

**IPKO.org**  
**Financial statements**  
**As at 31 December 2002**

It also includes  
other, as well  
as the



KPMG Albania Sh.p.k.

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**Independent Auditor's Report**

To the Shareholders of IPKO.org:

We have audited the accompanying balance sheet of IPKO.org. ("the Organisation") as at 31 December 2002 and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of directors. Our responsibility is to express an opinion on these financial statements based on our audit.

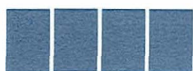
We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 directors, 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 give a true and fair view of the financial position of the Organisation as of 31 December 2002, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Tirana, 22 April 2003

*KPMG Albania*

KPMG Albania Sh.p.k.



KPMG Albania Sh.p.k.  
Limited liability company, is a member of KPMG  
International, a Swiss association.

## Income statement

For the year ended 31 December 2002

<i>In thousands of EUR</i>	Note	Continuing operations		Discontinuing operation		Total	
		2002	2001	2002	2001	2002	2001
Revenue		282	280	-	836	282	1,116
Cost of sales	4	-	-	-	(336)	-	(336)
<b>Gross profit</b>		282	280		500	282	780
Gain on sale of discontinuing operation		-	-	-	560	-	560
Other operating income		-	1	-	-	-	1
Personnel expenses	5	(102)	(59)	-	(127)	(102)	(186)
Depreciation and amortisation	7	(69)	(57)	-	(154)	(69)	(211)
Other operating expenses	6	(304)	(117)	-	(134)	(304)	(251)
<b>(Deficit)/surplus from operations</b>		(193)	48	-	645	(193)	693
Share in (loss)/profit of associated company		(98)	44	-	-	(98)	44
Net financing income / (expense)		42	14	-	(5)	42	9
<b>(Loss)/profit of the year</b>		(249)	106	-	640	(249)	746

See accompanying notes to the financial statements.

**IPKO.org**  
**Financial statements**  
**As at 31 December 2002**

**Balance sheet**

**As at 31 December 2002**

*In thousands of EUR*

	<b>Note</b>	<b>2002</b>	<b>2001</b>
<b>Assets</b>			
Plant and equipment	<b>7</b>	277	245
Financial investment	<b>8</b>	221	319
Long-term receivables	<b>9</b>	802	806
<b>Total non-current assets</b>		<u>1,300</u>	<u>1,370</u>
Trade and other receivables	<b>10</b>	20	47
Cash and cash equivalents	<b>11</b>	16	31
<b>Total current assets</b>		<u>36</u>	<u>78</u>
<b>Total assets</b>		<u>1,336</u>	<u>1,448</u>
 <b>Accumulated surplus</b>		 <u>1,108</u>	 <u>1,357</u>
 Deferred revenues	<b>13</b>	 220	 88
Trade and other payables	<b>14</b>	8	3
<b>Total current liabilities</b>		<u>228</u>	<u>91</u>
<b>Total accumulated surplus and liabilities</b>		<u>1,336</u>	<u>1,448</u>

See accompanying notes to the financial statements.

**IPKO.org**  
**Financial statements**  
**As at 31 December 2002**

**Statement of cash flows**

**For the year ended 31 December 2002**

*In thousands of euro*

	<b>2002</b>	<b>2001</b>
<b>Operating activities</b>		
Profit from operations	(249)	745
Depreciation and amortisation	69	211
Gain on sale of internet sales division		(560)
Share in loss/(profit) of associated company	98	(43)
Operating cash flows before changes in working capital	(82)	353
Decrease/(increase) in trade and other receivables	27	126
(Decrease)/increase in deferred revenues	132	21
(Decrease)/increase in trade and other payables	5	(3)
(Decrease)/increase in long term receivables	3	(242)
<b>Cash flows from operating activities</b>	<u>85</u>	<u>(255)</u>
<b>Investing activities</b>		
Proceeds from sale of plant and equipment		581
Proceeds from goodwill arising on sale of internet service division		560
Investment in IPKO.net LLC		(275)
Acquisition of plant and equipment	(100)	(535)
<b>Cash flows from investing activities</b>	<u>(100)</u>	<u>331</u>
<b>Financing activities</b>		
Long-term loan given to IPKOnet	-	564
<b>Cash flows from financing activities</b>	<u>-</u>	<u>564</u>
Net increase in cash and cash equivalents	(15)	21
Cash and cash equivalents at 1 January	31	10
<b>Cash and cash equivalents at 31 December</b>	<u>16</u>	<u>31</u>

See accompanying notes to the financial statements.

**IPKO.org**  
**Financial statements**  
**As at 31 December 2002**

**Notes to the financial statements**

**Significant accounting policies**

IPKO.org (the "Organisation") is a not for profit organisation domiciled in Kosovo providing IT training courses. The financial statements were authorised for issue by the directors on April 22, 2003

**(a) Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) adopted by the International Accounting Standards Board (IASB), and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB.

**(b) Basis of preparation**

The financial statements are presented in EURO ("EUR"), the functional currency within the Territory of Kosovo, rounded to the nearest thousand. They are prepared on the historical cost basis.

The accounting policies are consistent with those used in the previous year.

**(c) Foreign currency transactions**

Transactions in foreign currencies are translated to EURO ("EUR") at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to EUR at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to EUR at foreign exchange rates ruling at the dates the values were determined. The accompanying 2001 financial statements have been translated from DEM into EURO by applying a fixed rate of exchange of 1 Euro vs 1.95583 Dem. The EURO became the official currency of Kosovo effective 1 January 2002 replacing the DEM.

**(d) Property and equipment**

**(i) Owned assets**

Items of property and equipment are stated at cost less accumulated depreciation (see below).

**(ii) Depreciation**

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment, and major components that are accounted for separately. Land is not depreciated. The estimated useful lives are as follows:

	To 31 August 2001	From 1 September 2001
leasehold equipment	3 years	5 years
▪ plant and equipment	3 years	5 years
▪ fixtures and fittings	3 years	5 years

The change in the depreciation rates was to reflect the actual usage of the assets in conformity with non-for profit activities.

**IPKO.org**  
**Financial statements**  
**As at 31 December 2002**

**Notes to the financial statements**

**Significant accounting policies continued**

**(e) Trade and other receivables**

Trade and other receivables are stated at their cost less a provision for any amounts deemed to be irrecoverable.

**(f) Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Organisation's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

**(g) Trade and other payables**

Trade and other payables are stated at their cost.

**(h) Revenue**

**(i) *Goods sold and services rendered***

Revenue from the sale of internet services through contracts for leased lines is recognised in the income statement over the course of the contract. Revenue from the sale of prepaid access cards is recognised in the income statement at the time of usage.

**(ii) *Grants***

Grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Organisation will comply with the conditions attaching to them. Grants that compensate the Organisation for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Organisation for the cost of an asset are recognised in the income statement as revenue on a systematic basis over the useful life of the asset.

**(i) Expenses**

**(i) *Operating lease payments***

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

**(ii) *Net financing costs***

Net financing costs comprise interest payable on borrowings calculated using the effective interest rate method, interest receivable on funds invested and foreign exchange gains and losses.

Interest income is recognised in the income statement as it accrues, taking into account the effective yield on the asset.

The interest expense component of finance lease payments is recognised in the income statement using the effective interest rate method.

**IPKO.org**  
**Financial statements**  
**As at 31 December 2002**

**Notes to the financial statements**

**Significant accounting policies continued**

**(j) Income tax**

As a not-for-profit organisation IPKO.org is exempt from income taxes. In Kosovo, an NGO registered under the present regulation may apply for public benefit status and exemption from profits tax. The Foundation received such status on December 2001 and is applicable to all activities that have been registered with UNMIK on 15 December 1999.

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 organizations in support of humanitarian and reconstruction programs and projects in Kosovo are exempt from VAT. The activities of the Foundation are exempt from VAT.

**(k) Segment reporting**

A segment is a distinguishable component of the Organisation that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

**(l) Discontinuing operations**

A discontinuing operation is a clearly distinguishable component of the Organisation's business that is abandoned or terminated pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.

**(m) Consolidation Policy**

The investment in the IPKO.net LLC is accounted for using the equity method. Investments are available for sale and accordingly are valued at cost less provision for any impairment.

**(n) Impairment**

The carrying amount of the Organisation's assets is reviewed at each balance sheet date to determine whether any indication of impairment exists. If any such indication exists, the assets recoverable amount is estimated and an impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the statement of income.



**IPKO.org**  
**Financial statements**  
**As at 31 December 2002**

**Notes to the financial statements**

	Page		Page
1. Segment reporting	8	9. Long-term receivables	10
2. Discontinuing operation	8	10. Trade and other receivables	10
3. Grants	8	11. Cash and cash equivalents	10
4. Cost of sales	8	12. Accumulated surplus	11
5. Personnel expenses	8	13. Deferred revenues	11
6. Other operating expenses	9	14. Trade and other payables	11
7. Property, plant and equipment	9	15. Operating leases	11
8. Financial investment	10	16. Related parties	12
		17. Financial instruments and concentration of risks	12

**IPKO.org**  
**Financial statements**  
**As at 31 December 2002**

**Notes to the financial statements**

**1. Segment reporting**

Following the disposal of the internet service business unit that took place on 1 September 2001 that was sold to IPKOnet LLC, the Organisation operates in a single segment, providing IT training courses, and in one geographical location, Kosovo.

**2. Discontinuing operation**

On 24 August 2001 the Organisation entered into a binding agreement for the sale of its entire internet service division, a separate business segment. Control of the division effectively ceased at the end of August 2001.

At 31 December 2000, the internet service division had net assets of TEUR 612 comprising assets of TEUR 686 less liabilities of TEUR 74. At the end of August 2001, the division had net assets of TEUR 508 comprising tangible fixed assets with a net book value of TEUR 565 advance payments of TEUR 23 and deposits and deferred revenues from customers of TEUR 79. The division was transferred to IPKO.net LLC, a commercial organisation for consideration of TEUR 1,068.

**3. Grants**

The Organisation has been awarded grants during the year of thousands of EURO ("TEUR") 172 (2001: 198 TEUR). Of this, TEUR 150 was used to cover training and administration costs and TEUR 22 was used to purchase equipment which is still in use by the Organisation as at 31 December 2002. This is booked as deferred income and amortised over the useful life of the equipment. TEUR 50 of grant income erroneously recognised in 2001 was deferred in 2002.

**4. Cost of sales**

<i>In thousands of EUR</i>	<b>2002</b>	<b>2001</b>
Bandwidth expense	-	308
Installation and maintenance	-	28
	<u>          </u>	<u>          </u>
		336

**5. Personnel expenses**

<i>In thousands of EUR</i>	<b>2002</b>	<b>2001</b>
Wages and salaries	102	182
Vacation pay expense	-	4
	<u>          </u>	<u>          </u>
	102	186

The average number of employees during the year ended 31 December 2002 was 13 (2001: 14).

**IPKO.org**  
**Financial statements**  
**As at 31 December 2002**

**Notes to the financial statements**

**6. Other operating expenses**

*In thousands of EUR*

	2002	2001
Occupancy costs	53	93
Telephone, postage and shipping	10	26
Marketing and advertising	6	18
Office supplies	12	24
Travel and entertainment	61	38
Advisory, legal and audit fees	82	16
Bad debt		12
Insurance fees, bank charges	3	4
Administrative charge	68	19
Other	9	1
	<u>304</u>	<u>251</u>

**7. Property and equipment**

*In thousands of EUR*

	Leasehold improvements	Plant and equipment	Fixtures and fittings	Total
<b>Cost</b>				
Balance at 1 January 2002	188	96	18	302
Acquisitions	-	98	2	100
Disposals	-		-	
Balance at 31 December 2002	<u>188</u>	<u>194</u>	<u>20</u>	<u>402</u>
<b>Depreciation and impairment losses</b>				
Balance at 1 January 2002	33	20	4	57
Depreciation charge for the year	38	27	4	69
Disposals	-	-	-	-
Balance at 31 December 2002	<u>71</u>	<u>47</u>	<u>8</u>	<u>126</u>
<b>Carrying amount</b>				
At 1 January 2001	<u>155</u>	<u>76</u>	<u>14</u>	<u>245</u>
At 31 December 2001	<u>117</u>	<u>147</u>	<u>12</u>	<u>277</u>

**IPKO.org**  
**Financial statements**  
**As at 31 December 2002**

**Notes to the financial statements**

**8. Financial investment**

As stated in note 2 above, as a result of the disposal of the internet service division during 2001, the Organisation acquired 48.9% of the voting shares of Ipko.net LLC which had an attributed value of TEUR 277. The investment for the year 2002 and 2001 is as follows:

<i>In thousands of EUR</i>	<b>2002</b>	<b>2001</b>
At the beginning of period	319	277
Share in profit/(loss) of associate	(98)	42
At the end of the period	<u>221</u>	<u>319</u>

The share of profit/(loss) has been accounted as 48.9% of the after tax profit/(loss) of Ipko.net LLC.

**9. Long-term receivables**

<i>In thousands of EUR</i>	<b>2002</b>	<b>2001</b>
Loan to associate	564	565
Accrued interest due from associate	55	13
Prepayment for services due from associate	183	228
	<u>802</u>	<u>806</u>

The loan to the associate is payable after 1 September 2004 and is subject to interest at 7% per annum. The accrued interest is also payable after 1 September 2004.

**10. Trade and other receivables**

<i>In thousands of EUR</i>	<b>2002</b>	<b>2001</b>
Prepayment for services from associate	16	38
Other trade receivables	2	7
Non-trade receivables	2	2
	<u>20</u>	<u>47</u>

**11. Cash and cash equivalents**

<i>In thousands of EUR</i>	<b>2002</b>	<b>2001</b>
Cash balances	2	
Bank balances	14	28
Cash and cash equivalents at cash flow statement	<u>16</u>	<u>31</u>

**IPKO.org**  
**Financial statements**  
**As at 31 December 2002**

**Notes to the financial statements**

**12. Accumulated surplus**

***Reconciliation in movement in accumulated surplus***

*In thousands of EUR*

	2002	2001
As at 1 January	1,357	612
(Deficit)/Surplus for the year	<u>(249)</u>	<u>745</u>
As at 31 December	<u><u>1,108</u></u>	<u><u>1,357</u></u>

**13. Deferred revenues**

*In thousands of EUR*

	2002	2001
Income on training courses yet to be provided	18	-
Grants	152	88
Deferral of revenues recognised in prior year	<u>50</u>	<u>-</u>
	<u><u>220</u></u>	<u><u>88</u></u>

In 2001, the Organisation erroneously recognised as revenue, certain funds granted from the Olaf Palme Foundation that were used to purchase fixed assets. The net impact of TEUR 50, which had it been booked in 2001, would have reduced the accumulated surplus and increased deferred revenues.

**14. Trade and other payables**

*In thousands of EUR*

	2001	2000
Trade payables due to associate	2	2
Other trade payables	<u>6</u>	<u>1</u>
	<u><u>8</u></u>	<u><u>3</u></u>

**15. Operating leases**

Non-cancellable operating lease rentals are payable as follows:

*In thousands of EUR*

	2002	2001
Less than one year	34	3
Between one and five years	44	8
More than five years	<u>-</u>	<u>-</u>
	<u><u>78</u></u>	<u><u>11</u></u>

The Organisation leases its training facilities under an operating lease, which runs for an initial period of five years, with an option to renew the lease after that date.

During the year ended 31 December 2002 TEUR 41 was recognised as an expense in the income statement in respect of operating leases (2001: 78).

**IPKO.org**  
**Financial statements**  
**As at 31 December 2002**

**Notes to the financial statements**

**16. Related parties**

***Identity of related parties***

The Organisation has a related party relationship with its associate described in the notes above and with its directors. No payments were made during the year to directors and executive officers.

**17. Financial instruments and concentrations of risks**

***Credit risk***

The Organisation financial instruments, which potentially subject the Organisation to concentrations of credit risk, consist primarily of other receivables. The receivables credit risk is controlled through approvals of receivables and budget expenditures that generate such receivables.

***Interest rate risk***

The Organization revenues and operating cash flows are substantially independent of changes in market interest rates. There are no interests bearing borrowings.

***Foreign exchange risk***

The Organisation is exposed to foreign exchange risk mainly in relation to revenues in USD. The daily transactions are converted to Euro using the official exchange rate performed. At the year end the amounts are converted to EURO using the year end exchange rate.

***Credit risk***

The Organisation has a related party relationship with its associate described in the notes above and with its directors. No payments were made during the year to directors and executive officers.

***Estimation of fair value***

Fair value estimates are based on existing balance sheet financial instruments without attempting to estimate the value of the anticipated activities and the value of assets and liabilities not considered financial instruments.

In general, the Organisation's balance sheet financial instruments have an estimated fair value approximately equal to their book value due to either their short-term nature or underlying interest rates, which approximate market rates.