

# Annual Report

# 2007







Addressing the challenge of responsible Internet resource  
distribution in the Asia Pacific region



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▲ Paul Wilson is APNIC's Director General.

## A message from the Director General

This annual report provides an update on APNIC activities to the end of 2007. It covers internal and external developments, activity levels and financial status, and it documents a typically busy year for us at the APNIC Secretariat.

APNIC's activity planning is based on the regular APNIC Member and Stakeholder Survey, which is conducted periodically by international consulting firm KPMG. The latest survey was delivered in March 2007, and provides an update on the views and priorities of APNIC's members and broader community. This annual report links our activities and achievements with that latest survey.

Aside from the operational and service oriented developments which are documented here, there have been two major issues which have concerned the APNIC community during 2007. The first is the internal matter of APNIC's fee structure, which was discussed extensively during 2007, and for several years before that. Finally, during 2007, a concrete change was made to the structure such that from 2008 all APNIC service fees will be levied in Australian dollars. Further details are available inside this report, and also in *Apster 25* which is being released at the same time as this report.

The second major issue for 2007 is a matter of increasing global concern, namely the future of the remaining IPv4 address space and the transition to IPv6. This report details concretely the accelerating rate of IPv4 allocation, and the still relatively slow rate of IPv6 uptake. Further analysis is not provided here, but the subject is certainly one of current concern and requires future action by

the entire global Internet community, in which APNIC will remain very active.

APNIC's Executive Council (EC) is the governing body of APNIC, elected directly by the members to represent their interests. The EC meets regularly and has a strong hand in governance processes including commissioning and reviewing APNIC surveys, formulating strategy and providing leadership on critical issues such as IPv4 consumption and IPv6 transition, and member matters such as overseeing fee structure discussions and reviewing APNIC's financial status.

APNIC is a membership- and community-driven service organisation, existing solely to serve the best interests of the Asia Pacific Internet community. If you are interested enough to read this report, I would encourage you also to participate in APNIC processes; whether by attending APNIC meetings, contributing to the next APNIC survey, participating in online discussions, or nominating yourself or a colleague for a term on the APNIC Executive Council.

I thank you most sincerely for your interest, and for your support of APNIC during 2007.

Paul Wilson

# About APNIC

## What is APNIC?

APNIC was established in 1993 as the Regional Internet Registry (RIR) for the Asia Pacific. We are one of five RIRs providing allocation and registration services to support the stable operation of the global Internet.

Our major function is to support and promote the responsible management of IP addresses and related Internet number resources. We also provide resource and technical services, conduct training and Open Policy Meetings, and represent our regional Internet community's interests on the global stage.

We are a not-for-profit organisation whose members and stakeholders determine policies through open, consensus-based processes. Membership is open to everyone.

## Our community

APNIC is a community based on openness and transparency in all decision making processes. APNIC has:

- A broad, open community of people and organisations interested in Internet addressing issues
- An active membership base (1,584 members by the end of 2007) providing guidance and financial support for operations
- Open Policy Meetings, where anyone can participate in knowledge sharing, networking, policy development, and training
- Special Internet Groups (SIGs) that hold discussions via mailing lists and face-to-face sessions at Open Policy Meetings
- An Executive Council (EC) that is directly elected by the members to represent them in policy- and decision-making between Member Meetings

- A Secretariat, APNIC's staff, that carries out the organisation's day-to-day work

## The Executive Council

The APNIC By-Laws establish an eight-member Executive Council (EC). Seven EC members are directly elected by the membership for two-year terms. The EC exists to represent members between Member Meetings and to oversee the APNIC Secretariat operations, including review of budgets and financial reports. EC members meet monthly, generally by teleconference, but also via face-to-face meetings held during APNIC Open Policy Meetings. They are not paid for their services. In 2007, the APNIC Director General, Paul Wilson, took his seat on the EC for the first time (in an ex-officio capacity).

 <http://www.apnic.net/ec>

## APNIC Secretariat

By the end of 2007, the APNIC Secretariat had 48 permanent staff. Enhanced internal systems and practices have kept staff numbers down while maintaining and improving service levels for a steadily growing member base. The APNIC staff represents 16 nationalities and 20 Asia Pacific regional languages.

In 2007, APNIC inherited secretariat responsibilities for the Number Resource Organization (NRO) and the Address Supporting Organization (ASO). These duties rotate between the five Regional Internet Registries (RIRs) on an annual basis. Both the NRO and ASO coordinate with key international Internet stakeholders and are important forums that allow the RIR system to be represented on the world stage.

## 2007 APNIC EC members



**Akinori Maemura (Chair)**  
General Manager, IP Department,  
JPNIC (serving until 2008)



**Che-Hoo Cheng (Secretary)**  
Associate Director (Infrastructure),  
Information Technology Services  
Centre, The Chinese University of  
Hong Kong (serving until 2008)



**Kuo-Wei Wu (Treasurer)**  
CEO, National Information  
Infrastructure Enterprise Promotion  
Association (serving until 2008)



**Ming-Cheng Liang**  
Executive Director, TWNIC (serving  
until 2009)



**Kusumba Sridhar**  
President and Managing Director,  
Vebtel Obconic Internet Protocol  
Pvt. Ltd (serving until 2009)



**Wei Mao**  
Director, CNNIC (serving until  
2009)



**Vinh Ngo**  
National Manager, Network  
Security, CSC Australia (serving  
until 2008)



**Paul Wilson**  
Director General, APNIC (ex-  
officio)

## Special Interest Groups

Special Interest Groups (SIGs) are a vital part of the APNIC community and policy development process.

### Policy SIG

Chair: Toshiyuki Hosaka  
Co-chairs: Randy Bush, Jian Zhang

### Database SIG

Chair: Xing Li  
Co-chair: Ching-Heng Ku

### DNS operations SIG

Chair: Edward Lewis  
Co-chair: N/A

### IX SIG

Chair: Gaurab Raj Upadhaya  
Co-chair: Che-Hoo Cheng

### IPv6 technical SIG

Chair: Yoshinobu Matsuzaki  
Co-chairs: Tomohiro Fujisaki, Tao Chen

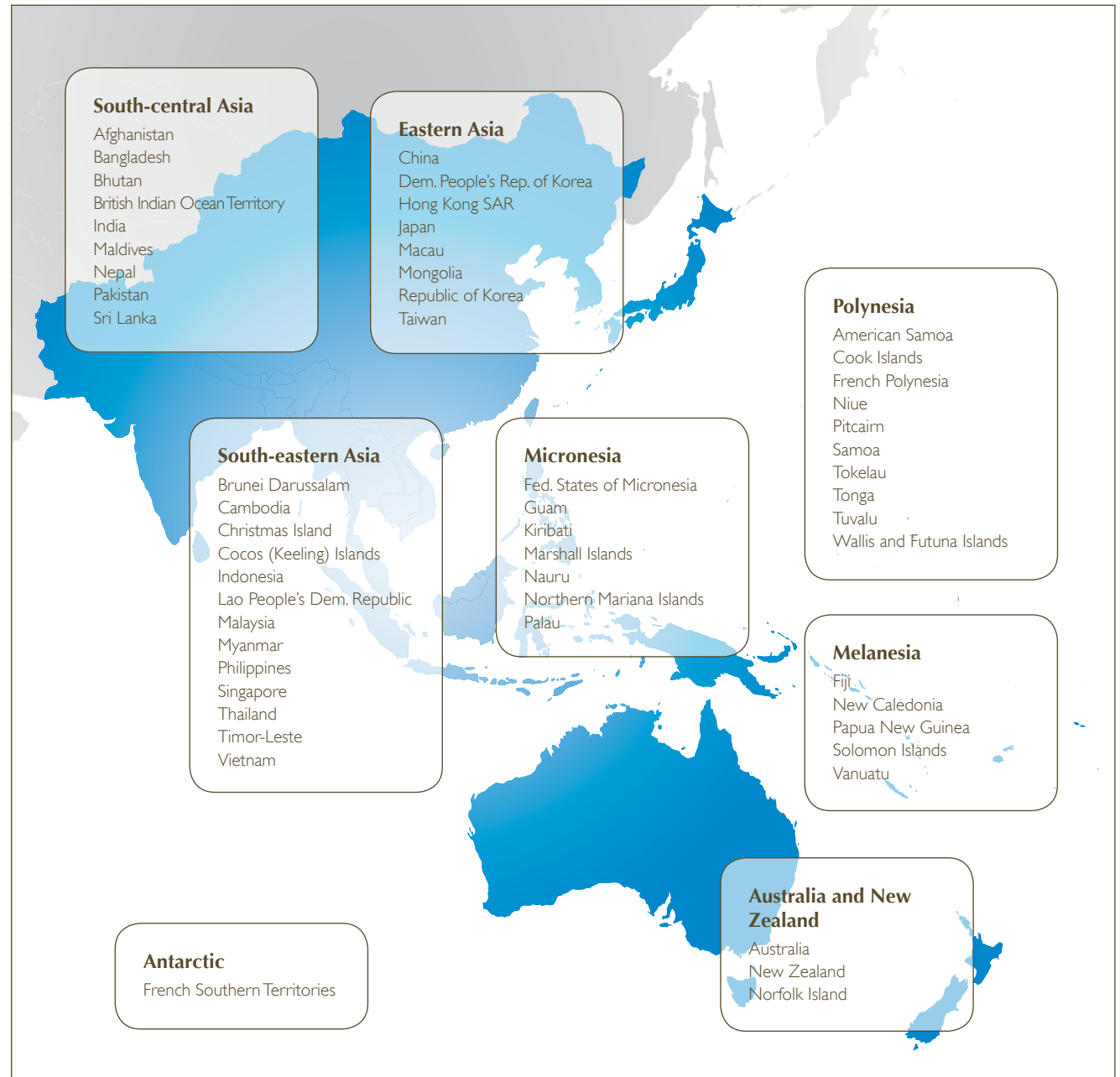
### NIR SIG

Chair: Izumi Okutani  
Co-chair: David Chen

### Routing SIG

Chair: Philip Smith  
Co-chairs: Randy Bush, Tomoya Yoshida

## The APNIC service region covers 56 economies





# APNIC policy development process

APNIC's policies are developed by the membership and the broader Internet community via SIGs (see page 6). The major forums for policy development are the face-to-face Open Policy Meetings, which are held twice each year, and mailing list discussions.

➔ <http://www.apnic.net/policy/dev>

## Policy changes in 2007

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The following policy proposals were implemented:

- **prop-031: Proposal to amend APNIC IPv6 assignment and utilisation requirement policy**

The IPv6 utilisation requirement has been amended from an HD ratio of 0.8 to 0.94.

- **prop-032: 4-byte AS number policy proposal**

The first phase of this policy was implemented: APNIC now assigns four-byte Autonomous System Numbers (ASNs) on request. Phase two, where four-byte ASNs are assigned by default, begins 1 January 2009.

- **prop-033: End site assignment policy for IPv6**

The minimum assignment size of /48 for an end site has been removed, allowing the unit of assignment to be the Local Internet Registry's (LIR's) decision. APNIC now measures utilisation of IPv6 address space in terms of /56 units.

- **prop-035: IPv6 portable assignment for multihoming**

End sites that currently multihome or plan to multihome are now eligible to receive a portable assignment. The minimum assignment size for an assignment under this criteria is a /48.

- **prop-038: Amending APNIC's lame DNS reverse delegation policy**

APNIC's method for identifying and removing lame DNS reverse delegations was modified to adopt a definition of lameness that is consistent with other RIRs and generally-accepted best practice.

The following proposal was endorsed by the APNIC EC in 2007 and will become global policy after it has been adopted by all RIRs:

- **prop-049: IANA policy for allocation of ASN blocks to RIRs**

This proposes a global policy for the RIRs to receive blocks of ASNs from the Internet Assigned Numbers Authority (IANA).

## IPv4 depletion and transition policy discussions

During 2007, one of the major discussion topics was how to approach the transition from IPv4 to IPv6. Four policy proposals were submitted on this subject during the year:

- **prop-046: IPv4 countdown policy proposal**
- **prop-050: IPv4 address transfers**
- **prop-051: Global policy for the allocation of the remaining IPv4 address space**
- **prop-052: Cooperative distribution of the end of the IPv4 free pool**

Discussions continued on issues surrounding the transition to IPv6 throughout the year. Further discussions and policy proposals on this topic are expected in 2008.

➔ <http://www.apnic.net/policy/proposals>



▲ Srinivas Chendi is serving as Policy Development Manager in an acting capacity.

APNIC's policy development process is:

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### Open

- Anyone can propose policies
- Everyone can discuss policy proposals

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### Transparent

- APNIC publicly documents all policy discussions and decisions

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### Bottom-up

- The community drives policy development
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▲ Donna McLaren, APNIC's Documentation Manager, also served as the acting Communications Area Manager in 2007.

### Communications and the member survey

You asked APNIC to:

- Increase accessibility of APNIC meetings and policy processes
- Represent the needs of the ISP community to governments and regulators
- Improve the APNIC website
- Expand external communication and outreach activities

### New in 2007

- *Apstats*

### Continuing commitments

- Enabling community participation
- Liaison and outreach

### Coming in 2008

- New APNIC website

## Clear communication

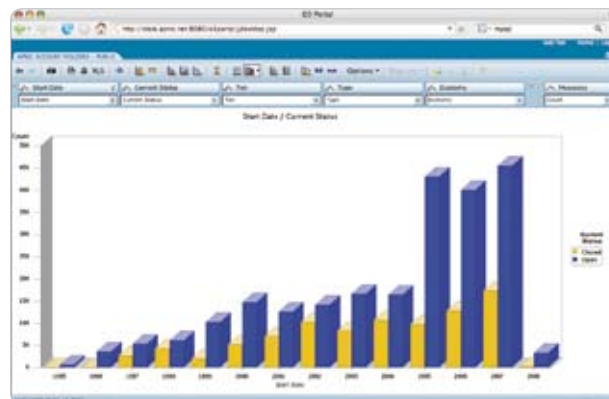
### Access to information

APNIC's most important communication vehicle is the APNIC website, which members rely on to access APNIC core services and obtain up-to-date information. In 2007, APNIC began a comprehensive website review and received valuable input from members, particularly from usability surveys at APNIC 23. The review will be completed in early 2008. A new version of the website will be launched before the end of 2008 based on a new content management system.

In 2007, APNIC released a new information portal, *Apstats*, containing data that could previously only be accessed by contacting APNIC staff. It allows users to analyse and download APNIC resource allocation and membership statistics. To protect members' privacy, this data does not contain any identifying information.

➔ <http://www.apnic.net/stats/o3>

A view of member statistics from *Apstats*



### Expanding our reach

The APNIC Secretariat recognises the value of having face-to-face contact with as many members as possible, and this year APNIC increased the number of staff with regional liaison duties from two to four. In addition to performing their core roles, Liaison Officers:

- Provide support to APNIC members
- Participate in regional Internet networking events such as Network Operators Groups (NOGs) and IPv6 forums
- Gain an insight into community concerns and ensure that they are taken back to the APNIC Secretariat to be actioned
- Assist members to become active in the policy development process by promoting participation tools such as SIG mailing lists and APNIC meeting remote participation services

### Transparency and participation

APNIC continues to provide a variety of ways for members to participate in and review APNIC activities. Members of the community can participate in APNIC meetings via:

- Webcast
- Live transcripts
- Podcast
- Audiocast
- Online chat

APNIC upholds transparency of decision-making processes by providing freely accessible archives of APNIC Open Policy meetings, Executive Council meetings and mailing list discussions.

➔ <http://www.apnic.net/meetings/remote>

## A voice for our community

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At APNIC 24 in New Delhi, the APNIC community issued a resolution regarding the depletion of IPv4 and the transition to IPv6. The resolution text has been distributed on mailing lists and published on the APNIC website to encourage widespread IPv6 deployment:

7 September 2007

The APNIC community resolves as follows:

We recognise that at current rates of allocation, the remaining free pool of IPv4 address space will be consumed within the next 2 to 4 years.

We agree that this situation requires a concerted effort by this community, working for the common good, to seek, examine and adopt responsible measures for the management of remaining IPv4 address space. We recognise that during this period, we will be learning and adapting, and that address management policies may also change to adapt to new circumstances.

We recognise the critical importance of IPv6 to the future success of the Internet, and will actively promote the adoption of IPv6, and focus our efforts towards comprehensive deployment of IPv6 in the Asia Pacific region.

We reassert our support for open, bottom-up and consensus-based decision making, but we also call upon the leading senior and expert members of this community to provide strong leadership in the search for solutions to these issues of IPv4 address management and transition to IPv6, both within the Asia Pacific region and globally.

## ICONS

The Internet Community of Online Networking Specialists (*ICONS*) provides a forum for any interested person to have their say on Internet networking issues. This year the *ICONS* community expanded by establishing partnerships with SANOG, AfriNIC and APRICOT.

➡ <http://icons.apnic.net>

## Apster

*Apster* continues to be open to contributions from anyone in the community who wants to write or submit ideas for an article. In 2007, *Apster* included articles by representatives from SANOG, APRICOT and IANA.

➡ <http://www.apnic.net/docs/apster>

## Global representation

APNIC also has the important task of representing members' interests in regional and global forums. In 2007, APNIC staff attended 41 such events, including RIR and National Internet Registry (NIR) meetings; operator forums; Internet governance meetings; global, regional, and local meetings; and various other technical forums.

➡ <http://www.apnic.net/community/presentations>



## Liaison Officers

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**Kapil Chawla**  
Training Officer



**Annaliza Mulingbayan**  
Internet Resource Analyst



**Guangliang Pan**  
Resource Services Unit Manager



**Elly Tawhai**  
Internet Resource Analyst

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▲ Cecil Goldstein is APNIC's Training Unit Manager.

## Training and the member survey

You asked APNIC to:

- Expand APNIC's training activities in terms of scope, geographical coverage and online options
- Support ISP education in the Asia Pacific region

### **New in 2007**

- New courses in security and network forensics
- Online training lab

### **Continuing commitments**

- Improving training accessibility

### **Coming in 2008**

- Forensics training lab

# Training

## Expanding training reach

In 2007, APNIC conducted 70 training courses in 30 locations throughout the region. APNIC conducted courses in a number of new locations, including:

- Laos
- Bhutan
- Maldives

The Training Unit also completed its Train the Trainer program in 2007, inducting staff from the Member Services and Resource Services units as associate trainers. These trainers will also assist members at training events in their usual roles as Hostmaster and Helpdesk staff.

## Improving relevance

The Training Unit has been conducting courses on more topical subject matter; expanded APNIC IPv6 training and introduced courses in security and network forensics, as well as DNSSEC deployment.

The IPv6 training course has been popular, and APNIC will continue to conduct this training whenever feasible to prepare members for the eventual depletion of the free IPv4 pool.

In addition, the Training Unit is revising the core Internet Resource Management Essentials (IRME) course to include more practical exercises and reflect changes in APNIC procedures and policies. The new IRME course includes hands-on exercises about the policy and resource application processes.

 <http://www.apnic.net/training/courses>

## Improving accessibility

As well as visiting an increasing number of locations to conduct face-to-face courses, APNIC has worked to make training more accessible to members who cannot attend in person. This includes online learning options, such as eLearning and self-training. In 2008, the Training Unit plan to make significant progress with the eLearning program and fully integrate it into APNIC's training delivery environment.

Hands-on training provides an important educational benefit, so to facilitate this APNIC has been making extensive use of the online training lab deployed in 2007. In 2008, the lab will be expanded to accommodate our forensics workshop and an expanded topography. The lab is accessible remotely, and APNIC encourages members to request access to perform exercises.

 <http://www.apnic.net/training/elearning>

## NIR training

Every year, APNIC invites NIR staff to the APNIC office to share experiences with APNIC Secretariat staff. In 2007, APNIC hosted Zhao Wei and Zhang Jian from CNNIC, and Jin-Man Kim from KRNIC.

APNIC training events in 2007





▲ Sanjaya, APNIC's Technical Area Manager, is also serving as Services Unit Manager in an acting capacity.

### Technology and the member survey

You asked APNIC for:

- Technical research and development activities
- More DNS root servers in the Asia Pacific region
- Resource certification to support better routing security

### New in 2007

- Reverse DNS delegation improvements
- Four-byte ASN research projects

### Continuing commitments

- Resource certification collaboration

### Coming in 2008

- New root servers
- More DNS statistics nodes

# Technical innovation and collaboration

## Preparing for future challenges together

### Resource Certification

APNIC continued to develop software and services that will support Resource Certification processes in the future. Two major activities were:

- **APNIC certificate exchange system**  
This system allows members to manage certificate exchange with APNIC. Planned for release in 2008, it is a publicly visible registry that will provide secure and verifiable proof that a given entity is the legitimate holder of a particular IP address range.
- **Interoperability testing**  
APNIC and the other four RIRs have agreed to conduct tests to ensure that their Resource Certification systems are fully interoperable. Interoperability is needed to ensure that:
  - People relying on Resource Certification can be confident that their in-house resource management systems can interact with RIR resource certification systems
  - Historical resources distributed before the RIRs were established can be incorporated into the Resource Certification system

### IPv6 support

In 2007, APNIC upgraded internal IPv6 management tools and developed requirements for an enhanced IPv6 resource management system in *MyAPNIC*. The enhancements will be implemented in 2008.

Also, as a temporary measure to improve APNIC network infrastructure IPv6 connectivity, APNIC arranged IPv6 peers over IPv4 tunnels with interested parties.

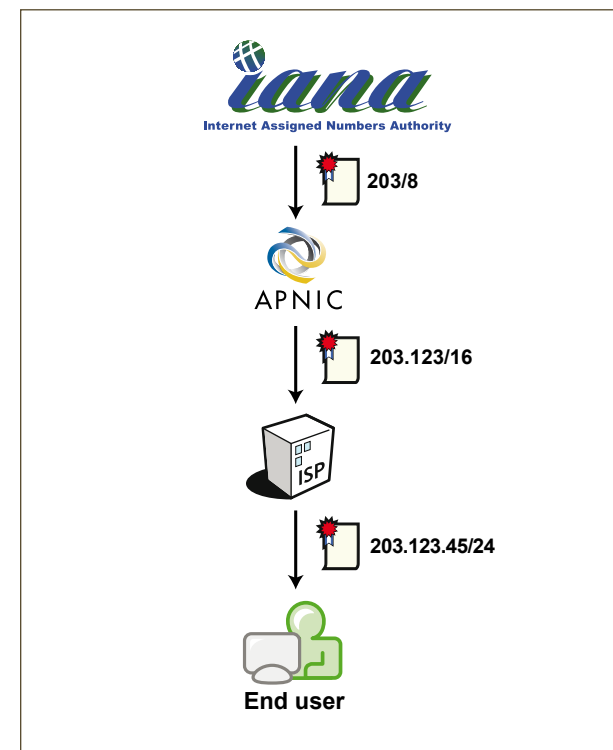
In 2008, APNIC plans to move to native IPv6 peering at IPv6 exchanges within the Asia Pacific region.

APNIC has also improved ip6.arpa support in its newly deployed reverse DNS management system.

### Four-byte ASNs

In 2007, APNIC worked with RIPE, Cisco and WIDE to test four-byte ASN peering. This research is an important part of maintaining stability of the global Internet as the

### Example of how the Resource Certificate chain operates



available pool of two-byte ASNs depletes. Another four-byte ASN research project involved the deployment of a Border Gateway Protocol (BGP) research node in Japan that peers with DIXIE, the Japanese Internet exchange run by WIDE.

### DNS statistics

In 2007, APNIC collaborated with the DNS Operations, Analysis and Research Center (OARC) to bring a new DNS statistics node online. The node monitors DNS traffic flowing to APNIC's two main servers in Japan (around 60Gb per day) and has enough storage capacity to hold a week's worth of data. This will greatly assist in the research and analysis of global DNS behaviour. In 2008, APNIC will deploy two more nodes in Australia and Hong Kong.

### Cutting edge services and facilities

In 2007, APNIC upgraded its reverse DNS delegation system, reducing the turnaround time for updating reverse DNS delegations from two hours to two minutes. The upgrade addressed reverse DNS stability issues associated with sharing the management of APNIC in-addr.arpa and ip6.arpa zones with the NIRs and fulfils APNIC members' request to have a faster, secure, more automated system. The new system is now being used by the NIRs and is scheduled for general release in 2008.

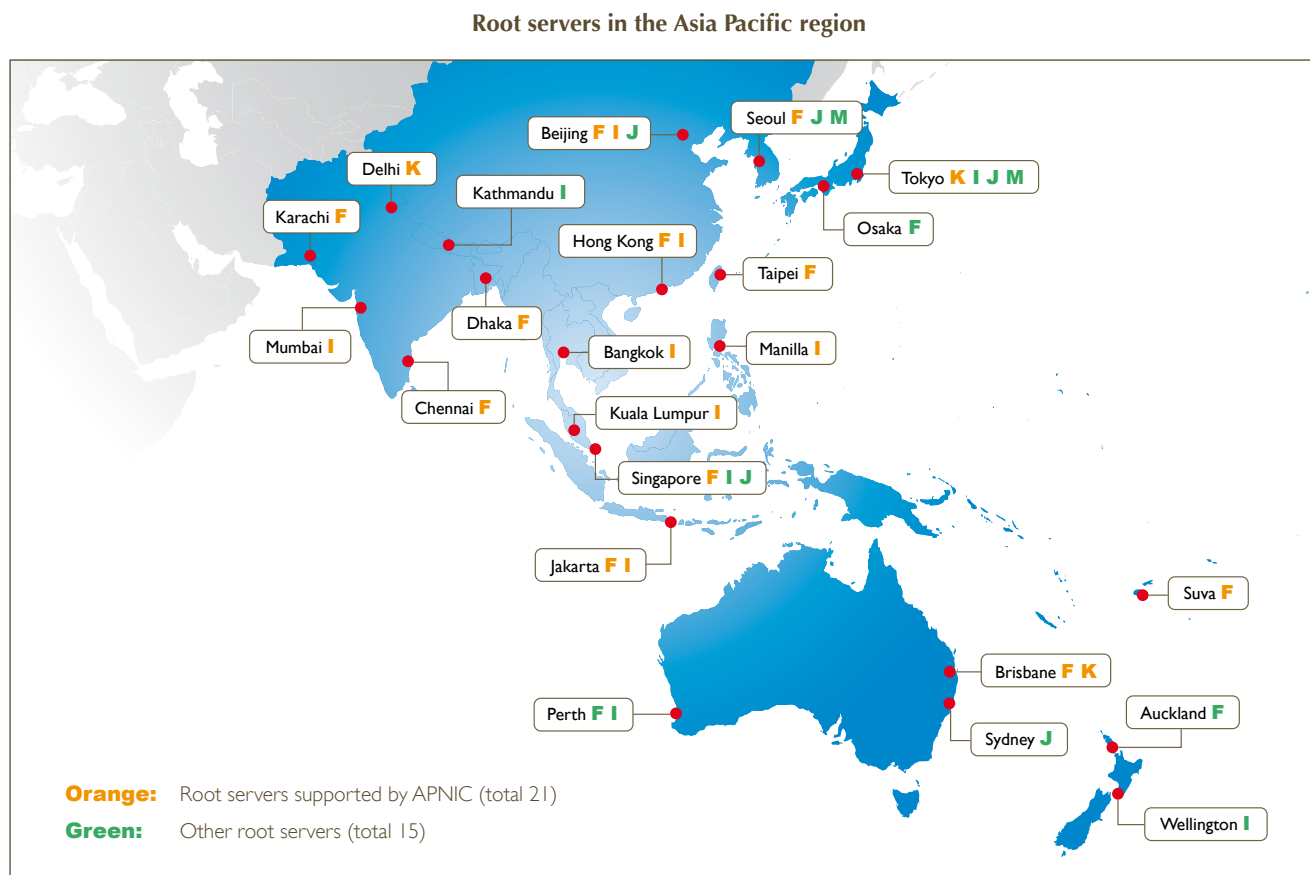
APNIC also took further steps to protect its critical infrastructure, moving all publicly available services to a secure co-location facility to ensure continued stable and reliable service provision to APNIC members.

### Root server deployments

APNIC collaborated in the deployment of two mirror root DNS nameservers in 2007. APNIC worked with Autonomica and the Philippines Open Internet Exchange to install an I-root server in Manila, and with the Internet Systems Consortium (ISC) and the University of the

South Pacific (USP) on an F-root in Suva. This brings the total number of root servers in the Asia Pacific region to at least 36 (21 of which have received support from APNIC). A plan for further deployment is already in place for 2008.

➡ <http://www.apnic.net/services/rootserver>





▲ George Kuo is APNIC's Member Services Unit Manager.

### APNIC services and the member survey

You asked APNIC to:

- Streamline resource request and allocation processes

### New in 2007

- One-stop membership and resource request form
- Assignment Window refinements

### Continuing commitments

- Fast turnaround times for member requests
- Multilingual support

### Coming in 2008

- More improvements to request forms
- More MyAPNIC features

## Speedy and efficient service

### Streamlining membership and resource request processes

In 2007, APNIC launched a new online request form aimed at making it easier to get an APNIC account and request resources. Using this single new form, an organisation can:

- Apply for membership
- Request IP addresses
- Request ASNs
- Create person and maintainer objects in the APNIC Whois Database.

APNIC is working on new form features for release in 2008 and beyond.

➡ <http://www.apnic.net/services/member>

The Resource Services Unit has also implemented process improvements. With allocation requests continuing to increase, our Hostmasters have maintained a turnaround of one to two days for an average IP address request.

The Assignment Window process has also been refined, making it easier for members to conduct their day-to-day business operations.

### MyAPNIC now faster and smarter

Version 1.7 of MyAPNIC, released in late 2007, runs up to ten times faster than the previous version. Users can now use MyAPNIC to add, delete and update key APNIC Whois Database objects. More feature enhancements are planned for 2008.

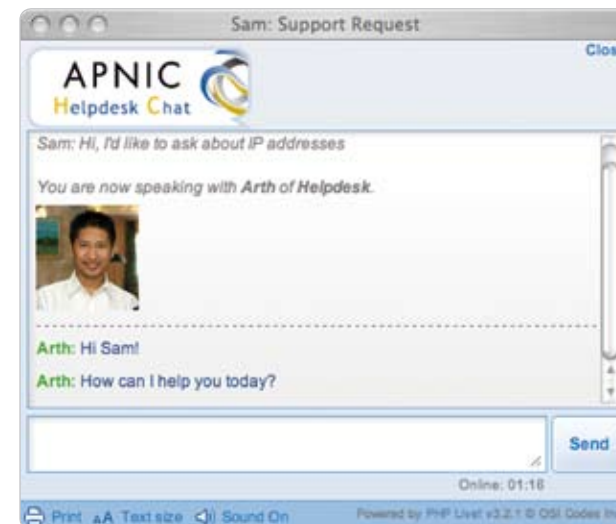
➡ <http://www.apnic.net/myapnic>

### The Helpdesk: A vital contact point for members

APNIC members continue to make good use of extended business hours and a variety of ways to contact the APNIC Helpdesk. There is continued strong demand for Helpdesk's email, online chat and VoIP services. Online chat use grew by 30% in 2007, reflecting members' need for low cost, realtime ways to contact the Secretariat.

➡ <http://www.apnic.net/helpdesk>

### **Online chat is a popular way to contact the APNIC Helpdesk**





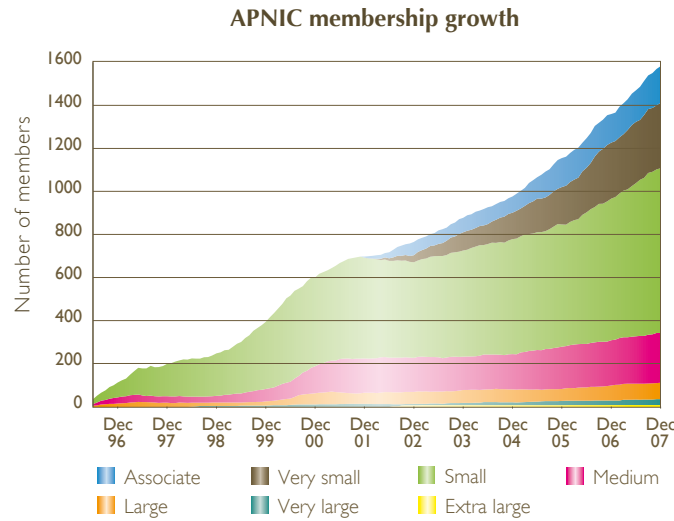
# 2007 by the numbers

## Membership status

In 2007, the APNIC membership increased by 222 to a total of 1,584 members (with growth in almost all membership tiers). This was the highest membership gain in APNIC's history and continued strong growth levels that began in 2005.

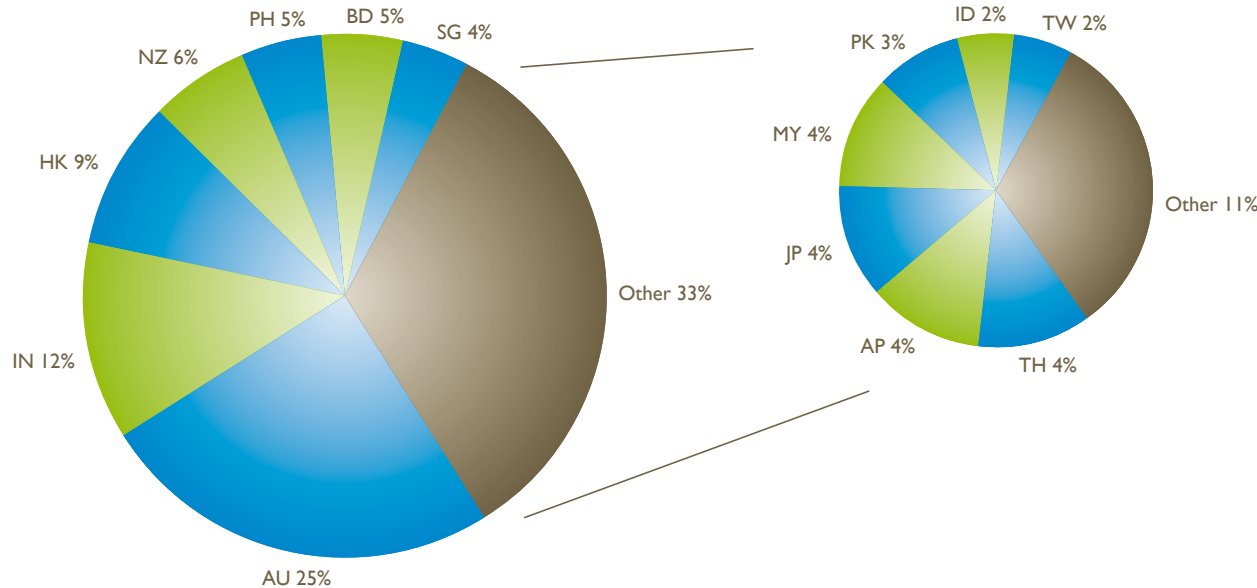
The total figure included 349 new members, offset by the closure of 127 memberships.

The economies with the highest number of new memberships were Australia, India, New Zealand and Hong Kong. For the first time, APNIC gained members from the Wallis and Futuna Islands and the Marshall Islands.



▲ As Resource Services Unit Manager, Guangliang Pan is responsible for APNIC resource distribution and administration.

## Geographic distribution of members



## Membership breakdown at end of 2007

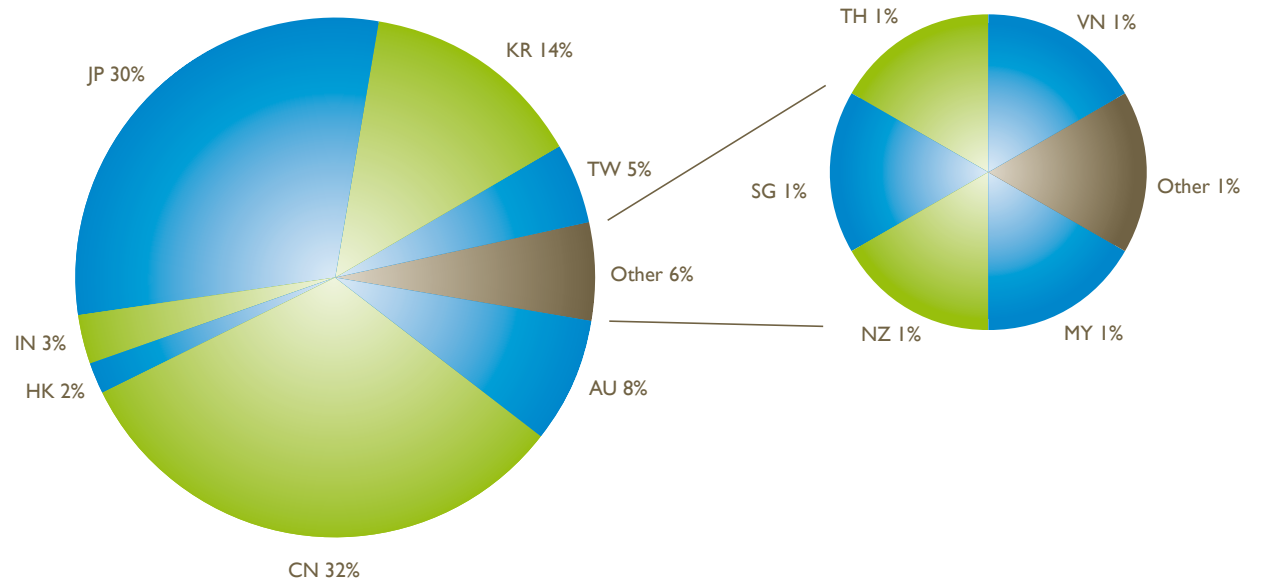
| Membership tier | Number of members |
|-----------------|-------------------|
| Extra large     | 9                 |
| Very large      | 27                |
| Large           | 77                |
| Medium          | 231               |
| Small           | 765               |
| Very small      | 304               |
| Associate       | 171               |
| <b>Total</b>    | <b>1,584</b>      |

## IPv4 address space

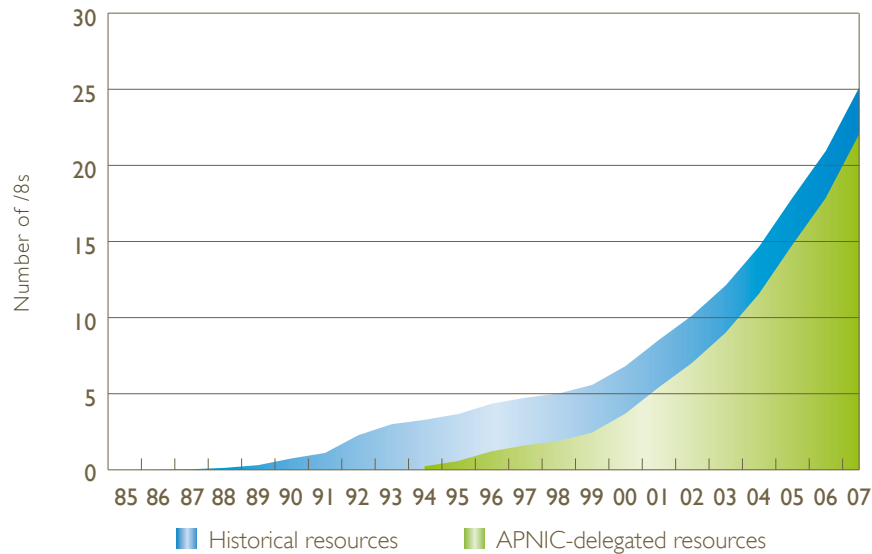
In 2007, demand for IPv4 was considerably higher than in the previous year. APNIC allocated the equivalent of 4.18 /8s (compared with 3.09 in 2006).

In general, the relative distribution of IPv4 address space throughout the region has remained fairly stable for several years with Japan, China and Korea having the largest address holdings. During 2007, China became the largest holder of IPv4 addresses in the Asia Pacific region. There was also a significant increase in the rate of IPv4 allocations made to organisations in India, due to rapid growth of the Internet industry in India during the year.

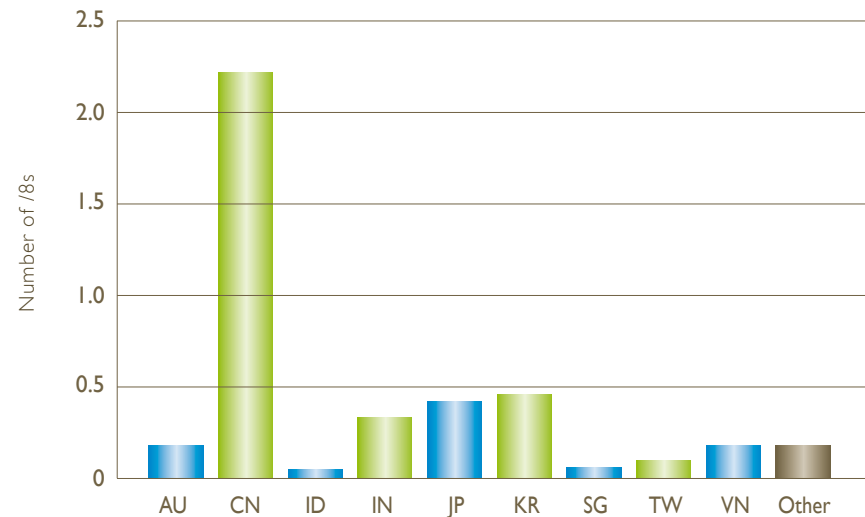
Total distribution of IPv4 (by economy)



Total IPv4 allocated (cumulative)



IPv4 address allocated in 2007 (by economy)

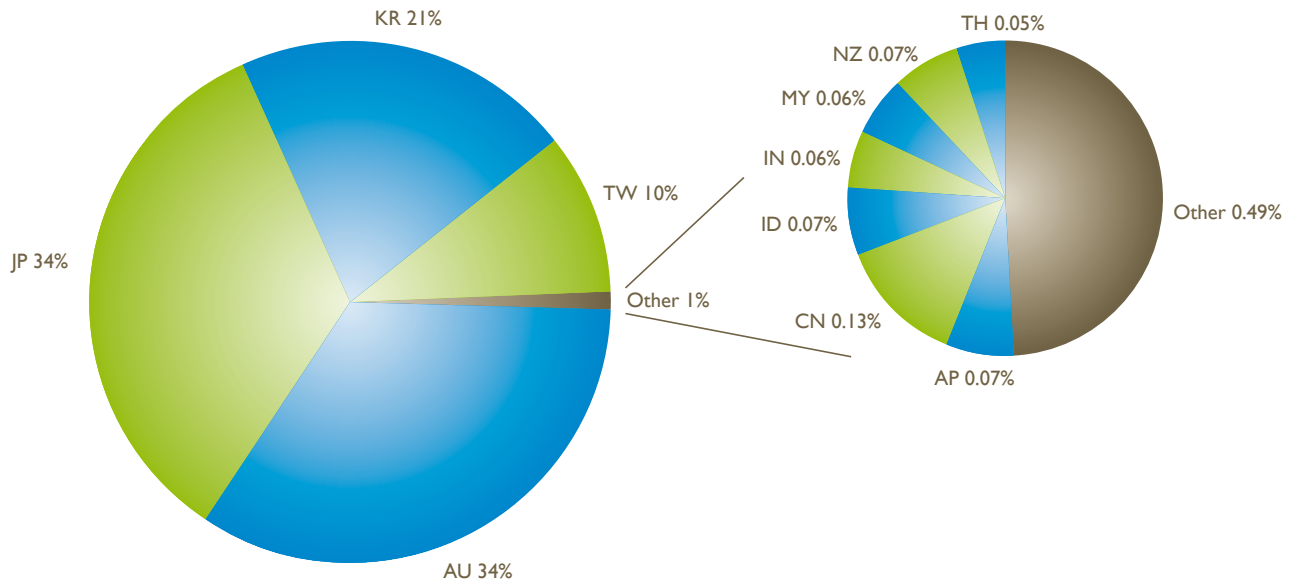


## IPv6 address space

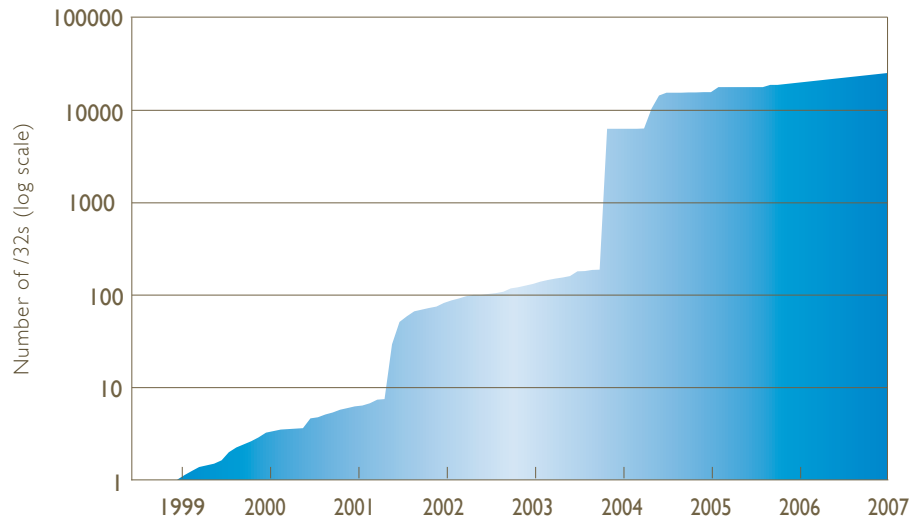
In 2007, APNIC made six assignments and 57 allocations of IPv6 address space, totalling 5,238/32s. The increased number of IPv6 assignments followed the introduction of the multihoming IPv6 assignment policy in early 2007. By economy, organisations in Australia, New Zealand and Japan received the largest number of assignments and allocations in the Asia Pacific region.

Following increasing community awareness of IPv4 depletion, in September 2007, at APNIC 24 in New Delhi, the APNIC community passed a formal resolution acknowledging the critical importance of IPv6 to the future success of the Internet (see page 9).

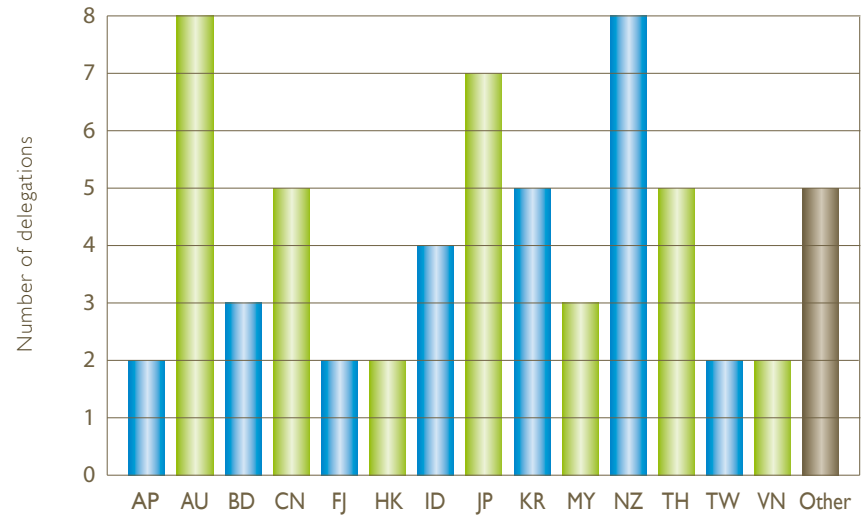
Total distribution of IPv6 (by economy)



Total IPv6 allocated (cumulative)



IPv6 address delegations in 2007 (by economy)

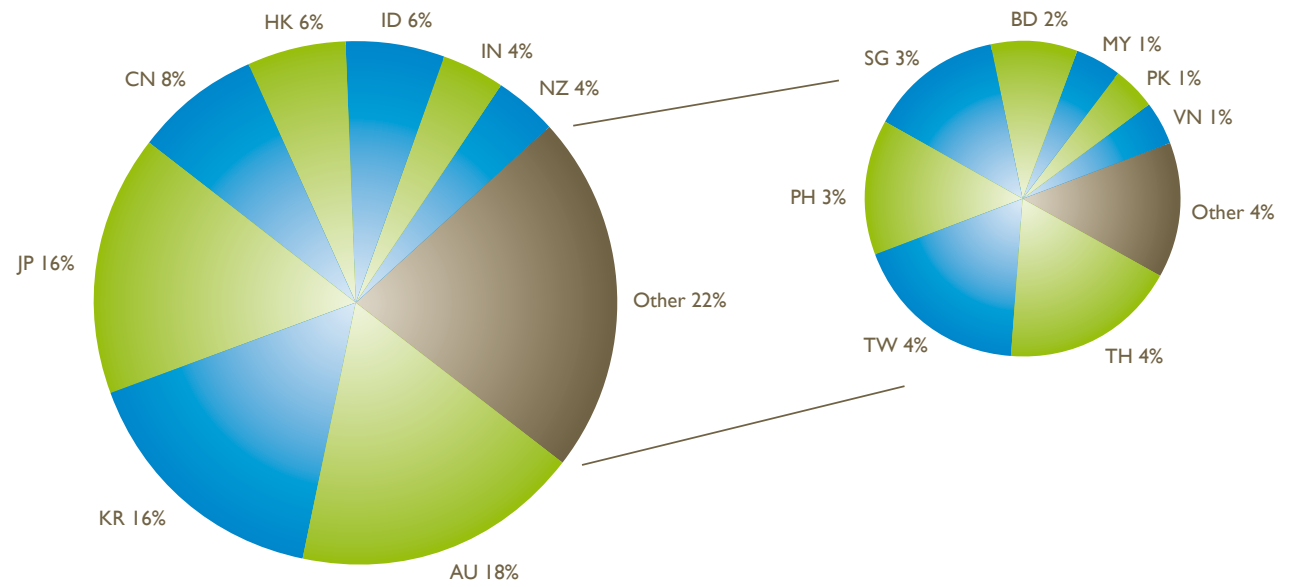


## AS numbers

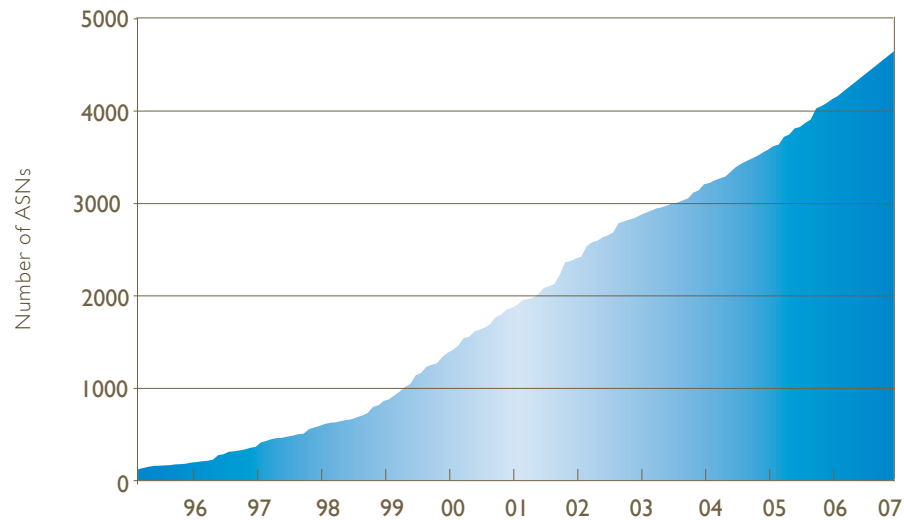
Requests for ASNs continue to grow steadily, with APNIC assigning 656 ASNs during 2007. By economy, organisations in Korea, Australia, Indonesia, and China were assigned the most ASNs in 2007.

From 1 January 2007, APNIC and the other RIRs began assigning four-byte ASNs by request while continuing to assign two-byte ASNs by default. During the year, 30 four-byte ASNs were assigned to APNIC account holders. Over the next two years, the RIRs will complete the transition to assigning four-byte ASNs by default.

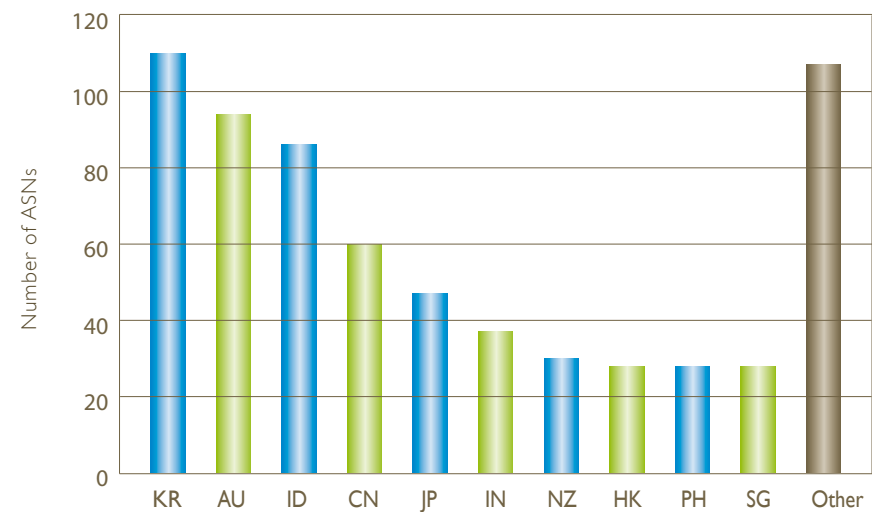
Total distribution of ASNs (by economy)



Total ASNs allocated (cumulative)



ASNs assigned in 2007 (by economy)



# Changes to APNIC fee schedules

For several years now, the APNIC fee structure has been under active discussion within the APNIC membership. Since APNIC 21 in March 2006, there have been sessions devoted to fees at each APNIC Open Policy Meeting. There has also been significant activity on the APNIC Fee Structure Working Group mailing list.

These discussions were initiated, firstly, in response to perceived problems and inequities in the fee structure for NIRs, and, secondly, in response to concerns about the sustainability of the overall structure.

In 2007, the APNIC EC commissioned a study by international firm, KPMG, whose initial report concluded:

"KPMG's analysis clearly shows that the impact of the foreign currency movements, and the general impacts of movements in the Consumer Price Index (as a proxy for inflation), represent risks to APNIC which must be addressed. It is also clear that these factors have resulted in a significant reduction in the real costs of APNIC membership, and that an adjustment in fees should be seen as a response to an erosion in income, and not as a fee increase resulting from escalating costs."

"We believe there is a justification for an immediate increase in the members' fees, and not to do so would expose APNIC to financial risk. The following provides an overview of the key considerations which support the decision that EC reached to increase APNIC's membership fees:

- Exchange rate variations - The strong increase in the Australian Dollar (\$AUD) compared to the US Dollar (USD) has detrimentally impacted on APNIC's financial performance. The 2007 APNIC budget was struck at the rate of .78, and the exchange rate has been hovering around .85 and this represents a 10% deterioration in

this year alone. Furthermore since 2000, when the rate was around 0.5479, the real deterioration in APNIC's AUD revenues has been over 40%.

- No increase in fees since 1996 - The membership fees have not been increased since 1996. There has been no adjustment for inflation over this period and this has resulted in a narrowing gap between revenues and expenses to the point where APNIC will incur a deficit for the first time in 2007. A percentage increase in the order of 7% represents a very small proportion of the losses due to inflation, but provides the opportunity to balance the endorsed budget for 2007.
- Member expectations - The demand for greater and better services by APNIC members. While members have generally been very positive about the services provided by APNIC, certain improvements and enhancements are expected. However, the fact that APNIC faces a declining revenue base, when taking into account exchange rate fluctuations and inflation, limits the opportunity for APNIC's management to address all key service improvement requests proposed by its members.

"We believe that the decision to implement a percentage increase in member fees in the short term, is a prudent way to manage risk."

## Proposal to change the fee structure

At APNIC 24, the Executive Council (EC) presented a proposal to the membership for consideration. The proposal suggested two changes to the APNIC fee structure:

- The APNIC fees should be set in Australian dollars using a conversion rate of 0.7899
- An additional increase of 7% should be applied to the fees

Voting took place onsite and online during APNIC 24. The proposed fee structure revision was rejected by the APNIC membership, with a margin of 54 out of a total of 1,094 votes.

During APNIC 24 there were several sessions in which this proposal, the fee structure in general, and APNIC financial results were discussed. These sessions included the APNIC Fee Structure Working Group, the National Internet Registry Special Interest Group (NIR SIG) and the APNIC Member Meeting. The possibility of adopting one element of the proposal only - that APNIC fees should be set in Australian dollars - was raised numerous times during the discussions, and received widespread support with no objections.

## The EC decision

On 11 October 2007, the EC completed its consideration of these matters and determined that APNIC would set the fees in Australian dollars, but without the 7% fee increase.

It is noted that under Section 4 of the APNIC By-Laws, the APNIC EC has the responsibility to establish APNIC's membership fees. While in the past a number of changes in the fee schedule were undertaken by the EC following a vote by the APNIC membership, such a vote has not been strictly necessary under the By-Laws.

The APNIC EC is confident that the change is in the organisation's best interests and will benefit the entire APNIC membership.



▲ Irene Chan is APNIC's Finance Unit Manager.

## Financial reports

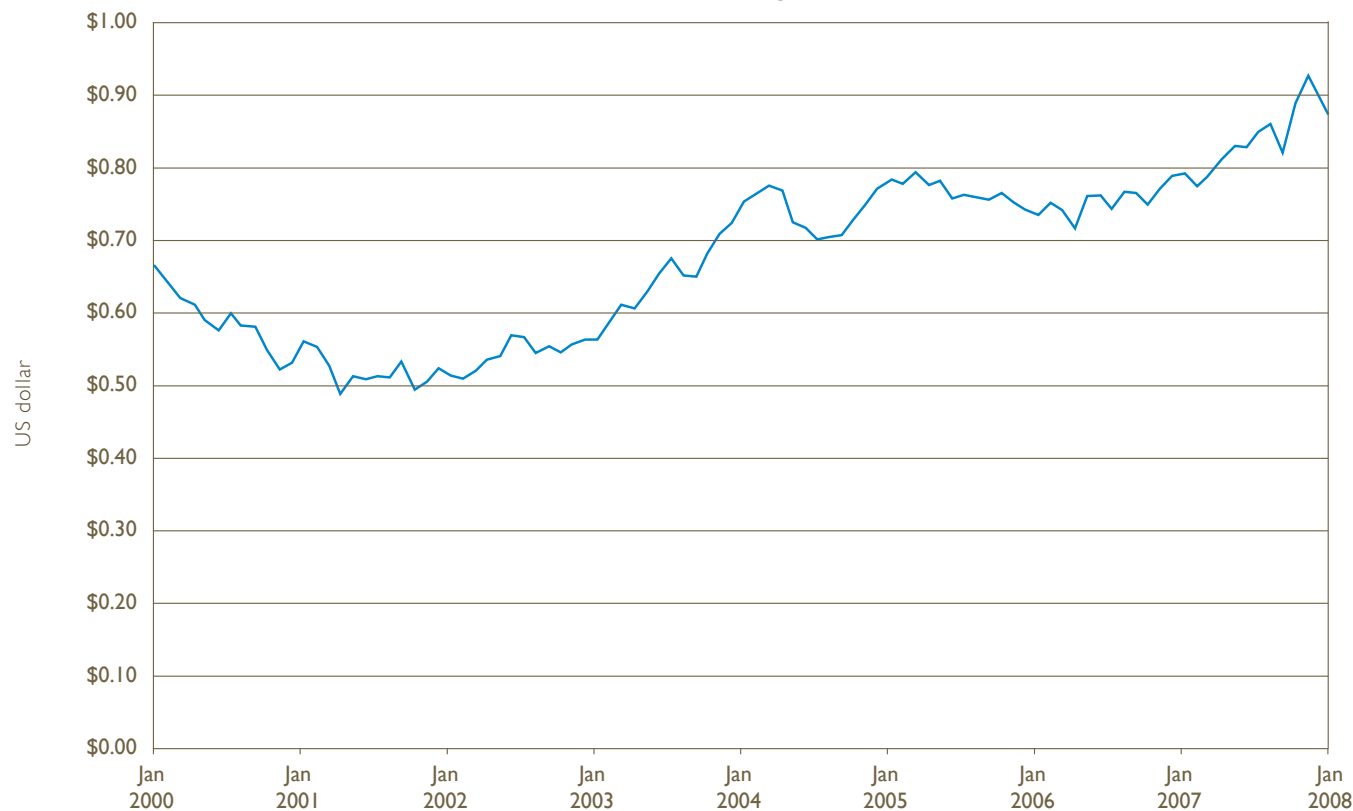
In 2007, the greatest financial challenge for APNIC was the weakening US dollar. APNIC members pay fees in US dollars, while most of our expenses are incurred in Australian dollars; and the adverse currency situation resulted in a significant budgetary shortfall for 2007.

From 1 January 2008, APNIC members will pay their fees in Australian dollars (see Changes to APNIC member and non-member fee schedules on the previous page). This

fee structure change, combined with healthy membership growth in 2007, means that APNIC can look forward to improved financial stability in 2008 and beyond.

The financial reports presented here summarise APNIC's finances for 2007. They are presented in US dollars, based on the Australian dollar financial report audited by PricewaterhouseCoopers.

**The Australian dollar/US dollar exchange rate since 2000**



## Balance sheet

|                                       | Year end 2007<br>(US\$) | Year end 2006<br>(US\$) | % change<br>from 2006 |
|---------------------------------------|-------------------------|-------------------------|-----------------------|
| Exchange rate (see Notes)             | 0.8875                  | 0.7938                  | 12%                   |
| <b>Current assets</b>                 |                         |                         |                       |
| Cash                                  | 5,880,878               | 4,521,723               | 30%                   |
| Term deposit investment               | 2,041,250               | 2,619,540               | -22%                  |
| Receivables                           | 841,777                 | 1,328,391               | -37%                  |
| Advance payment                       | 74,329                  | 105,838                 | -30%                  |
| Other                                 | 27,837                  | 11,857                  | 135%                  |
| <b>Total current assets</b>           | <b>8,866,071</b>        | <b>8,587,349</b>        | <b>3%</b>             |
| <b>Non-current assets</b>             |                         |                         |                       |
| Other financial assets                | 1,085,117               | 911,576                 | 19%                   |
| Property, plant and equipment         | 1,479,543               | 1,186,303               | 25%                   |
| Long term deposit investment          | 1,508,750               | 1,587,600               | -5%                   |
| <b>Total non-current assets</b>       | <b>4,073,410</b>        | <b>3,685,479</b>        | <b>11%</b>            |
| <b>Total assets</b>                   | <b>12,939,481</b>       | <b>12,272,828</b>       | <b>5%</b>             |
| <b>Liabilities</b>                    |                         |                         |                       |
| Accrued expenses                      | 1,011,004               | 1,157,664               | -13%                  |
| Provisions                            | 788,258                 | 561,878                 | 40%                   |
| Unearned revenue                      | 3,388,385               | 3,390,538               | 0%                    |
| <b>Total liabilities</b>              | <b>5,187,647</b>        | <b>5,110,080</b>        | <b>2%</b>             |
| <b>Equity</b>                         |                         |                         |                       |
| Share capital                         | 0.89                    | 0.79                    | 12%                   |
| Reserves                              | 80,609                  | 114,006                 | -29%                  |
| Retained earnings                     | 7,671,224               | 7,048,741               | 9%                    |
| <b>Total equity</b>                   | <b>7,751,834</b>        | <b>7,162,748</b>        | <b>8%</b>             |
| <b>Total liabilities &amp; equity</b> | <b>12,939,481</b>       | <b>12,272,828</b>       | <b>5%</b>             |

## Notes:

The balance sheet, profit and loss, and cash flow statement are the consolidation of APNIC Pty Ltd accounts being translated into US\$.

For a better understanding of APNIC Pty Ltd's financial position and performance, as represented by the results of its operations and its cashflows for the financial year ended 31 December 2007, the balance sheet, profit and loss, and cash flow statement should be read in conjunction with the annual statutory financial report and the audit report contained therein.

The amounts in this APNIC financial report are expressed in US\$. The exchange rate used to convert AU\$ amounts to US\$ in this report (0.8875), is based on the notes spot rate as at 31 December 2007 as provided by the Australian Taxation Office.

**Note:**

The exchange rate used to convert AU\$ amounts to US\$ in this profit and loss statement (0.8448) is based on the average rate for year ended 2007 as provided by the Australian Taxation Office

**Profit and loss statement**

|  | <b>2007</b>      | <b>2006</b>      | <b>% change</b>  |
|--|------------------|------------------|------------------|
|  | <b>in US\$</b>   | <b>in US\$</b>   | <b>from 2006</b> |
| Exchange rate (see Note)                                 | <b>0.8448</b>    | <b>0.7574</b>    | <b>12%</b>       |
| <b>Revenue</b>   |                  |                  |                  |
| Interest income  | 508,158          | 428,214          | 19%              |
| IP resource application fees                             | 645,965          | 583,655          | 11%              |
| Membership fees  | 5,155,736        | 4,159,073        | 24%              |
| Non-member fees  | 120,607          | 90,971           | 33%              |
| Per allocation fees                                      | 1,056,931        | 795,127          | 33%              |
| Reactivation fees  | 10,015           | 8,630            | 16%              |
| Sundry income  | 179,279          | 183,638          | -2%              |
| <b>Sub-total</b>   | <b>7,676,691</b> | <b>6,249,308</b> | <b>23%</b>       |
| Exchange rate gain/(loss)                                | (276,945)        | (94,854)         | 192%             |
| <b>Total revenue</b>                                     | <b>7,399,746</b> | <b>6,154,454</b> | <b>20%</b>       |
| <b>Expenditure</b>                                       |                  |                  |                  |
| Communication expenses                                   | 175,902          | 94,863           | 85%              |
| Depreciation expense                                     | 477,376          | 394,959          | 21%              |
| Donation/sponsorship                                     | 92,167           | 63,487           | 45%              |
| ICANN contract fees                                      | 205,682          | 185,870          | 11%              |
| Meeting and training expenses                            | 121,075          | 90,642           | 34%              |
| Membership fees  | 44,526           | 58,640           | -24%             |
| Other operating expenses                                 | 1,400,163        | 1,028,173        | 36%              |
| Professional fees  | 330,705          | 319,974          | 3%               |
| Rent and outgoings                                       | 376,845          | 300,880          | 25%              |
| Salaries   | 3,279,809        | 2,679,805        | 22%              |
| Travel expenses  | 1,002,557        | 721,577          | 39%              |
| <b>Total expenditure</b>                                 | <b>7,506,807</b> | <b>5,938,870</b> | <b>26%</b>       |
| <b>Operating profit/(loss) before income tax expense</b> | <b>(107,061)</b> | <b>215,584</b>   | <b>-150%</b>     |
| Income tax expense                                       | 92,406           | 80,917           | 14%              |
| <b>Operating profit/(loss) after income tax expense</b>  | <b>(199,467)</b> | <b>134,667</b>   | <b>-248%</b>     |



## Cash flow statement

### For the year ended 31 December 2007

|   | <b>2007</b>      | <b>2006</b>      |
|---|------------------|------------------|
|   | <b>(US\$)</b>    | <b>(US\$)</b>    |
| Exchange rate (see Note)                                  | 0.8875           | 0.7938           |
| <b>Cash flows from operating activities:</b>              |                  |                  |
| Receipts from members and customers                       | 7,801,202        | 6,111,597        |
| Payments to suppliers and employees                       | (7,634,967)      | (5,552,644)      |
|   | 166,235          | 558,953          |
| Interest received   | 505,618          | 444,621          |
| Income tax (paid)/received                                | (63,161)         | (35,330)         |
| <b>Net cash inflow from operating activities</b>          | <b>608,692</b>   | <b>968,244</b>   |
| <b>Cash flows from investing activities:</b>              |                  |                  |
| Payments for property, plant and equipment                | (663,530)        | (554,796)        |
| Proceeds from sale of property, plant and equipment       | 4,962            | 1,746            |
| Proceeds from sale of available-for-sale financial assets | 1,166,230        | 0                |
| <b>Net cash outflow from investing activities</b>         | <b>507,662</b>   | <b>(553,050)</b> |
| <b>Net increase/(decrease) in cash held:</b>              | <b>1,116,354</b> | <b>415,194</b>   |
| Cash at the beginning of the financial year               | 4,521,724        | 3,809,068        |
| Effects of exchange rate changes on cash                  | 242,800          | 297,462          |
| <b>Cash reserve at the end of the financial year</b>      | <b>5,880,878</b> | <b>4,521,724</b> |

### Note:

The amounts in this APNIC financial report are expressed in US\$. The exchange rate used to convert AU\$ amounts to US\$ in this report (0.8875), is based on the notes spot rate as at 31 December 2007 as provided by the Australian Taxation Office.



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