



Internet Corporation for Assigned Names and Numbers
ANNUAL REPORT 2005-2006

This annual report is the first produced in accordance with ICANN's commitments under the Joint Project Agreement with the U.S. Department of Commerce, which was signed in September of 2006.

The report is initially being published on the ICANN website, <http://www.icann.org>, to open a period for comments aimed at improving its content and meaningfulness of the report to the ICANN community in the future.

Comments and suggestions from the community are encouraged. Every effort will be made to respond to suggestions for constructive improvement. A forum for submitting comments and suggestions is available at 2006-ar-comments@icann.org. Comments can be viewed at <http://forum.icann.org/lists/2006-ar-comments/>.

ICANN is a global corporation existing in the online environment. It aspires to be an innovator and leader in the areas of transparency, accountability and accessibility. Therefore, ICANN has established a blog on the ICANN website so that members of the community can exchange their views about the report. The blog can be found at <http://blog.icann.org/>.

This inaugural annual report covers both the calendar and fiscal year in an attempt to capture the many activities and accomplishments of the entire ICANN community over the past year.

The next annual report will be based on the 2006-2007 fiscal year and will include the relevant audit reports. It is expected that the annual report for 2006-2007 will be published during the third quarter of 2007.

***BOARD OF DIRECTORS 2006**

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Vice Chair
November 1999–June 2007

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Ex-officio member

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Susan P. Crawford
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Security and Stability Advisory Committee Liaison

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Peter Dengate Thrush
January 2005–June 2008

Roberto Gaetano
At-Large Advisory Committee Liaison

Demi Getschko
January 2005–June 2009

Hagen Hultzsch
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Joichi Ito
December 2004–December 2007

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June 2003–December 2006

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Internet Engineering Task Force Liaison

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Njeri Rionge
June 2003–December 2008

Rita Rodin
June 2006–May 2008

Vanda Scartezini
December 2004–December 2007

Mohamed Sharil Tarmizi
Governmental Advisory Committee Liaison

David L. Wodelet
June 2006–June 2009

Suzanne Woolf
Root Server System Advisory Committee Liaison

**Dates reflect full terms on the Board*

***BOARD OF DIRECTORS 2007**

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December 2006–December 2009

Paul Twomey
President and Chief Executive Officer
Ex-officio member

Raimundo Beca
May 2004–June 2007

Vittorio Bertola
At-Large Advisory Committee Liaison

Susan P. Crawford
December 2005–December 2008

Steve Crocker
Security and Stability Advisory Committee Liaison

Francisco da Silva
Technical Liaison Group Liaison

Peter Dengate Thrush
January 2005–June 2008

Demi Getschko
January 2005–June 2009

Steven Goldstein
December 2006–December 2009

Joichi Ito
December 2004–December 2007

Ambassador Janis Karklins
Governmental Advisory Committee Liaison
beginning March 2007

Thomas Narten
Internet Engineering Task Force Liaison

Alejandro Pisanty
November 1999–December 2007

Rajasekhar Ramaraj
December 2006–December 2009

Njeri Rionge
June 2003–December 2008

Rita Rodin
June 2006–May 2008

Vanda Scartezini
December 2004–December 2007

Mohamed Sharil Tarmizi
Governmental Advisory Committee Liaison
until March 2007

David L. Wodelet
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TABLE OF CONTENTS

ICANN's Mission	6
ICANN's Values	6
ICANN's Structure	7
Message from the Chairman of the Board of Directors	8
Message from the President and Chief Executive Officer	9
New Agreement with the U.S. Department of Commerce	10
Strategic Plan for the Next Three Years	12
Operating Plan for 2006–2007	13
Management of Operating Plan Objectives	13
Progress on Operating Plan Projects	14
ICANN Meetings	15
Activities of ICANN Advisory Committees and Supporting Organisations	18
Reports of Activities from ICANN Divisions	22
Activities of Nominating Committee	31
Appendix - Activities Relating to ICANN's Responsibilities	32
Audit Report for Fiscal Year 2005–2006	38
Glossary of Terms	44

OUR MISSION

Since ICANN's creation in 1998, the Internet community has vigorously discussed and reviewed the mission and values that guide its actions. This extensive, inclusive and bottom up discussion has been encapsulated in ICANN's bylaws, its mission and its core values.

The limited and distinct mission of ICANN is clearly set out in Article I of its bylaws:

The mission of the Internet Corporation for Assigned Names and Numbers (ICANN) is to coordinate, at the overall level, the global Internet's systems of unique identifiers, and in particular to ensure the stable and secure operation of the Internet's unique identifier systems. In particular, ICANN:

1. *Coordinates the allocation and assignment of the three sets of unique identifiers for the Internet, which are:
 - a. Domain names (forming a system referred to as DNS)
 - b. Internet protocol (IP) addresses and autonomous system (AS) numbers, and
 - c. Protocol port and parameter numbers*
2. *Coordinates the operation and evolution of the DNS root name server system*
3. *Coordinates policy development reasonably and appropriately related to these technical functions*

OUR CORE VALUES

In performing ICANN's mission, the following core values guides its decisions and actions.

1. Preserving and enhancing the operational stability, reliability, security, and global interoperability of the Internet.
2. Respecting the creativity, innovation, and flow of information made possible by the Internet by limiting ICANN's activities to those matters within ICANN's mission requiring or significantly benefiting from global coordination.
3. To the extent feasible and appropriate, delegating coordination functions to or recognising the policy role of other responsible entities that reflect the interests of affected parties.
4. Seeking and supporting broad, informed participation reflecting the functional, geographic, and cultural diversity of the Internet at all levels of policy development and decision-making.
5. Where feasible and appropriate, depending on market mechanisms to promote and sustain a competitive environment.
6. Introducing and promoting competition in the registration of domain names where practicable and beneficial in the public interest.
7. Employing open and transparent policy development mechanisms that (i) promote well-informed decisions based on expert advice, and (ii) ensure that those entities most affected can assist in the policy development process.
8. Making decisions by applying documented policies neutrally and objectively, with integrity and fairness.
9. Acting with a speed that is responsive to the needs of the Internet while, as part of the decision-making process, obtaining informed input from those entities most affected.
10. Remaining accountable to the Internet community through mechanisms that enhance ICANN's effectiveness.
11. While remaining rooted in the private sector, recognising that governments and public authorities are responsible for public policy and duly taking into account governments' or public authorities' recommendations.

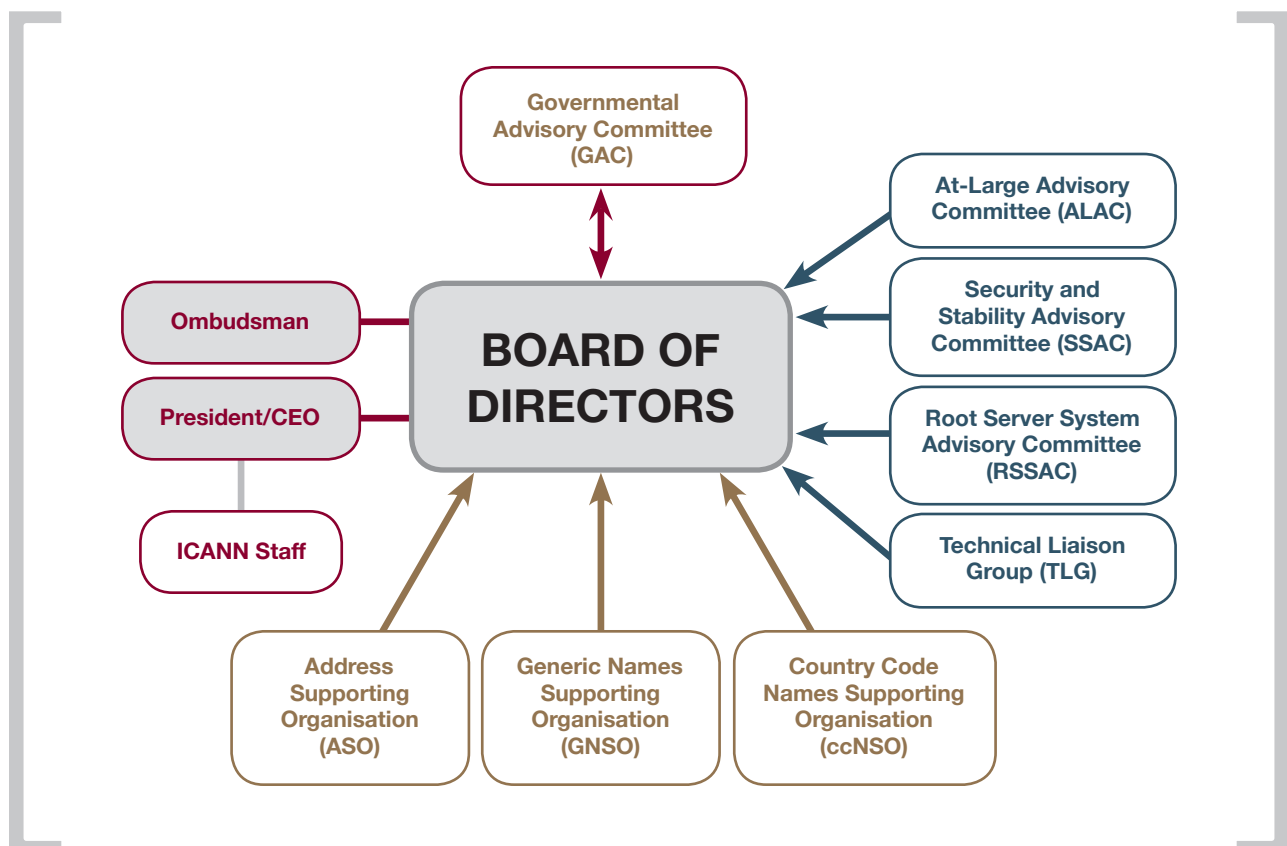
These core values are deliberately expressed in very general terms, so that they may provide useful and relevant guidance in the broadest possible range of circumstances. Because they are not narrowly prescriptive, the specific way in which they apply, individually and collectively, to each new situation will necessarily depend on many factors that cannot be fully anticipated or enumerated; and because they are statements of principle rather than practice, situations will inevitably arise in which perfect fidelity to all eleven core values simultaneously is not possible. Any ICANN body making a recommendation or decision shall exercise its judgment to determine which core values are most relevant and how they apply to the specific circumstances of the case at hand, and to determine, if necessary, an appropriate and defensible balance among competing values.

ICANN'S STRUCTURE

Within ICANN's structure, governments and international treaty organisations work with business organisations and individuals to maintain the stability of the global Internet.

Innovation as well as continuing growth bring constant challenges to stability. Working together, ICANN participants address issues that are directly concerned with ICANN's mission of technical coordination.

ICANN is governed by an international Board of Directors. The policy development process originates in three supporting organisations. Advisory committees composed of representatives from individual user organisations and technical communities work with the supporting organisations to create policy. In addition, over 120 governments and government institutions closely advise the Board via the Governmental Advisory Committee.



MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

The Internet is the largest distributed collection of historical and current information ever in existence. Many believe, as I do, that we have barely begun to explore all of the Internet's possible applications.

Today's Internet supports all traditional communication modalities once considered distinct and separate – television, radio, telephony – as well as electronic mail, web services and commerce, wireless communications and computer games. Its ability to absorb new technologies and to support an increasing variety of applications demonstrates the power of its simple, clear and well-defined technical specifications and openly accessible capabilities.

Still, the continued expansion of the Internet's capacity and utility faces many technical challenges.

One of those challenges involves preserving the accessibility, renderability and interpretability of the increasing amounts of information that find their way into the Internet's archives, not merely decades but centuries and even millennia into the future. Standard practices, preservation of software needed to interpret Internet content, and changes to intellectual property treatment to support long-term access to content may all factor into the solution.

Equally important is the ability of every user to make unambiguous reference to every registered domain name, including those expressed in local language characters and scripts. The use of the traditional Latin character set to express host names does not satisfy an understandable interest in and demand for domain names expressed in character sets other than Latin. The attendant cultural, linguistic and social implications are vitally important. On the positive side, testing of Internationalised Domain Names is well under way, and we hope to see a technical solution by the end of 2007.

Another issue is IPv4 address space, which some have suggested has reached capacity. Those suggestions are unfounded but there is reason to think that the final allocations from ICANN to the regional registries might come in the next decade. The next-generation IPv6 addresses – and there are 340 trillion trillion trillion available – are beginning to be implemented in some countries. It is important to move ahead with this deployment to avoid the negative side-effects of the exhaustion of IPv4 addresses.

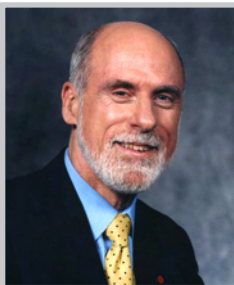
In addition, a broad array of technical efforts are under way at the local, national and international levels to increase the ability of the Internet and its components to resist attacks by cyber-criminals and would-be service disruptors.

While some aspects of Internet governance can be addressed through technical means, there are many other challenges that require efforts well outside ICANN's scope. There is widespread concern about abusive behaviours on the Internet, fraud, identify theft, misuse of intellectual property, and risks associated with the use of the Internet by children, to mention only a few.

We have much work still to do as the Internet evolves, both at the technical level and with an eye towards the regulatory, cultural, national and social implications of every innovation. We must assure access, at the highest speeds technically feasible, for the several billion potential users who are hampered by technical, practical, or cost considerations.

I consider it important that these broader issues receive the attention they deserve in forums suited to address them. ICANN will do its part in the areas of its competence, but resolving many Internet governance challenges will require the involvement of governments, academia, the business and private sectors as well as civil society.

We can achieve these goals by joining together to identify the operational framework in which the Internet's resources can best be deployed and applied. The openness of the Internet, its users' ability to invent and test new applications, and the freedom of virtually any computer or person to interact with another through the Internet will continue to strengthen and make more useful this vital and powerful new infrastructure.



Vinton G. Cerf
Chairman of the Board of Directors

MESSAGE FROM THE PRESIDENT AND CHIEF EXECUTIVE OFFICER

This is ICANN's first annual report to the global Internet community in accordance with new commitments established under the Joint Project Agreement signed in September 2006. This report is a work in progress. There is no doubt it can and will improve in content and structure with time. We seek the assistance of the community in improving this report, and would appreciate feedback to 2006-ar-comments@icann.org.

ICANN's community, Board, and staff have been very productive this year. Among our collective major activities are the following.

Upgrades and customisation of the Internet Assigned Names Authority (IANA) ticketing system has made request processing more efficient and productive and has resulted in reduced turnaround time. In addition, ICANN and the Internet Engineering Task Force (IETF) have supplemented their memorandum of understanding for ICANN's management of IETF-related activities. This supplemental agreement outlines specific service levels for ICANN's performance of this element of the IANA function. Similar agreements are being discussed with the country code top level domain (ccTLD) community through accountability frameworks, and more generally through the Country Code Names Supporting Organisation (ccNSO). ICANN has signed accountability frameworks with 15 ccTLD operators this year, which have the effect of formalising the relationship between ICANN and the ccTLD operators. Together, these 15 agreements and other established agreements represent more than 45 percent of all ccTLD registrants.

The regional Internet number registries (RIRs) are also engaged with ICANN in setting performance targets. Improvements in overall services and responsiveness over the full range of activities that IANA performs have helped secure ICANN's successful bid for a new contract with the U.S. Department of Commerce for performance of the IANA functions.

Considerable work is being done by the community and staff in support of the Generic Names Supporting Organisation (GNSO) policy development process. GNSO and staff are working together for the establishment and operation of a new generic top level domain (gTLD) program office, to realise the work of the Whois Task Force, and to provide input in the development of Internationalised Domain Names (IDNs). The GNSO community completed a consensus policy for evaluation of new registry services. This effort culminated in the Registry Services Evaluation Policy (RSEP) process, also called the "funnel," which is already being used by the registries. Four applications have been considered.

The program to implement Internationalised Domain Names (IDNs) began technical testing of IDN punycode labels in a laboratory environment in November of 2006, and we hope to achieve a technical solution to the implementation of IDNs in top-level domains by the end of 2007. Led by the IETF, significant work also has been done in protocol development.

In accordance with commitments made during its evaluation and reform process, the ICANN Board initiated reviews of the GNSO and the GNSO process and will continue to evaluate the reports from those reviews to further improve our community's policy development process. Similar reviews for the other supporting organisations and advisory committees have been scheduled as stated in the bylaws.

We have completed the complex work of reviewing the World Summit on the Information Society (WSIS) process. ICANN is pleased with the outcome and looks forward to participating in Internet Governance Forum activities. We are also pleased with WSIS recognition of the effectiveness of ICANN's multi-stakeholder model, as it reaffirms the vision of our community about the value of a bottom-up, consultative process in ensuring a stable and secure Internet.

The Governmental Advisory Committee (GAC) has provided important input to the Board on several consensus-based policy decisions, among them the Whois requirements and privacy laws as well as IDNs. Following on from WSIS, ICANN is reviewing the measures to be taken to make our cooperation with governments more effective, including ensuring the participation of developing countries. The GAC is key to the success of those efforts.

All these activities reflect the commitment of the entire ICANN community, all of whom deserve the sincerest thanks for their contributions. My personal thanks also go to the community and to staff for their hard work this year.



Paul Twomey
President and Chief Executive Officer

NEW AGREEMENT WITH THE U.S. DEPARTMENT OF COMMERCE

In September 2006, ICANN signed a new agreement with the U.S. Department of Commerce, thereby taking a significant step forward towards full management of the Internet's system of centrally coordinated identifiers through ICANN's multi-stakeholder consultative model.

This new Joint Project Agreement reflects the Department of Commerce endorsement of the ICANN model and affirms ICANN's capacity to take full responsibility for the management of these technical aspects of the Internet on an ongoing basis. It also means that ICANN has greater autonomy.

The Department of Commerce has reaffirmed its commitment to an autonomous multi-stakeholder model of management of the Internet's system of unique. The major gains in this new agreement are:

- ICANN and its community now determine what to work on – within its narrowly defined scope of responsibilities.
- ICANN now provides an annual report targeted to the global Internet community rather than to a single oversight body. This annual report is the first example.
- ICANN now meets from time to time with the Department of Commerce and reports more to its constituencies and community on its activities rather than submitting regular reports of activities to a single oversight body.

Under the agreement, the Board also resolved to be guided by the following responsibilities in the performance of ICANN's work:

1. *Security and Stability* – ICANN shall coordinate, at the overall level, the global Internet's systems of unique identifiers, and in particular to ensure the stable and secure operation of the Internet's unique identifier systems.
2. *Transparency* – ICANN shall continue to develop, test and improve processes and procedures to encourage improved transparency, accessibility, efficiency and timeliness in the consideration and adoption of policies related to technical coordination of the Internet domain name system (DNS), and funding for ICANN operations. ICANN will innovate and aspire to be a leader in the area of transparency for organisations involved in private sector management.
3. *Accountability* – ICANN shall continue to develop, test, maintain and improve on accountability mechanisms to be responsive to global Internet stakeholders in the consideration and adoption of policies related to the technical coordination of the Internet DNS, including continuing to improve openness and accessibility for enhanced participation in ICANN's bottom-up participatory policy development processes.
4. *Root Server Security and Relationship* – ICANN shall continue to coordinate with the operators of root name servers and other appropriate experts with respect to the operational and security matters, both physical and network, relating to the secure and stable coordination of the root zone, to ensure appropriate contingency planning, and to maintain clear processes in root zone changes. ICANN will work to formalize relationships with root name server operators.

5. *Top-Level Domain Management* – ICANN shall maintain and build on processes to ensure that competition, consumer interests and Internet DNS stability and security issues are identified and considered in TLD management decisions, including the consideration and implementation of new TLDs and the introduction of IDNs. ICANN will continue to develop its policy development processes, and will further develop processes for taking into account recommendations from ICANN’s advisory committees and supporting organisations and other relevant expert advisory panels and organisations. ICANN shall continue to enforce existing policy relating to Whois, such existing policy requires that ICANN implement measures to maintain timely, unrestricted and public access to accurate and complete Whois information, including registrant, technical, billing and administrative contact information. ICANN shall continue its efforts to achieve stable agreements with country code top-level domain (ccTLD) operators.
6. *Multi-stakeholder Model* – ICANN shall maintain and improve multi-stakeholder model and the global participation of all stakeholders, including conducting reviews of its existing advisory committees and supporting organisations, and will continue to further the effectiveness of the bottom-up policy development processes. ICANN will strive to increase engagement with the private sector by developing additional mechanisms for involvement of those affected by the ICANN policies.
7. *Role of Governments* – ICANN shall work with the Government Advisory Committee members to review the GAC’s role within ICANN so as to facilitate effective consideration of GAC advice on the public policy aspects of the technical coordination of the Internet.
8. *IP Addressing* – ICANN shall continue to work collaboratively on a global and regional level so as to incorporate regional internet registries’ policy-making activities into the ICANN processes while allowing them to continue their technical work. ICANN shall continue to maintain legal agreements with the RIRs (and such other appropriate organisations) reflecting this work.
9. *Corporate Responsibility* – ICANN shall maintain excellence and efficiency in operations, including good governance, organisational measures to maintain stable, international private sector organisation, and shall maintain relevant technical and business experience for members of the Board of Directors, executive management, and staff. ICANN will implement appropriate mechanisms that foster participation in ICANN by global Internet stakeholders, such as providing educational services and fostering information sharing for constituents and promoting best practices among industry segments.
10. *Corporate Administrative Structure* – ICANN shall conduct a review of, and shall make necessary changes in, its corporate administrative structure to ensure stability, including devoting adequate resources to contract enforcement, taking into account organisational and corporate governance best practices.

The Appendix to this report lists a number of key activities against each of the responsibilities described here. That Appendix appears in presentation format so it can be used as a reporting resource. It is not intended to be exhaustive. Rather, this annual report should be read as the detailed record of these responsibilities as well as ICANN’s progress against the bylaws and the current Strategic and Operating plans.

STRATEGIC PLAN FOR THE NEXT THREE YEARS

In anticipation of the signing of the Joint Project Agreement, ICANN and its community began to develop a Strategic Plan that encompasses projects of importance to the Internet community and related to ICANN's narrow remit.

The present Strategic Plan began its development at the ICANN meeting in Luxembourg in July 2005. Extensive consultation with the community took place through workshops with the supporting organisations and advisory committees. Sessions were also held in French and Spanish. At the request of the community, additional questions were posted for comment on a public forum on the ICANN website.

These consultations led to an issues paper published in September 2005. Comments were sought through a public forum on the ICANN website and also through the supporting organisations and advisory committees.

Representatives from all supporting organisations and advisory committees met with members of the Board and senior staff in Marina del Rey in October 2005 to summarise the key challenges and opportunities that faced the ICANN community and to draft strategic objectives for the next three years.

The community then reviewed the Strategic Plan through another period of comment. At ICANN's Vancouver meeting in December 2005, the Chairs of supporting organisations and advisory committees, the Chairman of the Board and senior staff further refined the strategic objectives. These were posted on the ICANN website and comments were gathered in English, French and Spanish at public forums during the Vancouver meeting. Similar sessions were held at the Marrakech meeting with the addition of a session in Arabic. The website public forum was kept open until mid-February 2006 to allow all those who were interested to provide comments.

The ensuing Strategic Plan is based on bottom up, multi-phase consultation and attempts to set out the community's views of its priorities over the next three years as ICANN continues to evolve as a global organisation serving the Internet community in maintaining the stability and security of the Internet's unique identifier systems.

After consideration, the ICANN community identified these five objectives within the Strategic Plan.

Objective 1 – Organisational excellence in operations

If ICANN is to continue to serve a growing stakeholder base effectively, it must strive to further improve its basic operational functions. Given expected increases in activities related to meeting the core mission and continuing attention to stability and security, operational excellence is critical to ICANN's success. Accordingly, ICANN will continue to pursue and adopt adequate, diverse forms of funding models.

Objective 2 – Organisational excellence in policy development

The continued evolution of the Internet, especially the domain name system, brings with it an increasing number of policy issues of ever increasing complexity that must be decided through the ICANN multi-stakeholder consensus process. Given this growth, the ICANN community must further improve its policy processes to deal with these challenges.

Objective 3 – Increased international participation in ICANN and the use of the Internet system of unique identifiers

ICANN is a global forum for the discussion of issues affecting the stability and security of the Internet's unique identifier systems. At this stage of the evolution of the Internet and of ICANN's own evolution as an organisation, it is appropriate to review and improve ICANN practices and procedures to ensure that they are designed to serve and support a global audience as effectively as possible.

Objective 4 – Increased participation in and efficiency of the ICANN multi-stakeholder environment

One of ICANN's great strengths is the multi-stakeholder environment in which issues are debated and resolved. ICANN must continue to build on that strength by improving participation in the process on the part of key stakeholders. As one of a number of organisations that are concerned with Internet governance, ICANN must clearly communicate its unique role and engage other organisations in dialogue on matters of common concern.

Objective 5 – Work towards a post-MOU ICANN

In September of 2006, ICANN began performing its responsibilities under a Joint Project Agreement with the U.S. Department of Commerce. That agreement enables ICANN to assume greater authority and responsibility over its projects and its ability to meet the needs of the global community. ICANN must engage the community now in developing options for how ICANN might operate after the completion of the memorandum of understanding.

OPERATING PLAN FOR 2006–2007

Each ICANN Operating Plan is a one-year action plan targeted at accomplishing the objectives set out in the three-year Strategic Plan containing specific projects to be initiated, continued or closed during a fiscal year. Throughout the first half of each fiscal year, ICANN develops its Strategic Plan in consultation with the ICANN community, and the Strategic Plan is then approved by the ICANN Board of Directors at an ICANN meeting.

During the second half of each fiscal year, ICANN focuses on developing an annual Operating Plan and budgets. This one-year plan also allocates resources and deliverables, and becomes the roadmap to accomplishing the objectives of the Strategic Plan.

ICANN's project planning cycle tracks the fiscal year. During the planning phase, ICANN is performing against the outcomes in an established Operating Plan and developing a draft Strategic Plan for the coming fiscal year in collaboration with the community.

The draft Strategic Plan for the 2006–2007 fiscal year and a description of the planning process is available at <http://www.icann.org/strategic-plan/consultation-process-2006-07/>.

MANAGEMENT OF OPERATING PLAN OBJECTIVES

Once the process for developing, approving and implementing Strategic and Operating plans was formalised, the next step was to replace legacy project management approaches with a methodology that is more formal, more comprehensive and more transparent, and one that requires project managers to measure progress towards achieving their goals through the use of best practices.

ICANN selected and implemented the methodologies developed by the Project Management Institute (PMI), which has a membership of more than 200,000 professionals representing 125 countries around the world.

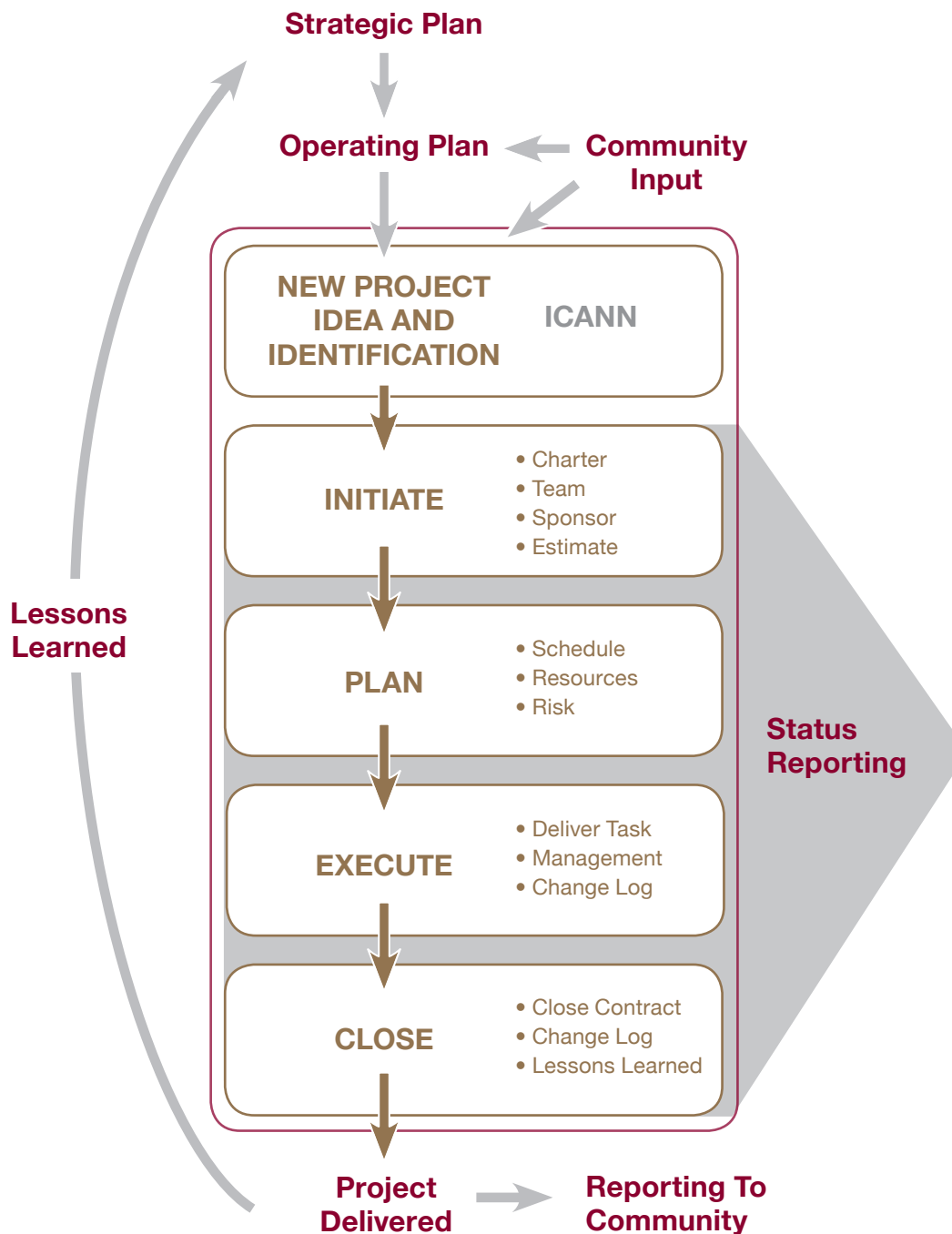
Since the Strategic and Operating plans came into force, a team of project management professionals has been in place in the Marina del Rey and Brussels offices to train ICANN staff in project management techniques and tools and to provide guidance in defining, initiating, monitoring and controlling these projects.

PROGRESS ON OPERATING PLAN PROJECTS

Currently more than 50 projects are under way. Many projects will be completed during the July 2006 to June 2007 fiscal year. Other projects currently in the execution phase will roll into the next Operating Plan year. This practice aligns with the Operating Plan guidelines, which state that projects need not end at the conclusion of a fiscal year.

To see the status of progress to date for all ICANN projects against the objectives in the current Operating Plan, go to <http://www.icann.org/announcements/operating-plan-status-30nov06.pdf>.

Life Cycle of an ICANN Project – The more than 50 projects that ensued from extensive consultation with ICANN's community were codified in the 2006–2007 Operating Plan.



ICANN MEETINGS

ICANN holds three meetings each year in different geographical locations. One meeting each year is considered the official annual meeting, during which the Board is reconstituted and newly elected board members take their place. These meetings provide excellent opportunities for outreach and face-to-face policy discussion. Meetings are supported by a host city and sponsorships are sought to help defray the cost of running the meetings as well as assisting with logistics.

Wellington, New Zealand 25–31 March 2006

More than 700 delegates from 82 countries gathered for the Wellington meeting, where the community focussed principally on Board approval of the 2006–2009 Strategic Plan and its importance in addressing the future challenges of the domain name system (DNS) and the Internet. For regional attendees, the meeting had particular relevance as the issues of access and availability of the Internet in the Pacific Islands are unique in the world.

The Security and Stability Advisory Committee examined recent distributed denial of service attacks on the DNS and attempted to identify near-term and long-term measures to reduce the threat of these and similar attacks. They also considered the challenge of alternative top-level domain name systems and root services on the stability of the DNS.

The community participated in focussed discussions and meetings on both policy and technical trial issues surrounding the introduction of Internationalised Domain Name (IDN) top-level domains. In addition, an Internet users' forum was held to discuss a process for ensuring that the launch of new top-level domains will meet the needs of the world's users and registrants.

Attendees also discussed local Internet community issues, including relations with country-code top-level domains and local community involvement in international discussions on Internet governance, and the World Summit on the Information Society (WSIS) process was reviewed.



Wellington attendees find seats for the opening ceremony.



Some members of the Governmental Advisory Committee take a moment for a formal photograph.



Simultaneous translation takes place at all ICANN meetings – seen here projected behind the speaker.

Marrakech, Morocco 26–30 June 2006

As an outcome of WSIS activity this year, ICANN drafted initiatives to increase the effectiveness of cooperation with governments, particularly as it relates to participation by developing countries. The Governmental Advisory Committee's role in this field is especially critical. Governmental perspectives on the public policy aspects of the Whois database was a key topic at one of the Marrakech sessions.

The Generic Names Supporting Organisation (GNSO) held a public forum in which the Internet community had the opportunity to give the GNSO council feedback on key issues such as how new gTLDs should be introduced and what domain name registration data, or Whois data, should be available for public access.

Another workshop provided attendees a detailed look at how the domain name marketplace operates today and explored how some of the more controversial aspects of behaviours in this marketplace are evolving.



Attendees discuss policy issues surrounding the gTLD Whois database.



SSAC Chair Steve Crocker hosts workshop on DNSSEC protocol.

On a related issue, the Security and Stability Advisory Committee (SSAC) held a public meeting to discuss the consequences of domain name registration lapses in situations where another entity registers a lapsed domain. Referred to as domain name “tasting” and “kiting,” it is believed by many to be increasingly costly to monitor and defend against as a possible violation of the rules governing the reservation of domain names. The SSAC also hosted a workshop on its ongoing work on the DNS Security Extension (DNSSEC) protocol, which is designed to protect the DNS from certain types of attacks.

Two workshops were held to enable the community to see the latest developments in Internationalised Domain Names (IDNs). Both ICANN and the global community feel strongly that ensuring that the resources of the Internet are available in local scripts continues to be a vital issue. The workshops provided updates on both policy and technical activities related to IDNs.

São Paulo, Brazil 2–8 December 2006

More than 720 delegates from 90 countries gathered in São Paulo, Brazil, for ICANN's 27th annual international meeting.

A key feature of the week was the formation of the Latin America–Caribbean Regional At-Large Organisation (RALO), which unites 22 Internet user groups throughout the region in a single purpose, to give Internet users greater input into ICANN's processes. RALOs are the culmination of considerable effort by community groups in collaboration with ICANN, and with the LAC RALO having taken the lead, other RALOs in the Africa, Asia–Australia–Pacific, North America, and Europe regions are expected to take their place in ICANN's multi-stakeholder processes in the near future.

Other noteworthy events included the signing of the .asia Registry Agreement with the sponsor, DotAsia Organisation, which was approved by the Board in October, and the addition of Ecuador, Jamaica and Norway to the Country-Code Names Supporting Organisation (ccNSO), bringing membership in the ccNSO to 57 countries.



ICANN and DotAsia Organisation sign .asia Registry Agreement.

Registry agreement renewals for the .biz, .info and .org top-level domains were approved by the Board after a public comment and review period. The agreements contained several revisions based on feedback from the community throughout the process.

In addition, the 2007–2010 Strategic Plan was approved after consultation.

In pursuing Items 2 and 3 of the Affirmation of Responsibilities by the Board following the signing of the Joint Project Agreement, which encompasses greater transparency and accountability on the part of ICANN, a schedule for periodic reviews of ICANN's structure and operations was adopted. These reviews are intended to ensure an independent examination of the role and operation of key elements of ICANN. The London School of Economics review of the Generic Names Supporting Organisation's processes in September reinforced the value of such independent reviews. The reviews will be conducted objectively by independent evaluators under guidance from the Board on the review's terms of reference. The schedule of reviews is outlined in the policy section of this report on page 25.

In addition, in a further attempt to improve ICANN's transparency and accountability, a consultation on a set of Management Operating Principles (MOPs) commenced on 16 October 2006. A summary of initial comments was posted on the ICANN website, and the first commentary phase ended 31 December. One World Trust (www.OneWorldTrust.com) was also engaged to assist in the review of ICANN's accountability and transparency measures as they exist.

In accordance with the bylaws, the Board was reconstituted at this annual meeting, as three Directors concluded their terms of service and three new Directors were appointed by the Nominating Committee. The Nominating Committee is composed of representatives from community groups and is responsible for selecting eight of the 15 members of the Board.



Historic formation of the Latin America-Caribbean Regional At-Large Organisation (LAC RALO) is celebrated.

Additional progress was made in Internationalised Domain Names (IDNs), culminating in a Board resolution that acknowledged the substantial work that has been undertaken throughout this process by the many volunteers in the technical community and the IDN President's Advisory Committee. The Board also acknowledged the preliminary laboratory tests conducted by Autonomica AB and the development of root zone application test plans as significant steps towards the deployment of IDNs. The Board called for a continuation of efforts from the many groups contributing to the resolution of the many issues surrounding this project.

The Board also requested that the ccNSO and the Governmental Advisory Committee, through a joint collaborative effort and in consultation with the technical community, produce an issues paper relating to the selection of IDN ccTLDs associated with ISO 3166-1 two-letter codes.

ACTIVITIES OF ICANN ADVISORY COMMITTEES AND SUPPORTING ORGANISATIONS

These reports of activities by the advisory committees and supporting organisations during the reporting year were compiled by ICANN staff based on records of the three ICANN meetings and proceedings from other regular policy discussions.

Governmental Advisory Committee Mohamed Sharil Tarmizi, Chair

The Governmental Advisory Committee (GAC) provided input to the Board on several consensus-based policy decisions, among them the Whois requirements and privacy laws and IDNs. Since the World Summit on the Information Society (WSIS), the GAC has been instrumental in supporting ICANN's review of measures to be taken to make cooperation with governments more effective, including ensuring the participation of developing countries. GAC activity is essential to the success of those efforts.

The GAC also advised the GNSO on the public policy aspects in the draft Initial Report by the GNSO's Committee on New Top Level Domains. A draft Final Report is being prepared for the committee's consideration. Steps are being taken to ensure that new gTLD implementation challenges and ICANN's cross-functional IDN activities are accounted for in developing the draft Final Report. The GNSO and the GAC collaborated on developing the report, and the GNSO hosted a public forum on new gTLDs at the São Paulo meeting.



Governmental representatives meet in Marrakech.

At-Large Advisory Committee Annette Mühlberg, Chair

The number of Internet user organisations certified as At Large Structures (ALSs) continues to increase worldwide to a new total of 71, with eight new ALS certifications in the first week of October 2006 alone. A list of groups, which range in size from 25 to 250 members, is posted at <http://www.alac.icann.org/applications/>. ALS certification recognises groups that involve individual Internet users at the local or regional level in an issue or issues addressed by the ICANN community. Participation as an ALS facilitates input on ICANN activities and processes that affect users via contributions to the At-Large Advisory Committee (ALAC). ALS certification also enables groups to participate in the creation of a Regional At Large Organisation (RALO). RALOs are intended to be the main focal point for At-Large information sharing and participation in each region, and they select members of the At-Large Advisory Committee as their representatives.

With ICANN support, At-Large community leaders are finalising memorandums of understanding to launch RALOs in the Africa, Asia-Australia-Pacific and Europe regions. At-Large groups in Canada are planning a second outreach meeting to discuss At-Large organising in North America. Once At-Large groups in these regions agree on final memorandum of understanding language, the memorandums will be presented to the Board for approval and the RALOs can be launched. As mentioned earlier, the first of these—the Latin American Caribbean RALO—was launched at the São Paulo meeting.



The first Regional At-Large Organisation, the Latin America-Caribbean RALO, is launched at the São Paulo meeting.

DNS Root Server System Advisory Committee Jun Murai, Chair

The Root Server System Advisory Committee (RSSAC) met three times during 2006 in conjunction with the Internet Engineering Task Force (IETF) to review the latest developments in operational topics such as anycast deployment and service upgrades to root nameservers, research presentations, and forward-looking discussion of support by the root nameservers for future technical evolution of the DNS.

Meeting delegates included operators of root nameservers, liaisons from the Security and Stability Advisory Committee, the U.S. Government and the Internet Architecture Board, as well as representatives from the regional Internet registries (RIRs) and the research community. The outcomes of those meetings and other committee proceedings are described here.

There are now more than one hundred root servers located around the globe, deployed by several operator organisations via anycast. In addition, the committee regularly assesses the readiness of the root nameserver system to support DNSSEC development. Most root servers can support DNSSEC today, and the rest will have this ability in the near future.

RSSAC and the Security and Stability Advisory Committee formed a joint working group in 2006 to produce a detailed report on the issues surrounding the deployment of IPv6 DNS records for the root nameservers. A preview of the report was presented in São Paulo, and a draft for public comment is expected in early 2007. The final document will provide detailed guidance to IANA and discussion for technical review by the community on adding the necessary records to the root zone to support access over IPv6 for those who have deployed such capacity. Five root servers have such capacity to date, with more to follow.

IANA solicited comments from RSSAC on operational details for deployment of DNSSEC for a signed .arpa zone, which is carried on the same servers as the root. In addition, ICANN solicited RSSAC's review and advice on test plans for the possible mechanisms proposed for including IDNs in the DNS root zone.

The committee worked with ICANN staff on improving the committee's website, which should roll out in early 2007. The site now contains more information about the way the committee operates and its efforts on behalf of the Internet community.

Notes from the RSSAC meetings can be found at: <http://www.icann.org/committees/dns-root/>.



Attendees at a reception at the Marrakech meeting held in June.

Security and Stability Advisory Committee Steve Crocker, Chair

ICANN's Security and Stability Advisory Committee (SSAC) spent considerable time in 2006 studying and advising the community on variety of domain name and registration related abuses and incidents.

In the first quarter, a new form of publication was introduced, termed "Advisory," which allows SSAC to quickly identify a problem, explain the impact and offer remedies. The first Advisory published was on *Distributed Denial of Service Attacks against TLDs*. In that Advisory, advice offered several years ago was reiterated and said top-level domain (TLD) operators and the Internet community at large should validate source IP addresses at ingress points to the Internet. Working with the community on this matter, we are happy to report that the U.S. National Institute of Standards and Technology now includes source IP address validation as advice in its draft recommendation on Border Gateway Protocol Security. See section 4.2.3, IPv4 Filtering Guidelines, in <http://csrc.nist.gov/publications/drafts/800-54/Draft-SP800-54.pdf>.

Through the SSAC Fellow, an article was published on distributed denial of service (DDoS) amplification attacks in the *Journal of the ENISA*, a respected European security association. SSAC also published a report on alternative TLD name systems and roots that explains the motivations, business models and issues that can arise when multiple parties attempt to claim authority over the root level of the domain name system and registration services.

Mid-year, and stimulated by requests from the community and the PIR gTLD registry, SSAC studied issues related to the domain name registration and renewal practices. SSAC prepared two Advisories that provide practical guidance to registrants. These Advisories, SAC010 and SAC011, identify registration best practices, i.e., how registrants can avoid unanticipated and potentially harmful consequences caused by the nonrenewal of a domain name, and explain the domain name after-market so that registrants are well informed of their options and opportunities with respect to name renewal.

SSAC also studies matters related to other sets of the Internet's unique numbers. In July, SSAC reviewed and commented on a new global policy for allocating IPv6 addresses.

In the third quarter of 2006, SSAC studied registration records for the Whois data. Using a large sampling of registration records from several gTLDs, SSAC determined the extent to which personal information could be extracted from registration records and prepared a presentation titled *Information Gathering using Domain Name Registration Records*, SAC014. At ICANN's request, SSAC revisited the use of synthesised responses by TLD registries and prepared both a formal reply to ICANN and a short publication: SAC015, *Why TLDs Should Not Use Wildcard Resource Records*. Jointly with the RSSAC, SSAC also began a study on the impact the inclusion of IPv6 address records would have when they are introduced into the root level of the domain name system. At the São Paulo meeting, the committee presented a report on technical issues. Work is continuing and a report on specific findings and recommendations is in preparation.

Finally, SSAC made major improvements to its website. It now contains more information about the way the committee operates and we maintain a current work plan. The site also includes all previous reports and recommendations, most presentations and a new section of external resources — primarily works of members of the committee. The site is also easier to navigate. SSAC has also begun a review of its procedures and practices. This is a precursor to an internal assessment to be performed in 2007.

Address Supporting Organisation **Sebastian Bellagamba, Chair**

The Address Supporting Organisation (ASO) submitted a new proposed global policy for IPv6 address allocations, which was unanimously endorsed by the ASO Advisory Council and ratified by the ICANN Board in September of 2006. This policy addresses allocation of IPv6 addresses by the Internet Assigned Numbers Authority to regional Internet registries.

Country Code Names Supporting Organisation **Chris Disspain, Chair**

In 2005, the ccNSO Council initiated a policy development process (PDP) to consider changes to ICANN bylaws Article IX (Country-Code Names Supporting Organisation), Annex B (ccNSO policy development process) and Annex C (the scope of the ccNSO) to address a number of issues identified as obstacles to some ccTLD managers joining the ccNSO.

At the end of 2005, the ccNSO Council submitted a report to the Board containing eight ccNSO recommendations for changes to improve and clarify the bylaws on the ccNSO and the ccPDP. These recommendations resulted from extensive consultation within the ccTLD community and were supported by a formal vote of ccNSO members.

Early in 2006, the Board approved seven of the eight recommendations proposed in the Board Report. The Board initially rejected a recommendation regarding good faith notice and consultation, but later approved a supplemental recommendation.

Also in 2006, the ccNSO published its *Guidelines for ccTLD Managers Accountability Framework Discussions with ICANN*, which had been developed by the ccNSO Accountability Framework Working Group from extensive discussions and consultations with ccTLD managers over an 18-month period. These guidelines enabled ICANN to make considerable progress in formalising relationships with ccTLD.

In response to the review of ICANN regions, the ccNSO has established a working group to prepare a paper on the ICANN regions and how they affect ccTLDs. As part of the consultation process in preparing the paper, the ccNSO has sought input from ccTLD managers through a questionnaire and a presentation at the meeting in São Paulo. Additional information is posted at <http://survey.icann.org/cgi/ccnso/>.

Generic Names Supporting Organisation **Bruce Tonkin, Chair**

The GNSO participated in two workshops to define objectives and develop plans to improve their work and made progress in developing policy about introducing new gTLDs, Whois, contractual conditions for existing gTLDs and IDNs.

The London School of Economics Public Policy Group's independent review of the GNSO concluded in September 2006. The LSE report is posted at www.icann.org/announcements/announcement-15sep06.htm.

The Board Governance Committee and the GNSO Chair are developing a plan to engage the Board, the GNSO and the community in developing recommendations to improve the GNSO's structure, operations and processes.

Since July of 2006, the Whois Task Force has met at least every two weeks to address the purpose of the Whois service, the Whois technical and administrative contacts and the purpose of collecting data, which data should be available to the public, how to improve Whois data accuracy and how to deal with conflicts between Whois requirements and local or national privacy laws. Background information is posted at <http://gns0.icann.org/issues/whois-privacy/>.

The task force is refining a Whois service proposal called the *Operational Point of Control (OPoC)*. Under OPoC, one operational contact will eliminate the technical and administrative contact details currently required, thereby simplifying the process considerably.

The Preliminary Task Force Report was posted for a public comment period in November. A final Task Force Report, which will be posted for a public comment period, then will be voted on by the task force. The GNSO Council plans to consider the Final Task Force Report early in 2007.

Following GNSO and Board adoption of a consensus policy for handling such conflicts, the Board requested that further input be solicited from ICANN's supporting organisations and advisory committees. This step resulted in a procedure for ICANN to respond to situations in which a registrar or registry operator/sponsor demonstrates that it is legally prevented by local or national privacy laws or regulations from fully complying with the provisions of its ICANN contract for the collection, display and distribution of personal data through Whois. While the procedure covers possible actions for a registry operator/sponsor or registrar, it does not impose new obligations on registry operators/sponsors, registrars or third parties. Instead, it informs affected parties of the steps to be taken when ICANN receives a report of a possible conflict between other legal obligations and the ICANN Whois contractual requirements. The proposed procedure was posted for comments from the community in December 2006.

The GNSO's Committee on New Top Level Domains made considerable advances in its policy development process during consultations in Brussels, Wellington, Marrakech and Amsterdam, and the committee continues its work via conference calls and emails. In addition, comprehensive public consultations through public comment periods and a call for expert papers has contributed to the process. The New gTLD Committee, which was formed from the GNSO Council to address this policy development process, is focused on selection criteria, allocation methods and contractual conditions.

Public comments on a draft Initial Report issued in February (see <http://gns0.icann.org/issues/gtld-policies/>) were incorporated into an updated Initial Report that was released for public comments in June (see <http://gns0.icann.org/issues/gtld-policies/>). The main elements of the report facilitated consultation with the Governmental Advisory Committee about the public policy aspects of new TLDs. A draft Final Report is being prepared for the committee's consideration.

Steps are being taken to ensure that new gTLD implementation challenges and ICANN's cross-functional IDN activities are accounted for in developing the draft Final Report, which the committee distributed for public discussion at the São Paulo meeting. The GNSO and the Governmental Advisory Committee worked further on the report and held a public New gTLDs Forum at the São Paulo meeting.

The development of IDN top-level policy is a part of ICANN's overall IDN program. To address the potential that applications for internationalised top-level labels could be received in the next new gTLD round, the New gTLD Policy Development Process (PDP) Committee increasingly deliberated over IDN TLD aspects. The committee also discussed the policy aspects of new IDN gTLDs in an August 2006 meeting in Amsterdam.

To consider pre-registration of IDN gTLD labels in the first round of new gTLDs, the GNSO launched an IDN Working Group, which initially addressed string checking of IDN gTLD labels, including minimum string length, permissible scripts/languages and script-language consistency in strings. With ICANN support, the group will address these issues and produce a draft *IDN Guidelines for the Top-level* based on the existing IDN guidelines and on inferences from current praxis for gTLDs. Additional information is posted at <http://gns0.icann.org/issues/idn-tlds/>.

Considerable work is being done in the Generic Names Supporting Organisation (GNSO) policy development process. The GNSO is working to establish and operate a new gTLD program office, to realise the work of the Whois Task Force, and to provide input in the development of Internationalised Domain Names. The GNSO community completed a consensus policy for evaluation of new registry services. This effort culminated in the Registry Services Evaluation Policy (RSEP), also called the "funnel," which is already being used by the registries.

REPORTS OF ACTIVITIES FROM ICANN DIVISIONS

Internet Assigned Numbers Authority

Services and Responsiveness

With an increase in personnel, ICANN's IANA function has improved services and responsiveness over the full range of activities that IANA performs. These improvements helped support ICANN's successful effort to win a new contract with the U.S. Department of Commerce for performance of the IANA functions. This contract, signed 15 August 2006, is a sole-source contract with a period of one year plus four renewal periods. The award of this contract means that ICANN will continue to perform the IANA function during the term of the new Joint Project Agreement between ICANN and the Department of Commerce.

Staffing

IANA staff has grown from five to 11-1/2 full time staff members, and personnel assignments have been reorganised to align with various IANA responsibilities. We have developed two new positions at the same level as the existing Names Liaison, an IETF Liaison and a Numbers Liaison. The former Registration Service Manager of RIPE-NCC joined IANA as the Numbers Liaison. He will handle the relationships with the addressing community and the periodic requests IANA receives for address and autonomous system number allocations. In addition, the former Internet Engineering Task Force Liaison now works in concert with IANA Operations to ensure that all IETF responsibilities are addressed. Currently, four full-time employees and expert contractors are now assigned to handle IETF-related requests, which represent more than 70 percent of IANA's day-to-day work.

Two full-time staff members perform root management and other domain related issues, including management of .int.

IANA currently has one additional position open for an operations person and a new position has been created for the IANA Development Manager. Recruiting for these new positions is ongoing.

New Request Tracking System

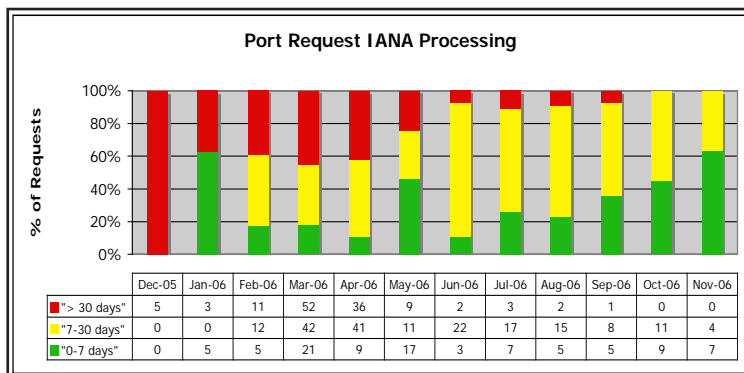
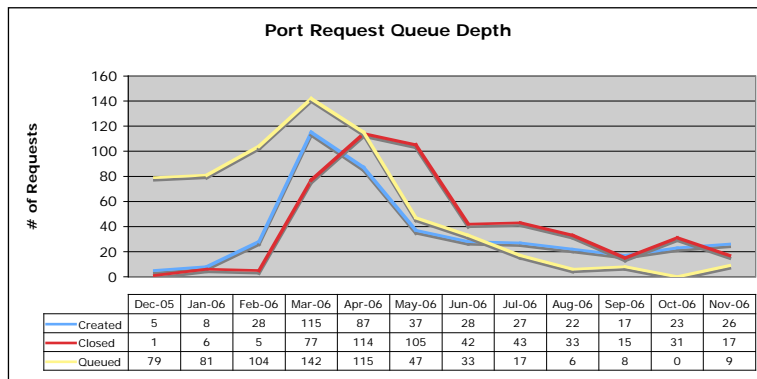
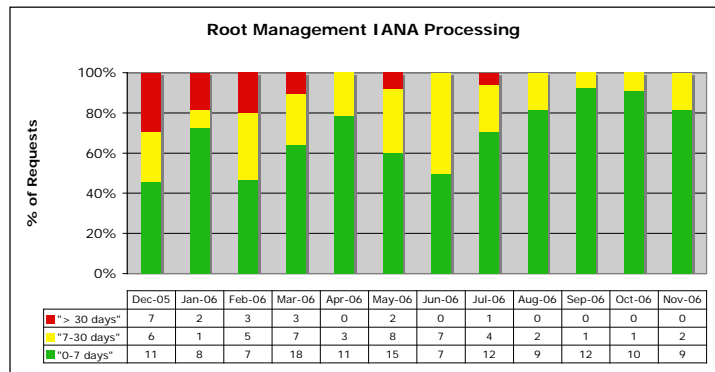
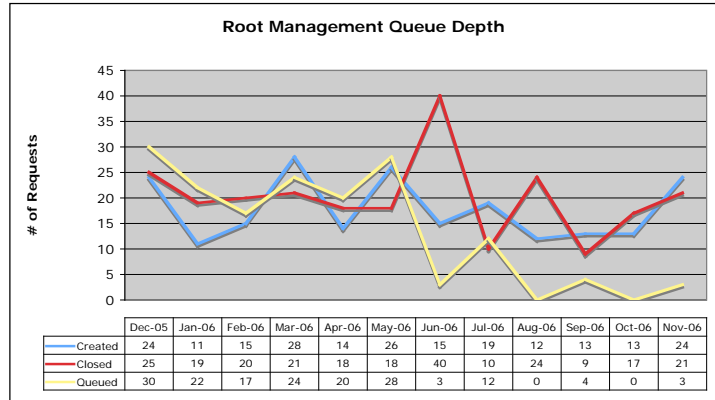
IANA continues to develop automated tools and systems. The ticketing system, Request Tracker, or RT, continues to be upgraded and customised to better manage request processing and to develop a set of statistics by which senior staff can assess productivity and efficiency. IANA has also undertaken the development of a more highly automated system to accept and process resource requests, particularly those in which the number of requests is highest (e.g., private enterprise numbers) or the sensitivity of requests is greatest (e.g., root management requests). While this development has taken longer than anticipated, production deployment of the new automated systems is expected during the first quarter of 2007.

Request Processing

IANA has implemented many changes in request processing and has improved efficiency and productivity. IANA has handled approximately 2,900 requests — not including requests complaining about abuse such as spam coming from address space listed as “Reserved by IANA” — since 1 January 2006. The overall mean time to complete these requests has been a consistent 20.5 days during this period. The charts that follow illustrate IANA's improved capabilities. The charts use different time periods based on when the data tracking began in our ticketing system.

Root zone management is a critical, high-visibility portion of the IANA function. IANA processes requests from TLD managers for changes in their root zone information, primarily their DNS, and IANA verifies the requests and forwards them to the U.S. Department of Commerce and VeriSign for inclusion in the published root zone.

IANA's productivity in this area has increased significantly, and requests are now routinely fulfilled in 14 or fewer days, with IANA's efforts regularly completed in 7 or fewer days.



Port requests are submitted by community members who have designed network or software applications that must communicate via a designated port. IANA reviews requests for new user ports according to criteria established by the Internet Engineering Steering Group (IESG). This element of IANA's work is seen by only the few who request ports from IANA, but it is significant for the technical community. IANA has managed to eliminate the outstanding queue of requests from prior years, and has engaged highly experienced technical evaluators for this process.

Improvements in IANA processing mean that IANA addresses these requests promptly, and concludes the work with the requester in an expeditious manner.

Policy Support

Whois Task Force

Under the GNSO Council-approved policy development process, the Whois Task Force is addressing the purpose of the Whois service, the purpose of the Whois contacts (e.g., technical and administrative contacts) and the purpose of the collection of data, which data should be available for public access, how to improve Whois data accuracy and how to deal with conflicts between Whois requirements and local or national privacy laws. Background information is posted at <http://gns0.icann.org/issues/whois-privacy/>.

A Preliminary Whois Task Force Report was posted for a public comment period in November 2006. The task force will consider the comments and guide ICANN staff in drafting the Final Task Force Report. This report also will be posted for a public comment period, then will be voted on by the task force. The GNSO Council is expected to consider the Final Task Force Report during the first quarter of 2007.

New Generic Top Level Domains

The New gTLD Committee, which was formed by the GNSO Council to address this policy development process, is focused on selection criteria, allocation methods and contractual conditions. Comprehensive public consultations through public comment periods and a call for expert papers has contributed to the process.

Internationalised Domain Names

To consider pre-registration of IDN gTLD labels in the first round for new TLDs, the GNSO recently launched an IDN Working Group, which initially will address string checking of IDN gTLD labels, including minimum string length, permissible scripts/languages and script-language consistency in strings. These issues will be addressed by the group and will result in a draft IDN Guidelines for the top level based on the existing IDN Guidelines as well as on inferences from current praxis for gTLDs.

Contractual Conditions Policy Development Process

Work on policies for the contractual conditions policy development process continues with a revised work schedule under discussion by the GNSO's Contractual Conditions Task Force. The task force is responsible for this policy development process and ongoing work on the terms of reference for the process.

At the beginning of October 2006, the task force formed rapporteur groups that divided the work in an effort to advance a task force report for submission to the GNSO Council. ICANN provided the task force with expert materials that address part of the terms of reference. The task force and the rapporteur working groups met twice weekly through October and into November to complete their work. Additional information is posted at <http://gns0.icann.org/issues/gtld-policies/>.

WIPO-2

A proposal for a partial introduction of World Intellectual Property Organisation (WIPO)-2 rules regarding International Governmental Organisation names and abbreviations is being discussed in a small group led by the Intellectual Property Constituency. No proposal has been developed for Council discussion as yet.

ASO Advisory Council

Staff members continue to participate as observers in the Address Supporting Organisation Advisory Council (ASO AC) meetings and conference calls. In September, the Board ratified the *Proposed Global Policy for IPv6 Address Allocation*, which was unanimously endorsed by the ASO AC. The policy addresses allocation of IPv6 addresses by the Internet Assigned Numbers Authority to regional Internet registries. Additional ASO information can be found at <http://aso.icann.org/>.

Staff assisted the ccNSO in considering terms of reference for the review of ICANN regions to help ensure that the review addresses the ccNSO's concerns about the regions. ICANN's third review of its regions will be the first opportunity offered the ccNSO to be involved in the review. Additional information is posted at <http://survey.icann.org/cgi/ccnso/>.

ICANN signed accountability frameworks or contracts with 15 ccTLD operators during 2006. More than 45 percent of all registrants in the ccTLDs are now covered by these or other agreements.

As explained earlier, the number of individual Internet user organisations certified as At-Large Structures (ALSs) continues to increase worldwide with 71 groups participating in At-Large. A list of user groups is posted at <http://www.alac.icann.org/applications/>. Additional staff support was added in September to assist with the increasing demand for At-Large involvement. Staff members helped organise regional user community meetings in Wellington, Frankfurt, Toronto, Marrakech, Berlin, Buenos Aires, Athens, and São Paulo during 2006. Once At-Large groups in these regions agree on final memorandum of understanding language, the memorandums will be presented to the Board for approval and the RALOs can be launched.

ICANN's bylaws require a series of independent reviews to help ensure an independent examination of the role and operation of key elements of ICANN, and are part of ICANN's commitment to its evolution and improvement. These reviews are to be conducted in an objective way by independent evaluators, under guidance from ICANN's Board on the review's terms of reference, and with opportunity for public review and comment on the results of the reviews.

The independent review of the GNSO was conducted by the London School of Economics Public Policy Group and was completed in September 2006. It was immediately posted for public comment at www.icann.org/announcements/announcement-15sep06.htm. ICANN's Board, under the guidance of the Board Governance Committee, is considering input and discussing follow-up plans to engage the Board, the GNSO and the broader community in developing recommendations to improve the GNSO's structure, operations and processes.

ICANN's Board has approved a schedule for the conduct of additional independent reviews of supporting organisations, councils, and advisory committees as required under the Bylaws Article IV, Section 4:

• Nominating Committee	estimated December 2007
• At-Large Advisory Committee	estimated February 2007
• Corporate Administration, including the ICANN Board	estimated July 2007
• Root Server System Advisory Committee	estimated October 2007
• Security and Stability Advisory Committee	January 2008
• ccNSO Supporting Organisation	July 2008
• Address Supporting Organisation	December 2008

Global and Strategic Partnerships

Communications Planning and Outreach

The Regional Liaison network was formed in 2006 through recruiting regional liaisons, a deputy manager and appropriate administrative support.

Team members defined business plans tailored to each region that incorporate ICANN's Operating and Strategic plans, and at the end of June conducted a mid-term revision of the plans to ensure that new needs and specific regional focuses were being recognised and met. Team members also developed a communications strategy and have assisted ICANN staff by gathering input from the local communities with which they work.

Stakeholder Support

The Regional Liaison team has supported the organisation of workshops, seminars and outreach events at multiple levels, enlarging the ICANN platform of stakeholders and educating them on ICANN's mission and goals. Team member involvement in recent ccTLD workshops in Sofia and Dubai, registrar-related events in Europe, and developing relationships with local Internet communities throughout the regions has enhanced regional presence in ICANN-related activities. Their participation in Internet community-related events touching on issues under ICANN's mandate in such forums as CITELEPPC.1, CTU, Trinidad and Tobago Computer Society, Highway Africa, EGENI, e-STAS, EIF and Taqnia has proved the value of having a regional approach within the global Internet community. Regional Liaisons have also provided support to further the formation of regional At-Large organisations such as EURALO, NARALO, Asia-Pacific and Africa, and the establishment of the Latin America-Caribbean RALO at the São Paulo meeting.

Internet Governance

The Regional Liaison team has also engaged as appropriate in the international and regional discussions about Internet governance. Several team members attended the Internet Governance Forum in Athens, where they assisted in organising two workshops, one on participation, the other on IDNs and multilingualism. ICANN has also co-sponsored two outreach events on Internet governance, one a video conference involving the Latin American countries of Argentina, Brazil, Chile, Colombia, Costa Rica, El Salvador, Honduras, Ecuador, Guatemala, Mexico, Nicaragua, Panama, Peru, Venezuela and Uruguay; and the second an event in the Baltic Region and Eastern Europe. Together with the Number Resource Organisation (NRO) and the Internet Society (ISOC), team members took part in the Internet Pavilion at the ITU Telecom World 2006, and with the Diplo Foundation in other events, including one with the UNECA.

Corporate Affairs

Staffing

ICANN's new Corporate Affairs office was established in June 2006 and began focussing on a number of areas. One key area was recruitment. Department staff now includes a web content developer, a technical writer, a corporate affairs assistant, and a communications and publications manager. Two additional positions remain to be filled: a General Manager Public Participation, a position enshrined in the bylaws, and a Media Adviser.

Website Redesign

There is broad agreement that ICANN must do a better job in the way that it communicates with its constituencies and with the broader community. Given the clear and narrow technical remit of coordination of the Internet's unique identifiers, it's very important that there be a clear understanding about what ICANN does and what it does not do. It's equally important that communications – both internal and external – reinforce ICANN's transparency and accountability. To do that, there has been a focus on improving the look and feel of our website. The GNSO Review by the London School of Economics Report of September 2006 stated:

A main reason why GNSO's visibility on the Internet is currently very low is that there have been serious deficiencies in the design of ICANN's overall website over recent years. These problems have long been known to the Board and the ICANN Chief Executive, arising from previous restrictions on resources and particular personnel issues. However, website problems in the modern age cannot be treated as peripheral or as involving only a dispensable or luxury good. Especially for a body such as ICANN and its main components such as GNSO, a properly working and designed website is an integral element of being an effective organisation at all, and its role in respect of facilitating transparency is of critical importance.

Transparency and Accountability

There have been changes to the website but it is clear that the site needs substantial rework, concentrated on building a content management system and information architecture. Until now the site has grown by accretion and now contains more than 300 directories and 12,000 pages, all managed by hand. This must – and will – change. A keen focus on delivering information to people rather than asking them to search for it has been practised. This has led to the establishment of a weekly subscription newsletter and news alerts service, which means information is now being delivered almost immediately to anyone interested. Anyone interested in subscribing to these services should go to <http://icann.org/communications/newsletter.html> to receive the newsletter and to http://icann.org/communications/news_alerts.html to receive news alerts.

Management Operating Principles

In a further attempt to improve ICANN's transparency and accountability, a consultation on a set of Management Operating Principles (MOPs) commenced on 16 October 2006. A summary of initial comments is posted on the ICANN website, and the first commentary phase ends on December 31. One World Trust (www.OneWorldTrust.com) has been engaged to assist in the review of ICANN's accountability and transparency measures as they exist.

These steps will inform the drafting of a set of MOPs that will be posted for comment in March of 2007, with further discussion to take place at ICANN's Lisbon meeting scheduled for 26–31 March. It is hoped that a final version of the principles will be agreed by the Board in April of 2007. The community has made clear, however, that this process should not be rushed.

Multilingual Outreach

The ability of constituencies, staff and Board to be responsive and more transparent will be expanded with the establishment of blogs, and better ways for the various constituency groups to communicate with the broader community and with each other are also being examined. At the São Paulo meeting, a remote participation site was established, the first of its kind for ICANN. It will become a permanent feature of ICANN meetings.

ICANN also held discussions with the Special Broadcasting Service (SBS), an Australian corporation that provides news and other programming in more than 60 languages, with a view to improving our multilingual communications. This outreach will be a strong focus for 2007.

Business Operations

gTLD Registrar Liaison

ICANN staff developed a beta version of a new registrar database, which was demonstrated at the São Paulo meeting. This database will facilitate communication between registrars and ICANN on business matters such as accreditation status, contract renewal and fee calculation. Registrars will also be able to update their contact information and use the database contacts to resolve inter-registrar issues. This system will enhance ICANN's ability to be responsive to registrar requests, and provide for greater internal efficiency in managing the growing number of accredited registrars.

The execution of a registrar data escrow project began with the formation of a joint working group including ICANN staff and representatives from several interested registrars. The group will create updated specifications and procedures for registrar data escrow, enabling the launch of a comprehensive data escrow program. The program, when fully implemented, will provide additional protection for domain name holders in events such as technical or business failure of a registrar.

Outreach programs to educate, provide a forum for discussion and encourage accreditation applications have been conducted by Registrar Liaison staff in South Korea, China, Japan, Hong Kong, Spain and Egypt.

During 2006, ICANN processed 323 accreditation applications and 163 registry-registrar agreement (RRA) appendices; that is, the new sponsored top-level domains (sTLDs) have signed this many registrars and 22 accreditation renewals. The liaison function has also answered 272 inter-registrar transfer questions (23 percent resulted in formal contractual compliance inquiries). The liaison function responds to 600 to 800 complaints each month received through the InterNic problem report form; 20 to 25 each month result in compliance inquiries.

gTLD Registry Liaison

The policy for considering new registry services adopted in November 2005, or the "funnel" as it is known, is now fully implemented (see <http://www.icann.org/registries/rsep/>). Four applications from registry operators were submitted and considered according to the public timetable. The Registry Services Technical Evaluation Panel has been staffed with talented members and has successfully considered the cases referred to them. This policy ensures that all proposed registry services can be evaluated in a timely manner for any significant security, stability or competition concerns. The review process also provides mechanisms for community input on potential new registry services.

Four new sTLDs (.cat, .mobi, .travel, and .jobs) launched operations during 2006. Three existing sTLDs (.aero, .coop, .museum) are currently engaged with staff in the contract renewal process laid out in their agreements, including consideration of sponsor renewal proposals, public comment periods and subsequent negotiations towards renewal sTLD agreements.

Working towards universal acceptance of TLDs, ICANN developed and published an online tool for verification of top-level labels. The tool, available for use by all application writers, is published in PHP, Perl, Python, C++ and Java. (See <http://www.icann.org/announcements/announcement-03dec06.htm>.)

Contractual Compliance

The office added a Director and a Compliance Officer to its staff in 2006. This office will build on the work that has been done by registrar and registry liaison groups and will also create a proactive compliance program (see <http://www.icann.org/compliance>). Dedicated compliance staff will enhance ICANN's resources for dealing effectively with compliance matters.

ICANN continues to provide compliance-related information to the community, including the third annual report on the Whois Data Problem Reports System (<http://www.icann.org/announcements/wdprs-report-final-31mar06.pdf>) dealing with registrar obligations to investigate reports of inaccurate Whois data and the third annual report on registrar compliance with the Whois Data Reminder Policy (<http://www.icann.org/whois/wdrp-report-30nov06.pdf>). Both studies report improved compliance with these policies. An update on contractual compliance activities published in October 2006 (see <http://www.icann.org/announcements/announcement-06oct06.htm>) highlights results from a gTLD Registry audit covering registry Whois service requirements in June 2006 and statistics on resolution of registrar compliance problems in a number of other areas.

ICANN aggressively investigates Whois problem reports and conducts follow-up audits on registrars that fail to provide adequate information in response to Whois inquiries and surveys. The new registrar database includes a Whois server component that will routinely check on the Whois server status of all active registrars and alert compliance staff to problems for follow-up with noncompliant registrars.

A project to better address user questions and complaints is being undertaken. Improvements are being made to the InterNIC Whois site to provide consumers with the information and resources they seek.

Considerable work was also done in protocol development for IDNs. The new documents out for comment will essentially define the scripts available for IDN registration. This step will provide clarity to the process that was absent before now. Coordinated by Regional Liaison staff and in partnership with other efforts such as regional education by the ICANN Chief Technology Officer, considerable and significant outreach about the IDN program to governments, ccTLD operators and others in the global community has taken place. Most recently, meetings were held with representatives of Middle East governments to advise them of progress in this area. Other consultations have taken place in Europe and the Asia-Pacific region.

Finance

ICANN's Finance and Accounting functions were in a growth and development mode in 2006. Thus, a key focus was on recruitment and building the infrastructure that allows ICANN's financial functions to effectively address the increasing needs of the organisation and our constituencies. New staff members include an accounting manager, an accounts payable accountant and financial analyst. These new people join our accounts receivable accountant. There is still one open position for a senior accountant to handle day-to-day general accounting functions.

Also in 2006, Finance developed and implemented process improvements to increase efficiency and allow for proper documentation and support in accounting records. Greatly improved internal accounting processes enable the department to provide a comprehensive system of financial controls more in line with mid-sized organisations.

A recently implemented new accounts payable ticketing system is providing additional tracking throughout the payment process: receipt of invoice documents, follow-up inquiries and resolutions, payment notifications and timeliness of final payment. Issues encountered during implementation are being worked out, and reports are being developed to track progress and provide key data to further improve ICANN's payment process. This new ticketing system shortens the turnaround time required to process invoices and provides additional clarity and accuracy at each processing stage.

With the addition of project budgets in ICANN's Operating Plan, the department is developing appropriate mechanisms to properly track and report actual project costs against budget. This measure will establish specific accountability for project budgets and give project managers the information necessary to make informed spending decisions to support their projects.

Finally, the audit report and financial statements for fiscal year 2005–2006 appear on page 38.

Human Resources

The major activities in ICANN's Human Resources have been in staffing, systems policies and procedures, and learning and development.

Two online systems have been developed and implemented. One system enables online management of staff performance reviews. A second system contains ICANN employment policies and is currently available to the management team.

New ICANN employment policies have been created or existing policies updated, and all policies are posted in the online system.

Finally, a training program was launched to teach managers best management practices when dealing with a variety of staff issues and to ensure legal compliance.

Office of the General Counsel

Responsibilities

ICANN's Office of the General Counsel continued to provide high-quality legal services to the various functional units within ICANN, including its staff, Board and participatory structures. The office advises ICANN's various business units on all issues that impact or potentially impact ICANN. Such issues include handling corporate and legal filings, managing litigation, providing bylaws interpretation and legal interpretation; advising the Board and staff on legal matters pertinent to or contemplated for the organisation; managing aspects of risk and crisis management; managing external counsel; reviewing and approving all legal documents; verifying bylaws and applicable law compliance; managing the corporation's relationship with the U.S. Government; negotiating in conjunction with other departments significant agreements that ICANN proposes to enter; reviewing and handling daily transactional business; providing support for various ICANN Board members and committees; ensuring staff cooperation with the Ombudsman; monitoring conflicts of interest issues; and ensuring general corporate legal compliance.

Fulfillment of Bylaws

Three regular and fourteen special meetings of the ICANN Board were convened in 2006, including the annual meeting in São Paulo, Brazil. Appropriate Board committees were staffed, including the Executive Committee, Board Governance Committee, Conflicts of Interest Committee, and Reconsideration Committee, and produced reports at the regular ICANN meetings.

As mentioned in the Policy unit report the Board received the completed review of the GNSO Council and the GNSO, and adopted a schedule of reviews for each of the other supporting organisations and advisory committees.

The Board also directed the General Counsel to examine the bylaws provisions relating to periodic review, and to recommend any appropriate changes to reflect the new schedule recommended by the Board Governance Committee. This schedule of reviews can be found on page 25 of this report.

Litigation Support

The office provided legal support to ICANN for the negotiation of the .com registry renewal with VeriSign. Part of that agreement saw the withdrawal of all pending litigation by VeriSign against ICANN. The renewal was approved by the U.S. Department of Commerce in December 2006.

One example of the Office of the General Counsel's work was to defend ICANN against a variety of lawsuits that included competition/antitrust law challenges.

The most recent of these was filed by the Coalition for ICANN Transparency (CFIT) against ICANN, challenging ICANN and the VeriSign Corporation upon entering into the most recent .com and .net agreements.

During 2006, that challenge was dismissed two separate times by a U.S. Federal District Court judge.

Staffing

Office staff has increased in response to litigation and the other responsibilities of a growing organisation. For example, a new senior attorney with extensive litigation and competition law experience was hired in 2006. The office is currently made up of the General Counsel, a Deputy General Counsel, a Senior Counsel, a Regional Business Advisor, and administrative support staff. There are also two additional attorney positions open and an administrative support position, which will round out the General Counsel's office for 2007.

Office of the Ombudsman Frank Fowlie, Ombudsman

The Ombudsman is an independent, impartial and neutral officer of ICANN. The Ombudsman's function is to act as an alternative dispute resolution office for anyone in the ICANN community who may wish to lodge a complaint about a staff or Board decision, action or inaction. The office ensures that members of the ICANN community have been treated fairly. The Ombudsman acts as impartial officer and uses alternative dispute resolution techniques to attempt to resolve complaints about unfair treatment by ICANN.

The ICANN Ombudsman is Frank Fowlie of Canada. His second Ombudsman's Annual Report which contains data about the work of the office and other information are posted at www.icannombudsman.org.

ACTIVITIES OF NOMINATING COMMITTEE

The Nominating Committee (NomCom) of ICANN is responsible for selecting all ICANN directors except the President and those Directors selected by ICANN's supporting organisations. The NomCom is also responsible for some selections to the GNSO and ccNSO Council and the Interim ALAC. The NomCom is composed of 23 members, 17 voting and 6 nonvoting, as outlined in Article VII of the ICANN bylaws. Members of the NomCom are volunteers and are appointed by the Board, supporting organisations, advisory committees, constituencies, the IETF or ICANN's Technical Liaison Group.

The 2005 and 2006 Nominating Committees had two face-to-face meetings, the first for orientation and discussion regarding its processes and procedures, and the second to select nominees.

The 2005 committee received 72 applications, from which it nominated eight candidates for leadership positions. The 2006 committee received 90 applications, from which it nominated seven candidates. The deadline for submissions was extended in both years in order to obtain applicant pools of sufficient size from which to select good and balanced slates of nominees.

Committee evaluations were extensive, with each submission read by all members and investigated in depth by one member, discussed in a subgroup of the committee, and reviewed by the entire committee at the selection meeting. While in 2005 the Statement of Interest and references were the primary sources of information for each candidate, the 2006 committee was more proactive in soliciting further information, including the use of telephone conversations with some candidates.



Activities Relating to ICANN's Responsibilities

(Duties as described under the Joint
Project Agreement)

Security and Stability

- Implemented technology upgrades and performance improvement in the Internet Assigned Numbers Authority (IANA), which is a function performed under contract to the U.S. Department of Commerce
- Security and Stability Advisory Committee (SSAC) issued Advisories that identify security issues and offer remedies to possible attacks
- Established measures to manage operations in a natural disaster or other physical event and to manage business failure or insolvency with creation of Executive Stability Committee
- Established Registry Services Evaluation Technical Panel to examine aspects of the introduction of new registry services
- Examination of Distributed Denial of Services Attacks by SSAC
- Ongoing work of SSAC on DNSSEC protocol to protect DNS from certain attacks



Transparency

- Established consultation to develop Transparency and Accountability Management Operating Principles
- Commenced work on web site to improve accessibility and transparency
- Established subscriber news alerts and newsletter service
- Project plans linked to Operating Plan and published so work progress can be clearly monitored
- Implementation of policy for considering new registry services fully implemented. Four applications submitted and considered according to public timetable (see <http://www.icann.org/registrars/rsep1>).



Accountability

- Established consultation to develop Transparency and Accountability Management Operating Principles
- Established web site for remote participation at ICANN meetings as well as ongoing simultaneous transcription
- More comprehensive minuting of Board Meetings agreed to commence in 2007
- Staffing of Global Partnerships program for outreach and participation
- Management of Policy Development Programs with clear process of accountability to constituencies



Root Server Security and Relationships

- Ongoing work of Root Server System Advisory Committee (RSSAC) including advising of support for new services and protocols into the root system in particular IDNs, DNSSEC and IPv6 allocation
- Regular outreach to root server operators through Chief Technology Officer
- Ongoing enhancement of L-root server systems



TLD Management

- 4 new TLDs commenced (.cat, .mobi, .travel, .jobs)
- Further 15 accountability frameworks signed with the country code top level domain community
- Country Code Names Supporting Organisation memberships reached 57 countries
- Work progressing on Internationalised Domain Names (IDNs) including laboratory tests, outreach and explanation, policy work between ccNSO and GAC. Also protocol work between IETF and GNSO Working Group
- GNSO working on new generic top-level domain program office
- Whois Task Force met at least once every 2 weeks to address purpose of Whois data and which data should be public as well as how to address local and national privacy laws
- Preliminary Whois Task Force Report posted for comment



Multi-Stakeholder Model

- Review of GNSO by London School of Economics received and response plan being established
- Board approved schedule of additional reviews of supporting organisations, councils and advisory committees as required under ICANN's bylaws
- Outreach program enhanced with establishment of ICANN Regional Liaisons and formation of Regional At-Large Organisations (Latin America-Caribbean RALO being established)
- Over 30 outreach meetings attended
- ICANN's 28th international meeting will be in March 2007; its 29th in June; and its 30th in December 2007, with the most recent meeting in São Paulo, Brazil attended by more than 720 from 90 countries
- Beta version of new registrar database demonstrated to facilitate communication between registrars and ICANN



Role of Governments

- Board continues close working relationship with Governmental Advisory Committee (GAC)
- GAC consultation on Whois directory and privacy laws
- GAC also advising on increased participation by developing countries
- Board requested GAC and ccNSO to work together to prepare issues paper relating to IDNs
- Advisory from GAC on Draft Initial Report by the GNSO Committee on new TLDs



IP Addressing

- Continuing close liaison with Regional Internet Registries (RIRs)
- SSAC and RSSAC jointly examined IPv6 introduction in the root servers
- Board ratified global policy for IPv6 address allocation after endorsement by ASO Council
- Legal agreements in negotiation with RIRs
- Numbers Liaison appointed for IANA



Corporate Responsibility

- Successful Financial Audit completed
- New accounts payable ticketing system to monitor progress of payments
- Outreach Program for Registry education and feedback held in Hong Kong, China, South Korea, Spain, Egypt
- Online verification tool published for verification of Top Level labels (see <http://www.icann.org/announcements/announcement-03dec06.htm>)



Corporate Administrative Structure

- Director and Compliance officer added to staff with emphasis on proactive compliance (see <http://www.icann.org/compliance>)
- Appointment of Chief Operating Officer
- Establishment of Project Management plans linked to Operating Plan based on best practice model of project management
- Work on policies for contractual conditions policy development process under discussion by GNSO Contractual Conditions Task Force



AUDIT REPORT FOR FISCAL YEAR 2005–2006

To view the posted version of this Audit Report, go to <http://icann.org/financials/financial-report-fye-30jun06.pdf>.



**INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS
JUNE 30, 2006 and 2005**

CONTENTS

	PAGE
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statements of financial position	2
Statements of activities	3
Statements of cash flows	4
Notes to financial statements	5-10

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Internet Corporation for Assigned Names and Numbers

We have audited the accompanying statements of financial position of Internet Corporation for Assigned Names and Numbers (ICANN) as of June 30, 2006 and 2005 and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the management of Internet Corporation for Assigned Names and Numbers. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Internet Corporation for Assigned Names and Numbers as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Los Angeles, California
August 25, 2006

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Moss Adams International
an equal opportunity employer
and affirmative action organization

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

STATEMENTS OF FINANCIAL POSITION

JUNE 30,	2006	2005
ASSETS		
Cash and cash equivalents	\$ 11,789,947	\$ 1,910,069
Accounts receivable, net	13,516,070	9,372,070
Prepaid expenses	222,006	13,438
Other assets	54,722	15,243
Property and equipment, net	259,519	350,604
Total assets	<u>\$ 25,842,264</u>	<u>\$ 11,661,424</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 2,481,808	\$ 1,707,397
Deferred revenue	4,954,313	1,722,026
Total liabilities	<u>7,436,121</u>	<u>3,429,423</u>
NET ASSETS		
Unrestricted	<u>18,406,143</u>	<u>8,232,001</u>
Total liabilities and net assets	<u>\$ 25,842,264</u>	<u>\$ 11,661,424</u>

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30,	2006	2005
CHANGES IN UNRESTRICTED NET ASSETS		
Support and revenue		
Domain name registry and registrar fees	\$ 26,145,255	\$ 14,136,273
Address registry fees	823,000	823,000
Accreditation fees	1,965,210	1,992,893
Application fees	780,000	791,500
Contributed goods and services	-	5,999
Interest income and other income	107,539	57,646
Total support and revenue	<u>29,821,004</u>	<u>17,807,311</u>
Expenses		
Personnel	7,382,054	4,218,971
Board and public meetings	2,022,650	1,510,299
Other meetings and travel	1,775,634	1,121,398
Professional services	4,232,869	3,898,490
Administration	4,233,655	2,966,045
Total expenses	<u>19,646,862</u>	<u>13,715,203</u>
Change in net assets	<u>10,174,142</u>	<u>4,092,108</u>
NET ASSETS, beginning of year	<u>8,232,001</u>	<u>4,139,893</u>
NET ASSETS, end of year	<u>\$ 18,406,143</u>	<u>\$ 8,232,001</u>

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30,	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 10,174,142	\$ 4,092,108
Adjustments to reconcile change in net assets to cash (used in) provided by operating activities:		
Depreciation	145,014	111,609
Bad debt expense	2,026,424	1,203,989
Changes in operating assets and liabilities:		
Accounts receivable	(6,170,424)	(7,703,791)
Prepaid expenses	(208,568)	(13,438)
Other assets	(39,479)	20,382
Accounts payable and accrued liabilities	774,411	805,653
Deferred revenue	3,232,287	1,066,394
Net cash provided by (used in) operating activities	<u>9,933,807</u>	<u>(417,094)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	<u>(53,929)</u>	<u>(212,181)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>9,879,878</u>	<u>(629,275)</u>
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,910,069</u>	<u>2,539,344</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 11,789,947</u>	<u>\$ 1,910,069</u>

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Internet Corporation for Assigned Names and Numbers (ICANN) was established in September 1998 under the laws of the state of California as a non-profit organization. ICANN coordinates a select set of the Internet's technical management functions, such as the assignment of protocol parameters, the management of the domain name system, the allocation of Internet protocol (IP) address space, and the management of the root server system. Categories of Internet domains include Generic Top Level Domains (gTLDs) which include the .com, .net, .org, and .edu domains and Country Code Top Level Domains (ccTLDs), examples of which are .us, .uk, and .fr. ICANN generates income from fees received from domain name registrars and related accreditation activities. Its primary sources of revenue are as follows:

- *Domain name registry and registrar fees* - Amounts contributed by organizations responsible for the registration and administration of Internet domain names.
- *Address registry fees* - Amounts contributed by organizations responsible for the assignment and administration of Internet addresses.
- *Accreditation fees* - Amounts paid in connection with initial and renewal accreditation of organizations engaged in the registration and administration of domain names in the .com, .net, .biz, .info, .museum, .name, and .org Internet domains.
- *Application fees* - Amounts paid in connection with processing of applications to become accredited domain name registrars.

ICANN also receives contributions and grants from other organizations.

ICANN has three supporting organizations which serve as advisory bodies to the ICANN board of directors with respect to internet policy issues and structure within three specialized areas, including the system of IP addresses and the domain name system. The supporting organizations are the primary source of substantive policy recommendations for matters lying within their respective specialized areas. The three supporting organizations are the Address Supporting Organization (ASO), Generic Names Supporting Organization (GNSO), and the Country Code Domain Name Supporting Organization (CCNSO). The supporting organizations are not separately incorporated entities. Transactions handled by ICANN on behalf of GNSO are included in the accompanying financial statements.

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation - The financial statements of ICANN have been prepared on the accrual basis of accounting. ICANN recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions and net assets are classified based on the existence or absence of donor-imposed restrictions. As such, the net assets of ICANN and the changes therein are classified and reported as follows:

- *Unrestricted net assets* - Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the objectives of ICANN.
- *Temporarily restricted assets* - Net assets subject to donor-imposed stipulations that may or will be met either by actions of ICANN and/or the passage of time. As the restrictions are satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying financial statements as net assets released from restrictions.
- *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that resources be maintained in perpetuity. Investment income generated from these funds is available for general support of ICANN's programs and operations unless otherwise stipulated by the donor.

As of June 30, 2006 and 2005, ICANN has no permanently or temporarily restricted net assets.

Functional allocation of expenses - Expenses that can be identified with a specific program or supporting service are charged directly to the related program or supporting service. Expenses that are associated with more than one program or supporting service are allocated based on methods determined by management. As of and for the years ended June 30, 2006 and 2005, respectively, ICANN's expenses are classified as follows:

	<u>2006</u>	<u>2005</u>
Program services	\$ 12,633,591	\$ 8,656,483
Supporting services:		
Management and general	7,013,271	5,058,720
Total	<u>\$ 19,646,862</u>	<u>\$ 13,715,203</u>

Advertising costs - Advertising cost are expensed in the period incurred. Advertising expense amounted to \$53,430 and \$0, for the years ended June 30, 2006 and 2005, respectively.

Cash and cash equivalents - Cash and cash equivalents include deposits in bank, money market accounts, and marketable commercial paper. The Organization considers all cash and financial instruments with maturities of three months or less when purchased by the Organization to be cash and cash equivalents.

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and equipment - Property and equipment are stated at cost or, for contributed items, at fair market value at date of contribution. The equipment, furniture and fixtures are being depreciated using the accelerated method over estimated useful lives of five to seven years. Leasehold improvements are being depreciated using the straight-line method over the useful life or the remaining lease term, whichever is shorter. Acquisitions of property and equipment in excess of \$10,000 are capitalized.

Deferred revenue - Deferred fees attributable to future activities are included in cash and cash equivalents or accounts receivable and reflected as deferred revenue until earned.

Contributed goods and services - The value of significant donated goods is reflected as contributions in the accompanying financial statements. For the year ended June 30, 2005, ICANN received \$5,999 in contributed goods. There were no contributed goods for the year ended June 30, 2006.

Contributed services are recognized only if the services (a) create or enhance long-lived assets, or (b) require specialized skills, are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. For the years ended June 30, 2006 and 2005, no contributed services were received.

Income taxes - ICANN is exempt from federal and state income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Concentration of credit risk - Financial instruments which potentially subject the Organization to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Organization places its cash with major financial institutions. The cash held at these financial institutions may, at times, exceed the amount insured by the Federal Deposit Insurance Corporation. Concentration of credit risk with respect to receivables is mitigated by the diversity of customers comprising the Organization's customer base.

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable - The Organization carries its accounts receivable at invoiced amounts less allowances for doubtful accounts. The Organization does not accrue interest on its receivables. On a periodic basis, the Organization evaluates its accounts receivable and establishes allowances based on overdue accounts and a history of past write-offs. In the year ended June 30, 2005, the Organization did not have any major customers; however during the year ended June 30, 2006, there was one major customer totaling approximately \$4,725,000 or 15.9% of net revenues. At year end, the Organization had an accounts receivable amount totaling approximately \$1,664,000 due from this major customer.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following constituencies for various registry, registrar and accreditation fees at June 30:

	2006	2005
ccTLDs	\$ 572,463	\$ 659,593
gTLD registries and registrars	14,351,088	8,864,465
IP address registries	2,615,911	1,844,980
	17,539,462	11,369,038
Less allowance for doubtful accounts	(4,023,392)	(1,996,968)
	<u>\$ 13,516,070</u>	<u>\$ 9,372,070</u>

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

NOTES TO FINANCIAL STATEMENTS

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	2006	2005
Computer equipment	\$ 645,791	\$ 628,655
Computer software	20,128	-
Furniture and fixtures	140,855	140,855
Leasehold improvements	128,980	112,315
	935,754	881,825
Less accumulated depreciation	(676,235)	(531,221)
	\$ 259,519	\$ 350,604

NOTE 5 - LEGAL MATTERS

In the ordinary course of business, ICANN is subject to lawsuits and other potential legal actions. Management is unable at this time to determine the probable outcome or the effect, if any, that these actions may have on the financial position and the ongoing operations of the Company. Accordingly, the accompanying financial statements do not include a provision for any losses that may result from the Company's current involvement in legal matters.

NOTE 6 - RELATED PARTY TRANSACTIONS

The individual acting as ICANN's president and chief executive officer (CEO) is currently provided to ICANN through a professional services agreement with a Organization in which the president and CEO has an interest. Total payments for the years ended June 30, 2006 and 2005, including fees for professional services and reimbursed expenses (airfare and travel-related expenses, telecommunications, information technology supplies and support, and office supplies), were approximately \$626,000 and \$591,000, respectively. Included in accounts payable and accrued liabilities as of June 30, 2006 and 2005, is approximately \$32,000 and \$54,000, respectively, of reimbursable expenses payable to the affiliated company.

NOTE 7 - COMMITMENTS

The Organization leases its offices and certain other facilities under two operating lease agreements with termination clauses from three to six months. Rent expense amounted to approximately \$510,000 and \$345,000 for the years ended June 30, 2006 and 2005, respectively. Minimum payments under the cancelable operating leases for the future year ending June 30, 2007 is \$207,195.

9

INTERNET CORPORATION FOR ASSIGNED NAMES AND NUMBERS

NOTES TO FINANCIAL STATEMENTS

NOTE 8 - DEFINED CONTRIBUTION PENSION PLAN

The Organization's 401(k) Plan (the "Plan") is available to all employees in the United States at the first of the month following hire date with the Company. The Organization contributes 5% of employee's salary to the plan regardless of employee contributions. The Organization furthermore matches employee contributions up to 10% of the employee's annual income. Employer contributions for the years ended June 30, 2006 and 2005 amounted to \$490,060 and \$306,209, respectively.

GLOSSARY OF TERMS

A

AfriNIC	African Network Information Centre
ALAC	At-Large Advisory Committee
ALS	At-Large Structure
ASO	Address Supporting Organisation
ASO AC	Address Supporting Organisation Advisory Council

C

ccNSO	Country-Code Names Supporting Organisation
ccTLD	country code top level domain
CFIT	Coalition for ICANN Transparency

D

DDoS	distributed denial of service
DNS	domain name system
DNSSEC	DNS security extension protocol

E

ENISA	European Network and Information Security Agency
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G

GAC	Governmental Advisory Committee
GNSO	Generic Names Supporting Organisation
gTLD	generic top level domain

I

IAB	Internet Architecture Board
IANA	Internet Assigned Numbers Authority
ICANN	Internet Corporation for Assigned Names and Numbers
IDN	Internationalised Domain Name
IESG	Internet Engineering Steering Group
IETF	Internet Engineering Task Force

IP Internet protocol
ISOC Internet Society
ITU International Telecommunication Union

J

JPA Joint Project Agreement

L

LAC RALO Latin America-Caribbean Regional At-Large Organisation

M

MOPs Management Operating Principles

N

NIST National Institute of Standards and Technology

NRO Number Resource Organisation

O

OPoC Operational Point of Control

P

PDP policy development process

PMI Project Management Institute

PIR Public Interest Registry

R

RALO Regional At-Large Organisation

RFC request for comment

RIPE NCC RIPE Network Coordination Centre – regional Internet registry for Europe, parts of Asia, and the Middle East

RIR	regional Internet registry
RSEP	Registry Services Evaluation Policy
RSSAC	Root Server System Advisory Committee
RT	Request Tracker
RRA	registry-registrar agreement

S

SSAC	Security and Stability Advisory Committee
SBS	Special Broadcasting Service
sTLD	sponsored top-level domain

T

TLD	top-level domain
TLG	Technical Liaison Group

W

Whois	Database site listing information about who is responsible for domain names
WIPO	World Intellectual Property Organisation
WSIS	World Summit on the Information Society



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