

Registro Regional de Direcciones IP para América Latina y Caribe

(LACNIC)

FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2003
WITH REPORT OF INDEPENDENT AUDITORS
(free translation from the original issued in Spanish)

Registro Regional de Direcciones IP para América Latina y Caribe

(LACNIC)

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CONTENTS

- Report of Independent Auditors
- Balance sheet
- Profit and loss account
- Appendix I– Statement of Fixed Assets and Intangibles – Depreciation/Amortization
- Appendix II– Statement of Shareholders' Equity
- Appendix III– Statement of Cash Flows
- Notes to the financial statements

\$ - Uruguayan pesos
US\$ - United States dollars

(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, 2003 and the related statement of profit and loss for the year then ended, with their attached notes and appendixes, 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, 2003 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 this 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, 2004

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

NOTES TO THE FINANCIAL STATEMENTS AS OF DECEMBER 31, 2003

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 that begun 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 address space and other related resources in the interest of the Internet community of Latin America and the Caribbean;
- provide registry services of IP addresses, ASN, reverse resolution and its associated resources in order to allow and facilitate communications through information networks.
- represent and promote under international organisms the region's interests and points of view within its area of expertise.
- support the growth of Internet in Latin America and the Caribbean region.
- support the Latin American and Caribbean community in the development of procedures, mechanisms and standards in order to assure the efficient assignment of Internet resources.
- promote educational opportunities to members in their technical and political areas of competence.
- propose and develop public policies in its areas of competence.

Montevideo, January 23, 2004
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Sheet N° 7 of a total of 13



CR. R. VILLARMARZO Y ASOC.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Accounting standards

The financial statements have been prepared according to generally accepted accounting principles in Uruguay.

The balances in the financial statements express the historical cost in Uruguayan pesos, currency of legal course in Uruguay. The financial statements do not reflect the effects of the increase in the local general prices index with the exception of certain partial adjustments which try to adjust the values of certain assets and liabilities and results.

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 methodology adopted for translating the financial statements from Uruguayan pesos (currency in which the Institution's operations are accounted for) to U.S. dollars consists in 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 are translated at the exchange rates at the moment of the transactions.
- c. Items included in profit and loss account (except depreciation of fixed assets and amortization of intangibles, items that are translated from values determined in b; and the currency exchange differences) are translated to U.S. dollars using the average exchange rate of the month the operations were carried out. Translation results are 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 flow for the year ended December 31, 2003, cash has been defined as cash and banks.

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Sheet N° 8 of a total of 13



CR. R. VILLARMARZO Y ASOC.

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 considered exclusively as a monetary investment has had during the period.

2.5 Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in Uruguay 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.

2.6 Assets and liabilities in foreign currency

In the financial statements expressed in Uruguayan pesos, assets and liabilities in foreign currency were converted to local currency at the rate of exchange in force as of December 31, 2003 that was \$ 29,29 per U.S. dollar.

2.7 Short term investments

Short-term investments correspond to Treasury bonds issued by the Central Bank of Uruguay. Those securities were valued at purchase cost plus accrued interest.

2.8 Reserve for doubtful accounts

The Institution's analyzes each debtor's situation individually and make provision for those considered doubtful.

2.9 Fixed assets

Fixed assets are stated at their historical cost in Uruguayan pesos indexed according to the variation of fiscal revaluation indexes as from the year of the acquisition.

The revaluation of the year was \$ 96.333 Uruguayan pesos and determinate an increase of fixed assets revaluation in the shareholders' equity.

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Sheet N° 9 of a total of 13



CR. R. VILLARMARZO Y ASOC.

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

Mainly depreciation annual rates are the following:

	<u>%</u>
Furniture	10%
Communication equipment	20%
Computers	33,33%

Depreciation charged to losses during the year ended December 31, 2003 amounted to \$ 104.666, equivalent to US\$ 3.425 and was charged to the 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 next year of the acquisition, calculated on a straight-line method. The annual rate was 33,33%.

Amortization charged to losses during the year ended December 31, 2003 amounted to \$ 5.535, equivalent to US\$ 232 and was charged to the selling and administrative expenses.

2.11 Accrual basis

Revenues and costs are recognized as they are earned or incurred and recorded in the financial statements of the periods to which they relate.

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Sheet N° 10 of a total of 13


CR. R. VILLARMARZO Y ASOC.

3. SHORT – TERM INVESTMENTS

The Institution owns Government securities according to the following nominal value, rate and maturity:

<u>Date of acquisition</u>	<u>Nominal Value US\$</u>	<u>Annual Rate</u>	<u>Maturity</u>
Oct./06/2003	100.000	2,85	Feb./27/2004
Oct./06/2003	60.000	4,85	Jul./01/2004
	<u>160.000</u>		

4. ACCOUNTS RECEIVABLE

4.1 Cession of credits - ARIN

In November 2002, ARIN – American Registry for Internet Numbers – awarded LACNIC free of charge the right to collect pending debts from the organizations to which ARIN had assigned resources in Latin America and the Caribbean prior to the creation of LACNIC.

The Institution has recognized in its financial statements as of December 31, 2003 "operating income" amounting to \$ 755.620, equivalent to US\$ 28.500, related to the referred cession. Likewise, \$ 216.160, equivalent to US\$ 7.380, originated from the creditors awarded by ARIN are also included under the heading Accounts receivable.

4.2 Non-accrued services

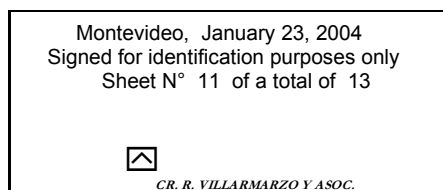
Include services invoiced in the year that will be served in the following years.

5. DEPOSITS IN GUARANTEE

Represent time deposit held in custody by ABN Amro Bank that guarantees the agreement between the Institution and the credit card issued by the Bank.

6. LONG – TERM INVESTMENTS

Include works of arts acquired by the Institution which are recognized at the cost of acquisition



7. THIRD PARTIES FUNDS

Represent funds sent by Internet Society to contribute with FRIDA (Fondo Regional para la Innovación Digital en las Américas) project. The Institution administrates the funds held in custody, with the objective of promote the development of regional research capacities in the area of information and communication technologies.

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. According to the memorandum of understanding dated September 30, 2003, these resources are to be provided free of charge, for a six-months period, by NIC-BR – Registro Nacional de Direcciones de IP para Brasil y NIC México – REGISTRO Nacional de Direcciones IP para México. After this period, in absence of new agreements, the institution will have to take charge of such costs.

9. MEMORANDUM ACCOUNTS

Memorandum accounts represent third parties funds administered by the Institution. These funds belong to the following Institutions: Asociación Civil Cooperación Latinoamericana de Redes Avanzada (CLARA) and Federación de Latinoamérica y el Caribe para Internet y el Comercio Electrónico (ECOMLAC).

10. FISCAL SITUATION

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.

The Institution made a consultation to the Tax Organism about the correspondence of the above-mentioned exception.

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Sheet N° 12 of a total of 13



CR. R. VILLARMARZO Y ASOC.

On December 2, 2003, the Public Organism answered that the Institution would be exempted if it fulfill some formal steps (registration on the Education and Culture Ministry, among others).

On December 30, 2003, the Institution presented a revocation recourse to the mentioned answer to the consultation, being pending the answer.

Montevideo, January 23, 2004
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Sheet N° 13 of a total of 13



CR. R. VILLARMARZO Y ASOC.