

ANNUAL REPORT_2003





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MESSAGE FROM THE PRESIDENT

In writing this introduction for the annual report and general balance sheet corresponding to LACNIC's second accounting year, I have prepared a revision of the activities that have been carried out during the past year. I am truly honored and feel great satisfaction for having participated and contributed to the development of LACNIC together with all the members of the Board of Directors.

Both in the area of technology as well as in the extremely important area of human and institutional relations, LACNIC has strived to provide answers to our members' proposals and projects. This has been done by first achieving consensus and then materializing policies and actions that have contributed to a wider and better distribution of the resources and related services we administrate.

Because the natural boundaries of its activities extend to Latin America and the Caribbean, LACNIC acts as an integrating element within the region, attempting to reconcile private sector and government positions with the aim of achieving sustainable growth and bringing the benefits of CIT to every sector of our countries. I believe we have made significant progress in this area.

In this introduction I would also like to express my acknowledgment for the collaboration and support we have received from the other RIRs during these first years of our existence, and my satisfaction on the participation of LACNIC in the creation of the Number Resource Organization (NRO), a process that concluded in October 2003.

Finally, I would like to include a special paragraph in recognition of LACNIC's Staff, who, under the leadership of our Executive Director, Raúl Echeberria, have been a true driving force behind LACNIC's growth and development.

With sincere gratitude to all our members for their active participation, and in anticipation of a period of continuous growth during 2004, sincerely,

Oscar A. Messano
President of the Board of Directors



MESSAGE FROM THE EXECUTIVE DIRECTOR

Two thousand and three has been a very special year in the life of LACNIC. Although it was the second year of our operation as a Regional Internet Registry, it was in fact our first year after obtaining official recognition on the part of ICANN (Internet Corporation for Assigned Names and Numbers) on October 31, 2002.

Two thousand and two was a year of transition. After concluding this transition we were ready to face new challenges. We began 2003 working with all our energy set on building an organization that would provide highly qualified services, characterized by modern management, financial austerity and transparency, and the commitment to growth.

Now that the year 2003 has gone by, we see an organization that has a lot of work to do in the future, but one that is absolutely consolidated and in constant evolution. This was one of our achievements in 2003. LACNIC is no longer a project; it has now become an efficient and modern organization committed to fulfilling an important role in the development of the Internet within the region, reaching beyond the central aspects of our mission, but without neglecting the services for which LACNIC was originally created.

In addition to consolidating the organization in relation to our fundamental functions, which include the generation of clearer processes, broadening our staff while procuring a clearer and more efficient assignment of tasks, the definition of feasible business plans, organized management and better communication with our clients and members, there were other important issues that marked this year for LACNIC:

- The creation of the NRO, the Number Resource Organization, made up by the four Regional Registries, for the purpose of protecting the unallocated number resource pool and acting as a focal point to facilitate the relationships between the Internet community and the RIR system. This constitutes a significant step towards the evolution of Internet resource management structures, precisely at a time when a discussion on these issues is being processed at a global level.

- LACNIC's legitimization as an important actor within the region and at an international level. In a very short time LACNIC has become a well-known organization that has fluent relationships with a good number of the region's governments and regulators, with civil society organizations, and with other organizations that have relevant roles in relation to the Internet. Although it represented an important effort, the process of the World Summit on the Information Society was also an opportunity to strengthen LACNIC's positioning at a global level.

- Another significant aspect has been LACNIC's attitude of not limiting itself to the administrative and technical services pertaining to the management of Internet addresses for our region, but also to finding ways to generate returns for the community. In this sense, several cooperation agreements have been signed, as well as projects to support Internet development and innovations within Latin America and the Caribbean. These actions have already begun to generate effects, but their positive impact will become more apparent as of this year.

The year 2004 also presents us with important challenges.

Probably the most important of these challenges will be:

- To continue traveling along the path of LACNIC's growth, with more structure, a larger staff, but maintaining the austerity of our financial management and ensuring our economic stability.
- To continue strengthening our position as an important actor within the international discussion processes on the issues that are of our interest.

LACNIC's staff has grown during 2003, but the excellent working environment and internal relationships within the team remain unchanged. To this team I express my acknowledgment and gratitude, as they are the true reason behind LACNIC's success.

Raúl Echeberría
Executive Director/CEO



01 INTRODUCTION

LACNIC began operating in November, 2001, within the framework of the transition plan agreement with ARIN. At that time LACNIC's task consisted solely of analyzing the applications received by ARIN from within our region and express our opinion on the matter to ARIN's staff.

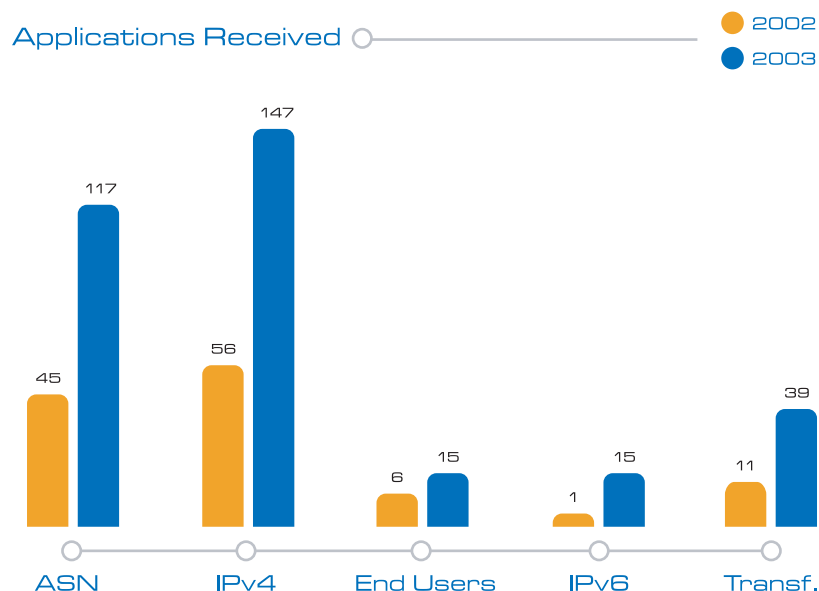
The year 2002 was the year of the transition. This transition was completed on November 18, eighteen days after having received final recognition on the part of ICANN, when the final letters of information transfer from ARIN to LACNIC were signed.

During that year, LACNIC mainly focused on the technical and administrative aspects of the transition. It was really at the end of 2002, once the transition was successfully completed, when we were faced with the challenge of making the organization work and of transforming it into a stable and self-sustaining project. Consequently, during 2003 this became our main line of action, as will be reflected in the following chapters of the present report, in which the most relevant information relating to each of LACNIC's areas will be presented.

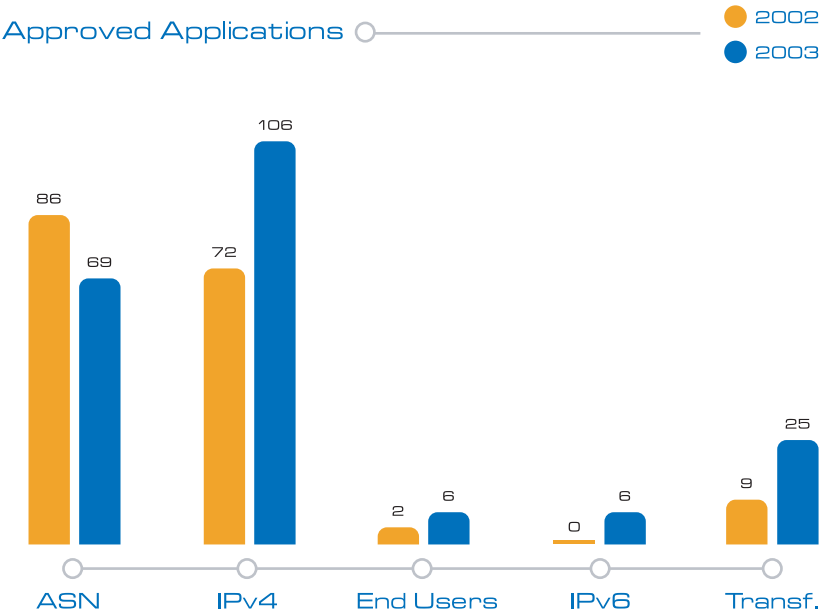
02 REGISTRATION SERVICE

The activities of LACNIC's Registration services have grown significantly.

As illustrated in the following chart, applications in general have increased by 80%, with every type of application exhibiting a significant increase.



The number of applications that were approved also increased significantly.



Average initial response times from the moment an application is received are still very good, less than one working day.

The increase in the number of applications received during 2003 by LACNIC led to our webmaster being trained in the tasks of a hostmaster; these tasks were taken on one by one. Today LACNIC has two persons working on the Registration Service, and it is foreseen that a new webmaster will be hired during the course of the following months.

The implementation of new policies on the part of the Registration Service has been efficient and dynamic.

This year Bulk Whois copies are being made available to interested parties (with the previous signing of a contract), and there have been some changes in relation to IPv6.

During 2003, LACNIC made the first IPv6 allocations from its own blocks, made the first IPv6 micro-allocations based on new policies, and began substituting the blocks of organizations within the region that had previously been assigned blocks by ARIN, providing them with blocks belonging to the IPv6 address space administered by LACNIC.

For the first time IANA allocated to LACNIC an /8 block, which is already in production and from which several assignments have been made.

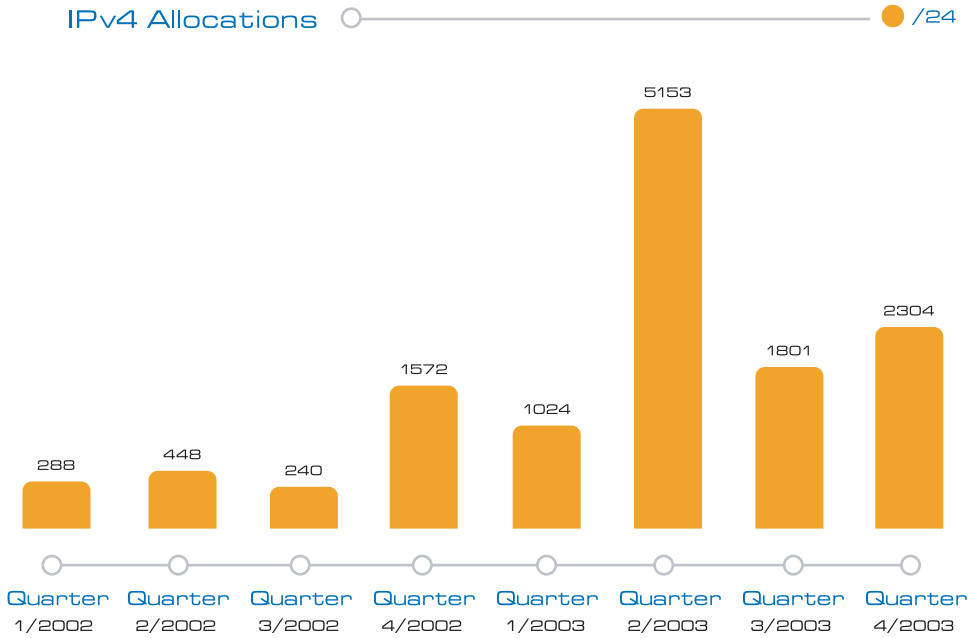
As to training, in addition to having participated in a number of RIR coordination meetings, IETF meetings, and meetings of other RIRs, our Registration Service Manager worked as an intern at APNIC for a period of one week; this represented an extremely positive experience and strengthened our intention of participating in this type of activities.

During 2003 the cooperation with NIC Brazil in this area has continued. The costs relating to the human resources of the Registration Service, including travel expenditures and the facilities required for carrying out their tasks, were totally covered by NIC Brazil, just as they were in 2002.

In view of the promising results of LACNIC's activities during these first years, in 2003 conversations between LACNIC and NIC Brazil have already begun in order to start decreasing the level of these contributions during the course of 2004. It is expected that, as of the second semester of 2004, 100% of Registration Service costs will be covered exclusively by LACNIC with its own resources.

The following chart illustrates the number of IPv4 addresses allocated by LACNIC during each quarter of the years 2002 and 2003; it clearly evidences how the numbers have evolved.

In order to simplify the interpretation of the chart, addresses are measured in /24 units (former C Classes).



03 ENGINEERING

During 2003 LACNIC's Engineering department has also continued to operate with the cooperation of NIC Brazil. NIC Brazil's Engineering team, made up by six persons, has devoted approximately 25% of their time to tasks pertaining to LACNIC. Frederico Neves, NIC Brazil's Engineering Manager, is also LACNIC's Engineering Manager; he has been able to separate his roles with remarkable success.

After the intense work carried out during 2002 in relation to the transition process and the startup of LACNIC's services, 2003 has been a year devoted to advancing and perfecting our systems, both the systems used internally as well as those that constitute the basis of the services we provide to our users.

Great efforts have been devoted to improving our physical infrastructure and optimizing our main systems.

As to our management support systems, an automatic billing system and a Members Services management system were developed, and our electronic voting system was implemented. This latter system was used for the 2003 Directors election; it is a software provided by ARIN, to which several complementary developments have been added.

In relation to external services:

- The Internet Resource Analysis Interactive System (SIARI) was developed. This is a tool based on the use of OLAP technology, which allows the interactive analysis of statistical information from LACNIC's Registration Service (<http://lacnic.net/en/siari.html>). This is an innovative way of allowing public access to our historical data, which is undoubtedly useful for research projects and for controlling the evolution of resource allocation within our region.
- An automatic "lame delegation" situation control system was implemented, for cases of failed reverse resolution, which automatically notifies those responsible for the servers that have reported errors. This proactive activity on the part of the Engineering team has led to an important decline in the number of "lame delegation" situations within the region (http://lacnic.net/en/lame_delegation.html)
- After the approval of a new policy in April 2003 which allows Bulk Whois copies to be made available to the public (previously signing a contract agreeing to the terms of use of the information), appropriate software components have been developed that enable users to download updated copies of the database from the system, which are generated automatically as often as they are required.

Our technical coordination with other RIRs has been very intense. During the month of July, a coordination meeting was held by the Engineering teams, from which a large number of lines of action arose. This coordination was enhanced after the creation of the NRO (Number Resource Organization) and the institutionalization of the RIR Engineering Managers Group, which is now operating regularly and efficiently.

As a result of this coordination several tasks have been carried out:

- As at December 31, 2003, more than half of the blocks corresponding to the ERX project (<http://lacnic.net/en/erx.html>) had been processed. This project consists of analyzing in detail each block belonging to the Early Registration group, that is to say blocks prior to the creation of ARIN, and distributing the parts of those blocks to the local RIR corresponding to the region in which each sub-block was allocated.
- The public statistics files that are available at the FTP server began to be updated on a daily basis.
- The format of the statistics file was modified according to specific needs that were detected.

The Engineering team has continued its active participation in several international forums, among them the IETF.



04 ADMINISTRATION

Management of the administrative department has improved greatly from month to month. The beginning of the year practically coincided with the beginning of LACNIC's operation as an officially recognized RIR. For this reason, among other tasks, during this year we have focused on creating and consolidating internal processes, improving communications with our clients, and implementing internal control systems.

During the month of March a new member joined LACNIC's administrative staff, which has allowed a better and much more efficient distribution of tasks.

Because of the efficient collection mechanisms and the recovery of overdue debts, LACNIC's revenues exceeded the anticipated values, as can be seen in the following table.

LACNIC REPORT - REVENUES 2003

All amounts expressed in U.S. dollars

ITEM	Budget 2003	Actual Revenue	Variation %
RENEWALS	409.350	448.903	110%
IPV4 Renewals	398.634	430.057	108%
IPV6 Renewals			
End User Renewals	405	150	37%
Membership Renewals			
ASN	10.311	18.696	181%
INITIAL ALLOCATIONS	84.650	134.890	159%
New IPV4	56.500	87.490	155%
New IPV6			
New End Users	5.000	14.500	290%
New Members		400	
New ASN	23.150	32.500	140%
OTHER REVENUES		2.316	
TOTAL REVENUE	494.000	586.109	119%
Portfolio Recovery		86.140	
TOTAL REVENUE	494.000	672.249	136%

The revenue budget for 2003 with which the Board of Directors operated was conservative, and therefore we anticipated that actual revenues would exceed the projected numbers, but not to this extent. This is an indication of appropriate management.

The emphasis on controlling cash flows due to the limited reserves available at the beginning of 2003, together with

an austere administration and management, resulted in the fact that, during 2003, at all times the execution of the budget was below the budget approved by the Board of Directors.

As shown in the following table, total expenditures during 2003 are equivalent to 92% of the budget duly approved by the Board of Directors.

LACNIC REPORT - 2003 BUDGET EXECUTION

All amounts expressed in U.S. dollars

ITEM	Global Budget	Transp. Funds	Final Budget	2003 Execution	Execution Percentage	Total Balance
Investment In Assets	12.000	53.391	65.391	60.788	93%	4.603
Human Resources	108.715		108.715	108.315	100%	400
Hired Services	9.700	18.000	27.700	27.523	99%	177
Operating Expenditures	36.900	10.000	46.900	46.155	98%	745
Staff Travel	73.800		73.800	73.083	99%	717
Travels Abroad	40.800	9.000	49.800	44.375	89%	5.425
Guest Travel	20.000	3.000	23.000	15.324	67%	7.676
Events And Communications	56.000	5.000	61.000	52.072	85%	8.928
Financial Expenditures	7.000	2.000	9.000	8.220	91%	780
Incidentals	4.085	-2.891	1.194	1.084	91%	110
ICANN/ASO	25.000	-10.000	15.000	6.547	44%	8.453
Strategic Projects	100.000	-87.500	12.500	12.038	96%	462
TOTAL	494.000	0	494.000	455.524	92%	38.476

As a result of the combination of the two components mentioned above, i.e. higher revenues and lower expenditures, it was possible to generate adequate reserves. This is completely in line with the recommendation made by the Control Organ in the sense of generating, in the medium term, reserves equivalent to a significant number of months of operation.

The following table presents a comparison between the actual cash flow and the figures anticipated at the beginning of the fiscal year.

Cash Flow	Budget	Actual	▲	▲ %
Initial Balance	78.634	78.634	167.751	34%
Collection Revenues	494.000	661.751	167.751	34%
Expenditures	494.000	455.524	-38.476	-8%
Final Balance	78.634	284.861	242.501	

The higher degree of efficiency of the administrative processes is also reflected in the constant decrease of overdue debt percentages.

The preparation of the Budget for 2004 deserves a special mention. The administrative department worked jointly with the Executive Manager and the Board of Directors to prepare a more complex budget, based on items, cost centers, organizational areas, and detailed by quarter.

The administrative department's performance was accompanied by new developments within the Engineering department. The excellent interaction between these two areas allowed the introduction of new automatic billing systems and the improvement of the application tracking system.

At the closing of the fiscal year, work was begun with the aim of implementing a new software system in the accounting department that will support the modern management style we are attempting to impose.

During 2003 very few investments were made, all of them highly conservative, and therefore having low profitability, but we have begun working on low-risk investment plans that will have higher return levels than those obtained up to this moment.

The balance sheets, the External Auditor's report and the Control Organ's report are attached at the end of this document.





In August, 2003, there was an important addition to LACNIC's staff, that of Germán Valdez, who holds the position of Policy Director, a function that he had already performed up to that moment, but within the framework of the cooperation between NIC Mexico and LACNIC.

The incorporation of new staff to perform this specific task has represented a major contribution. It has improved our capacity to follow up on policy developments within the communities of other Regional Registries (RIRs), now the Board of Directors can access information of a higher quality to help them decide on these matters, and the staff of LACNIC is able to provide more and improved support to its community and members, in relation to policy development procedures within our region.

During the year 2003 twelve proposals were discussed, six of which were approved by the public forums and ratified by the Board.

The policies that were approved during LACNIC IV and that have already been implemented are the following:

- Bulk Whois Copy Distribution
- IPv6 Block Micro-Allocations
- Multihomed End User Micro-Allocations

The policies that were approved during LACNIC V have already been ratified by the Board, and it is anticipated that they will be implemented on March 15, 2004.

- Experimental Internet Resource Allocation
- IPv6 Policies for LAC
- Modification of the Multihomed End User Micro-Allocations Policy

In addition to discussing the policies that arose during 2003, a proposal for reviewing the Policy Development Procedure was presented to the community; this proposal was discussed, analyzed and updated at the LACNIC IV and LACNIC V Public Forums. The discussion process of this proposal is still active at LACNIC's Public Policy List, and it will be completed at the next Public Policy Forum, which will be held within the framework of LACNIC VI.

Currently the Public Policy List has a total of 235 members. During 2003 sixty-five new subscriptions were incorporated. Public Policy List subscribers represent at least twenty of the twenty-nine economies to which LACNIC provides its services.

The instructions for subscribing to this list can be found at <http://lacnic.net/en/lists.html>.

This year an area was developed on LACNIC's website, <http://lacnic.net/en/des-pol.html>, that allows to follow the policy discussion and development process closely

Within the training area we have also achieved very concrete and satisfactory results.

During 2003, six training days were held by LACNIC, namely:

- March, Buenos Aires, Argentina, 45 participants
- April, Santiago, Chile, 18 participants
- May, Montevideo, Uruguay, 14 participants
- October, Bogotá, Colombia, 40 participants
- October, Mérida, Venezuela, 10 participants
- November, Havana, Cuba, 9 participants

The number of participants in these training days totaled one hundred and forty-two. Furthermore, during LACNIC IV and LACNIC V, tutorials on advanced BGP, IPv6 and advanced DNS were organized, with a total of fifty-nine participants.

In all, LACNIC's training services were offered to two hundred and one persons from thirteen different countries belonging to the area covered by LACNIC.

It is important to highlight the number of instructors who disinterestedly participated in the abovementioned tutorials.

Both in the policy development area as well as in the training area, LACNIC received the important cooperation of NIC Mexico.



With the incorporation of new staff to the administrative area In March, 2003, it was possible to assign one person to Members Services, with full-time dedication.

As of that moment it has been possible to develop members services, many of which imply the exercise of their rights as LACNIC members, in a much more organized and professional manner.

The 2003 Annual Assembly, held in Santiago, Chile, during LACNIC IV, was LACNIC's first Member Assembly. Because of this, the preparation of this event involved developing new tasks, all of which were carried out successfully.

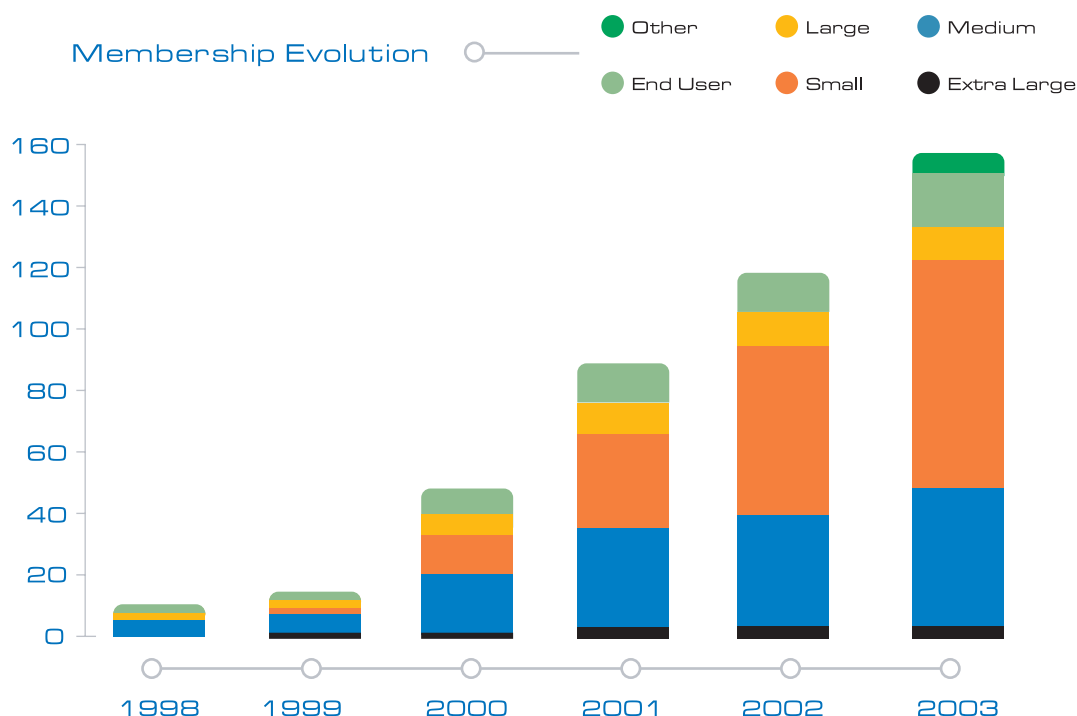
During this Assembly, Electoral Commission and Control Organ members were designated. After the Assembly, intense work was carried out in cooperation with the Electoral Commission in order to organize and regulate the Directors election that was held in October, 2003. This election was particular in that it was completely done through the Internet.

As a result of these elections, Oscar Robles (Mexico) and Jesús Martínez (Cuba) were elected to occupy the two vacant positions.

Prior to the LACNIC V meeting held in Havana, Cuba, the Members Services department conducted the process of selecting a representative to ASO's Address Council (Address Supporting Organization), which resulted in the election of Raimundo Beca (Chile) who will occupy a position at the Address Council for three years.

This is also an area where internship programs have been organized. In this case, the Members Services Coordinator made a one-week visit to ARIN, where the Coordinator had the opportunity of working jointly with the staff of ARIN and exchanging experiences, the results of which were very positive.

The following table shows the evolution of LACNIC membership during the past six years. For the years prior to 2002, the numbers that appear in the table correspond to the number of ARIN members from within the area currently covered by LACNIC.





In September, 2000, during the early stages of LACNIC's organization, two key cooperation agreements were signed, which were fundamental for ensuring the technical, economic and operational feasibility of LACNIC during its first years of existence.

Agreement with NIC Brazil

As already mentioned in preceding chapters, NIC Brazil has contributed with all the human and material resources necessary for LACNIC's Engineering department and Registration Services. These cooperation tasks have allowed LACNIC not only to have the necessary services and staff, but also to work with human resources of the highest quality, both at the professional level as well as at the human level.

This year the cooperation of NIC Brazil towards LACNIC has been at the same level as last year. For this reason we estimate this cooperation at US\$ 165,000.

The current agreement is valid until March 31, 2004, and it is anticipated that the situation favors the signing of a new long term agreement, by virtue of which LACNIC will still have cooperation in key areas, but will gradually assume the costs under its own responsibility. As of the beginning of the second semester of 2004, it is anticipated that all costs corresponding to Registration Services will be covered directly by LACNIC.

Agreement with NIC Mexico

The agreement with NIC Mexico is also valid until March 31, 2004. In this case, the transition of those aspects that were under the responsibility of NIC Mexico to LACNIC has already begun.

By virtue of this agreement, NIC Mexico assumed the human resource costs corresponding to the policy department, including salaries and travel expenditures, financed LACNIC meetings (policy forums and training days), and provided logistic support to the Board of Directors through the use of its conference services.

As of August 1, 2003, LACNIC directly assumed the policy department's operating costs.

The cooperation of NIC Mexico during 2003 amounted to approximately US\$ 45,000. It is anticipated that during 2004, as in the case of NIC Brazil, these numbers will decrease as LACNIC continues to place more tasks under its direct responsibility. An evaluation of the two previous agreements indicates that they have been very positive for LACNIC.

Supporting Regional Organizations

This year LACNIC has offered its logistic capabilities to other regional organizations involved in related activities, which are in earlier stages of development, with the aim of providing them cooperation in relation to cash management, collection management, supplier payments, and to aid them with bureaucratic procedures.

In this sense, cooperation agreements have been signed with CLARA (Academic Cooperation for Advanced Networks) and Ecomlac (Latin American and Caribbean Federation for Internet and Electronic Commerce), and progress was made for signing a similar agreement with LACTLD (Latin America & the Caribbean Country Code Top Level Domain Organization) which will become effective during the early months of 2004.

LACNIC considers these agreements extremely positive, as they contribute to the consolidation of a system of organizations that will be important for the development of the Internet within the region.

Frida Program

LACNIC signed a Memorandum of Understanding with the Institute for Connectivity in the Americas (ICA) and IDRC's (International Development Research Center) PanAmericas Program with the aim of implementing, in 2004, a competitive fund program for financing research projects in areas related to ICTs (Information and Communication Technologies), that is to say the FRIDA Program.

This program, which will be administered by LACNIC, is not only financed by the three organizations that subscribed this memorandum, but it also has the economic support of the Internet Society. The total amount for the program is US\$ 450,000. It is expected that this activity will have an important impact within the region.

The FRIDA Program, <http://www.programafrida.net>, will be launched during the first two weeks of March, 2004.

In addition to the abovementioned cooperation agreements, LACNIC has also been present at the events which are of interest to our regional community, supporting the NAP meeting (NAPLA 2003) and the Latin American and Caribbean Technology Workshop (WALC 2003), events for which support for future editions has already been committed.

LACNIC's cooperation activities have not limited themselves exclusively to the regional context. During the month of June, 2003, the four RIRs (ARIN, APNIC, LACNIC and RIPE NCC) jointly organized a workshop with the aim of contributing to the process of creating AFRINIC, with the opportunity of sharing the experiences acquired during the process of establishing LACNIC. This workshop, held in the city of Montevideo, was organized by LACNIC and its results were highly promising. Together with the other RIRs, LACNIC will continue to cooperate with AFRINIC in all necessary matters during 2004, the year during which the important progress made by AFRINIC will begin to show concrete results.



08 EXTERNAL RELATIONS

NRO

On October 24, 2003, within the framework of the ARIN XII meeting, a Memorandum of Understanding was signed by the RIRs for the creation of the Number Resource Organization (NRO), <http://www.nro.org>



Signing of the Memorandum of Understanding for the creation of NRO, Chicago, October 24, 2003

The creation of this new organization responds to the following objectives:

- To protect the unallocated address space.
- To act as a focal point through which the RIRs can relate with the Internet community in general.
- To serve as a coordination mechanism of the RIRs to act collectively on matters of common interest.

During the LACNIC V meeting held in November, 2003, in Havana, Cuba, the NRO Executive Council was established. This Executive Council is made up by the CEOs of the four RIRs that signed the agreement.



First meeting of the NRO Executive Council. Participants (left to right): Paul Wilson (Chair), APNIC, Axel Pawlik (RIPE NCC), Adiel Apklogan (AFRINIC, Observer), Ray Plzak (ARIN), Raúl Echeberria (LACNIC). November 2003. Havana, Cuba

Within the Executive Council responsibilities rotate from member to member, and the rotation of these positions occurs on January 1st of each year. During 2004, Paul Wilson shall act as Chair of the NRO, Axel Pawlik as Secretary, and Raúl Echeberria as Treasurer.

The year 2003 has been very special for the RIRs as well as for the Internet address community, because of the importance of the creation of this organization, which was accomplished after lengthy coordination tasks and a joint working process on the part of the RIRs.

ASO/AC

The Address Supporting Organization, <http://www.aso.icann.org>, was created through an agreement between the RIRs and ICANN, to which LACNIC later adhered when it was recognized by ICANN as the fourth RIR.

By virtue of this agreement, the Address Council was created. This Address Council is made up by three representatives from each regional community.

Currently, the Address Council representatives for the region covered by LACNIC are the following:

- Raimundo Beca Jan. 1, 2004 - Dec. 31, 2006
- Julián Dunayevich Jan. 1, 2003 - Dec. 31, 2005
- Hartmut Glaser Jan. 1, 2003 - Dec. 31, 2004

At the closing of 2003, after the creation of the NRO, conversations began between ICANN and the NRO with the aim of signing a new Memorandum of Understanding which will bring about some changes in ASO's current structure. These conversations are currently still in progress.

Other Forums

LACNIC has been extremely active this year, participating in all the other RIRs' meetings, IETF meetings, CITEL meetings, training events, WALC 2003, the NPAs meeting (NAPLA 2003), ICANN meetings, and in every instance, congress and meeting where our presence was deemed important. These activities, which demanded important efforts, have strengthened LACNIC's presence at the international level.

World Summit On The Information Society

The World Summit on the Information Society was one of the highlight events held during 2003. LACNIC participated in this process, both at a regional level as well as in the discussion of the issues of our interest, particularly in matters relating to "Internet Governance."

Due to the importance of this issue and the implications that the decisions adopted in this field may have for LACNIC, this activity has been assigned a high level of priority. The first phase of the Summit ended in December, and the resolutions on this subject were postponed until the second phase of the Summit, which will be held in Tunisia in November, 2005. Consequently, LACNIC will continue its active participation in this process.

09 BOARD OF DIRECTORS

The two vacant Director positions were filled through the elections held in October, 2003.

At the first Board meeting, held in November, 2003, in Havana, Cuba, according to the provisions of the Bylaws, positions were assigned and the term of office of each Director was established in fulfillment of the resolution adopted at the Annual General Member Assembly held in Santiago, Chile, in April, 2003.

The positions during 2004 and the term corresponding to each position are as follows:

Position	Name	Term valid until
President	Oscar Messano	Dec. 31, 2005
Vice-President	Fabio Marinho	Dec. 31, 2004
Secretary	Oscar Robles	Dec. 31, 2005
Deputy Secretary	Raimundo Beca	Dec. 31, 2004
Treasurer	Hartmut Glaser	Dec. 31, 2006
Deputy Treasurer	Jesús Martínez	Dec. 31, 2006

The Board of Directors acted fluently during 2003, meeting on more occasions that required by the Bylaws. In all, eleven meetings were held, four of which were held with the physical attendance of the members.

10 OUTLOOK FOR 2004

The year 2004 will present new challenges. It will be a year of growth, and during this period we will maintain the austerity and transparency in the management of our resources, while at the same time we will begin to gradually assume the tasks that are currently performed by NIC Brazil within the framework of the cooperation agreements. This growth will force us to continue adopting modern and efficient management practices.

Simultaneously, we will continue to work on improving our services, developing new Engineering products to simplify the relations between the users and LACNIC, and organizing frequent training days in different countries of our region.

All of this must be done while maintaining an active role within international discussion processes.

A particularly important challenge will be the adoption of a new Policy Development Process, and constantly working to promote the participation of the community both in these processes as well as in LACNIC's institutional activities.

BALANCE SHEET AS OF DECEMBER 31, 2003

Free translation from the original issued in spanish

ASSETS	\$	US\$
<u>CURRENT ASSETS</u>		
<u>CASH AND BANKS</u>		
Cash	7.222	247
Banks	6.123.683	209.071
	<u>6.130.905</u>	<u>209.318</u>
<u>SHORT - TERM INVESTMENTS</u>		
Treasury bonds (Notes 2.7 and 3)	<u>4.632.270</u>	<u>158.152</u>
<u>ACCOUNTS RECEIVABLE</u>		
Trade accounts receivable (Note 4)	4.644.304	158.563
Less:		
Non-accrued services (Note 4)	(2.097.750)	(71.620)
Reserve for doubtful accounts (Note 2.8)	<u>(333.027)</u>	<u>(11.370)</u>
	<u>2.213.527</u>	<u>75.573</u>
<u>OTHER RECEIVABLE</u>		
Deposits in guarantee (Note 5)	878.700	30.000
Advances to suppliers	31.685	1.082
Prepaid expenses	23.221	793
Other	<u>41.066</u>	<u>1.402</u>
	<u>974.672</u>	<u>33.277</u>
 TOTAL CURRENT ASSETS	 <u>13.951.374</u>	 <u>476.320</u>
<u>NON - CURRENT ASSETS</u>		
<u>ACCOUNTS RECEIVABLE</u>		
Trade accounts receivable (Note 4)	381.063	13.010
Less:		
Non-accrued services	<u>(381.063)</u>	<u>(13.010)</u>
	<u>-</u>	<u>-</u>
<u>FIXED ASSETS</u> (Appendix I and Note 2.9)		
Original values	2.102.243	71.732
Less:		
Accumulated depreciation	<u>(104.666)</u>	<u>(3.425)</u>
	<u>1.997.577</u>	<u>68.307</u>
<u>INTANGIBLES</u> (Appendix I and Note 2.10)		
Original values	334.420	11.712
Less:		
Accumulated amortization	<u>(5.535)</u>	<u>(232)</u>
	<u>328.885</u>	<u>11.480</u>
<u>LONG - TERM INVESTMENT</u> (Appendix I and Note 6)		
Works of art	<u>35.148</u>	<u>1.200</u>
 TOTAL NON - CURRENT ASSETS	 <u>2.361.610</u>	 <u>80.987</u>
 TOTAL ASSETS	 <u>16.312.984</u>	 <u>557.307</u>
 MEMORANDUM ACCOUNTS (Note 9)	 <u>705.098</u>	 <u>24.073</u>

LIABILITIES**\$****US\$**CURRENT LIABILITIESACCOUNTS PAYABLE

Trade accounts payable in local currency	5.038	172
Trade accounts payable in foreign currency	119.390	4.076
	<u>124.428</u>	<u>4.248</u>

OTHER ACCOUNTS PAYABLE

Advances from customers	156.702	5.350
Payable employee contributions	275.153	9.394
Pension plans payable	40.438	1.381
Third parties founds (Note 7)	2.196.750	75.000
Other	796.161	27.182
	<u>3.465.204</u>	<u>118.307</u>

TOTAL CURRENT LIABILITIES	<u>3.589.632</u>	<u>122.555</u>
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NON - CURRENT LIABILITIESOTHER ACCOUNTS PAYABLE

Advances from customers	<u>168.710</u>	<u>5.760</u>
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TOTAL NON - CURRENT LIABILITIES	<u>168.710</u>	<u>5.760</u>
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TOTAL LIABILITIES	<u>3.758.342</u>	<u>128.315</u>
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SHAREHOLDERS' EQUITY (Appendix II)

Fixed assets revaluation (Note 2.9)	96.333	-
Retained earnings	5.828.824	215.439
Net income of the year	<u>6.629.485</u>	<u>213.553</u>

TOTAL SHAREHOLDERS' EQUITY	<u>12.554.642</u>	<u>428.992</u>
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>16.312.984</u></u>	<u><u>557.307</u></u>
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MEMORANDUM ACCOUNTS (Note 9)	<u><u>705.098</u></u>	<u><u>24.073</u></u>
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STATEMENT OF PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 2003
Free translation from the original issued in spanish

	\$	US\$
Net sales (Note 4)	16.973.072	610.882
Cost of sales (Note 8)	<u>-</u>	<u>-</u>
Gross profit	<u>16.973.072</u>	<u>610.882</u>
Selling and administrative expenses		
Salaries	(3.161.192)	(111.691)
Professional fees	(681.855)	(23.891)
Depreciation of fixed assets (Note 2.9)	(104.666)	(3.425)
Amortization of intangibles (Note 2.10)	(5.535)	(232)
Bad debts expenses (Note 2.8)	(333.027)	(11.370)
Insurance expenses	(76.991)	(2.742)
Travel and training expenses	(3.897.193)	(138.034)
Rental expenses	(235.036)	(8.400)
Electricity, water and gas expenses	(46.033)	(1.651)
Cleaning and maintenance expenses	(114.196)	(4.037)
Correspondence and communications	(462.404)	(16.315)
Stationery and desk supplies	(183.378)	(6.523)
Advertising expenses	(1.578.763)	(55.744)
Other expenses	<u>(114.040)</u>	<u>(4.068)</u>
	<u>(10.994.309)</u>	<u>(388.123)</u>
Other results		
Other income and expenses	<u>895</u>	<u>(2.058)</u>
Financial results		
Interest received	54.900	1.889
Interest expense and commissions	(231.598)	(8.221)
Translation (Note 2.2)	-	(816)
Currency exchange difference (Note 2.6)	<u>826.525</u>	<u>-</u>
	<u>649.827</u>	<u>(7.148)</u>
Net income of the year	<u><u>6.629.485</u></u>	<u><u>213.553</u></u>

(Free translation from the original in Spanish)

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of

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

1. We have audited the accompanying balance sheet of Registro Regional de Direcciones IP para América Latina y Caribe (LACNIC) as of December 31, 2005 and the related statement of profit and loss for the year then ended, with their attached notes and appendices, expressed in Uruguayan pesos. These financial statements are the responsibility of the Institution's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with generally accepted auditing standards in Uruguay. 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 the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the financial statements referred to above, expressed in Uruguayan pesos, present fairly, in all material respects, the financial position of Registro Regional de Direcciones IP para América Latina y Caribe (LACNIC) as of December 31, 2005 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles in Uruguay.
4. Without qualifying our opinion we draw attention to Note 10 to the financial statements. At the moment it is not possible to determine with reasonable degree of certainty the moment and the way of application of fiscal exemptions -according to Article 69 of the Uruguayan Constitution-, and no provision for any liability that may result has been made in the financial statements since management considers that there will be a favourable resolution.

5. In respect of the translation to United States dollars, we inform that the financial statements mentioned in paragraph 1 have been translated in accordance with the basis described in Note 2.2 of the financial statements.
6. This report is intended solely to be used exclusively by the Board of Directors and members of the Institution, and is not intended to be and should not be used by anyone other than these specified parties.

Montevideo, January 23, 2006

SIGNED FOR IDENTIFICATION
PURPOSES ONLY

CONTROL ORGAN'S REPORT

Free translation from the original issued in spanish

According to the provisions of article 27, item (c) of the approved and valid Bylaws of the LATIN AMERICAN AND CARIBBEAN INTERNET ADDRESS REGISTRY (LACNIC), and having the members of the "Control Organ" been approved on april 23, 2003, in Santiago de Chile, a meeting of the "Control Organ" is held, with the presence of Cassio Vecchiatti, Sebastián Bellagamba and Adriana Ibarra Vázquez.

In view of the above, a report is issued in reference to the Annual Report, Inventory, General Balance Sheet, and Expense and Income Account corresponding to the period January-December 2003.


ONE.- The results of report prepared by Ernst & Young, in their capacity as external auditors, in relation to the Annual Report, Inventory, General Balance Sheet, and Expense and Income Account corresponding to the period January-December 2003 were verified. The results of said verification have been favorable.

TWO.- On the basis of the analysis of the external auditor's report performed by the "Control Organ" and the documentation submitted by LACNIC, it is our conclusion that the information we have been presented reflects the true situation and we advise its approval on the part of the General Assembly

THREE.- On the basis of the analysis performed by the "Control Organ", we recommend that during the following three-year period no efforts are spared in order to have sufficient cash reserves to cover 150% of LACNIC's annual fixed and operating costs.

25 de febrero de 2004.

Cassio Vecchiatti
Sebastián Bellagamba
Adriana Ibarra Vázquez.



Lacnic is a membership based international non-profit organization, and its main function is to administer the Internet numbering resources assigned to Latin America and the Caribbean, guaranteeing equal access to these resources for all the Internet operators within the region.

Detailed information on the countries and territories that are part of the region covered by Lacnic may be found at: <<http://lacnic.net/en/list.html>>

Lacnic also provides Reverse Resolution services for all the IP address blocks assigned in the region. In addition, it offers the Whois service for all Internet numbering resources of Latin America and the Caribbean.

Through its strong involvement within the regional Internet community, Lacnic contributes to the strengthening of technical capabilities, creating educational and technical coordination opportunities, as well as generating discussion forums.

Subscription Lists

Lacnic maintains, administers and promotes two mailing lists, "Announcements" and "Policies". These lists are open to any person who wishes to participate. To subscribe to these lists, please visit:
<<http://lacnic.net/sp/lists.html>>

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