

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

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2004

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: AHCET (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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING BASIS FOR PRESENTATION AND PREPARATION OF FINANCIAL STATEMENTS

2.1 Accounting standards

The accounting standards of LACNIC are in accordance with generally accepted accounting principles in Uruguay. Considering that the Institution began its fiscal year before the application of the Decree 162/04, the Institution choose to apply for this year - end the Decree 105/991 and the Decree 200/993.

The figures of the accounting statements are the historical accounting values in Uruguayan pesos, which is the legal currency in Uruguay. The Institution accounting criteria consider partially the recognition of the effects of changes in the purchasing power of the local currency through adjustments made with the objective of re-measure the values of certain assets, liabilities and results, but not performing an integral adjustment which consider all the effects of such changes.

Partial adjustments refer to foreign currency and fixed assets, as explained in notes 2.6 and 2.9 respectively.

2.2 Translation into U.S. Dollars

The Institution defined US dollars as its functional currency taken into account that its main income, changes, cash and banks, investments, accounts receivable and liabilities are stated in that currency; consequently 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 was to translate:

- a. Monetary assets and liabilities, at the exchange rate prevailing at year-end.
- b. Fixed assets, intangibles, long-term investments and shareholders' equity accounts, at the exchange rates prevailing at the moment of the transactions.
- c. Items included in profit and loss accounts (except depreciation of fixed assets and amortization of intangibles, which are translated from values determined in b; and the currency exchange differences), using the average exchange rate of the month the operations were carried out. Translation loss is included in the financial results account in the statement of profit and loss.

2.3 Statement of Cash Flows

In order to prepare the statement of cash flows for the year ended December 31, 2004 cash has been defined as cash and cash equivalents.

2.4 Concept of capital

Financial capital was the concept of capital used by the Institution in order to determine results. Consequently, the result has been determined taking into account the variation that the capital has had during the period, considered exclusively as a monetary investment.

2.5 Use of estimates

The preparation of accounting statements at a specific date requires an estimation and evaluation by the Direction and Management of the effect on the amounts corresponding to the reported assets and liabilities, disclosure of contingent assets and liabilities, as well as the revenues and losses during the business year. The actual income produced in the future may have differences with estimations and evaluations made by the Direction and Management of the company.

2.6 Assets and liabilities in foreign currency

In the financial statements expressed in Uruguayan pesos, assets and liabilities in foreign currency at year-end were translated to local currency at the rate of exchange in force at that date, crediting exchange differences to income.

2.7 Short-term investments

Short-term investments correspond to public and private securities issued by foreign governments and companies. Those securities are valued at market value plus accrued interests at year - end.

2.8 Reserve for doubtful accounts

The Institution analyzes each debtor's situation individually and makes reserve for those considered of doubtful collection.

2.9 Fixed assets

Fixed assets are stated at their historical cost in Uruguayan pesos indexed according to the variation of the wholesale prices index as from the year of the acquisition.

The revaluation of the year determined a net increase of \$ 101.218, credited to fixed assets revaluation.

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>
Furniture and fixture	10%
Communication equipments	20%
Computers	33,33%

Depreciation charged to losses during the year amounted to \$ 626.228 (US\$ 20.561), which was charged to selling and administrative expenses.

2.10 Intangibles

Intangibles assets are stated at their historical cost and correspond to software license and implementation.

Amortization of intangibles is recognized from the year subsequent to the acquisition, calculated on a straight-line method; the annual rate was 33,33%.

Amortization charged to losses during the year amounted to \$ 111.473 (US\$ 3.904), which was charged to selling and administrative expenses.

2.11 Accrual basis

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.

3. SHORT – TERM INVESTMENTS

The Institution owns public and private securities issued by foreign governments and companies, whose are acquired as short-term investments as follows (amounts expressed in United States dollars):

<u>Values</u>	<u>Nominal Value US\$</u>	<u>Annual Rate %</u>	<u>Maturity</u>	<u>Market Value US\$</u>	<u>Interest receivable</u>	<u>Total in US\$</u>	<u>Total in \$</u>
General Electric Capital Corp. Bonds	30.000	2,2755	06/27/2008	30.000	4	30.004	791.506
British Bonds	30.000	8,5	12/07/2005	59.887	313	60.200	1.588.076
FED HOME LN BK	40.000	4,375	05/26/2009	40.244	170	40.414	1.066.121
FED HOME LN BK	60.000	4	12/01/2009	59.958	200	60.153	1.586.953
				190.089	687	190.776	5.032.656

4. NON- ACCRUED SERVICES

The non-accrued services correspond to services invoiced in the year ended December 31, 2004 to be provided in future years.

5. DEPOSITS IN GUARANTEE

Corresponds to a time deposit amounting to US\$ 39.772 held in custody by ABN Amro Bank as guarantee of Institution's transactions with credit cards. Also, it exists a deposit amounting to US\$ 3.000 in the mentioned Bank, held in guarantee of the rent of the house where is located the Institution.

6. LONG – TERM INVESTMENTS

Corresponds to works of art acquired by the Institution, which are valued at cost of acquisition.

7. 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 March 31, 2004 - these works and resources will be provided free of charge, until September 30, 2004, by NIC-BR – Registro Nacional de Direcciones de IP para Brasil y NIC México – REGISTRO Nacional de Direcciones IP para México. Due to an informal agreement, the criteria in force in the last quarter of 2004 will be the same.

8. 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 (amounts expressed in United States dollars):

CLARA	43.620
ECOMLAC	1.910
LACTLD	16.597
FRIDA	162.831
ATLAS	27.046
TOTAL	<u>252.004</u>

9. 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.