

FINANCIAL DOCUMENTS

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UNION OF THE BALTIC CITIES

AUDITOR'S REPORT

for 2003

A. General Information

Union of the Baltic Cities was established in 1991. Registration of the Union at the Province Court of Gdańsk, XII Economic Department, National Court Register, Register of Associations and other Social and Professional Organisations under No. KRS: 0000005342. The Union's taxation identity number NIP is 583-10-66-139 and REGON is 190048545. In 2003 100 cities from 10 Baltic Sea countries were associated in the Union.

The objective of the Union of the Baltic Cities is to develop co-operation and exchange of information between members of the Union.

The Union does not conduct business activity and is supported from members' dues. Income of the Union is tax-free.

The audit was performed by a chartered auditor - Jadwiga Zemło, No. 4615 of the register kept by National Board of Chartered Auditors in Warsaw, on the strength of contract No. 8/2005 of 18 April 2005, concluded between Usługi Księgowe - Bilans, of Gdańsk, and the Union of the Baltic Cities.

B. Books

The books are kept by Stowarzyszenie Ekspertów Księgowych i Podatkowych Spółka z o.o. [Association of Chartered Auditors and Tax Experts, Co. Ltd.], of Gdańsk, ul. Aldony 17.

The chart of accounts was developed basing on the standard chart of accounts for social and professional organisations, associations and endowments, issued by the Association of Accountants of Poland.

The above said chart of accounts ensures the accounts being kept in compliance with the provisions of the Accounting Act of 29 September 1994 (Journal of Laws, No. 76, item 694 from 2002). The rules contained in the chart of accounts are consistently adhered to.

The books are kept by means of a computer, using Symfonia – Finanse i Rachunkowość 5,00 software. The records kept make it possible to obtain necessary data on incomes and costs and comply with the requirements set up in the Accounting Act. A statement of movement and balances on synthetic and analytical accounts being a basis for the drawing up of balance sheet and profit and loss account was made as on 31 December 2003.

Accounting documents are complete and adequate, checked from accounting and material point of view. The documents are stored correctly.

The closing balance sheet of the year 2002 was entered in the books as the opening balance sheet as on 1 January 2003. Denomination was carried out properly.

The benefit for the year 2002, amounting to PLN 205 142,55 was booked to increase the statutory fund.

C. Financial Statement

Financial statement of the Union of the Baltic Cities includes:

- balance sheet as on 31 December 2003, on the assets side showing the amount of **PLN 580 785,58**.

- profit and loss account for the period covering the time from 1 January to 31 December 2003, showing the loss amounting to **PLN 150 542,98**.
- additional information.

The financial statement was prepared in accordance with provisions of the ordinance of the Minister of Finance of 15 November 2001, on detailed rules for the accounting of entities not conducting business activity (Journal of Laws No. 137, item 1539 of the year 2002 and No. 11, item 117 of the year 2003).

The audited year concerns the following 12 months of the year 2003 and the previous year concerns the following 12 months of the year 2002.

Summary balance sheet for the period 2001-2003 (in thousands PLN)

Specification	State at the end of the year						Changes
	2001		2002		2003		2003/2002
	Amount	%	Amount	%	Amount	%	%
1	2	3	4	5	6	7	8
<i>ASSETS</i>							
1. Fixed assets	0	0,0 %	0	0,0 %	0	0,0 %	0,0 %
2. Current assets	261	100,0 %	621	100,0 %	581	100,0 %	93,6 %
Total	261	100,0 %	621	100,0 %	581	100,0 %	93,6 %
<i>LIABILITIES</i>							
3. Statutory funds	133	51,0 %	338	54,4 %	188	32,4 %	55,6 %
4. Accounts payable	128	49,0 %	283	45,6 %	393	67,6 %	138,9 %
Total	261	100,0 %	621	100,0 %	581	100,0 %	93,6 %

Summary profit and loss sheet for the period 2001-2003 (in thousands PLN)

Specification	Period (years)			Changes 2003/2002
	2001	2002	2003	
1	2	3	4	5
1. Income from statutory activities, dues	1 139	1 986	1 786	89,9 %
2. Income from financial operations	50	48	195	406,3 %
3. Other incomes	6	0	0	0,0 %
Total	1 195	2 034	1 981	97,39 %
3. Costs of execution of statutory tasks	996	1 496	1836	122,7 %
4. Management costs	318	294	253	86,1 %
5. Costs of financial operations	28	38	43	113,2 %
6. Other costs	0	1	0	0,0 %
Total	1 342	1 829	2 132	116,6 %
7. Gross profit/ loss	- 147	205	- 151	- 73,7 %

D. Assessment of Correctness of the Books

1. Fixed Assets include computer sets

- original value	40 348,32
- depreciation	40 348,32
- net value	0,00

In 2003, no changes in the fixed assets were shown and it is not evidenced in the balance.

2. Current assets

short-term investments		580 785,58
- cash on hand	388,00	
- cash in bank	580 397,58	

The amount of cash follows from cash report No. 12/03 of 31 December 2003, and banking statement as of 31 December 2003 confirmed by Banks. The bookings were made correctly.

3. Funds

- statutory fund	338 177,17
- loss for 2003	- 150 542,98
total	187 634,19

The statutory fund was created properly from the financial result for the period of operation.

4. Short-term Liabilities

- on the score of supplies, work and services	78 599,17
- to the state budget	1 707,92
- deferred incomes	312 844,30
total	393 151,39

The balances are correct and pertain to current settlements. Bookings were made correctly, accounted in 2004.

E. Profit and loss account

1. Costs Borne

• costs of execution of statutory tasks		1 836 313,12
• management costs		252 659,43
including		
- external services	100 146,76	
- consumption of materials and power	5 328,02	
- fees	124 146,47	
- other costs	23 038,18	
• costs of financial operations		42 553,01
total costs		2 131 525,56

2. Income

• income from statutory activities		1 786 301,88
including		
- dues (fees)	740 837,81	
- other grants	1 045 464,07	
• income from financial operations		194 679,79
• other incomes		0,91
total income		1 980 982,58

The income received was booked correctly, as it pertains to the year 2003.

3. Loss on operation 150 542,98

Annual settlement on CIT-8 form was filed with the Fiscal Office on 26 March 2004.

F. Summary of the Audit

Accounting of the Union of the Baltic Cities is kept in accordance with provisions of the Minister of Finance of 18 November 2001 for the rules of accountancy for the non-profit organisations (Journal of Laws No. 137, item 1539 of the year 2002 and No. 11, item 117 of the year 2003). Incomes and costs are correct, the principle of continuity is maintained and the financial result for 2003 is reflected truly and fairly.

The information presented is contained in 6 numbered pages. Each of the pages was marked with the auditor's name put next to the number of the page.

Gdańsk, 18 May 2005

Chartered Auditor
(signature and stamp)

Usługi Księgowe – BILANS
(stamp)

UNION OF THE BALTIC CITIES

AUDITOR'S REPORT

for 2004

A. General Information

Union of the Baltic Cities was established in 1991. Registration of the Union at the Province Court of Gdańsk, XII Economic Department, National Court Register, Register of Associations and other Social and Professional Organisations under No. KRS:0000005342. The Union's taxation identity number NIP is 583-10-66-139 and REGON is 190048545. In 2004 100 cities from 10 Baltic Sea countries were associated in the Union.

The objective of the Union of the Baltic Cities is to develop co-operation and exchange of information between members of the Union.

The Union does not conduct business activity and is supported from members' dues. Income of the Union is tax-free.

The audit was performed by a chartered auditor - Jadwiga Zemło, No. 4615 of the register kept by National Board of Chartered Auditors in Warsaw, on the strength of contract No. 8/2005 of 18 April 2005, concluded between Usługi Księgowe - Bilans, of Gdańsk, and the Union of the Baltic Cities.

B. Books

The books are kept by Stowarzyszenie Ekspertów Księgowych i Podatkowych Spółka z o.o. [Association of Chartered Auditors and Tax Experts, Co. Ltd.], of Gdańsk, ul. Aldony 17.

The chart of accounts was developed basing on the standard chart of accounts for social and professional organisations, associations and endowments, issued by the Association of Accountants of Poland.

The above said chart of accounts ensures the accounts being kept in compliance with the provisions of the Accounting Act of 29th September, 1994 (Journal of Laws, No. 121, item 591 with the later changes). The rules contained in the chart of accounts are consistently adhered to.

The books are kept by means of a computer, using Symfonia – Finanse i Rachunkowość 5,00 software. The records kept make it possible to obtain necessary data on incomes and costs and comply with the requirements set up in the Accounting Act. A statement of movement and balances on synthetic and analytical accounts being a basis for the drawing up of balance sheet and profit and loss account was made as on 31 December 2004.

Accounting documents are complete and adequate, checked from accounting and material point of view. The documents are stored correctly.

The closing balance sheet of 2003 was entered in the books as the opening balance sheet as on 1 January 2004. Denomination was carried out properly.

The loss for 2003, amounting to PLN 150 542,98 was booked as decrease of the statutory fund.

C. Financial Statement

Financial statement of the Union of the Baltic Cities includes:

- balance sheet as at 31st December, 2004, on the assets side showing the amount of **PLN 477 909,48**.

- profit and loss account for the period covering the time from 1 January to 31 December 2004, showing the profit amounting to **PLN 191 811,56**.
- additional information.

The financial statement was prepared in accordance with provisions of the ordinance of the Minister of Finance of 15 November 2001, on detailed rules for the accounting of entities not conducting business activity (Journal of Laws No. 137, item 1539 and of the year 2002 and No. 11, item 117 of the year 2003).

The audited year concerns the following 12 months of the year 2004 and the previous year concerns the following 12 months of the year 2003.

Summary balance sheet for the period 2002-2004 (in thousands PLN)

Specification	State at the end of the year						Changes
	2002		2003		2004		2004/2003
	Amount	%	Amount	%	Amount	%	%
1	2	3	4	5	6	7	8
ASSETS							
1. Fixed assets	0	0,0 %	0	0,0 %	4	0,8 %	0,0 %
2. Current assets	621	100,0 %	581	100,0 %	474	99,2 %	81,6 %
Total	621	100,0 %	581	100,0 %	478	100,0 %	82,3 %
LIABILITIES							
3. Statutory funds	338	54,4 %	188	32,4 %	379	79,3 %	201,6 %
4. Accounts payable	283	45,6 %	393	67,6 %	99	20,7 %	25,3 %
Total	621	100,0 %	581	100,0 %	478	100,0 %	82,3 %

Summary profit and loss sheet for the period 2002-2004 (in thousands PLN)

Specification	Period (years)			Changes
	2002	2003	2004	2004/2003
1	2	3	4	5
1. Income from statutory activities, dues	1 986	1 786	2 653	147,5 %
2. Income from financial operations	48	195	78	40,0 %
3. Other incomes	0	0	0	0,0 %
Total	2 034	1 981	2 731	137,9 %
3. Costs of execution of statutory tasks	1 496	1836	2 112	115,0 %
4. Management costs	294	253	288	113,8 %
5. Costs of financial operations	38	43	140	325,6 %
6. Other costs	1	0	0	0,0 %
Total	1 829	2 132	2 540	119,1 %
7. Gross profit/ loss	205	- 151	191	126,5 %

D. Assessment of Correctness of the Books

1. Fixed Assets include a computer set

- original value 44 643,94
- depreciation 40 348,32

- net value 4 295,62
- In 2004 a computer set was bought. The balance is correct.

2. Current assets

- short-term liabilities 5 718,87
- short-term investments 467 894,99
- cash on hand 78,64
- cash in bank 467 816,35
- total 473 613,86**

The amount of cash follows from cash report No. 12/04 of 31 December 2004 and banking statement as of 31 December 2004 confirmed by Banks. The bookings were made correctly.

3. Funds

- statutory fund 187 634,19
- net income in 2004 191 811,56
- total 379 445,75**

The statutory fund was created properly from the financial result for the period of operation.

4. Short-term liabilities

- on the score of supplies, work and services 96 860,45
- to the state budget 1 603,28
- total 98 463,73**

The balances are correct and pertain to current settlements. Bookings were made correctly, accounted in 2005.

E. Profit and loss account**1. Costs Borne**

- costs of execution of statutory tasks 2 111 760,19
- management costs 287 505,73
- including - external services 130 595,46
- consumption of materials and power 7 543,92
- fees 136 002,30
- other costs 13 364,05
- costs of financial operations 139 883,24
- total costs 2 539 149,16**

2. Income

- a) income from statutory activities 2 652 904,10
- including: - dues 1 078 262,61
- grants 1 574 641,49
- b) income from financial operations 78 056,62
- total income 2 730 960,72**

The income received was booked correctly, as it pertains to the year 2004.

3. Profit from operation 191 811,56

Annual settlement on CIT-8 form was filed with the Fiscal Office on 31 March 2005.

F. Summary of the Audit

Accounting of the Union of the Baltic Cities is kept in accordance with provisions of the Minister of Finance of 15 November 2001 for the rules of accountancy for the non-profit organisations (Journal of Laws No. 137, item 1539 of the year 2002 and No. 11, item 117 of the year 2003). Incomes and costs are correct, the principle of continuity is maintained and the financial result for 2004 is reflected truly and fairly.

The information presented is contained in 6 numbered pages. Each of the pages was marked with the auditor's name put next to the number of the page.

Gdańsk, 18 May 2005

Chartered Auditor
(signature and stamp)

Usługi Księgowe - BILANS
(stamp)

BALANCE
Made at 31.12.2003

Specification	Balance at 01.01.2003	Balance at 31.12.2003
<i>1</i>	<i>2</i>	<i>3</i>
<u>ASSETS</u>		
A . Fixed assets	0,00	0,00
I. Intangible assets		
II. Tangible assets		
III. Long-term receivables		
IV. Long-term investments		
V. Long-term prepayments and deferred costs		
B. Current assets	621 004,93	580 785,58
I. Stock	0,00	0,00
II. Short-term receivables	21 477,48	0,00
III. Short-term investments	599 527,45	580 785,58
1. Short-term financial assets	599 527,45	580 785,58
2. Other short-term investments		
IV. Short-term prepayments and deferred costs		
TOTAL ASSETS	621 004,93	580 785,58

<u>LIABILITIES</u>		
A. Shareholds' Funds	338 177,17	187 634,19
I. Statutory fund	133 034,62	338 177,17
II. Revaluation reserve		
III. Net profit/ loss for the period of one year	205 142,55	-150 542,98
1. Profit	205 142,55	0,00
2. Loss (negative amount)		-150542,98
B. Liabilities and provisions	282 827,76	393 151,39
I. Long-term liabilities concerning credits and loans		
II. Short-term liabilities and special funds	20 092,88	80 307,09
1. Credits and loans		
2. Other liabilities	20 092,88	80 307,09
3. Special funds		
III. Provisions for liabilities		
IV. Deferred operations	262 734,88	312 844,30
1. Deferred incomes	262 734,88	312 844,30
2. Other deferred operations		
TOTAL LIABILITIES	621 004,93	580 785,58

BALANCE
Made at 31.12.2004

Specification	Balance at 01.01.2004	Balance at 31.12.2004
<i>1</i>	<i>2</i>	<i>3</i>
<u>ASSETS</u>		
A . Fixed assets	0,00	4 295,62
I. Intangible assets		
II. Tangible assets		4 295,62
III. Long-term receivables		
IV. Long-term investments		
V. Long-term prepayments and deferred costs		
B. Current assets	580 785,58	473 613,86
I. Stock	0,00	0,00
II. Short-term receivables	0,00	5 718,87
III. Short-term investments	580 785,58	467 894,99
1. Short-term financial assets	580 785,58	467 894,99
2. Other short-term investments		
IV. Short-term prepayments and deferred costs		
TOTAL ASSETS	580 785,58	477 909,48
<u>LIABILITIES</u>		
A. Shareholds' Funds	187 634,19	379 445,75
I. Statutory fund	338 177,17	187 634,19
II. Revaluation reserve		
III. Net profit/ loss for the period of one year	-150 542,98	191 811,56
1. Profit	0,00	191 811,56
2. Loss (negative amount)	-150 542,98	
B. Liabilities and provisions	393 151,39	98 463,73
I. Long-term liabilities concerning credits and loans		
II. Short-term liabilities and special funds	80 307,09	98 463,73
1. Credits and loans		
2. Other liabilities	80 307,09	98 463,73
3. Special funds		
III. Provisions for liabilities		
IV. Deferred operations	312 844,30	0,00
1. Deferred incomes	312 844,30	0,00
2. Other deferred operations		
TOTAL LIABILITIES	580 785,58	477 909,48

PROFIT AND LOSS ACCOUNT
for the period from 01.01.2003 to 31.12.2003
(comparison)

Specification	Amount in PLN Previous Financial Year	Amount in PLN Current Financial Year
1	2	3
A . Income from statutory operation	1 986 014,76	1 786 301,88
I. Gross dues (according to the statute)	635 959,18	740 837,81
II. Other income (in line with the statute)	1 350 055,58	1 045 464,07
B. Costs of the statutory activities	1 496 024,18	1 836 313,12
C. Financial result on statutory operation (A-B)	489 990,58	-50 011,24
D. Management costs	294 489,42	252 659,43
1. Consumption of materials and energy	8 825,04	5 328,02
2. Other services	111 828,11	100 146,76
3. Taxes and charges	0,00	0,00
4. Fees	105 348,00	124 146,47
5. Amortisation	1 652,00	0,00
6 Other	66 836,27	23 038,18
E. Other income (not mentioned in lines A and G)	14,34	0,91
F. Miscellaneous (not mentioned in lines B, D and H)	724,94	0,00
G. Financial income	48 084,99	194 679,79
H. Financial costs	37 733,00	42 553,01
I. Gross financial result (C-D+F+G+H)	205 142,55	-150 542,98
J. Extraordinary benefits and losses	0,00	0,00
I. Extraordinary benefits (amount in plus)	0,00	0,00
II. Extraordinary losses (amount in minus)	0,00	0,00
K. Financial result (I+J)	205 142,55	-150 542,98

PROFIT AND LOSS ACCOUNT
for the period from 01.01.2004 to 31.12.2004
(comparison)

Specification	Amount in PLN Previous Financial Year	Amount in PLN Current Financial Year
1	2	3
A . Income from statutory operation	1 786 301,88	2 652 904,10
I. Gross dues (according to the statute)	740 837,81	1 078 262,61
II. Other income (in line with the statute)	1 045 464,07	1 574 641,49
B. Costs of the statutory activities	1 836 313,12	2 111 760,19
C. Financial result on statutory operation (A-B)	-50 011,24	541 143,91
D. Management costs	252 659,43	287 505,73
1. Consumption of materials and energy	5 328,02	7 543,92
2. Other services	100 146,76	130 595,46
3. Taxes and charges	0,00	0,00
4. Fees	124 146,47	136 002,30
5. Amortisation	0,00	0,00
6 Other	23 038,18	13 364,05
E. Other income (not mentioned in lines A and G)	0,91	0,00
F. Miscellaneous (not mentioned in lines B, D and H)	0,00	0,00
G. Financial income	194 679,79	78 056,62
H. Financial costs	42 553,01	139 883,24
I. Gross financial result (C-D+F+G+H)	-150 542,98	191 811,56
J. Extraordinary benefits and losses	0,00	0,00
I. Extraordinary benefits (amount in plus)	0,00	0,00
II. Extraordinary losses (amount in minus)	0,00	0,00
K. Financial result (I+J)	-150 542,98	191 811,56

UBC MEMBERSHIP FEES 2006-2007

Fees 2006

	D, DK, FIN, N, S			EST, LAT, LIT, PL, RUS			
inhabitants	cities	fee	income	cities	discount	fee	income
- 10 000	1	600	600	7	55 %	270	1 890
- 25 000	4	1 200	4 800	13	55 %	540	7 020
- 50 000	8	2 400	19 200	10	55 %	1 080	10 800
- 100 000	18	3 250	58 500	6	55 %	1 460	8 760
- 200 000	6	3 900	23 400	6	55 %	1 760	10 560
- 500 000	8	5 800	46 400	5	55 %	2 610	13 050
500 000 -	3	7 250	21 750	3	55 %	3 260	9 780
Σ			174 650				61 860
		TOTAL	236 510				

Fees 2007

	D, DK, FIN, N, S			EST, LAT, LIT, PL, RUS			
inhabitants	cities	fee	income	cities	discount	fee	income
- 10 000	1	600	600	7	50 %	300	2 100
- 25 000	4	1 200	4 800	13	50 %	600	7 800
- 50 000	8	2 400	19 200	10	50 %	1 200	12 000
- 100 000	18	3 250	58 500	6	50 %	1 630	9 780
- 200 000	6	3 900	23 400	6	50 %	1 950	11 700
- 500 000	8	5 800	46 400	5	50 %	2 900	14 500
500 000 -	3	7 250	21 750	3	50 %	3 630	10 890
Σ			174 650				68 770
		TOTAL	243 420				