

THE FREE REPUBLIC OF LIBERLAND  
MINISTRY OF FINANCE



Summary Annual Report 2017

March 2018

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Sandy beaches in Liberland

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## FOREWORD BY THE FINANCE MINISTER

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JAN PURKRÁBEK

Finance Minister



Dear Reader,

it is a pleasure to issue the annual financial statement on the occasion of Liberland's 3rd anniversary celebrations.

The state budget has closed the 2017 year with a budget surplus again. The state expenses are always adjusted to available resources. As everything in the industry, also Liberland budget was positively influenced by a sharply appreciating rally of cryptocurrencies during the year. The percentage of cryptocurrency usage in the Liberland state budget has exceeded 50% of all transactions; more and more partners are accepting crypto and also more and more contributors believe in the Liberland Merit as a valuable future currency.

Over the course of 2017, almost all of the missing pieces into the whole puzzle have been finalized. With its solid roots as the most libertarian country in the world, the key questions related to "tokenizing Liberland" have also been answered. The process of tokenization over the ICO process will take place in 2018 and this already shown a very strong preliminary interest from the markets.

What's more, the project has extended to a global ability to gain more territories or areas with certain level of their own autonomy. While state bureaucrats try to pretend they have a better ability to do things than the people, entrepreneurs, and companies from the private sector, we will be able to replicate Liberland on more continents in the near future and build working Liberland economic zones in several places.

Supported by the continuous and enormous interest of Liberland supporters and businesses, this approach positions Liberland even farther ahead than our original limited goal to be the "European Hong Kong."

An essential part is the fuel in the form of Liberland's currency - one that has liquidity on global financial markets. Liberland has attracted and started cooperation with many global companies and individuals from the crypto industry. With cryptocurrency and decentralization in our DNA, we always will differ from old traditional states and will represent a tough competition for them.

Liberland is about to overcome the phase of an early-stage startup and, as a part of global decentralization revolution, will move to the next stage soon with your support.

Long Live Liberland!

Jan Purkrábek, March 2018

A handwritten signature in blue ink, reading "Jan Purkrábek". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

# FINANCIALS SUMMARY

The total Liberland **income** has reached the amount of **546.360 USD** equivalent in the calendar year 2017. This amount consist of operating income amounting **334.105 USD** equivalent, and also significantly influenced by **appreciation of cryptocurrencies** during the year, representing 39% (**212.255 USD** eq.) of the total income.

With **operating expenses 292.004 USD** equivalent, the total Liberland surplus for 2017 has reached **254.357 USD** equivalent.

After deduction of the cryptocurrencies sharp growth positive effect, the **net operating surplus** of Liberland budget reached **42.101 USD** eq. The impact of cryptocurrencies is underlined by the structure of closing balanced held by end of the year 2017: only 9.9 % was held in fiat, while 90.1 % in crypto. The main cryptocurrency was Bitcoin (BTC), with the continuous increasing importance of Bitcoin Cash (BCH) and Ethereum (ETH).

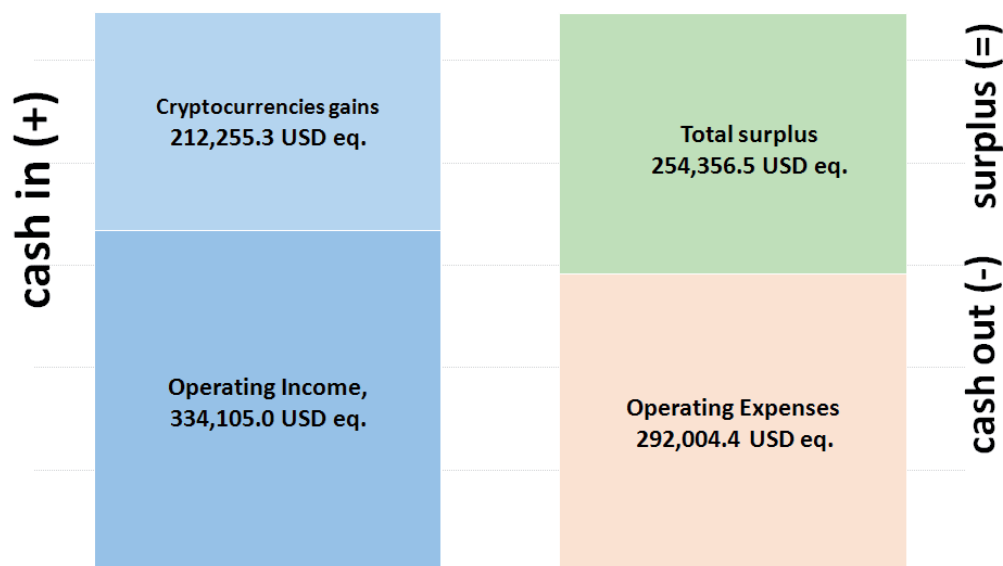
The year 2017 was very bullish for cryptocurrencies. While BTC appreciated by more than 10x and ETH by almost 100x over the year, BCH was oscillating around **2.500\$** by end of 2017 after its start in 2nd half of 2017.

The **closing cash balance** was **278.239 USD** eq as of 31st December 2017. Despite the cryptocurrencies had a positive impact, it is necessary to take into consideration its extreme volatility and its recent drop to 50% from the December highs, that occurred soon in 1Q 2018.

Also, several accrued assets (non-balance sheet) shall be reported. Liberland keeps accrued receivables of **500.000** SAFEX Coins [SAFEX], **1.400.000 USD** commitment from our partner's Universa.io successful ICO and a number of other, nonaccountable receivables or interests.

Main categories of revenues and expenses are commented in other chapters further in the document.

## 2017 cash overview (USD eq.)



There have been no public debts issued during the period, as stated in the Liberland Constitution.

The results have been consolidated for both Liberland State and Liberland Limited Ltd., a state-owned service provider and legal entity.

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# FINANCIALS

# INCOME

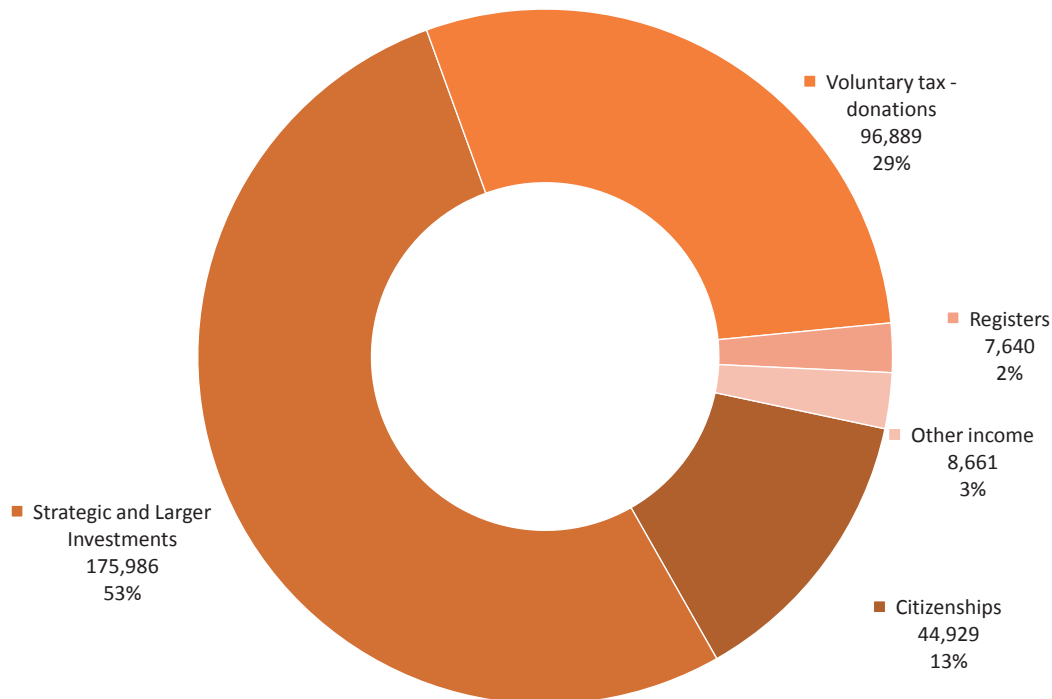
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The total Operating Income of **334.105 USD** equivalent was mainly represented by three streams.

**The first part** with **29%** of the Operating Income (**96.889 USD eq.**) is represented by almost 600 relatively smaller nominal incoming payments, partly on a repetitive basis. Those counterparties call their contribution as **'donation'** or **'voluntary tax'**. Most of them are received over the online payment gateway (Materna) or as small BTC transfers.

**The second part** with **175.986 USD eq.** is the highest (53%) and is represented by relatively high payments considering **strategic investments** or **high one-off donations** from individual supporters or investors.

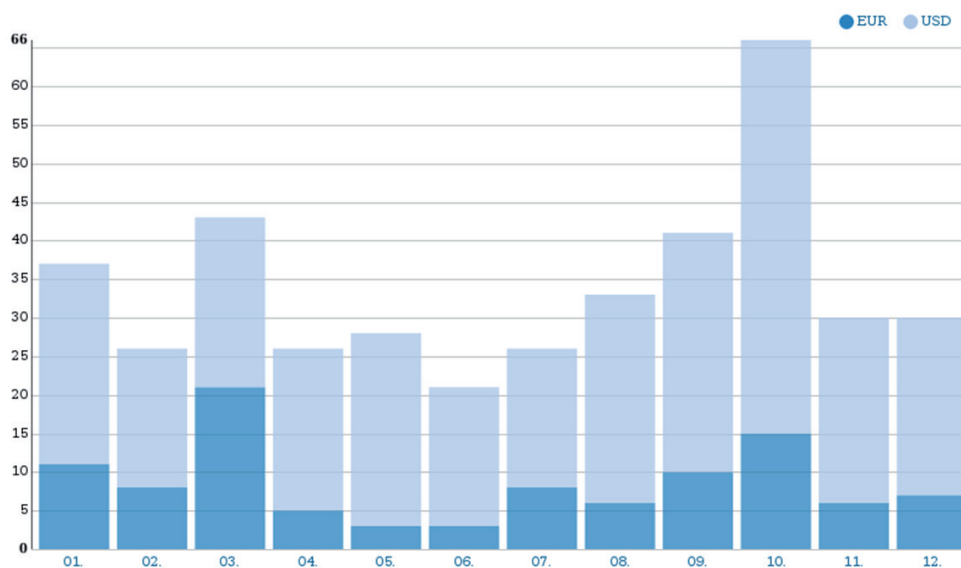
**Third part** totaling 18% of the Operating Income represents payments for **Liberland citizenship sale, company registration** and other minor streams.



## FINANCIALS | INCOME

Category	Amount	Currency equivalent	Share	Number of transactions	Average transaction
Citizenships	<b>44,929</b>	USD equivalent	13.4%	9	\$4,992
Strategic and Larger Investments	<b>175,986</b>	USD equivalent	52.7%	18	\$9,777
Voluntary tax - donations	<b>96,889</b>	USD equivalent	29.0%	557	\$174
Registers	<b>7,640</b>	USD equivalent	2.3%	30	\$255
Other income	<b>8,661</b>	USD equivalent	2.6%	36	\$241
<b>Operating Income 2017</b>	<b>334,105</b>	<b>USD equivalent</b>	<b>100%</b>		
<i>* Note : Most payments initiated adequate Merits crediting</i>					
FX/cryptocurrency gains	<b>212,255</b>				
<b>Total income</b>	<b>546,360</b>	<b>USD equivalent</b>			

The numbers of incoming **small donations** through the online payment gateway (Materna) was more evenly distributed then previous year. The month variance reflects mainly the Liberland media coverage and also sending the mass email newsletter to all half a million registered users plays a role.



### INCOME BY PURPOSE ASSIGNMENT

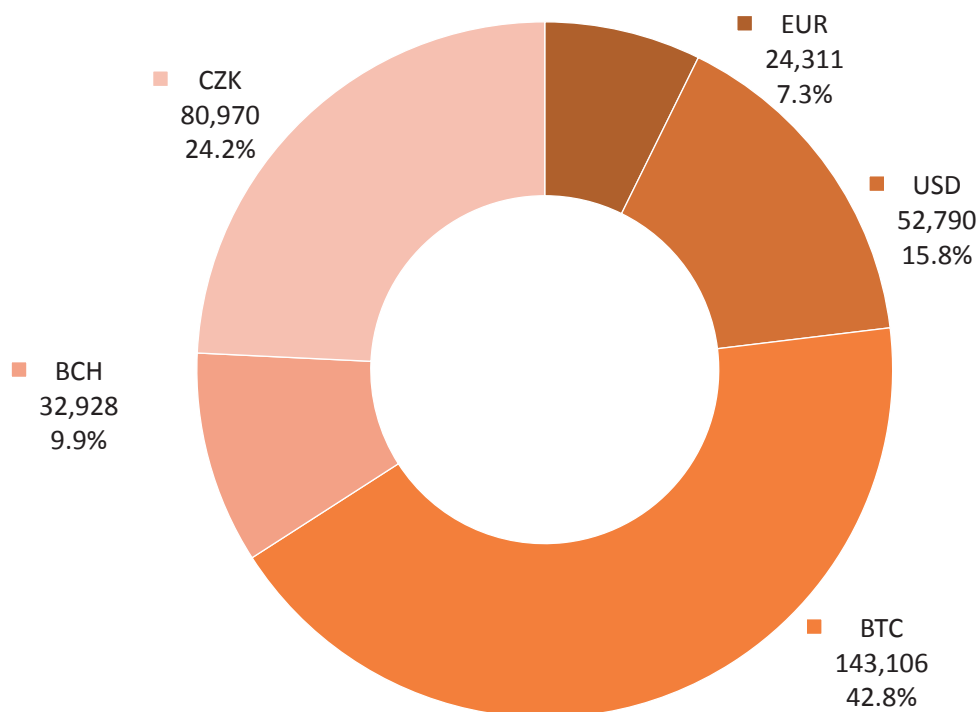
All donators are rewarded (credited) with Liberland Merits with the nominal value 1:1 USD equivalent of his/her donation, calculated based on the exchange rate valid at the day of crediting the amount. This regime applies even if the creditor has declared a strict purpose of the payment. This attitude flattens differences between payments assignments.

In any case, most of the payments are initiated by the sender as “unassigned donation” as of today, while we expect a significantly increasing number of Merit-speculation based incoming transfers in 2018.

**INCOME PER CURRENCIES**

The most used currency for incoming payments in Liberland state budget in 2017 was **Bitcoin**. Its % share has grown from 39% to 43% in 2017 comparing to 2016. Liberland is without any doubts holding global #1 with almost 53% share of the State income in digital currencies (growth from 49% in 2016). In addition, as high as 90% of State balance in cryptocurrencies (!) by the end of 2017. The increasing % share of **BTC**, significantly followed by growing **BCH** payments is demonstrating where Liberland supporters see the future of currencies.

Among **fiat currencies**, **USD** remains dominating over **EUR**. **CZK** inflows are marginal in real; however, the sum of reported **CZK** incoming transfers is influenced by several high international transfers converted by the banks on the **CZK** account.



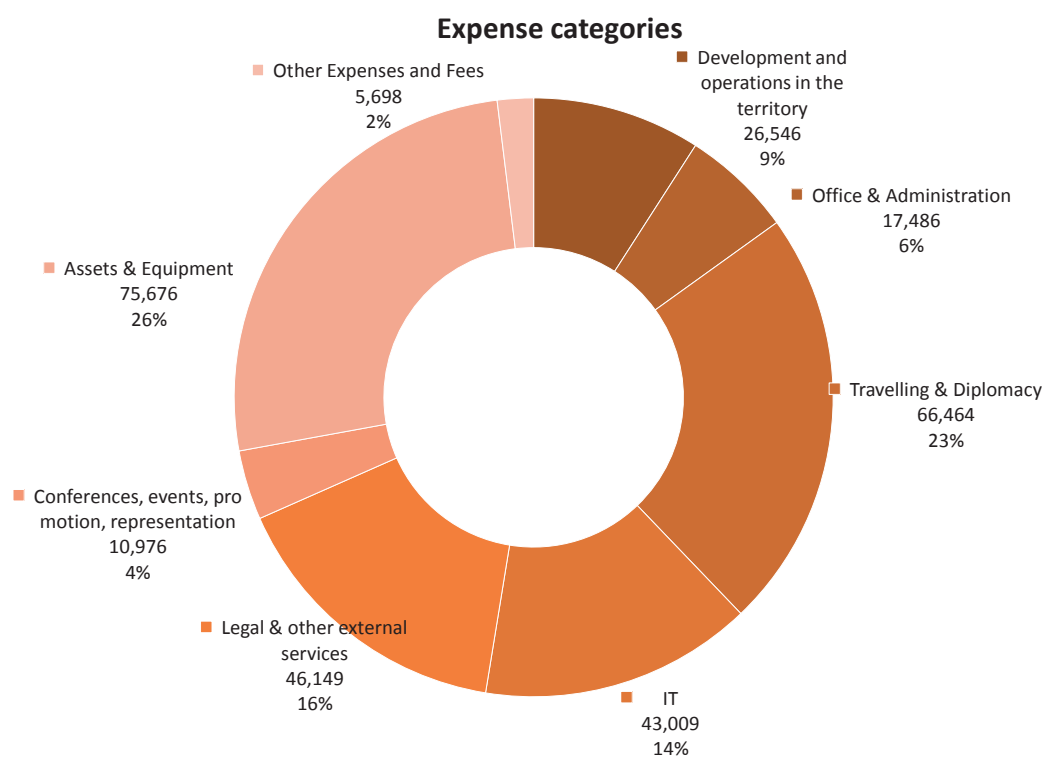
Currency	Amount	Currency equivalent	% share
EUR	<b>24,311</b>	USD equivalent	7.3%
USD	<b>52,790</b>	USD equivalent	15.8%
BTC	<b>143,106</b>	USD equivalent	42.8%
BCH	<b>32,928</b>	USD equivalent	9.9%
CZK	<b>80,970</b>	USD equivalent	24.2%
<b>Total Income 2017</b>	<b>334,105</b>	<b>USD equivalent</b>	<b>100%</b>

# FINANCIALS

# EXPENSES

The **total expenses** for 2017 have reached the equivalent of **292.004 USD**. The main use being **travelling & diplomacy**, together with **conferences & events** representing 27% of the total. Almost 26% of the expenses were spent on **assets purchases** - the ship under the Liberland water settlement program. Apart from that, another category with 9% is related to the settlement in the territory - mainly operations in Serbia. The **external services (mainly IT cost, lawyers and others)** represent almost 30% of the total expenses. The rest is represented by **administration expenses** and other minor expenses.

In general, the percentage division into expense categories is very similar to last year, meaning no changes in expenses strategy at the current early Liberland stage.

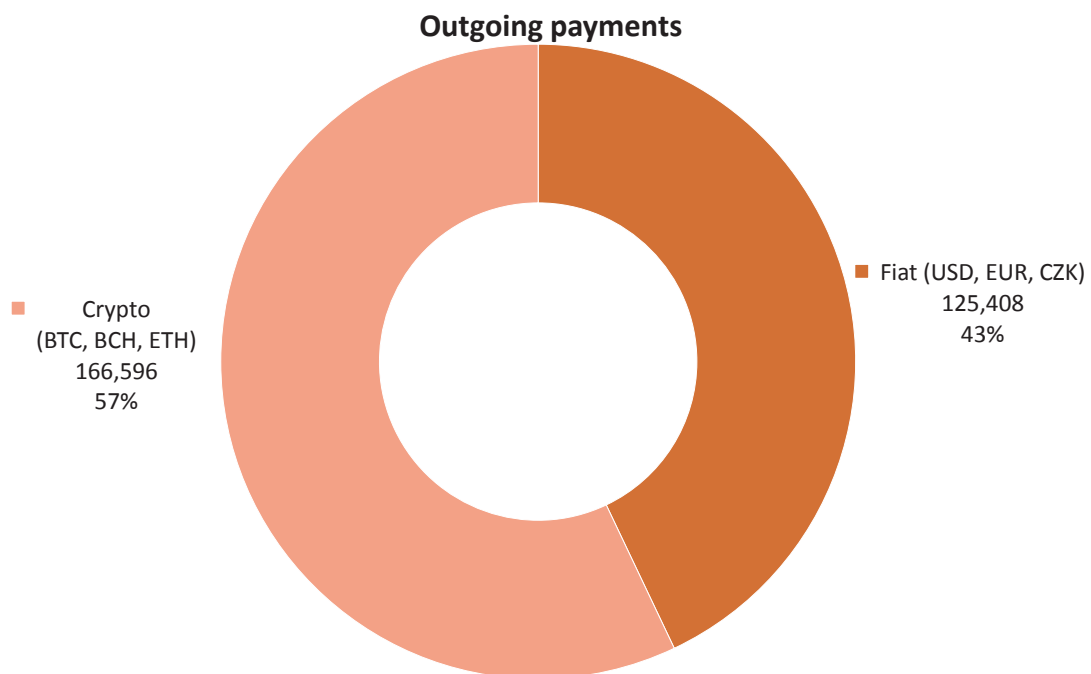


Expenses per category	Amount	Currency equivalent	% Share
Development and operations in the territory	<b>26,546</b>	USD equivalent	9.1%
Office & Administration	<b>17,486</b>	USD equivalent	6.0%
Travelling & Diplomacy	<b>66,464</b>	USD equivalent	22.8%
IT	<b>43,009</b>	USD equivalent	14.7%
Legal & other external services	<b>46,149</b>	USD equivalent	15.8%
Conferences, events, promotion, representation	<b>10,976</b>	USD equivalent	3.8%
Assets & Equipment	<b>75,676</b>	USD equivalent	25.9%
Other Expenses and Fees	<b>5,698</b>	USD equivalent	2.0%
<b>Total</b>	<b>292,004</b>	<b>USD equivalent</b>	<b>100%</b>



**EXPENSES PER CURRENCY**

2017 was the first year when Liberland used more cryptocurrencies for outgoing payments than the fiat money. The share of **outgoing payments in crypto** has risen to almost 57% comparing to 47% last year. This fact demonstrates that Liberland counterparties are constantly adopting crypto as a mean of payment.



# FINANCIALS

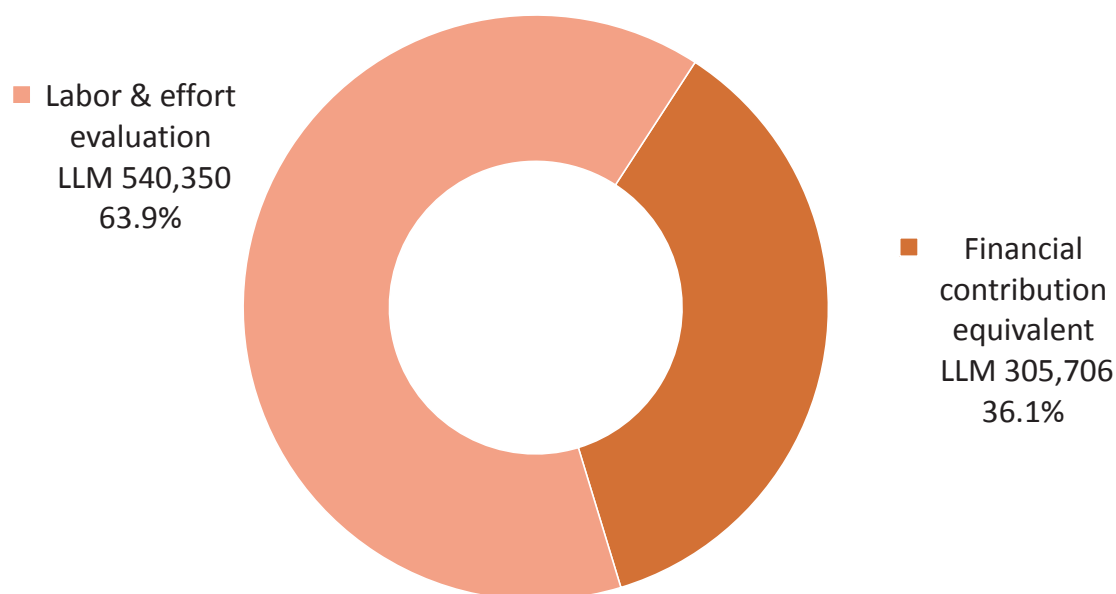
# LIBERLAND MERITS

The Liberland Merit is an unique evaluation token system, rewarding any contribution and energy coming into Liberland. After registration, anyone can contribute either by donation, by labour or any other acceptable way.

The almost three years of Liberland history proved the model of Liberland Merits to be very well functioning. We are also seeing a trend of more common acceptance of Liberland Merits as a mean of compensation, what was quite rare two year ago. This fact shows people are slowly realizing future value of Liberland Merits.

**The total amount of Liberland Merits issued in 2017** has reached **846.056 LLM**. With the cumulative values from 2015 and 2016, the **total amount** of issued Merits reached the amount of **1.698.115 LLM** by 31st of December 2017, including all deferred commitments.

All donations and most of the third-party related expenses have been rewarded with Merits by 1:1 to USD equivalent. The contribution through labour or people's activity has been used roughly twice more frequently than the financial contribution, as per the chart below.



Category of issuance	Amount	% Share
Financial contribution equivalent LLM	305,706	36.1%
Labor & effort evaluation LLM	540,350	63.9%
<b>Total Liberland Merits issued in 2017 LLM</b>	<b>846,056</b>	<b>100%</b>

Liberland Merits is planned to be converted into a real digital currency in 2018 with full exchangeability and other fundamental features.

# MINISTRY OF FINANCE

# STRATEGIC GOALS AND ORGANIZATION

Liberland Ministry of Finance has been incorporated by the Liberland Constitution.

The strategy for Liberland finance has always been standing on following four key robust pillars:

- ▶ Voluntary taxation
- ▶ No government debts
- ▶ Minimal government expenditures, no fiscal policy
- ▶ Free competition of currencies, no monopoly legal tender

## Internal structure of Liberland Ministry of Finance

The Ministry of Finance has been internally divided into three main sections, followed by three departments.



**Department of Strategic Planning** defines the Liberland finance principles and follows the key libertarian principles of free economy, free trade, and minimal government interferences from the financial aspects. Setting up this framework also means an attractive environment for business and for Liberland investors.

**Department of Monetary and Macroeconomic Issues** is responsible for the monetary topics. The defining task is to utilize Blockchain technology and maximize the potential of Liberland Merit as a global state-sponsored crypto-currency.



**Mr. Hollis Hedrich**

Head of the Department of Monetary and Macroeconomic issues

**Department of financial operations** will take the responsibility for cash management, accounting, controlling, budgeting, reporting, and auditing. Most of the operating agenda can be done automatically and transparently online with minimal human input required.

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## MINISTRY OF FINANCE

### STRATEGIC GOALS AND ORGANIZATION

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The praxis of a deep internal organization has not found its necessity yet, since internally not such a strict institutional workflow process has been implemented.

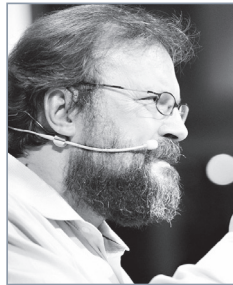
#### LIBERLAND ECONOMIC ADVISORY COUNCIL

Apart from the three ministry departments, **the Liberland Economic Advisory Council** has been used as an external independent advisory board. This committee represents an independent advisory body of ultimately 5-15 international professionals, whose expertise, opinions or abilities are valuable for the Liberland development. Its purpose is to aggregate and oppose ideas and potential steps of Liberland considering both classical Libertarian and modern fintech decentralized environment.

The committee has currently 5 members as of December 2017. More persons will be invited in relation to ICO planned for 2018 and some member will overleap from the ICO advisory group.



Mr Alexander Borodich



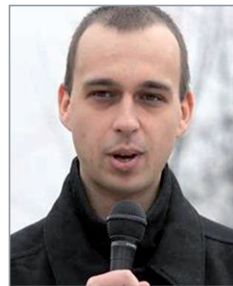
Mr David Orban



Mr Vladimir Pikora



Mr Dominik Stroukal



Mr Martin Panek

#### LIBERLAND KEY EXTERNAL VENDORS

In the financial agenda, we rely on a range of external providers, to outsource their services or products. Among the most important were:

**MATERNA**  
Information & Communications

**Bitwala**

 **Bitcoin Suisse AG**

 **LP Legal**

  
**AGAVON**  
 **Coinomi**

  
**SWARMOPS**

# OVERVIEW OF ALL TOPICS RELATED TO MINISTRY OF FINANCE

<p>Liberland is a sovereign state, but still suffering from a limited capability to act on its own behalf in the relations to other parties.</p> <p>With increasing adoption of cryptocurrencies, even an unrecognized state can manage its liquidity quite easily with own hot and cold wallets. Nevertheless, there are still ongoing negotiations with several banks to open state IBAN accounts. Also, a big number of crypto banks are starting their operations globally. We expect those services will be able to cover Liberland banking needs completely very soon.</p>	<b>Legal status for financial operations</b>
<p>Liberland is using a multi-currency and multi crypto-currency bank account held with Bitcoin Suisse. For the outgoing payments in crypto, we use crypto hot wallets and external payment services for IBAN transfers.</p>	<b>Cash management</b>
<p>Both Liberland BTC account and FIO bank account are transparent and available in the real time online.</p> <p>To make the process of all transactions transparent and accountable and auditable online, we've adopted key software solution Swarmops for full implementation in 2018.</p>	<b>Transparency accounting and auditing</b>
<p>Liberland budgeting works on short-term rolling budgets basis at present. After the ICO, the budgeting procedures will be more categorized according to individual departments.</p> <p>In addition, the Swarmops system allows us to implement decentralized budgeting and partial budget allocation to all Liberland units across the world (budget decentralization).</p>	<b>Budgeting</b>
<p>Liberland is successfully providing incorporation of international business companies (Ltd). There are more than 100 requests, while already some 30 companies are running officially their business from Liberland jurisdiction, incl. complete company documentation.</p>	<b>Business incorporation</b>
<p>Majority of Liberland funds is held with Bitcoin Suisse, a world leading crypto bank. Operational funds are transferred and diversified into hot wallets regularly.</p> <p>We are also facing currency risk (appreciation or depreciation of crypto), which is rather accepted than hedged. This risk brought FX gains to Liberland in 2017.</p>	<b>Treasury and financial risks</b>
<p>Several banks have already indicated opening bank accounts to Liberland-based companies.</p> <p>With growing number decentralized crypto payments services and crypto banks starting their businesses, we are seeing complete payment and banking services for Liberland citizens and companies in the very near future.</p>	<b>Commercial banking in Liberland</b>
<p>Liberland Merits is a rewarding system (see above) which has proved to be a motivating model for energy coming into Liberland.</p> <p>Liberland Merits official ICO is planned for 2018. The process of "tokenization of Liberland" should lift the country to another evaluation phase.</p>	<b>Liberland Merits (LLM)</b>
<p>No official records are held by Liberland Ministry of Finance in terms of macroeconomics statistics, such as Gross National or Domestic Product (GNP, GDP).</p> <p>Measured by all current Liberland citizens and companies, we assume tens or hundreds of million USD as the annual Liberland GNP.</p> <p>Also, a significant impact on GDP of the whole region has been calculated by Libek study. Connection with Apatin free trade zone will also bring a very positive impact.</p>	<b>GDP/GNP and macroeconomic relations</b>
<p>Liberland has built up a very strong and complex network of representative offices in almost 100 countries on 5 continents. The primary mission of the representative offices is to develop Liberland ideas and support local steps for recognition.</p> <p>With growing number of companies and businesses, the network of representative offices will be followed by a network of Chambers of Commerce. Their primary objective will be to build business connections and generate business opportunities related to Liberland world. With focus on crypto and blockchain, the power of 100 chambers globally will represent an enormous business power in the future.</p>	<b>Chambers of commerce</b>



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