IPKO Institute

(previously known as IPKO.org)

Financial Statements as at 31 December 2004

(with independent auditor's report thereon)

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Report of the independent auditor to the shareholders of IPKO Institute

We have audited the accompanying balance sheet of IPKO Institute ("the Institute") as of 31 December 2004, and the related statements of income and expenditures, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Institute'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 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 includes also 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 present fairly, in all material respects, the financial position of IPKO Institute as of 31 December 2004 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG Albania Sh.p.k.

KPMG Albania

14 July 2005

Tirana

IPKO Institute

Balance sheet as at 31 December 2004

(in EUR '000)

	Notes	31 December 2004	31 December 2003
Assets			
Property and equipment	5	173	210
Investment in associate	6	120	196
Interest bearing loan to associate	7	616	556
Prepayment for services due from associate	8	-	77
Total non-current assets		**909**	**1,039**
Interest bearing loan to associate	7	80	109
Prepayment for services due from associate	8	23	39
Other receivables	9	8	3
Cash and cash equivalents	10	30	51
Total current assets		**141**	**202**
Total assets		**1,050**	**1,241**
Accumulated surplus and Total Liabilities			
Accumulated surplus	11	**814**	**1,038**
Deferred income	12	227	198
Trade and other payables	13	9	5
Total current liabilities		**236**	**203**
Total accumulated surplus and liabilities		**1,050**	**1,241**

See accompanying notes to these financial statements

IPKO Institute

Statement of income and expenditures for the year ended 31 December 2004

(in EUR '000)

	Note	2004	2003
Revenue	14	357	465
Personnel expenses	15	(129)	(118)
Depreciation	5	(84)	(82)
Other operating expenses	16	(323)	(355)
Deficit from operations		(179)	(90)
Share in loss of associated company	6	(76)	(25)
Net financing income		31	45
Loss for the year		**(224)**	**(70)**

See accompanying notes to these financial statements

IPKO Institute

Statement of changes in equity for the year ended 31 December 2004
(in EUR '000)

	Accumulated profit/(losses)	Total
Balance at 31 December 2002	**1,108**	**1,108**
Net loss for the year	(70)	(70)
Balance at 31 December 2003	**1,038**	**1,038**
Net loss for the year	(224)	(224)
Balance at 31 December 2004	**814**	**814**

See accompanying notes to these financial statements

IPKO Institute

Statement of cash flows for the year ended 31 December 2004

(in EUR '000)

	Note	31 December 2004	31 December 2003
Operating activities			
Loss from operations		(224)	(70)
Depreciation	5	84	82
Share in loss of associated company	6	76	24
Operating cash flows before changes in working capital		(64)	36
(Increase)/decrease in other receivables		(5)	2
(Decrease)/Increase in deferred income		29	(21)
(Increase)/Decrease/in trade and other payables		4	(3)
(Increase) in interest bearing loans to associate		(31)	(45)
Decrease in prepayment for services due from associate		93	82
Cash flows from operating activities		**26**	**51**
Investing activities			
Acquisition of equipment	5	(47)	(16)
Cash flows used in investing activities		**(47)**	**(16)**
Net increase/(decrease) in cash and cash equivalents		(21)	35
Cash and cash equivalents at 1 January		51	16
Cash and cash equivalents at 31 December	10	**30**	**51**

See accompanying notes to these financial statements

1. Introduction

IPKO Institute (the "Institute") is a not for profit Organisation domiciled in Kosovo providing IT training and Management courses which upon the decision of the Board of Directors changed its name from IPKO.Org on 27 July 2004. The Organisation also provides-ISP services through its associate, IPKO.net ("the Associate") and in this capacity provided its services free of charge to a number of non-government Organisations. The directors authorized the financial statements for issue on 14 July 2005.

2. Statement of compliance

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

3. Basis of preparation

(a) 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.

(b) Basis of consolidation in associates

Associates are those enterprises in which the Institute has significant influence, but not control, over the financial and operating policies. The financial statements include the Institute's share of the total recognised gains and losses of its association on an equity accounted basis, from the date that significant influence commenced until the date that significant influence ceases. If the Institute's share of losses exceeds the carrying amount of the Associate, the carrying amount will be reduced to nil and recognition of further losses discontinued.

(c) Foreign currency transactions

Transactions in foreign currencies are translated to 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 statement of income and expenditures. Non-monetary assets and liabilities denominated in foreign currencies are translated to EUR at the foreign exchange rates ruling at the dates the values were determined.

3. Basis of preparation (continued)

(d) Property and equipment

(i) Owned assets

Items of property and equipment are stated at cost less accumulated depreciation and impairment, if any (refer note m).

(ii) Depreciation

Depreciation is charged to the statement of income and expenditures on a straight-line basis over the estimated useful lives of items of property and equipment, and major components that are accounted for separately. 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

(e) Interest bearing loan to associate

Interest-bearing loan to the Associate is classified as an originated loan. Originated loans are reported at amortised cost net of allowances to reflect the estimated recoverable amounts.

Allowances are made against the carrying amount of loans that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts.

(f) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses. An impairment loss is recognized in the statement of income and expenditures whenever the carrying amount of a receivable exceeds its estimated recoverable amount (refer note m).

(g) 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 Institute's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(h) Trade and other payables

Trade and other payables are stated at their cost.

3. Basis of preparation (continued)

(i) Revenue

(i) Grants

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

(ii) Tuition fees

Tuition fees are recognised in the balance sheet initially as deferred revenue when there is reasonable assurance that they will be received and are recognised as revenue in the statement of income and expenditures on a systematic basis in the same periods in which the courses are held

(j) Expenses

(i) Operating lease payments

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

(ii) Net financing income

Net financing income comprises interest receivable 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.

(k) Income tax

As a not-for-profit Organisation IPKO Institute is exempt from income taxes. In Kosovo, an NGO registered under the present regulation may apply for public benefit status and exemption from income tax. The Institute received such status in December 2001 and is applicable to all activities that have been registered with UNMIK in 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 Institute are exempt from VAT.

3. Basis of preparation (continued)

(l) Segment reporting

A segment is a distinguishable component of the Institute 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.

(m) Impairment

The carrying amount of the Institute'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 and expenditures.

IPKO Institute

Notes to the financial statements for the year ended 31 December 2004

(amounts in EUR '000, unless otherwise stated)

Notes to the financial statements:

4. Segment reporting

Following the disposal of the internet service business unit on 1 September 2001 to IPKO.net LLC, the Institute operates in a single segment, providing IT training management courses, and in one geographical location, Kosovo.

5. Property and equipment

Property and equipment consisted of the following:

	Leasehold improvements	*Equipment*	*Fixtures and fittings*	*Advances for equipment*	*Total*
Cost					
At 1 January 2004	188	210	21	-	419
Additions	-	4	-	43	47
At 31 December 2004	188	214	21	43	466
Accumulated depreciation					
At 1 January 2004	(108)	(88)	(13)		(209)
Depreciation charge for the year	(38)	(42)	(4)	-	(84)
At 31 December 2004	(146)	(130)	(17)	-	(293)
Net carrying amount					
At 1 January 2004	**80**	**122**	**8**	**-**	**210**
At 31 December 2004	**42**	**84**	**4**	**43**	**173**

6. Investment in associate

As stated in note 4 above, as a result of the disposal of the Internet service division during 2001, the Institute acquired 48.9% of the voting shares of IPKO.net LLC, which had an attributed value of TEUR 277.

On 4 January 2004 the Board of Directors of IPKO.net decided to allow for a single class of Common Stock and convert all standing shares of class A and class B Common Stock to voting Common Stock. Furthermore the Board decided to allocate the remaining 4,888,000 (EUR 0.00051) to the existing and new shareholders adjusting IPKO Institute's share capital from 48.9% to 26.41%.

The carrying value of the investment for the years 2004 and 2003 is as follows:

	31 December 2004	**31 December 2003**
At the beginning of period	196	221
Effect of change in share capital participation	(236)	-
Share in profit/(loss) of associate	160	(25)
Net share in loss of associate	(76)	(25)
At the end of the period	**120**	**196**

7. Interest bearing loan to associate

Current portion

	31 December 2004	31 December 2003
Loan to Associate	**80**	**109**

Non-current portion

	31 December 2004	31 December 2003
Loan to Associate	485	456
Accrued interest due from Associate	131	100
	616	**556**

The loan to the associate was payable after 1 September 2004 in equal monthly instalments for a period up to 1 August 2006 and is subject to interest at 7% per annum. The accrued interest is also payable after 1 September 2004 as it is currently capitalised to the principal on a monthly basis. During 2004 the Company found it had erroneously calculated the interest accrued in prior periods. The impact of Euro 7 thousand, had it been booked in prior years, would have reduced the accumulated surplus and decreased the accrued interest due from associates.

On 18 December 2004 the Board of Directors of the Institute decided to reschedule the repayments of the loan. A repayment amount of Euro 5 thousand per month was agreed to begin retroactively from September 2004.

8. Prepaid services due from associate

Prepaid services due from associate represent administrative services for a period of five years to be provided by IPKO.net to IPKO Institute. This arrangement was agreed upon at the time of the disposal of the Internet business unit, as explained in note 4. During 2004, prepaid services decreased by TEUR 93 (2003: TEUR 83). Also refer note 16.

9. Other receivables

	31 December 2004	31 December 2003
Sundry debtors	6	2
Other	2	1
	8	**3**

10. Cash and cash equivalents

	31 December 2004	31 December 2003
Cash on hand	2	2
Cash at bank	28	49
Cash and cash equivalents at cash flow statement	**30**	**51**

(amounts in EUR '000, unless otherwise stated)

11. Accumulated surplus

Reconciliation in movement in accumulated surplus

	31 December 2004	31 December 2003
As at 1 January	1,038	1,108
(Deficit) for the year	(224)	(70)
As at 31 December 2004	**814**	**1,038**

12. Deferred income

	31 December 2004	31 December 2003
Grants	204	145
Tuitions fees received for training courses yet to be provided	23	53
	227	**198**

13. Trade and other payables

	31 December 2004	31 December 2003
Trade payables due to associate	-	2
Other trade payables	9	3
	9	**5**

14. Revenue

	2004	2003
Grants	140	322
Tuition fees	184	142
Other	33	1
	357	**465**

15. Personnel expenses

	2004	2003
Wages and salaries	96	112
Per diems	13	4
Trainers	20	2
	129	**118**

The average number of employees during the year ended 31 December 2004 was 12 (2003:13).

16. Other operating expenses

	2004	2003
Administrative services (refer to note 8)	93	83
Advisory, legal and audit fees	78	68
Occupancy costs	60	63
Travel and entertainment	44	59
Marketing and advertising	15	39
Telephone, postage and shipping	6	17
Office supplies	15	14
Insurance fees, bank charges	3	4
Other	9	8
	323	**355**

17. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	31 December 2004	31 December 2003
Less than one year	46	46
Between one and five years	3	49
	49	**95**

The Institute 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 2004 TEUR 46 was recognised as an expense in the statement of income and expenditures in respect of operating leases (2003: TEUR 46).

18. Related parties

Identity of related parties

The Institute has a related party relationship with its associate described in notes 6, 7, 8 and with its directors. No payments were made during the year to directors and executive officers. All the transactions have been performed on an arm's length basis except as discussed in notes 6 and 7.

19. Financial risk management and estimation of fair values

Credit risk

The Institute's financial instruments, which potentially subject the Institute to concentrations of credit risk, consist primarily of the relationship with its associate described in notes 6, 7 and 8. The receivables credit risk is controlled through approvals of receivables and budget expenditures that generate such receivables.

Interest rate risk

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

Foreign exchange risk

The Institute 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 on the date of the transaction. At the year-end, the amounts are converted to EURO using the year-end exchange rate.

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 Institute'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.