle accounting policies adopted in the presentation of these financial statements are set out below:

A. Basis of preparation

The Company maintains its accounting records and prepares its financial statements in Ukrainian hryvnia ("UAH") in accordance with the requirements of Ukrainian accounting and tax legislation.

As indicated below, a majority of the Company's transactions by value are undertaken and settled in United States dollars ("USD" or "US dollars") and its assets and liabilities are primarily denominated in US dollars. The accounting records of the Company are maintained such that original US dollars and other currency amounts can be determined. In view of the international nature of the Company's operations, the amounts shown in these consolidated financial statements are presented in US dollars. Further information regarding the basis of translation of currencies in the preparation of these consolidated financial statements is provided under the "Foreign Currencies" section of these accounting policies. Accordingly, the provisions of International Accounting Standard 29, which deals with the effect of inflation using a general price index, have not been applied since they are not applicable to financial statements reported in a stable currency. These financial statements are based on the Ukrainian statutory accounting records with adjustments, reclassifications and restatements made for the purpose of fair presentation in accordance with International Accounting Standards ("IAS") as issued by the International Accounting Standards Committee, except for the following:

- As described in the accounting policy Note E, during 2001 as well as in previous years the Company has not amortised its route rights, contrary to the requirements of IAS 38 "Intangible assets". The view of management supported by the Audit Committee and also supported by independent valuation, is that the route rights are at least maintaining their value rather than depreciating and that given the early stages of development of the airline, it is not appropriate to apply IAS 38.

- As described in Note 16, the Company has not made a provision for deferred tax liabilities as at 31 December 2001, contrary to the requirements of International Accounting Standard 12 "Income Taxes". The amount of net deferred tax liability not provided for is disclosed in Note 16.

Reporting currency

The United States dollar has been selected as the measurement and reporting currency for the Company's IAS consolidated financial statements as a significant portion of the transactions, settlements and profits of the Company are denominated in US dollars. Moreover, the Company's assets and liabilities are largely denominated and settled in US dollars and other freely convertible currencies. The US dollar is used to a significant extent in, and has a significant impact on, the operations of the Company. For example, the Company prices its tickets based on the US dollar equivalent, and aircraft leases and fuel are priced in US dollars. Also, the US dollar is the currency in which management of the Company manages business risks and exposures, and measures the performance of its business.

These consolidated financial statements are prepared under the historical cost convention. The preparation of the financial statements in conformity with IAS requires management to make prudent estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements preparation and the reported amounts of revenues and expenses during the reporting period. Estimates have principally been made in respect of air traffic liability and the provisions for doubtful debts. Actual results could differ from these estimates.

Basis of preparation (continued)

With effect from 1 January 2001, the Company has adopted IAS 39 – Financial Instruments: Recognition and Measurement. Comparative information was not restated as prescribed by the transitional provisions of this standard.

Economic environment in Ukraine and developments in the airline industry

At present the economy of Ukraine is in a period of economic and financial transition and the currency is not freely convertible outside the country.

Over recent years the Ukrainian economy had been characterised by high rates of inflation and currency devaluation. In 2001 Ukraine continued its positive growth trend initiated in 1999 and achieved GDP growth of 9.0% and industrial output growth of 14.2%. In 2001 Ukraine was able to maintain a stable local currency and low level of inflation. In 2001 the level of inflation was 6.1% (2000: 25.8%), which was the lowest recorded in Ukraine for the last 10 years.

As a result of events, which occurred on 11 September 2001 in the United States of America and the general downturn in the aviation sector, some airlines are facing significant financial difficulties. Airline companies are looking to ease or delay cash outflows, and therefore the amount of disputed rejections from other airline companies in process of settlements via IATA Clearing House increased significantly in the fourth quarter of 2001. This is evidenced by the increase in receivables from the IATA Clearing House (Note 11).

Going concern

Management believes that it is appropriate to prepare these consolidated financial statements on a going concern basis. A comprehensive Crisis Management Action Plan is being implemented in the Company following 11 September 2001 in efforts to increase revenue, reduce costs and protect cash flow. An important part of this Plan is negotiation of better credit terms with lessors, suppliers of maintenance, navigation and airport services.

Loan rescheduling is however the major part of the Plan. As at 31 December 2001 the Company's current liabilities were significantly higher than its current assets mostly due to borrowings totalling USD 8,290 thousand being repayable during 2002. Subsequently the Company has secured USD 4,000 thousand in a new bank credit line and rescheduled shareholders' loans of USD 5,290 thousand as described in the accompanying Note 15.

The Company has secured a written commitment from its principal banker to renew the bank credit line of USD 4,000 thousand in March 2003 for one more year, subject to the financial position of the Company, compliance with the terms of the existing credit and the situation in the credit market of Ukraine.

In summary, as of June 2002, the Company has budgeted cash flow from operations for the year 2002 of USD 3,267 thousand. Loan repayments of USD 700 thousand have been made up to June 2002 and a further USD 1,901 thousand will be repaid in the period from July 2002 to June 2003, excluding the credit line described in the paragraph above, with a further USD 1,164 thousand to be rescheduled.

B. Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate ruling on the date of transaction as established by the National Bank of Ukraine. Exchange differences resulting from the settlement of transactions denominated in foreign currencies are recognised in the statement of operations at the time of settlement using the exchange rate ruling at that date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into US dollars at the period end exchange rates as established by the National Bank of Ukraine (31 December 2001: UAH 5.2985 = USD 1; 31 December 2000: UAH 5.4345 = USD 1), and the resulting gain or loss is included in foreign exchange gain/loss in the statement of operations.

The Ukrainian hryvnia is not a convertible currency outside the territory of Ukraine. Within Ukraine, official exchange rates are regulated by the National Bank of Ukraine ("NBU") and are determined largely by trading on the Ukrainian Inter-Bank Currency Exchange. Although official NBU rates do occasionally diverge from market rates, since 1995 they are generally considered to be a reasonable approximation. The translation of Ukrainian hryvnia - denominated assets and liabilities into US dollars for the purpose of these consolidated financial statements does not indicate that the Company could realise or settle in US dollars the disclosed values of these assets and liabilities.

C. Group accounting

(1) Subsidiary undertakings

Subsidiary undertakings, where the Company has an interest of more than a half of the voting rights or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Company. All inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered.

The only subsidiary of the Company is Ukraine Aeroservice GmbH, the Company's general sales agent for Germany.

Minority interest at the balance sheet date represents the minority shareholders' portion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiary at the acquisition date, and the minorities' portion of movements in equity since the date of the combination.

(2) Joint ventures

The Company's interests in the jointly controlled operations (operations without establishment of separate legal entity) are accounted for by proportionate consolidation. Under this method the Company includes its share of the joint venture's individual assets and liabilities and cash flows in the relevant components of its financial statements.

The Company records on a net basis the share of its profit from the jointly controlled activity and include it into other revenue.

Group accounting (continued)

(3) Foreign currency translation

Statements of operations of foreign entities are translated into the Company's reporting currency at the average exchange rate for the year and balance sheets are translated at the exchange rates ruling on 31 December. Any resulting translation differences are taken to the statement of operations as part of foreign exchange gain/loss.

The accompanying financial statements include the consolidation of operations of a 52% owned subsidiary, Ukraine Aeroservice GmbH (2000 – 52%), a company incorporated in Germany.

The accompanying financial statements also include proportionate consolidation of the jointly controlled operations "Avicon KBP" with Airport Boryspil (from 1 April 2002 it was renamed into Ukraine International Passenger Handling) in which the Company has a 49% interest (2000 - 49%).

D. Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation. Cost includes all expenses directly attributable to bringing an asset to working condition for its intended use. At each reporting date the management assess whether there is any indication of impairment of property and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the statement of operations. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Depreciation is calculated on a straight-line basis to write off the cost of each asset over their estimated useful life as follows:

Constructions	17 years
Furniture and equipment	5 years
Motor vehicles	5 years
Computer software	4 – 10 years
Rotable spare parts	16 years

Repairs and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the statement of operations as incurred.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed. For explanation of the treatment of borrowing costs please see Note L.

Expenditure on acquired software programmes is capitalised and amortised using straight-line method. The balance of intangible assets shown in these financial statements includes only purchased software.

Rotable parts are classified as fixed assets. They are stated at historical cost less accumulated depreciation. Depreciation of rotable parts is calculated on a straight-line basis. The cost of repairing rotables is charged to expense as incurred.

E. Route rights

Route rights are stated at historical cost, which is equal to the value stipulated by the Company's charter documents. No amortisation is calculated on these route rights.

Management and the Audit Committee believe that adoption of IAS No 38 "Intangible Assets", which under IAS should be used for accounting treatment of the route rights, would not give a true and fair view of the accounts. This position is supported by a route rights impairment review report completed by an independent expert in June 2002.

In June 2001, the Financial Accounting Standards Board of the USA issued Financial Accounting Statement (FAS) 142 "Goodwill and Other Intangible Assets" which Management believe sets forth a more appropriate accounting treatment of intangible assets and thus is the accounting policy Management adopt in relation to the route rights.

This Statement takes a practical approach to how intangible assets are accounted for subsequent to initial recognition. The Statement does not presume that all intangible assets are wasting assets i.e. finite lives. Instead intangible assets that have indefinite useful lives will not be amortised over an arbitrary ceiling of 20 or 40 years but rather will be tested annually for impairment.

F. Spare parts and supplies

Expendable spare parts and supplies relating to flight equipment are classified as current assets. They are carried at acquisition cost and are expensed when used in operations. Expendable spare parts and supplies are stated at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Provision is created by the Company for slow-moving items of inventory.

G. Investments

At 1 January 2001 the Company adopted IAS 39 and classified its investments into the following categories: trading, held-to-maturity and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale. These investments are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Company. The cost of purchase includes transaction costs. Trading and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the statement of operations in the period in which they arise.

H. Leases

Leases where a significant portion of the risks and rewards of the ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to statement of operations on a straight-line basis over the period of the lease.

Routine maintenance and airframe and engine overhauls for leased aircraft are charged to the statement of operations when incurred. In addition, accruals for heavy airframe and engine overhaul are made through the payment of supplemental rental reserve charges. To the extent that the actual costs incurred associated with major airframe and engine overhauls exceed the cumulative supplemental rent charges, the Company pays and expenses the excess.

In cases where overhaul or modifications enhance the usefulness of an aircraft, the costs associated with the changes are capitalised and depreciated over the estimated useful life of the aircraft, the modifications, or the term of the operating lease, whichever is less.

I. Accounts receivable

Accounts receivable are initially recorded at original invoice amount. Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year-end. Bad debts are written off during the year in which they are identified.

J. Cash and cash equivalents

Cash consists of cash on hand and balances with banks.

K. Borrowings

Borrowings are recognised initially at the fair value of the proceeds received (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings.

L. Borrowing costs

Prior to 2001 all borrowing costs were expensed as incurred. During 2001 the Company changed its accounting policy with respect to the treatment of borrowing costs relating to an aircraft Boeing 737-72Q, which is in course of construction by Boeing (Note 9 and Note 19 (ii)). In order to provide a more appropriate presentation of such transactions and following an alternative treatment in IAS 23 "Borrowing Costs", the Company now capitalises rather than expenses such costs. Such borrowing costs are capitalised during the period of time that is required to complete and prepare the asset for its intended use. As delivery of this aircraft has been postponed it was decided to cease capitalisation of interest expenses in September 2001.

This change in accounting policy has been accounted for retrospectively. The comparative statements for 2000 have been restated to conform to the changed policy. The effect of the change is described in detail in Note 5.

All other borrowing costs are expensed.

M. Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is possible that an outflow of economic resources embodying economic benefit will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

N. Pension and social security obligations

The Company contributes to Ukrainian state pension fund, social security fund, employment insurance fund and fund for social insurance regarding accidents at work on behalf of its employees. The contributions are calculated as a percentage of current gross salary payments, and are expensed as incurred.

O. Income taxes

The Company is liable to Ukrainian corporate profits tax, as calculated under the provisions of Ukrainian Corporate Profit Tax Law, at the rate of 30%. The Company does not provide for net deferred tax liabilities.

P. Air traffic liability

Air traffic liability is the estimated value of unused transportation sold by the Company. This includes the liability for transportation to be provided by the Company (deferred revenue) as well as the liability for transportation that may be provided by other air carriers.

Q. Revenue recognition

Revenues are recognised net of value added tax ("VAT") and other revenue taxes charged to customers, in the period in which the transportation or other services are provided.

R. Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, accounts receivable and payable and debt instruments. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item. The fair values of financial instruments are considered to approximate their carrying values.

S. Restatement and reclassifications of comparatives

Changes in the accounting policy described in the accounting policy Note L and the correction of fundamental errors described in Note 1 required the restatement and certain reclassifications of comparative information in these consolidated financial statements. This restatement and reclassifications relate to the balance sheet, statement of operations, cash flow statements, statement of changes in shareholders' equity and respective notes.

(In the notes all amounts are stated in thousands of United Stated dollars unless otherwise stated)

Notes to the consolidated financial statements

1. Changes to prior year accounts

The following errors, which have been corrected in accordance with IAS 8 "Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies" have been identified by the Company in 2001:

- In 2000 the Company incorrectly understated its operating expenses by USD 323 thousand. The financial statements as at and for the year ended 31 December 2000 have been restated to correct this error.

- Prior to 2001 the Company had incorrectly accounted for jointly controlled operations. In 2000 settlements on jointly controlled operations were reflected in the balance sheet as part of current liabilities and current assets. In the statement of operations only the Company's share of profits was recorded as other operating income. The Company incorrectly reflected its revenue from jointly controlled operations in 2000 understating it by USD 37 thousand and incorrectly recorded the resulting balance on jointly controlled operations account understating the liability by USD 119 thousand. Before 2001 the Company did not recognise its share of the jointly controlled assets and liabilities, which required a restatement of balance of retained earnings as at 1 January 2001 by USD 74 thousand. The financial statements for the year ended 31 December 2000 have been restated to correct the above errors.

2. Revenue

Revenue consists of the following:

	Year ended 31 December 2001	Year ended 31 December 2000
Passenger services	53,064	46,514
Charter services	4,965	3,273
Cargo and other services	3,141	3,230
Aircraft rentals	4,672	4,169
Joint venture revenue	710	N/A
Other	2,074	1,733
	68,626	58,919

N/A – comparative information is not available

(In the notes all amounts are stated in thousands of United Stated dollars unless otherwise stated)

3. Operating expenses

	Year ended 31 December 2001	Year ended 31 December 2000 (restated – Note 1)
Operating expenses		
Aircraft fixed lease costs	11,882	11,208
Variable lease costs	1,646	1,038
Fuel	9,453	8,362
Aircraft handling	5,288	4,768
Aircraft spare parts, repairs, A&B forms	4,978	4,731
Navigation	4,901	4,076
Aircraft maintenance – service reserves	4,090	3,420
Landing	2,500	2,030
Catering	2,781	2,411
Block seats cost	1,072	1,101
Pax handling	861	822
Insurance	650	722
Crew payroll and related taxes (Note 4)	998	868
Maintenance staff payroll and related taxes (Note 4)	704	526
Crew other operating expenses	605	365
Depreciation (Note 7)	298	228
	52,707	46,676
Selling expenses		
Commissions	3,975	3,266
Booking and reservation expenses	1,593	1,259
Advertising	1,050	590
Representative office expenditure	932	1,018
	7,550	6,133
General and administrative expenses		
Other salaries and related taxes (Note 4)	1,980	1,738
Consulting, legal and audit services	632	604
Training expenses	383	376
Premises rent	265	271
Travel expenses	172	302
Communication expenses	208	219
Premises repair and maintenance	111	57
Bank charges	180	130
Depreciation (Note 7)	198	288
Provision for bad debts	-	38
Joint venture expenses	599	N/A
Other general and administrative expenses	1,155	933
	5,883	4,956
Total	66,140	57,765

N/A – comparative information is not available

(In the notes all amounts are stated in thousands of United Stated dollars unless otherwise stated)

Operating expenses (continued)

The amounts in this note incorporate necessary adjustments to reflect errors identified in 2001 and disclosed separately in Note 1.

4. Staff costs

	Year ended 31 December 2001	Year ended 31 December 2000
Crew payroll	808	748
Maintenance staff payroll	570	448
Other staff payroll	1,609	1,421
Taxes and social security costs	695	515
	3,682	3,132
Number of employees at year end in full time equivalent	703	704

5. Finance costs, net

	Year ended 31 December 2001	Year ended 31 December 2000
Interest income	98	49
Interest expense	(921)	(1,480)
	(823)	(1,431)

The amounts in this note incorporate necessary adjustments to reflect the change in accounting policy in respect of the treatment of borrowing costs related to a purchase/construction of Boeing 737-72Q under Contract with Boeing (Note 9) described in the accounting policy Note L. The comparative statements for 2000 have been restated to reflect this change. The effect of the change is a decrease in interest expense of USD 127 thousand in 2001 and of USD 95 thousand in 2000. Accumulated loss as at 1 January 2000 has been reduced by USD 81 thousand which is the adjustment relating to periods prior to 2000.

6. Taxation

The tax charge consists of the following:

	Year ended 31 December 2001	Year ended 31 December 2000
Current tax charge	172	-
Income tax expense	172	-

(In the notes all amounts are stated in thousands of United Stated dollars unless otherwise stated)

7. Property and equipment

Property and equipment consist of the following:

	Constructions	Furniture and Equipment	Motor Vehicles	Computer software	Rotable spare parts	Improvements on leased assets	Total
At 31 December 2000							
Cost	175	978	374	249	4,299	-	6,075
Accumulated depreciation	(89)	(738)	(303)	(77)	(1,072)	-	(2,279)
Net book amount	86	240	71	172	3,227	-	3,796
Year ended 31 December 2001							
Opening net book amount	86	240	71	172	3,227	-	3,796
Additions / transfers	2	105	15	61	513	412	1,108
Disposals/ transfers	-	(12)	(10)	(18)	(152)	-	(192)
Depreciation charge	(22)	(105)	(32)	(39)	(251)	(47)	(496)
Closing net book amount	66	228	44	176	3,337	365	4,216
At 31 December 2001							
Cost	177	1,039	270	292	4,660	412	6,850
Accumulated depreciation	(111)	(811)	(226)	(116)	(1,323)	(47)	(2,634)
Net book amount	66	228	44	176	3,337	365	4,216

Rotable spare parts in the amount of USD 2,400 thousand have been pledged as security for bank loans, as described in Note 19 (iv).

(In the notes all amounts are stated in thousands of United Stated dollars unless otherwise stated)

8. Route rights

Route rights represent the major part of the contribution to the share capital by the State Property Fund (SPF) and consists of " ...the complex of measures aimed at increasing the Company's profits and ensuring it achieves its potential without corresponding increase in active operations, including the predominant position in the air transport market...". This "complex of measures" was valued at USD 32,829 thousand. To ensure that this value was realised, the SPF, through the State Department of Aviation Transport of Ukraine, provided a guarantee in the form of exclusive rights to the Company to operate twenty air routes to the selected destinations until 31 December 2010 ("route rights'). As it is stated in the charter documents "... these rights do not constitute a contribution to the statutory fund but the granted rights will ensure that the potential of the Company is realised in the amount of goodwill valuation".

The Company has performed an impairment review of the value of the route rights as at 31 December 2001, which has evidenced that the carrying amount does not exceed the fair value of the assets.

9. Aircraft purchase advance payments

	31 December 2001	31 December 2000
Advance payments	1,781	867
Interest capitalised	303	176
	2,084	1,043

In 1998 the Company signed a purchase agreement with Boeing for construction of an aircraft Being 737-72Q. In accordance with this contract, the Company is required to pay in advance part of the contract amount. The advance payments balance as at 31 December 2001 cannot be recovered by the Company in cash if the agreement is terminated, as the Company also has contingent liability in respect of this agreement. However, the Company may realise these deposits by transferring the aircraft slot to another party.

Borrowing costs of USD 127 thousand, arising from financing of purchase of this aircraft, were capitalised during 2001 (Note 5). A capitalisation rate of 10.6% (2000 – 12.2%) was used being the approximate weighted average of the borrowing costs applicable to the borrowings of the Company that were outstanding during the year.

10. Restricted cash deposits

	31 December 2001	31 December 2000
Non-current restricted cash deposits	2,085	2,703
Current restricted cash deposits	1,137	-
	3,222	2,703

Restricted cash deposits consist of security deposits, which the Company is required to provide to aircraft lessors. The non-current portion of restricted cash deposits consists of deposits relating to agreements with lessors, which do not expire within one year. Restricted cash deposits repayable within one year are classified as current assets.

(In the notes all amounts are stated in thousands of United Stated dollars unless otherwise stated)

11. Receivables and prepayments

Receivables and prepayments consist of the following:

	31 December 2001	31 December 2000
Receivables from agents, gross	2,681	3,129
Other trade receivables	751	368
Less allowance for doubtful accounts	(151)	(277)
Trade receivables, net	3,281	3,220
IATA Clearing House settlements (Note A)	1,881	418
Prepayments	1,001	1,187
Taxes recoverable	1,100	208
Other receivables	855	765
	8,118	5,798

Taxes recoverable mainly consist of VAT recoverable from the State in respect of the Company's purchases, which is usually reimbursed with significant delay due to the budgetary constraints of the Ukrainian Government.

12. Trading investments

As at 31 December 2000 the Company owned 18,834 depository certificates in the SITA foundation ("SITA"), corresponding to underlying common shares of Equant NV ("Equant"). Equant was an entity based in the Netherlands, which is publicly traded on the New York Stock Exchange in the form of American Depository Receipts. SITA was established as a consortium of air carriers to improve inter-airline communication. The Company was a shareholder of SITA, and accordingly, it had no costs associated with the depository certificates. As at 31 December 2000 the estimated fair value of SITA depository certificates of USD 565 thousand was recorded in the financial statements and was based on the underlying public trading price of Equant NV shares. The related income was included in other income.

In 2000, SITA undertook efforts to monetise its holdings in Equant. In December 2000, SITA entered into an agreement with France Telecom whereby it agreed to exchange its Equant shares for shares of France Telecom. The transaction was finalised in July 2001. The Company immediately sold shares of France Telecom and recorded a loss of USD 179 thousand, which was included in other expenses.

13. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	31 December 2001	31 December 2000
Cash at bank and in hand		
Local currency accounts	239	347
Foreign currency accounts	652	3,277
	891	3,624

(In the notes all amounts are stated in thousands of United Stated dollars unless otherwise stated)

14. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities consist of the following:

	31 December 2001	31 December 2000
Trade accounts payable	6,999	8,342
Taxes payable	105	77
Minority interest	15	27
Other payables	1,100	373
	8,219	8,819

15. Borrowings

	31 December 2001	31 December 2000
Current borrowings		
Austrian Airlines	2,300	1,000
Swiss Air Transport Company Ltd.	2,500	-
debis AirFinance	546	510
Ukrsotsbank	2,467	-
First Ukrainian International Bank (“FUIB”)	477	-
	8,290	1,510
Non-current borrowings		
Austrian Airlines	200	2,500
Swiss Air Transport Company Ltd.	-	2,500
debis AirFinance	-	455
Other	195	198
	395	5,653

Borrowings (continued)

In January 2000 the Company entered into a loan agreement for USD 2,500 thousand with Austrian Airlines. The interest rate stipulated in the agreement is 9% per annum. The balance outstanding as at 31 December 2001 was repayable as follows: USD 100 thousand in January 2002 and then USD 200 thousand monthly from February 2002 for 12 months. In June 2002 the loan was restructured. USD 1,336 thousand will be repaid in 2002 (including USD 700 thousand repaid up to the end of June 2002). Austrian Airlines have committed to rescheduling the balance of USD 1,164 thousand, due under original agreement in January 2003, with the final payment no later than April 2004.

In January 2000 the Company obtained a loan of USD 2,500 thousand from Swiss Air Transport Company Ltd, an affiliate of one of the Company's shareholders. The interest rate stipulated by the agreement is LIBOR +3%. The loan was repayable on December 31, 2002. In June 2002 the loan was restructured. The loan will be repaid over 25 months from December 2002 to December 2004 by payments of USD 100 thousand per month.

In August 1998 the Company received a USD 1,500 thousand loan from debis AirFinance. The loan was repayable in instalments of US 48.4 thousand up to October 2002, including interest at 10% per annum. As at 31 December 2001 the balance outstanding was USD 546 thousand. Subsequently the loan was restructured. USD 282 thousand will be paid during the second half of 2002 and remainder will be paid in monthly instalments during the first half of 2003.

In March 2001 the Company entered into a credit line agreement with Ukrsotsbank with the upper limit of USD 500 thousand (in April 2001 the limit was extended to USD 2,500 thousand) at an interest rate of 14% per annum and due for repayment in March 2002.

In March 2001 Company also entered into a credit line agreement with FUIB for USD 500 thousand at interest rate of 16% (plus 0.2% from amounts withdrawn) and was due for repayment in March 2002. Subsequent to year-end this loan was repaid.

Bank loans are secured by assets and future cash flows of the Company, as described in Note 19 (iv).

In March 2002, a new credit line agreement was signed with Ukrsotsbank. The new interest rate stipulated in the agreement is 16% per annum. The upper limit of this credit line is USD 4,000 thousand, which is due for repayment in March 2003. Spare parts and future cash inflows are pledged as a security for this credit line. Certain restrictions are imposed on the Company according to this agreement, including the requirement to seek an approval from the bank for obtaining new loans and issue of bonds.

The Company has secured a written commitment from Ukrsotsbank, its principal banker, to renew the bank credit line of USD 4,000 thousand in March 2003 for one more year, subject to the financial position of the Company, compliance with the terms of the existing credit and the situation in the credit market of Ukraine.

(In the notes all amounts are stated in thousands of United Stated dollars unless otherwise stated)

16. Deferred taxation

Differences between Ukrainian statutory taxation and IAS give rise to certain temporary differences between the financial statement and tax bases of assets and liabilities.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income taxes are calculated on all temporary differences under the liability method using the applicable statutory tax rate of 30%.

Taxation is based on profit calculated in accordance with statutory tax regulations and differs from the theoretical amount that would arise using the effective tax rate as follows:

	Year ended 31 December 2001	Year ended 31 December 2000
Reconciliation between accounting profit and tax expense		
Accounting profit/(loss) before tax	832	(673)
Tax at applicable tax rate of 30%	250	(202)
Adjustments for items which are not deductible from profits or assessable for taxation purposes:		
Tax effect of expenses that are not deductible in determining taxable profit	292	847
Other	(31)	24
Deferred tax liability not recognised	(339)	(669)
	172	-

(In the notes all amounts are stated in thousands of United Stated dollars unless otherwise stated)

Deferred taxation (continued)

	31 December 2000	Credited/ (charged) to statement of operations	31 December 2001
Deferred income tax liability			
Accruals for revenues and expenses	236	(389)	(153)
Revaluation and accelerated accounting depreciation of property and equipment	(635)	246	(389)
Deferred passenger revenue	(902)	378	(524)
Total deferred tax liability	(1,301)	235	(1,066)
Deferred income tax asset			
Bad debt provision	174	(128)	46
Tax losses carried forward	446	(446)	-
Total deferred tax asset	620	(574)	46
Net deferred tax liability	(681)	(339)	(1,020)

The Company does not provide for deferred tax liabilities. A provision would result in a deferred income tax expense of USD 339 thousand during the year ended 31 December 2001. It would result in a deferred tax liability as at 31 December 2001 of USD 1,020 thousand as set forth above.

17. Share capital

	Type of shares	31 December 2001 %	31 December 2001 USD	31 December 2000 %	31 December 2000 USD
State Property Fund of Ukraine	Ordinary	61.5	33,500	61.5	33,500
UIA Beteiligungsgesellschaft GmbH	Ordinary	22.5	12,250	22.5	12,250
debis AirFinance	Ordinary	6.0	3,250	6.0	3,250
European Bank for Reconstruction and Development ("EBRD")	Preference	10.0	5,400	10.0	5,400
		100.0	54,400	100.0	54,400

(In the notes all amounts are stated in thousands of United Stated dollars unless otherwise stated)

Share capital (continued)

The Company's share capital consists of 490,000 ordinary shares and 54,000 preference shares at par value of USD 100 per share. The Company is to pay dividends in respect of the preference shares annually on 14 December starting from 2001. Preference shares dividends are computed based on the USD denominated share capital and do not depend on the profitability of the Company. In accordance with the subscription agreement between Ukraine International Airlines and EBRD the dividends are computed in USD equal to the fixed five year interest rate available to EBRD in the interest swap and option market on the day of dividends disbursement plus margin of 1%. In 2001 dividends paid to EBRD amounted to USD 384 thousand representing the interest rate of 7.2%.

In accordance with the charter agreement, the EBRD has the right to convert its preference shares into ordinary shares. It is also stipulated that the EBRD may impose, on Austrian Airlines, Swissair or any other entity controlled by either of those companies, a repurchase of its preference share at nominal value in USD equivalent after the fourth year from the issue date of preference shares being December 2000. Shareholders agreed to take all necessary actions to perform such conversion or buy-out at the General Meeting of Shareholders. These shares convert to ordinary shares on sale.

18. Related party transactions

i) Sales / purchases of services

	Year ended 31 December 2001	Year ended 31 December 2000
Austrian Airlines – shareholder of UIA Beteiligungsgesellschaft GmbH*		
Expenses		
Lease payments	2,820	2,888
Maintenance reserves	876	631
Interest	256	164
Block seats	464	718
Other services	489	397
	4,905	4,798
Revenue		
Block seats	4,709	3,677
Other	95	134
	4,804	3,811

*UIA Beteiligungsgesellschaft GmbH is a company incorporated in Austria and owned by Austrian Airlines and Swissair

(In the notes all amounts are stated in thousands of United Stated dollars unless otherwise stated)

Related party transactions (continued)

	Year ended 31 December 2001	Year ended 31 December 2000
Swissair – shareholder of UIA Beteiligungsgesellschaft GmbH*		
Expenses		
Interest	159	28
Block seats	528	610
Other services	104	154
	791	792
Revenue		
Commissions	36	44
Other	44	62
	80	106

*UIA Beteiligungsgesellschaft GmbH is a company incorporated in Austria and owned by Austrian Airlines and Swissair

ii) Period end balances arising from sales/purchases of services and other transactions:

	Year ended 31 December 2001	Year ended 31 December 2000
Austrian Airlines		
Loans	(2,500)	(3,500)
Security deposits paid	1,427	1,427
Prepayments made	472	578
Pool settlements	-	(500)
Other receivables	36	52
Other payables	(81)	(25)
	(646)	(1,968)
Swissair		
Loans	(2,500)	(2,500)
Other receivables	42	67
Other payables	(181)	(151)
	(2,639)	(2,584)

The Company also has borrowings from debis AirFinance, the Company's shareholder. These arrangements are discussed in Note 15.

All transactions were entered into with related parties during the ordinary course of business on normal commercial terms.

(In the notes all amounts are stated in thousands of United Stated dollars unless otherwise stated)

19. Commitments and contingencies

(i) Lease commitments

The future minimum lease payments required under non-cancellable operating leases are as follows:

	Gross commitment	Sublease	Net commitment
2002	11,492	(135)	11,357
2003	8,336	-	8,336
2004	5,798	-	5,798
2005	4,110	-	4,110
2006	3,840	-	3,840
2007	1,200	-	1,200

In addition to lease payments, the Company pays lessors so called "maintenance reserves" being supplemental rent per hour with respect to heavy overhaul of the airframe, engines and landing gear. Supplemental rent payments are charged to the statement of operations when incurred. The total amount of the lease costs (including supplemental rent payments) was USD 17,618 thousand in 2001 and USD 15,666 thousand in 2000.

(ii) Aircraft purchase commitments

In 1998 the Company signed a long-term agreement with Boeing to purchase an aircraft Boeing 737-72Q. The original aircraft delivery date was April 2001. As at 31 December 2001 the advance payment in the amount of USD 1,781 thousand have already been paid to Boeing in respect of this agreement. The Company signed an amended agreement with Boeing in September 2001, which extended aircraft delivery date to February 2006 and renegotiated the contract amount. The payment schedule in accordance with the amended agreement is as follows:

2002	200
2003	200
2004	2,890
2005	2,394
2006	42,410*

* - The actual amount to be paid in 2006 will be significantly reduced by already negotiated credits that will be available at delivery

(iii) Contingent liability

In 2001 the Company entered into legal proceedings with the state run company Ukraeroruh. The case related to the discounts on navigation services provided by Ukraeroruh during 2000. In 2000 Ukraeroruh provided services on navigation at a discount of 30%. According to the Order of the Ministry of Transportation of Ukraine #301 dated 13 June 2000 the discount was increased to 50% and UIA paid for navigation services applying this discount. Ukraeroruh claimed that this order was invalid and appealed to the court to reclaim from UIA the difference of 20% being USD 388 thousand (at the year-end UAH/USD exchange rate). The latest decision of the Supreme Court has ruled in favour of the Company. However, Ukraeroruh is appealing this decision.

Commitments and contingencies (continued)

(iv) Pledged assets

Rotable and expendable spare parts in the amount of USD 2,400 thousand and future cash flows from selected agents for sold tickets in the amount of USD 3,500 thousand were pledged as security for loans obtained from Ukrsotsbank and from FUIB.

(v) General commitments and contingencies

The taxation system in Ukraine is evolving as the government transforms to a market orientated economy. Ukraine tax laws and regulations are not always clearly written and are sometime contradictory. They are occasionally subject to aggressive interpretation by the local tax inspectors and there is, as yet, no concept of precedent, which could be used in a Court of Law to protect against such claims. Instances of inconsistent opinions between local, regional and national tax authorities and the Ministry of Finance are not unusual. Furthermore, current legislation allows the Tax Authorities to reassess tax liabilities for periods, which have been previously audited by them. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Company has accrued tax liabilities based on management's best estimate.

The Company's operations and financial position will continue to be effected by Ukrainian economic and political developments including the application of existing and future legislation and tax regulations. Such occurrences and their effect on the Company could have an impact on the Company's operations. The Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Ukraine and management therefore have prepared the accounts on a going concern basis.