

**Registro Regional de Direcciones IP para América Latina y Caribe  
(LACNIC)**

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2005

**1. ACTIVITY AND LEGAL NATURE OF THE ORGANIZATION**

The Registro Regional de Direcciones IP para América Latina y Caribe (LACNIC) is a non-government not-for-profit organization incorporated in Montevideo on July 27, 2001; it began operations on April 1, 2002. Its Founding Members are: AHCIET (Asociación Hispanoamericana de Centros de Investigación y Empresas de Telecomunicaciones), CABASE (Cámara Argentina de Bases de Datos y Servicios en Línea), CG-Br (Comité Gestor Internet de Brasil), ECOMLAC (Federación Latinoamericana y Caribeña para Internet y el Comercio Electrónico), ENRED (Foro de Redes de América Latina y el Caribe) and NIC – Mx (NIC México).

The main activities of the Institution are:

- to administer IP addresses space and other related resources in the interest of the Internet community of Latin America and the Caribbean;
- to provide registry services of IP addresses, ASN, reverse resolution and its associated resources in order to allow and facilitate communications through information networks;
- to represent and promote in front of international organizations the points of view and interests of regional associates within its area of expertise;
- to support the growth of Internet in the region;
- to support the Latin American and Caribbean community in the development of procedures, mechanisms and standards for the efficient allocation of Internet resources;
- to promote educational opportunities to members in their technical areas of competence;
- to propose and develop public policies in its areas of competence.

The Institution is exempted from the payment of taxes because it is an international, not-for-profit, non-governmental organization. Additionally, the Decree N° 334/970 exonerates such institutions from social security contributions. Law N° 13.179 gives to such non-governmental organizations' employees the option to be affiliated under the Uruguayan social security system.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The detailed description of significant accounting policies adopted by the Institution for the preparation of the financial statements is as follow.

## 2.1 Accounting standards

The accounting standards followed by the Institution for the preparation of the financial statements, are in accordance with generally accepted accounting standards in Uruguay.

The Executive Power issued Decree N° 162/04 on May 12, 2004, which adopts new generally accepted accounting standards. The referred accounting regulation includes new criteria for the measurement of assets, liabilities and the income of the Institution as well as new requirements related to the presentation and disclosure in notes. This situation implied the following changes in the accounting standards used until the end of the last period:

**Adjustment for inflation:** until the end of the last period the Institution presented the financial statements at historical values without performing an integral adjustment considering all the effects of changes in the purchasing power of the local currency. Since December 31, 2005 the financial statements have been adjusted in accordance with the International Accounting Standard N° 29 and all figures of the financial statements are expressed in the purchasing power currency of December 31, 2005. Such change implied an increase of intangibles in \$ 30,387 and long term investments in \$ 1,781, with counterparty in equity adjustments for the year ended December 31, 2004.

There follows the reconciliation between the financial statements as of December 31, 2004 prepared following the Decrees N° 105/91 and N° 200/993, and those prepared following the Decree N° 162/04 and other related decrees, only in chapters that suffered adjustments:

	Balances as of December 31, 2004	Adjustments	Balances as of December 31, 2004, adjusted
<b>Intangibles:</b>			
Intangibles	438,611	47,328	485,939
Accumulated amortization	<u>(117,008)</u>	<u>(16,941)</u>	<u>(133,949)</u>
Net balance	<u>321,603</u>	<u>30,387</u>	<u>351,990</u>
<b>Long-term investments:</b>			
Works of art	<u>35,148</u>	<u>1,781</u>	<u>36,929</u>
<b>Shareholders' equity:</b>			
Equity adjustments	<u>197,551</u>	<u>32,168</u>	<u>229,719</u>

For the preparation of the present financial statements the Institution take as a reference the Decrees N° 222/004 and N° 90/005. The financial statements as of December 31, 2004 which are presented for comparative purposes considering the Decree N° 90/005, are expressed in values of December 31, 2005.

## **2.2 Restatement of financial statements to constant purchasing power currency**

The financial statements have been adjusted in accordance with the International Accounting Standard N° 29 and all figures of the financial statements are expressed in purchasing power currency of December 31, 2005. For the measurement of variation in purchasing power currency was considered the “Indice de Precios al Productor de Productos Nacionales” prepared and published by the “Instituto Nacional de Estadística”. The variation of such indicator for the year ended December 31, 2004 and December 31, 2005 ascended to 5.07% (increase) and 2.19% (decrease) respectively.

The methodology applied for the adjustment for inflation consisted basically in:

- Cash and banks, accounts receivable and accounts payable in local currency were expressed in nominal values.
- Cash and banks, accounts receivable and accounts payable in foreign currency were converted to local currency at the exchange rate prevailing at year-end.
- Other items were adjusted by the variation in the “Indice de Precios al Productor de Productos Nacionales” since the date of origin until the year-end.
- Depreciation was determined by the application of percentage of useful life over restated values of assets.
- The real exchange difference was presented separately in the income statement.
- The items of shareholders’ equity have been restated as follows: 1) the net equity was determined by difference between assets and liabilities adjusted in accordance with the criteria explained previously; 2) “Retained earnings” were presented at legal or formal values and the respectively restatement was included in “Equity adjustments”; 3) the net income for the year was determined by difference between the net equity determined in 1) and the net equity as of December 31, 2004 restated at year-end. The comparison between de net income determined as mentioned previously and the one obtained from the restatement of each item of the income statement, determined a “Loss on net monetary position” which ascended to \$ 144,011.

## **2.3 Translation into U.S. Dollars**

The methodology adopted for translating the financial statements from Uruguayan pesos (currency in which the Institution's operations are accounted for) to U.S. dollars consisted into translate:

- Monetary assets and liabilities, at the exchange rate prevailing at year-end.
- Non monetary assets and shareholders’ equity accounts, at the exchange rates prevailing at the moment of the transactions.

- Items included in profit and loss accounts, using the average exchange rate of the month the operations were carried out. Translation loss that ascended to US\$ 21,539 is included in the “Financial results” account in the income statement.

## **2.4 General criteria of valuation of assets and liabilities**

Assets and liabilities have been valued taking into consideration the acquisition cost, adjusted in accordance with Note 2.2.

## **2.5 Cash and banks**

Cash and banks correspond to funds available in cash and funds deposited in financial institutions.

## **2.6 Short-term investments**

Short-term investments are valued at market value at year-end.

## **2.7 Accounts receivable, other receivable and reserve for bad debts**

Account receivable and other receivable are expressed at their net value minus the corresponding reserve for bad debts. The reserve for bad debts was determined based on a realistic evaluation of the collectability of credits.

## **2.8 Fixed assets**

Fixed assets, which detail and evolution is presented in Appendix I, are stated at their historical cost minus the corresponding accumulated depreciation.

In all cases figures were restated in accordance with Note 2.2 and the amount determined does not exceed the value that is expected to obtain from the use.

The management estimates that as of December 31, 2005, the accounting net value of assets does not exceed its net realization value and any impairment loss have occurred.

The depreciation of fixed assets is calculated in accordance with the straight-line method from the year subsequent to the acquisition.

Mainly depreciation annual rates are the following:

	<u>%</u>
Land improvements	2%
Furniture and fixture	10%
Communication equipments	20%
Computers	33.33%

Depreciation charged to losses during the year amounted to \$ 763,140 (US\$ 26,950), which

was charged to administrative and sale expenses.

## **2.9 Intangibles**

Intangibles assets correspond to disbursements in connection with the software license and implementation.

In all cases figures were restated in accordance with Note 2.2 and the amount determined does not exceed the value that is expected to obtain from the use.

Amortization of intangibles is recognized from the year subsequent to the acquisition, calculated with the straight-line method; the annual rate was 33.33%.

Amortization charged to losses during the year amounted to \$ 158,439 (US\$ 5,414), which was charged to administrative and sale expenses.

## **2.10 Long-term investments**

Long-term investments correspond to works of art acquired by the Institution, which are valued at acquisition cost restated in accordance with Note 2.2.

## **2.11 Accrual basis and acknowledgment of revenues**

Profits are acknowledged as such when they are achieved, and losses as soon as they are incurred in or become known, no matter when they were collected or paid, respectively.

Revenues are acknowledged as such when there are chances to integrate the future economic benefits to the corporate assets as a result of the operations carried out thereby. The revenues produced by the sale of goods are registered when the most important risks associated to the ownership of the goods are transferred to the buyer and the amount thereof may be determined reliably.

Profit and losses included in the income statement are expressed for the amounts initially obtained or expended adjusted as mentioned in Note 2.2.

Net sales are determined by the sale price of services provided, minus discounts and taxes corresponding to those sales.

Administrative and sale expenses, financial results and others were determined in accordance with the accrual basis.

The loss on net monetary position is presented in the income statement separated from other items, and represents for the year ended December 31, 2005 an amount of \$ 144,011.

## **2.12 Statement of cash flows**

In order to prepare the statement of cash flows for the year ended December 31, 2005

found have been defined as Working Capital determined by the difference between current assets and liabilities.

### **2.13 Definition of capital and determination of net income**

The net income was determined by difference between the net equity at year-end and the amount of capital to be maintained. Financial capital was the concept of capital used by the Institution. Such capital is represented by the difference between assets and liabilities at beginning of year adjusted to currency as of December 31, 2005.

For the determination of net income all figures have been adjusted to currency as of December 31, 2005.

### **2.14 Provisions**

Provisions are acknowledged for accounting purposes when the Institution has a present obligation (either legal or contractual) that arose from a past event, it may be necessary to assign resources to settle such obligations in the future and such provisions may be reliably calculated.

### **2.15 Financial instruments**

Main financial instruments of the Institution include cash, bank deposits, accounts receivable, accounts payable and financial loans. Main purpose of preserving liquid assets is to grant financial available funds to the Institution to take care of its operation. During the period the Institution has not contracted derivative financial instruments.

The Institution has defined as the main risks derived of the referred financial instruments the risk associated to the conservation of the assets and liabilities in foreign currency and the credit risk, and elaborated and made effective appropriate policies to control such risks by the Management's periodical monitoring of such risks.

### **2.16 Use of estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent gains and losses at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **2.17 Recoverability of the value of non current assets**

At year-end the Institution's management evaluates if there are devaluation signs of non current assets. If this is the case, the Institution's management estimates the corresponding recoverable value and if such amount is less than the accounting net value, the referred loss in the value of the corresponding assets is then acknowledged.

### 3. SHORT – TERM INVESTMENTS

Short-term investments correspond to private securities issued by foreign companies. Those securities are valued at market value at year-end, according with the following detail:

Security	Nominal value US\$	Market value US\$	Equivalent in \$
DEUTSCHE BANK AG	3,000	3,019	72,818

Also, the Institution maintained accrued interest receivable by an amount of \$ 16,571 (US\$ 687).

### 4. NON - ACCRUED SERVICES

The non-accrued services correspond to services invoiced in the year ended December 31, 2005 to be provided in future years.

### 5. PLEDGED DEPOSITS

The Institution maintained public and private securities issued by foreign governments and companies held in custody by ABN Amro Bank as guarantee of Institution's credit transactions maintained with that Bank. Those securities are valued at market value at year-end, according with the following detail:

Security	Nominal value US\$	Market value US\$	Nominal value Euros	Market value Euros
BULLSEYE NOTE FLOTE	50,000	48,375		
RABOBANK STEP CPN	50,000	49,260		
GENERAL ELCTRIC CAPITAL CORP	30,000	29,265		
FED HOME LN BK	40,000	39,292		
FED HOME LN BK	60,000	58,134		
VALENTINE NOTE			25,000	24,163
NOVARTIS SECS INVEST			25,000	25,390
TOTAL		224,326		49,553
EQUIVALENT IN \$		5,410,743		1,413,269

Also, the Institution maintained in guarantee in the mentioned Bank a deposit amounting to Libras 30,000 equivalent to \$ 1,277,739 (US\$ 52,974).

## **6. FINANCIAL LOANS**

Corresponds to a loan maintained with the ABN Amro Bank with an original capital of US\$ 400,000, payable in 72 consecutive months of US\$ 5,556 each plus interest , with last maturity in October 2011, and with a variable interest rate equivalent to Libor 60 days plus 3.25% annually. As of December 31, 2005 it is still pending the payment of 70 quotas by an amount of US\$ 388,888 (equivalent to \$ 9,380,000).

## **7. OTHER LIABILITIES**

Corresponds basically to a voluntary contribution not yet disbursed to an associated institution amounting to \$ 677,917 (equivalent to US\$ 28,106) and a debt for the installation of the informatic system amounting to \$ 313,560 (equivalent to US\$ 13,000).

## **8. COST OF SERVICES PROVIDED**

Operating costs related to the activity of the Institution basically consist of infrastructure costs (equipment, facilities, communications and human resources) and the costs of coordinating training, education and maintenance programs related to the Institution's objectives. In accordance with the successive memorandums of understanding – the last one dated May 25, 2005 - these works and resources will be provided free of charge, until December 31, 2005, by NIC-BR – Registro Nacional de Direcciones de IP para Brasil y NIC México – REGISTRO Nacional de Direcciones IP para México.

## **9. PRIOR YEAR ADJUSTMENTS**

Correspond to a loss by an amount of \$ 691,781 (US\$ 28,681) in connection with some adjustment of revenues from prior years.

## **10. MEMORANDUM ACCOUNTS**

Memorandum accounts represent third parties funds administered by the Institution which belong to Asociación Civil Cooperación Latinoamericana de Redes Avanzada (CLARA) , Federación de Latinoamérica y el Caribe para Internet y el Comercio Electrónico (ECOMLAC), Latin American and Caribbean Top Level Domain (LACTLD), Fondo Regional para la Innovación Digital en America Latina y el Caribe (FRIDA) and ATLAS project, as follows:

	<u>\$</u>	<u>US\$</u>
CLARA	895,262	37,117
ECOMLAC	17,656	732
LACTLD	746,152	30,935
FRIDA	4,043,922	167,658
ATLAS	401,260	16,636
<b>TOTAL</b>	<u>6,104,252</u>	<u>253,078</u>

## **11. GUARANTEES GRANTED**

Additionally to the guarantees described in Note 5, the Institution has granted in favor of the ABN Amro Bank in guarantee of the financial loan mentioned in Note 6, a mortgage over its real estate by an amount of US\$ 200,000.

## **12. TAX STATUS**

As the Institution is an international, not-for-profit, non-government organization, it is tax exempt, because it is recognized by Uruguayan Foreign Relations Ministry by the decree 334/70 having the fiscal exonerations anticipated in Act 69 of the Uruguayan Constitution.

During the past year, the Institution made a consultation to the tax authorities about the applicability of the above-mentioned exemptions.

On December 2, 2003, tax authorities answered that the Institution would be tax exempted if it fulfills some formal steps (acknowledgment of the tax exemption made by the Economy and Finance Ministry, registration on the Education and Culture Ministry, among others).

On December 30, 2003, the Institution filed a revocation recourse to the above mentioned decision to the consultation, being pending the answer at the date of these financial statements.

The Institution has initiated two legal actions against the Government related with the resolution of the Economy and Finance Ministry about the scope of tax exonerations of LACNIC with the purpose of avoid the miss-interpretation that the Institution consents a different criteria than the one resultant from de consultation made with the Dirección General Impositiva. Both processes are in a previous state of study by the State Attorney in the “Tribunal de lo Contencioso Administrativo” and then by the Ministers that compose the Tribunal.

**(Free translation from the original in Spanish)**