IPKO Foundation

Financial Statements as at and for the year ended

31 December 2012

(with independent auditor's report thereon)

IPKO Foundation

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KPMG Albania Sh.p.k, - Kosovo Branch
14, Sulejman Vokshi Street
Pristina
Kosovo

Telephone +381(38) 246 771
Telefax +381 (38) 246 772
E-mail al-kosovo@kpmg.com
Internet www.kpmg.al

Independent Auditors' Report

To the shareholders and management of
Ipko Foundation

Pristina, 15 March 2013

Report on the Financial Statements

We have audited the accompanying financial statements of Ipko Foundation ("the Fund"), which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Fund as at 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Albania shpk Kosovo Branch

KPMG Albania Sh.p.k, - Kosovo Branch
14, Sulejman Vokshi Street
Pristina
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IPKO Foundation

Statement of comprehensive income

(in EUR)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Personnel expenses	7	(36,822)	(25,479)
Depreciation	9	(43)	(853)
Other operating expenses	8	(196,360)	(187,244)
Interest expense		(157)	-
Deficit from operations		**(233,382)**	**(213,576)**
Interest income	4	205,978	203,890
Income from donations	6	15,500	-
Deficit for the year		**(11,904)**	**(9,686)**
Other comprehensive income		-	-
Total comprehensive loss for the year		**(11,904)**	**(9,686)**

The notes on pages 5 to 15 are an integral part of these financial statements.

The financial statements set out on pages 1 to 15 have been approved by management of IPKO Foundation on 15 March 2013 and signed on its behalf by:

Arbresha Tuhina
Head of Finance and Administration

IPKO Foundation

Statement of financial position

(in EUR)

	Note	31 December 2012	31 December 2011
Assets			
Equipment	9	-	43
Time deposits	11	3,000,000	3,000,000
Total non - current assets		**3,000,000**	**3,000,043**
Prepayments		-	100
Interest accrued	5	103,552	52,133
Cash at bank	10	4,707	40,890
Total current assets		**108,259**	**93,123**
Total assets		**3,108,259**	**3,093,166**
Equity			
Accumulated surplus		3,091,336	3,101,022
Deficit for the year		(11,904)	(9,686)
Total equity		**3,079,432**	**3,091,336**
Liabilities			
Trade and other payables	12	1,032	1,830
Bank overdraft	13	27,795	-
Total liabilities		**28,827**	**1,830**
Total equity and liabilities		**3,108,259**	**3,093,166**

The notes on pages 5 to 15 are an integral part of these financial statements.

IPKO Foundation

Statement of changes in equity

(in EUR)

	Accumulated surplus	Total
Balance at 1 January 2011	**3,101,022**	**3,101,022**
Deficit	(9,686)	(9,686)
Other comprehensive income	-	-
Total comprehensive loss for the year	(9,686)	(9,686)
Balance at 31 December 2011	**3,091,336**	**3,091,336**
Balance at 1 January 2012	**3,091,336**	**3,091,336**
Loss	(11,904)	(11,904)
Other comprehensive income	-	-
Total comprehensive loss for the year	(11,904)	(11,904)
Balance at 31 December 2012	**3,079,432**	**3,079,432**

The notes on pages 5 to 15 are an integral part of these financial statements.

IPKO Foundation

Statement of cash flows

(in EUR)

	Note	Year ended 31 December 2012	Year ended 31 December 2011
Cash flows from operating activities			
Deficit for the period		(11,904)	(9,686)
Adjustments:			
Depreciation	9	43	853
Interest income		(205,978)	(203,890)
		(217,839)	(212,723)
Change in prepayments		100	(100)
Change in interest accrued	5	(51,419)	-
Change in liabilities	12	(798)	852
		(269,956)	(211,971)
Interest received	4	205,978	203,890
Net cash used in operating activities		**(63,978)**	**(8,081)**
Cash flows from financing activities			
Proceeds from bank overdraft	13	27,795	-
Cash used in financing activities		**27,795**	**-**
Net decrease in cash and cash equivalents		(36,183)	(8,081)
Cash and cash equivalents at 1 January	10	40,890	48,971
Cash and cash equivalents at 31 December	10	**4,707**	**40,890**

The notes on pages 5 to 15 are an integral part of these financial statements.

1. Reporting entity

IPKO Foundation (the "Fund" or "Foundation") is a successor of IPKO Institute and is a not-for-profit organization established on 15 February 2000 in accordance with the United Nations Interim Administration in Kosova (UNMIK) Regulation No. 1999/22.

The Fund was founded to help provide the tools, knowledge and environment required for Kosovo to participate in the global information society. The Fund provided internet services ("ISP") through its associate IPKO Net ("the Associate") to a number of non-government organizations free of charge.

On 3 April 2008, the General Assembly of IPKO Institute amended the Fund's mission and purpose from a free internet service provider to an institution to provide scholarships to qualifying students in Kosovo.

On 20 June 2008 the General Assembly of IPKO Institute unanimously decided to amend the name of the Institute to IPKO Foundation. This change in name was made to better reflect the change in mission of the Foundation and it did not encompass a change in the legal structure, as the Foundation remains a not-for-profit membership Foundation.

2. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards.

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

The financial statements are presented in Euro ("EUR"), which is the functional currency of the Foundation.

(d) Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected. The key estimate used by the Foundation is the depreciation charge for equipment (note 9 and note 3 (c)).

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Foreign currency transaction

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the period. Foreign currency differences arising on retranslation are recognized in profit or loss.

(b) Financial instruments

(i) Non derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, deposits, trade and other payables and bank overdraft.

Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

A financial instrument is recognized if the Fund becomes a party to the contractual provisions of the instrument. Financial assets are derecognized if the Fund's contractual rights to the cash flows from the financial assets expire or if the Fund transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Normal purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Fund commits itself to purchase or sell the asset. Financial liabilities are derecognized if the Fund's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and current bank accounts.

Trade and other payables

Trade and other payables are initially stated at their fair value and subsequently at their amortized cost.

(i) Non derivative financial instruments

Other

Other non-derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses.

Accounting for finance income and expense is disclosed in note *3 (e)*.

3. Significant accounting policies (continued)

(b) Financial instruments

(c) Equipment

(i) Recognition and measurement

Equipment is stated at cost less accumulated depreciation and impairment, if any (refer note *3.d (ii)*).

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Gains and losses on disposal of equipment are determined by reference to their carrying amount and are taken into account in determining the operating result for the period.

(ii) Subsequent cost

The cost of replacing part of an item of equipment is recognized in the carrying amount of the item when it is probable that the future economic benefits embodied with the item will flow to the Fund and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of equipment.

The estimated useful lives for the current and comparative periods are as follows:

- IT equipment 5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

3. Significant accounting policies (continued)

(d) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognized in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in profit or loss.

(ii) Non-financial assets

The carrying amounts of the Fund's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

3. Significant accounting policies (continued)

(e) Interest income

Interest income comprises interest receivable on deposits calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses. Interest income is recognized in profit or loss as it accrues, taking into account the effective yield on the asset.

(f) Expenses

Expenses are recognized as incurred.

(g) Employee benefits

(i) Compulsory social security contributions

The Fund makes only compulsory social security contributions that provide pension benefits for employees upon retirement. The Assembly of Kosovo is responsible for providing the legally set minimum threshold for pensions in Kosovo under a defined contribution pension plan. The Fund's contributions to the benefit pension plan are charged to profit or loss as incurred.

(ii) Paid annual leave

The Fund recognizes as a liability the undiscounted amount of the estimated costs related to annual leave expected to be paid in exchange of the employee's service for the period completed.

(h) Income tax

As a not-for-profit Foundation, IPKO Fuoundation is exempt from income taxes. A non-governmental organisation registered in Kosovo may apply for public benefit status and exemption from income tax. The Fund received such status in December 2001.

Additionally, in accordance with the provisions of regulation number 2001/11 of UNMIK, all imports, inflows within the Former Republic of Yugoslavia (or "FRY") or supplies funded from the proceeds of the grants made to UNMIK or the Administrative Departments of the Joint Interim Administration Structure by governments, government agencies, governmental or non-governmental foundations in support of humanitarian and reconstruction programs and projects in Kosovo are exempt from VAT. The activities of the Fund are exempt from VAT.

(i) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2012, and have not been early applied in preparing these financial statements. None of these are expected to have an effect on the financial statements of the Fund.

3. Significant accounting policies (continued)

(j) Non-derivative financial instruments

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

4. Interest Income

For the year ended 31 December 2012 interest income was EUR 205,978 (2011: EUR 203,890). Interest income is generated from two time deposits of EUR 1,500,000 each, both with an interest rate of 6.8% p.a and both maturing on 1 July 2014. Interest income is received every six months on 30 June and 31 December.

5. Interest accrued

The fund has EUR 103,552 of accrued interest as at 31 December 2012 (2011: EUR 52,133).

6. Income from donations

Income from donations consist of EUR 12,500 received from British Council Kosovo for drafting and implementation of specific component of the Digital Diplomacy Strategy and a donation of EUR 3,000 received from IPKO Telecommunication LLC for the purpose of publication of the book "The story of the Ipko Foundation".

7. Personnel expenses

At 31 December 2012 the Fund has 3 regular employees (2011: 4 regular employees). During the year the Fund engaged 28 consultants (2011: 7 consultants) for different projects. Personnel expenses consist of salaries, wages and bonuses. Personnel expenses for the year ended 31 December 2012 are EUR 36,822 (2011: EUR 25,479).

8. Other operating expenses

	Year ended 31 Dec 2012	**Year ended 31 Dec 2011**
Scholarships	57,769	88,932
Advisory, legal and audit fees	52,169	54,888
Sponsorship	18,418	14,200
Travel and entertainment	12,651	13,761
Marketing and advertising	21,532	7,384
Printing materials	10,787	-
Rent expenses	9,105	858
Purchase of small equipment	3,734	-
Office supply	2,847	4,738
Utilities	2,117	1,154
Maintenance	1,611	1,329
Other	3,620	-
Total	**196,360**	**187,244**

9. Equipment

Equipment consist of the following:

	IT equipment
Cost	
At 1 January 2011	**6,408**
Addition	-
Disposal	-
At 31 December 2011	**6,408**
At 1 January 2012	**6,408**
Addition	-
Disposal	-
At 31 December 2012	**6,408**
Accumulated depreciation	
At 1 January 2011	**(5,512)**
Depreciation charge	(853)
Disposals	-
At 31 December 2011	**(6,365)**
At 1 January 2012	**(6,365)**
Depreciation charge	(43)
Disposals	-
At 31 December 2012	**(6,408)**
Net book Value	
1 January 2011	**896**
31 December 2011	**43**
31 December 2012	-

10. Cash and cash equivalents

The balance of cash and cash equivalents at the end of the year 2012 is EUR 4,707 (2011: EUR 40,890) comprising EUR 4,346 of cash at banks (2011: EUR 40,794) and EUR 361 of cash on hand (2011: EUR 96). Cash is held at two local banks: Pro Credit Bank and Nova Lublanska Banka.

11. Term deposits

IPKO Foundation has two term deposits of EUR 1,500,000 each, one with Procredit Bank and the other with Nova Lublanska Banka. Both term deposits bear a fixed interest rate of 6.8% p.a. and mature on 1 July 2014.

12. Trade and other payables

Trade and other payables of EUR 1,032 (31 December 2011: EUR 1,830), consist of personnel withholding tax for December 2012 and other smaller accrued expenses incurred in December 2012.

13. Bank overdraft

Bank overdraft consists of an overdraft with NLB Bank with an outstanding balance at 31 December 2012 of EUR 27,795 (31 December 2011: nil).

14. Financial instruments

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

At the reporting date the exposure to credit risk is represented by cash and time deposits. No impairment is provided for these exposures, as management does not believe that it will incur any losses. Cash and term deposits are kept in banks within Kosovo.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

Interest rate risk

In managing interest rate risk the Fund aims to reduce the impact of short-term fluctuations on the Fund's earnings over the longer-term. The Fund places the majority of its funds in long term deposits with fixed interest rates, to minimize the impact of interest rate changes.

14. Financial instruments (continued)

Liquidity risk

The following are the contractual maturities of financial liabilities excluding the impact of netting agreements:

31 December 2012:	Carrying Amounts	6 Months or less	6-12 months	1-5 Years	More than 5 Years
Financial assets					
Time deposits	3,000,000	-	-	3,000,000	-
Interest accrued	103,552	103,552	-	-	-
Cash on hand and at banks	4,707	4,707	-	-	-
	3,108,259	**108,259**	-	**3,000,000**	-
Financial liabilities					
Accounts payable	(1,032)	(1,032)	-	-	-
Bank overdraft	(27,795)	(27,795)	-	-	-
	(28,827)	**(28,827)**	-	-	-
Liquidity risk at 31 December 2012	**3,079,432**	**79,432**	-	**3,000,000**	-

31 December 2011:	Carrying Amounts	6 Months or less	6-12 months	1-5 Years	More than 5 Years
Financial assets					
Time deposits	3,000,000	-	-	3,000,000	-
Interest accrued	52,133	52,133	-	-	-
Cash on hand and at banks	40,890	40,890	-	-	-
	3,093,023	**93,023**	-	**3,000,000**	-
Financial liabilities					
Accounts payable	(1,830)	(1,830)	-	-	-
	(1,830)	**(1,830)**	-	-	-
Liquidity risk at 31 December 2011	**3,091,193**	**91,193**	-	**3,000,000**	-

Management of liquidity risk

Liquidity risk is the risk that the Foundation will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Foundation's reputation.

Typically, the Fund ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

14. Financial instruments (continued)

Sensitivity analysis

In managing interest rate and currency risks the Foundation aims to reduce the impact of short-term fluctuations on the Foundation's earnings. Over the longer-term, however, permanent changes in foreign exchange and interest rates might have an impact on profit. At 31 December 2012 and 31 December 2011, a change in the value of the Euro against other foreign currencies would not impact the Fund's fund balance due to no foreign currency amounts being held. It is also estimated that a change in interest rates would not affect profit or loss due to a lack of variable rate instruments being discounted at fair value.

Fair values

The table below sets out the Fund's carrying amount and fair value for each financial asset:

31 December 2012	Note	Carrying amount	Fair Value
Cash and cash equivalents	9	4,707	4,707
Time deposits	10	3,000,000	3,150,221
Total		**3,004,707**	**3,154,928**

31 December 2011	Note	Carrying amount	Fair Value
Cash and cash equivalents	9	40,890	40,890
Time deposits	10	3,000,000	3,198,667
Total		**3,040,890**	**3,239,557**

Trade payables

All payables have a remaining life of less than one year and the notional amount is deemed to reflect the fair value.

Capital management

The Fund policy is to maintain stability of capital base so as to maintain creditor and market confidence and to sustain future development of the business. The Fund monitors the return on capital, which the Fund defines as net operating income divided by total fund balance - equity.

There were no changes in the Fund's approach to capital management during the year.

The Fund is not subject to externally imposed capital requirements.

15. Commitments and contingencies

Commitments

At 31 December 2012 and 31 December 2011, the Fund did not have any commitments.

Contingencies

The Fund is involved in routine legal proceedings in the ordinary course of business. It is management's opinion that the final outcome of these lawsuits will not have a material effect on the Fund's results. There were no changes in policies from previous year and management considers thare to be no critical areas of judgment.

16. Accounting estimates and judgments

Management discusses in their regular meetings the development, selection and disclosure of the Fund's critical accounting policies and estimates and the application of these policies and estimates.

17. Subsequent events

There are no significant events after the reporting date that may require adjustment or disclosure in the financial statements.