

CONSTANTA FOUNDATION

*Financial Statements for the year ended 31 December 2003,
and Independent Auditors' Report*

	PAGE
INDEPENDENT AUDITORS' REPORT	3
FINANCIAL STATEMENTS:	
BALANCE SHEETS	4
STATEMENTS OF PROFIT AND LOSS	5
STATEMENT OF CASH FLOWS	6
ACCOUNTING POLICIES	7
NOTES TO FINANCIAL STATEMENTS	10

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Constanta Foundation

We have audited the accompanying balance sheet of Constanta Foundation ("The Company") as of 31 December 2003, and related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit in order 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 statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of the Company present fairly, in all material respects, the financial position of the Company as of December 31, 2003 and the results of its operations for the year then ended, in accordance with International Accounting Standards and requirements of Georgian legislation.

Georgian Audit and Consulting Company (GACC)

Temuri Partskhaladze
Partner

BALANCE SHEET STATEMENT

	Note	2003	2002
ASSETS			
Current assets			
Cash		1,356,658	486,127
Short-term investments		400,000	
Total loan portfolio	1	7,337,297	6,152,587
Loan loss reserve	2	(288,243)	(207,895)
Other short-term assets		99,715	40,573
Net current fixed assets		8,905,427	6,471,392
Non-current assets			
Fixed assets, net		1,022,313	881,191
Other non-current assets			147,171
Net non-current assets		1,022,313	1,028,362
TOTAL ASSETS		9,927,740	7,499,754
LIABILITIES			
Current liabilities			
Other short-term liabilities	3	219,669	9,057
TOTAL LIABILITIES		219,669	9,057
EQUITY			
	4		
Prior period donated funds		7,458,751	2,821,064
Current period donated funds		1,170,002	4,637,687
Prior years profit/loss		31,946	
Current years profit/loss		1,047,372	31,946
TOTAL EQUITY		9,708,071	7,490,697
TOTAL LIABILITIES AND EQUITY		9,927,740	7,499,754

The accompanying notes are an integral part of these financial statements.

PROFIT AND LOSS STATEMENT

	Note	2003
REVENUE	5	<u>5,051,313</u>
OPERATING EXPENSES		(3,695,291)
Loan loss provision expenses	6	(142,867)
Employee's salary and wages	7	(1,703,950)
Administrative expenses	8	<u>(1,848,474)</u>
NET OPERATING PROFIT/LOSS		<u>1,356,022</u>
Exchange losses	9	(39,697)
Other non-operational revenue	9	40
Other non-operational expenses	9	<u>(7,150)</u>
PROFIT BEFORE TAXATION		1,309,215
TAXES		<u>(261,843)</u>
NET PROFIT		<u><u>1,047,372</u></u>

The accompanying notes are an integral part of these financial statements.

CASH FLOW STATEMENT

	2003
Cash flow from operating activities	
Net profit	1,047,372
Amortization	157,300
Provision expenses	142,867
Exchange rate difference	(2,656)
Changes in short-term investments	(25,165)
Changes in short-term investments	323,805
Net cash flow from operating activities	<u>1,643,523</u>
Cash flow from investment activities	
Changes in investments	(400,000.00)
Changes in gross loan portfolio	(1,244,572)
Changes in gross fixed assets	(298,422)
Net cash flow from investment activities	<u>(1,942,994)</u>
Cash flow from financial activities	
Funds received from donors	1,170,002
Net cash flow from financial activities	<u>1,170,002</u>
NET CASH FLOW	<u><u>870,531</u></u>
Cash balance at the beginning of the year	486,127
Cash balance at the end of the year	<u>1,356,658</u>

The accompanying notes are an integral part of these financial statements.

ACCOUNTING POLICIES

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with International Accounting Standards (IAS).

The accompanying financial statements have been prepared in the national currency of Georgia, Lari (GEL), which is the Company's functional currency.

The accounting records of the fund are prepared based on the Accounting Law and taxation regulations of Georgia. Under these requirements accounting records are prepared on historical cost basis.

FOREIGN CURRENCIES

Transactions denominated in foreign currency are translated into GEL at the official exchange rate of National Bank of Georgia on the date of transaction. The official exchange rate for the principal currency as of 31 December 2003 was:

1 USD	2.075 GEL
-------	-----------

CASH

Cash includes cash on premises as well as cash on bank accounts.

LOANS

Basis of presentation

Loans are presented as granted loans and provision for doubtful loans. The balance of provision for doubtful loans on the date of the balance sheet statement presents an estimate of possible loan losses on that date. The estimate is made in accordance with the internal regulation developed by the Company's management on the basis of historical analysis of loan losses.

Policy of loans provisions

The amount of provision for doubtful loans depends on timeliness of overdue payments. Actual losses on loans may differ from current estimate.

Considering the absence of reliable information on borrowers' solvency, it is almost impossible to determine expected losses correctly. In these circumstances, the management of the Company believes that it made the best possible estimate on possible losses on loans, and that the present amount of provision is adequate.

INVENTORIES

Valuation of inventories

Inventories are stated at lower of cost and net realizable value.

TANGIBLE FIXED ASSETS

Basis of presentation

Tangible fixed assets are stated at historical cost less accumulated depreciation.

An asset is considered a fixed asset when its useful life exceeds one year. Original historical cost of a fixed asset consists of purchase price, non-recoverable taxes and other expenses directly related to putting a fixed asset into use.

Depreciation

Depreciation is charged to the historical cost for all fixed assets using the straight-line method on a monthly basis.

REVENUE RECOGNITION

Revenue consists of fees for loan services, loan interest and penalties, as well as interest from investments in government bonds. Revenue is recognised on the accrual basis.

TAXATION

Social expenditure items are recognised in the period, in which they arise. Under local tax regulations the Company has to pay a total of 31% tax on salaries, although a part of salaries is financed from received grants and are not taxed by 31%.

The Company pays road and property taxes. Additionally, a corporate profit tax of 20% is charged on the revenue received from economic activity. In the course of our audit, we have found that all taxes are calculated correctly and paid on time.

GENERAL INFORMATION

Constanta foundation was established in 1997 as an association (union) according to The Civil code of Georgia. In 1998, the Company changed his legal status and was reregistered as a fund.

The Company receives grants from different international donors, and gives away micro credits for small and micro businesses.

Legal address of the Company is 115 Tsinamdzgvrishvili str., Tbilisi, Georgia. The Company has a head office, seven branches, and their departments and service centres.

ECONOMIC SITUATION

Georgia is experiencing serious economic instability as a result of an unbudgeted fiscal deficit, high levels of interest rates, large internal and external debt, low rates of tax collection, and lack of liquidity. Insufficiency of funds to remedy the situation has caused serious negative economic and political consequences.

The return to economic stability is dependent to a large extent on the efficiency of the fiscal measures taken by the government and other actions beyond the Company's control.

NOTES TO THE FINANCIAL STATEMENTS

1. LOANS

Loans by condition on 31 December 2003:

	Individual	Group	Total
Loans	1,306,189	6,031,108	7,337,297
Provisions	(122,536)	(165,708)	(288,244)
Net loans	1,183,653.21	5,865,400	7,049,053

2. ANALYSIS OF OVERDUE LOANS

Non-overdue loans	7,032,139
Portfolios under risk	305,158
Among them:	
More then 30 days overdue	241,969.01
More then 60 days overdue	217,386.71
More then 90 days overdue	196,498.00
More then 270 days overdue	134,457.36

3. CURRENT LIABILITIES

Current liabilities as of December 31, 2003 are equal to 219,668.54 GEL, which mainly consist from tax liabilities, rent payables, and payables to employees and suppliers.

4. OWNERS' EQUITY

Structure of owners' equity:

Funds donated in prior periods	7,458,751
Funds donated in current period	1,170,002
Prior years profit	31,946
Current year profit	1,047,372
Total private funds	9,708,071

5. REVENUE

Revenue of the Company for the year ended December 31, 2003 consists of the following items:

Interest on loans	4,507,447
Penalties on loans	84,718
Loans service fee	332,972
Interest on investments	116,442
Other revenue	9,734
Total revenue	5,051,313

6. OPERATING EXPENSES

Operating expenses of the Company for the year ended December 31, 2003 consist of the following items:

Loan provisions	142,867
TOTAL	142,867

7. EMPLOYEE'S SALARY AND WAGES

Salary expenses of the Company for the year ended December 31, 2003 consist of the following items:

Employee's salary and wages	1,703,950
TOTAL	1,703,950

8. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses of the Company for the year ended December 31, 2003 consist of the following items:

Depreciation	157,300
Transportation and errand	96,495
Office rent	172,880
Office equipment	83,342
Communication & postage	79,167
Professional service	81,904
Bank percents and penalties	47,504
Insurance	5,882
Other general and administrative expenses	128,989
Taxes	655,604
Training	150,618
Advertisement and promotion	22,579
Repair and maintenance	49,121
Utilities	117,089
TOTAL	1,848,474

9. NON-OPERATIONAL REVENUE AND EXPENSES

Non-operational revenue and expenses of the Company for the year ended December 31, 2003 consist of the following items:

Revaluation loss	39,697.15
Non operational revenue	40.00
Other non-operational expenses	7,149.87
TOTAL	1,848,474

10. SUBSEQUENT EVENTS

In the beginning of 2004 the Government of Georgia has prohibited "outer" trade in the streets. This Decision made a negative effect on the Company's activity and on return rate of loans. The Company will adjust its loan policy and overall activity according to the changes in the business environment in Georgia.
