

The logo for Nominet.uk features the word "Nominet" in a dark red serif font, followed by ".uk" in a blue italicized sans-serif font. Above the "i" in "Nominet" is a semi-circular arc of seven small grey dots.

Nominet.*uk*

THE UK INTERNET NAMES ORGANISATION



Nominet UK
Report & Accounts **2004**

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Chairman's Statement

Chief Executive's Statement

The financial year ended 30 September 2004 proved to be one of the most successful in Nominet's nine year history.

This was primarily due to two factors: a much higher than expected growth in registrations across the year, coupled to a high rate of domain name renewals of around 60%. The increase in the renewal rate is particularly encouraging as it implies that registrants are now making increasingly longer-term investments in their domain names. Our strong management team and professional staff have also worked to achieve considerable efficiencies and cash flow improvements over the course of the year.

Together these factors have substantially strengthened the balance sheet. This has allowed us to invest in all areas of the company, with particular emphasis on the continued development of our customer facing services and the technical infrastructure that underpins so much of our business.

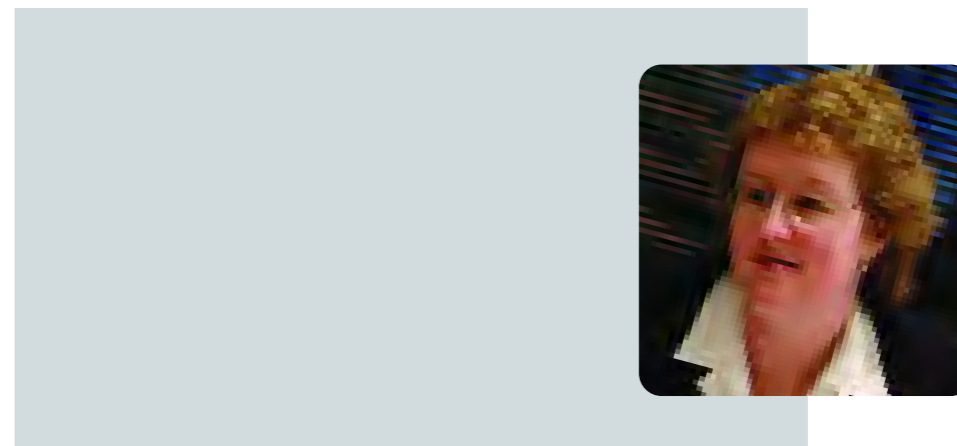
Nominet is a leading international example of the effectiveness of a private sector, self-governance approach. However there is considerable discussion at the United Nations regarding the continued suitability of this approach and the overall future direction of Internet governance.

This will culminate at the World Summit on the Information Society, a United Nations sponsored conference to be held in Tunis in November 2005. We are actively participating in this debate and promoting the benefits of Nominet's model wherever possible.

In every area, Nominet is a stronger and more dynamic company; the Board therefore views Nominet's future development with great confidence and enthusiasm.

The Board of Directors thanks Dr Willie Black who stood down as Executive Chairman in December 2004 for his stewardship over the last eight years and wishes him well for the future. We welcome Bob Gilbert who takes over the role of Chairman from May 2005.

Alex Bligh *Interim Chairman*



2003/4 was the year in which many of Nominet's longer-term strategic ambitions began to be realised. Nowhere was this more evident than in the progress we made in moving many of our manual and paper based services online and in developing our levels of technical and service expertise.

Whilst these are part of an ambitious three year programme, the progress made to date has provided a strong foundation for the future.

We are becoming a more customer-focused organisation. The most obvious sign of this was a major restructuring of our operations department into two teams, allowing us to focus more effectively on our main stakeholder groups - registrants and tag holders.

During the year we achieved a significant number of major infrastructure improvements - both to hardware and software - with minimum disruption to our services. These changes were vital to the introduction of our online services and will provide the platform from which we will be able to develop a growing suite of new and improved offerings.

The year saw a number of major policy issues brought to public consultation. These included proposed changes to our Terms and Conditions for Domain Name Registration, changes to the rules for the *me.uk* Second Level Domain and also some amendments and revisions to Nominet's award winning Dispute Resolution Service (DRS).

We were also active in the courts, most notably our litigation against two individuals and three associated companies in Australia, who were found guilty of copyright infringement of our WHOIS database and breaches of Australian fair trade laws. By fighting and winning this case we sent the very clear message that abuse of our systems and infringements of our rights in the Nominet database will not be tolerated.

The key to success for any service organisation lies in having the desire and ability to satisfy the needs of its customers and that is why we continue to invest strongly in the development of our products and services, the quality of our processes, the level of our technological innovation and last but by no means least, our staff.

Together these changes will enable Nominet to provide all its customers with an outstanding quality of service and level of accessibility that just two years ago was merely an aspiration, but is now becoming a reality.

Lesley Cowley *Chief Executive*

Who we are

Achievements in 2003/4

Nominet at a glance

Nominet is the registry for all Internet domain names ending in *.uk*. We are a private, not-for-profit organisation with members instead of shareholders and limited by guarantee. We control, manage and operate the *.uk* country code Top Level Domain and provide complementary registry services in the interests of relevant stakeholder communities.

Nominet is the world's fourth largest Internet registry. We have over 2,700 members, drawn from and representing all areas of the Internet industry, and manage a database of approximately four million domain names.

To ensure that we reflect the interests of our stakeholders, Nominet develops policies through a Policy Advisory Board (PAB), half of whose members are elected by the Nominet membership and the other half are appointed

representatives of key stakeholder groups. On occasion Nominet policy has a direct impact on the wider UK Internet community and in these cases policy issues are put to public consultation with a view to gathering input from as many different groups and individuals as possible.

In 2003/04 there were an average of 92,000 new domain names registered per month, one of the highest monthly registration figures since the Internet boom of 2000, and a significant increase of 40% over the previous year. In addition over 74,000 domain names were renewed per month showing the value and worth that consumers attribute to their *.uk* domain names.

In an industry evolving as quickly as the Internet, two things differentiate service-orientated organisations; their use of technology and the quality of their customer care. Nominet made both areas a priority, with the long-term aim of becoming a Centre of Excellence for both customer service and technical innovation.

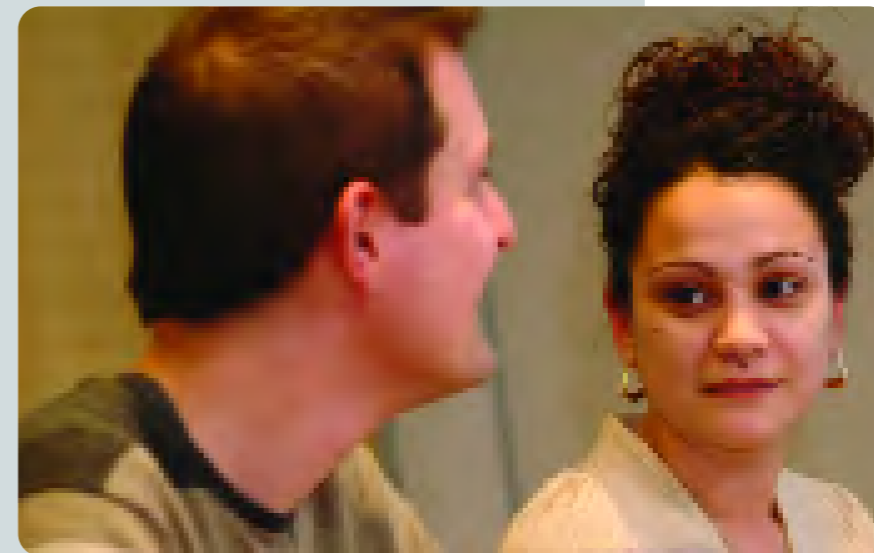
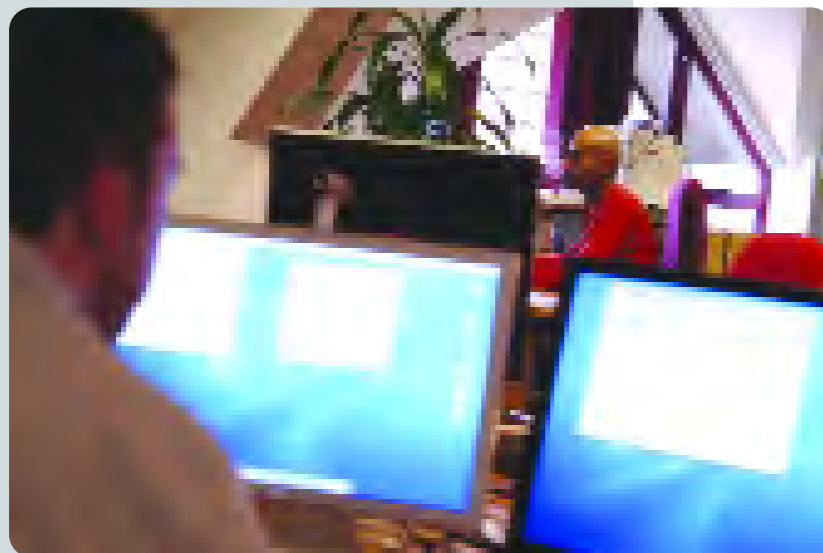
Service Excellence

Operational restructure

The decision to move towards a more customer-focused organisation in 2003/04 resulted in a major restructuring of Nominet's operational capability into two departments based around Nominet's two main stakeholder groups - registrants and members & tag holders.

This has a number of major benefits both for customers and staff. These include:

- A structure that more accurately reflects changing customer needs and quickly adapts to meet them
- A more flexible distribution of resources which can cope with sudden changes in workload
- A more adaptive arrangement that supports the implementation of new online services and products
- A system that can scale up to meet the growing volumes of registrations that we have seen over the last two years
- A structure that supports the development of a more personal and individual service



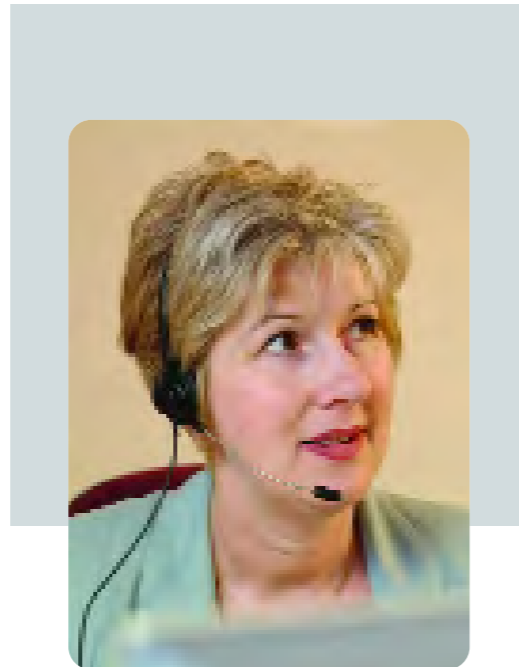
Achievements in 2003/4

Customer Enquiry Management System

One of the main improvements to the way our support advisors handle calls was the introduction of a new customer enquiry management system. This allows the sharing of customer account information between customer support teams and more general knowledge sharing within the company. The new system has made call handling more efficient and has helped reduce the number of calls that are transferred between teams. The net benefit to customers is a faster, more effective system in which nearly all enquiries are handled by one point of contact.

Operational efficiency

Operational efficiencies across the year led to impressive reductions in processing times and the achievement of most performance targets. For example, tag change turnaround times (the time taken to process a transfer from one tag holder to another), dropped from eight days at the beginning of the year to just two towards the end, reflecting not only system improvements but a better use of resources across all customer facing departments.



Extended hours

Part of the process of delivering a consistently high standard of service is being available when customers need you. The move towards extended availability, both during the week and at weekends, was well underway towards the latter half of 2004 and was launched at the beginning of 2005. This was achieved through more effective resourcing and not at the expense of the personalised service that Nominet has become well known for.

Understanding our customers

To complement the implementation of our new customer enquiry management system and to improve our existing customer feedback processes, Nominet has embarked on a programme of structured stakeholder research. This will ensure that services are tailored towards addressing the particular needs of different stakeholder groups, providing better customer data and informing company decisions regarding service standards, technical innovations, operational developments and member issues.



Creating a healthy market

The new domain name renewals system, introduced in November 2003, had a dramatic effect on the speed with which unwanted domain names are available for re-registration.

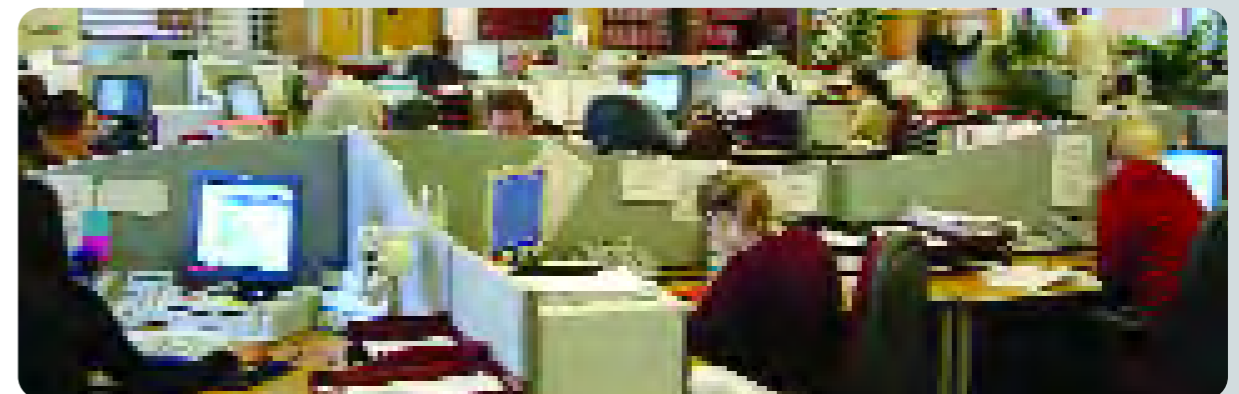
Another factor impacting the availability of domain names was the success of the Nominet detagged project. This involved contacting approximately one million registrants whose contractual relationship with their tag holders had ended (been detagged) yet their domain names were still registered although they could not be used. The detagged project successfully restored these domain names or made them available for other users.

Resource efficiency

The streamlining of manual processes, the automation of repetitive tasks and the development of a more flexible and multi-skilled staff have meant that large, one-off projects can be handled much more efficiently internally.

As our customer's expectations increase, we must respond to the challenge this generates. We will be meeting this challenge through the development of bespoke technologies and a culture of providing service excellence and efficiency.

In addition to this, Nominet is embarking on the business excellence standard to ensure that all areas of the organisation are aligned with industry best practice, are customer-focused, and performance is continually assessed and improved.



Technical

2003/4 was marked by the number of large-scale projects undertaken by the technical department. The largest project commenced by the department to date is a major data restructure.

The aim of this project is to integrate all the information that is held within separate areas of Nominet: it is therefore key to the completion of many other projects. One of the features of the new structure is that it will be fully backwards compatible to allow users to access it without making any immediate changes to their systems.

Exchanging information

The data restructure lays the foundation for many other projects including the introduction of a new interface using Extensible Provisioning Protocol (EPP). EPP is a standards based protocol allowing registration agents to exchange and update registry information. The adoption of EPP by many domain registries will provide registration agents with a common interface. A tag holder that develops an EPP system compatible with Nominet's will be able to quickly adapt that to any other registry that also supports EPP. Nominet tag holders will then be able to interact with Nominet via a number of different methods - including EPP, PGP signed requests or a web based interface.

Security

Internet security is of increasing concern to stakeholders and to Nominet and so we are actively involved in the development of DNSSEC, a method of adding cryptographic signatures to DNS messages to authenticate a DNS server's response. However, the current version of DNSSEC has unforeseen side effects which allow the copying of secured information under certain circumstances. As a key participant within the Internet Engineering Task Force (IETF), we are taking a leading role within the industry to develop solutions to this problem.

Improving accessibility to business information

One of the functions of an Internet registry is to enable users to look up information on domain names. This is currently done through our WHOIS service. To prevent misuse we have to restrict access to this service, which has caused some legitimate users problems. One of a number of solutions to this problem is to introduce a Domain Name Availability Checker, which allows users to look up the availability and status of domain names without revealing any registrant name or address data. This will be available during 2005.

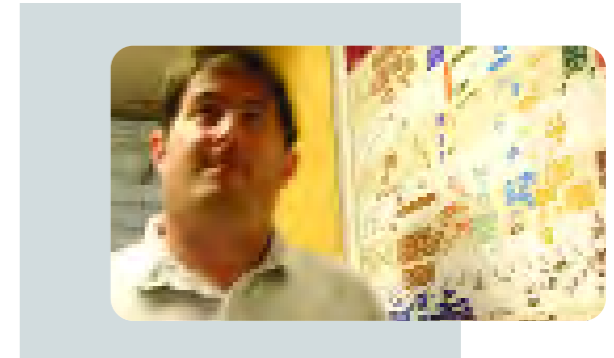
Public access

The Domain Name Availability Checker is only one method of accessing information on domain names, and we are also developing an enhanced WHOIS2 search function with improved anti-abuse mechanisms and a new Public Register Subscription Service (PRSS). This is intended for those who need to search the register for domain names that contain particular phrases or words e.g. lawyers or those involved in protecting intellectual property. The new PRSS will have a more sophisticated search function and better security and monitoring to prevent abuse.

Looking ahead

One of the most far-reaching and exciting programmes currently being developed at Nominet is the introduction of online services. Whilst this will not replace or reduce the personal service offered to customers, it does offer registrants and tag holders increased choice in the way that they access our systems and services.

The end result of the online strategy is to provide access to a suite of different services and functionality at any time of day or night by using our website. For tag holders this would include everything from paying bills and requesting new credit limits to registering domain names.



Registrants would be able to move their domain names, change registration details and have access to a range of other services. All of these services will be quick, simple to use and built to be universally accessible. Development work has been ongoing with the first services planned to be available for use in 2005/2006.

The strategy for developing Nominet into a Centre of Technical Excellence includes moving away from being an implementer of accepted technologies to becoming an early developer. At the heart of this initiative is the establishment of an Integration Laboratory, which will enable new technologies to be tested in integration with other systems.

This will be done in conjunction with our stakeholders and partners and the results will be made openly available to all members of the Internet community free of charge. This is a longer-term aspiration and one that requires changes in both the way we conduct research and development and the way we view innovation. This is an area of ongoing development and one that will, in the future, provide considerable benefits to all our stakeholders.



Finance

Income & Expenditure

In 2003/4 income increased by a healthy 15% compared to 2003. This was largely as a result of the steady increase in registration and renewal volumes over the year. Overall we received 38% more registrations and renewals in 2003/4 against the previous year.

Strong control of expenditure meant that total administrative expenses only increased by 7% whilst operational costs reduced by 10% compared to 2002/3. The introduction of the Online Reply Form system made a significant contribution to this cost reduction, as did the drive to reduce our variable costs per domain name.

Our continuing focus on system improvements, in particular the move to online services, work on our technical infrastructure, and an increased emphasis on technical research and development meant that technical expenditure increased by 45%, although technical capital expenditure remained at a similar level to the previous year at £722k.

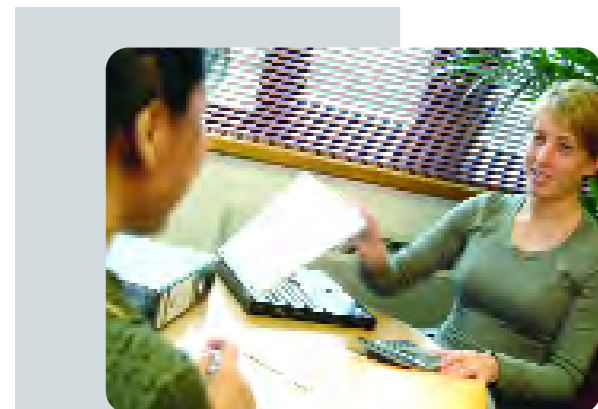
The result of the higher than forecast number of domain name registrations and renewals and the careful management of our costs was an operating surplus of almost £1.2million. In addition, healthy investment returns following the introduction of a more pro-active investment policy resulted in a surplus before tax of £1.4m.



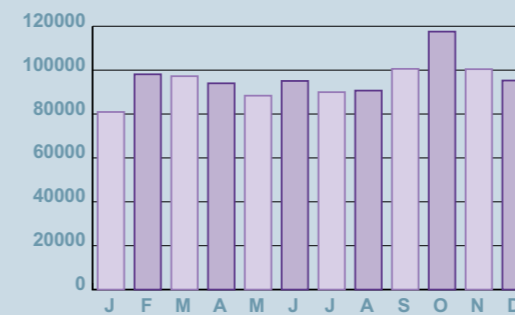
The Balance Sheet

On the balance sheet, strong debt management resulted in a decrease in average debtor days to 29 days (in contrast to a company performance target of 45 days) whilst trade debtors, which increased by 12% over the previous year, increased by less than income. The other item of note on the balance sheet is the transfer of much of our investments to an offshore fund during the year, with the aim of optimising returns through a low risk approach that also minimises our tax liability. When the £6 million transferred to the offshore fund is taken into account (shown as a fixed asset investment on the balance sheet) the overall cash inflow for the year is £5 million.

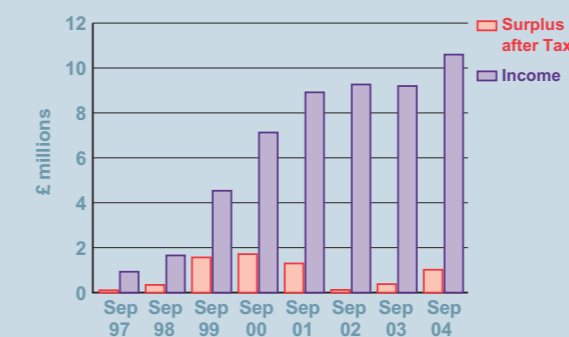
One of Nominet's long-term financial objectives is to hold a reserve fund equivalent to two years of wind down costs plus reserves to cover unforeseen costs such as litigation and significant and unavoidable budgetary variances. By the end of the 2003/4 financial year, our total reserves had reached the target agreed by the Board. This was a little earlier than originally forecast as a result of the increased levels of activity during the year. One of the challenges ahead will be the management of our finances now that this target has been achieved: this will be addressed as part of the strategic review being carried out by the Board.



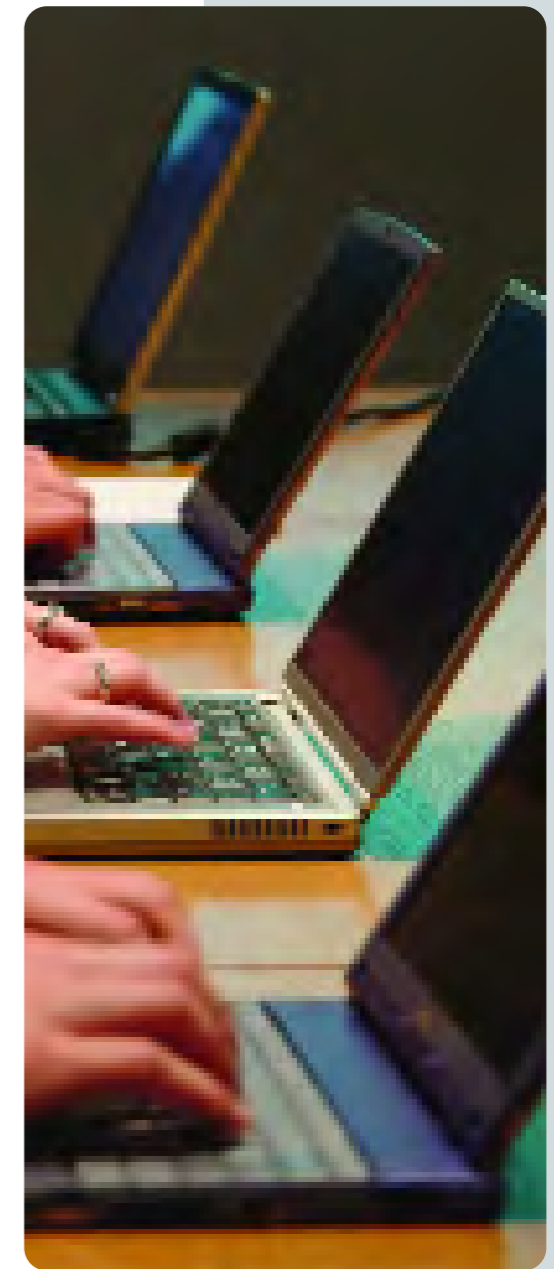
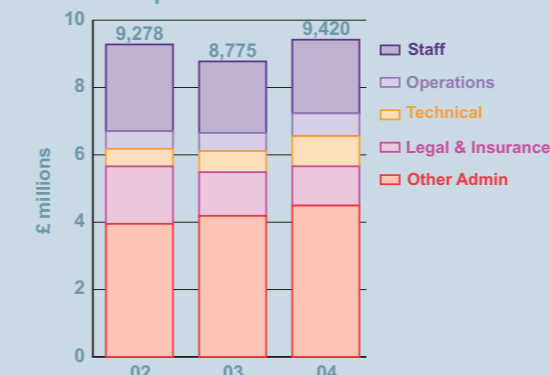
Number of .uk domain names registered by month in 2004



Annual Income and Surplus trend



Annual Expenditure



Communications



Nominet has a number of different stakeholder groups ranging from members and tag holders to government, industry, international Internet organisations and the wider Internet community.

This year we have taken a very focused approach to communicating with our stakeholders with a special emphasis placed on developing a better understanding of each group's particular needs, problems and constraints.

Meeting stakeholders

Nominet's 3,500 members and tag holders represent all areas of the Internet industry. Through a popular programme of lunches and workshops held across the country which is attended by up to 20 members and tag holders at a time, we keep in constant contact with our main customer base. But this is only one point of contact. Nominet's senior managers are often asked to speak at seminars, workshops, meetings and conferences on a wide range of subjects including legal, technical, service, policy, governance and other Internet related subjects.



Government

This year we have actively followed all Internet related bills, legislation and motions that come to the House of Commons for discussion as well as ensuring that MPs, MEPs, Lords and government officials that have an interest in the Internet know about the work that we do. We have close links with the All Party Parliamentary Internet Group (APIG) and the Parliamentary Information Technology Committee (PITCOM) and sponsor seminars and discussions on Internet related issues.

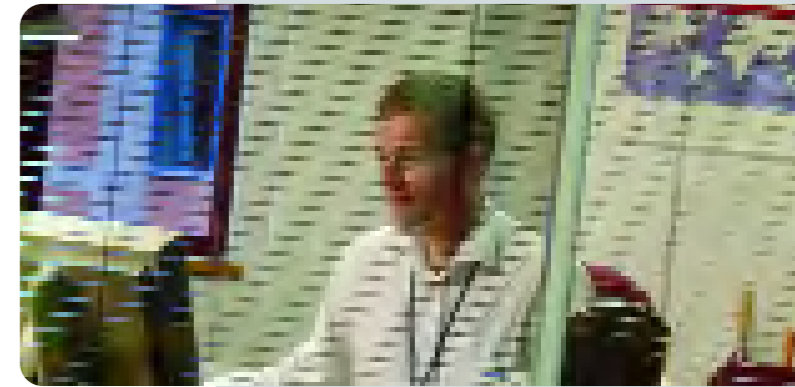
International

Nominet is a member of the Council of European National Top Level Domain Registries (CENTR). We participate at meetings of the International Corporation For Assigned Names and Numbers (ICANN) and the Internet Engineering Task Force (IETF). Through these bodies we have an influence on the formulation of Internet policy, strategy, technological innovation and governance.

At an inter-governmental level, we liaise closely with the Department of Trade and Industry (DTI) to put forward the UK model of Internet self-regulation. We are currently working with the DTI to promote this view at the World Summit on the Information Society, a United Nations summit which will be discussing many aspects of Internet governance at its meeting in Tunis in November 2005.

Media

Nominet is frequently asked for comment on Internet related topics and have had some notable successes across the year including a four minute slot on the BBC's 'Working Lunch' talking about domain names as well as mentions in the nationals, trades and online publications.



Research

We embarked on a programme of research this year to both inform future communications and to guide decision making in all areas of the company. Because of the many changes that have taken place at Nominet over the last two years, one of the main issues that needed to be tackled was developing an understanding of the different expectations of stakeholder groups. To this end representatives from every stakeholder group were interviewed and a clear, cohesive, model developed.

Much of this process has now been completed and will form the basis for many of the projects currently being planned for the coming year. These include a re-design of the website, improvements to the correspondence that is sent to all stakeholders and a re-focusing of Nominet News - Nominet's two monthly newsletter - towards a more industry centred online magazine.

To support the development of Nominet into a more customer-focused organisation, a plan for managing and rewarding performance was introduced at the end of the financial year.

Managing and rewarding performance

This has resulted in the introduction of a bonus scheme across the company, which rewards for the achievement of company-wide and individual targets.

This was introduced in response not only to a Board desire to ensure a more customer focused organisation but also to staff requests for a method of rewarding individuals who make a significant contribution to the company through the work that they do and the effect they have on their teams and departments.

Employer of choice

Nominet aims to be an employer of choice and is committed to developing all staff to ensure that appropriate levels of technical, operational and leadership skills are in place as we move towards achieving our strategic aims.



An active programme of staff development is achieved through training courses and short-term secondments to other areas of the company. This investment in staff training and development is a key component of our strategy of becoming a Centre of Technical and Service Excellence through the provision of exceptional service quality and technical innovation.

Training and development is not an end in itself, it must also deliver business improvement, and to ensure that this is the case we have embarked on the Investors in People standard.

Awards

2003/4 was been a year of progress and improvement for Nominet. This was recently shown when Nominet entered The Sunday Times Top 100 Best Small Companies to Work For Award. This is an award in which staff judge their companies by rating them on such issues as pay and conditions, managerial ability, levels of stress and personal growth. Despite the fact that this was our first year of entry, Nominet was judged to be amongst the top 100 and this is an achievement that the whole organisation can look back on and feel justifiably proud of.



The legal department fulfils two very different yet complementary public roles.

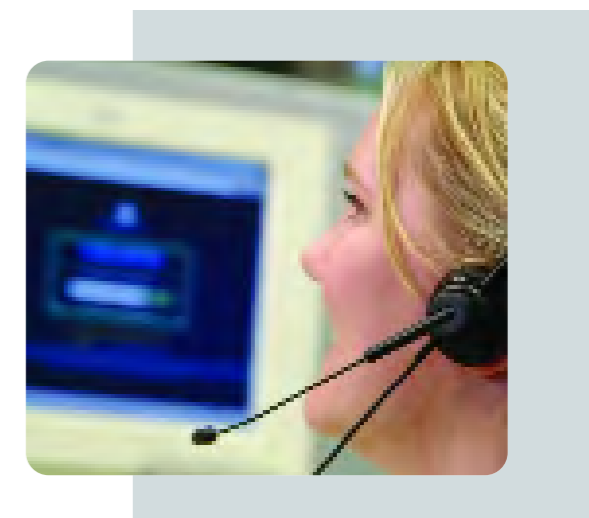
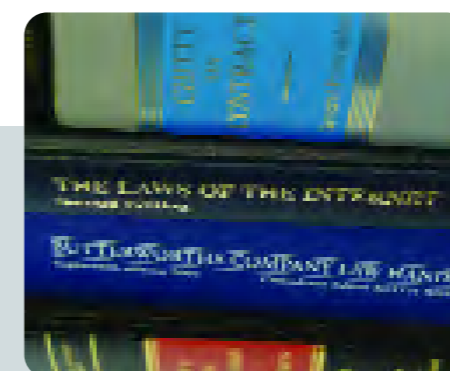
On the one hand it administers the Nominet Dispute Resolution Service (DRS) which seeks to settle .uk domain name disputes through mediation, and where this is not possible, through expert decisions. On the other hand it looks to protect stakeholders by working with the relevant authorities to find and prosecute those proved to be abusing the .uk domain space.

Domain Name Disputes

Disputes account for only 0.05% of all .uk domain name registrations or roughly 50-70 new cases per month. These are handled by Nominet's trained mediators who, between them, provided 10% of the total number of commercial mediation cases handled across the entire UK market over the year with a settlement rate of 56%.

Over 90% of the parties that turn to the DRS have no legal representation making the service Nominet offers a fast, economic and effective system for individuals and businesses of all sizes. In the last year the DRS handled over 500 valid cases, equivalent to around 20% of all domain name dispute cases in the world.

In recognition of this extraordinary feat, in June 2004 Nominet's DRS team were awarded the prestigious Centre for Effective Dispute Resolution (CEDR) Industry Award for Excellence in Alternative Dispute Resolution; an award which is held every two years to recognise modern and innovative ways to reconcile disputes out of court.



2003/4 also saw a public consultation on the DRS and a revised set of rules, which were launched in October, together with the new 'plain English' registrant terms and conditions which were awarded a Plain English Campaign 'Crystal Mark'.

Protecting stakeholders

In 2003/4 Nominet fought, and won, the largest legal battle it has undertaken to date. The case was brought against two individuals and their companies in the Federal Court of Australia following the discovery that our WHOIS database had been the subject of concerted data mining attacks, the sheer scale of which had forced the suspension of the WHOIS service for the first time in our history.

The attacks were aimed at capturing postal address details of many .uk domain name holders and resulted in 50,000 customers receiving misleading or deceptive correspondence. Nominet handled hundreds of complaints from users and found many more during searches of the homes and offices of those responsible.

Costs and damages (or equivalents) have yet to be agreed but the result reinforces Nominet's authority to impose terms and conditions on the use of its data as well as sending a clear message that scamming is a serious offence with serious penalties attached.

Risk Management

Sound risk management is an important discipline for Nominet, particularly as any threat to the .uk database could have potentially enormous consequences.

A lot of work has been done to identify and mitigate the risks that could affect the company and impact the achievement of Nominet's strategic objectives. Risk management processes and operational and financial controls are monitored at Board level.

During 2003/4 an improved risk management framework was introduced that identified two main areas of risk: strategic and technical. This helped to clarify:

- The main risks to Nominet's business processes
- The likelihood of such an eventuality happening
- The impact it would have
- The steps that would be taken should such an eventuality arise

Risk management is a dynamic process and our aim over 2003/4 was to identify and mitigate against significant risk. This is now being taken a step further to develop a process of risk-based decision-making and ensure that our internal controls are both effective and efficient.

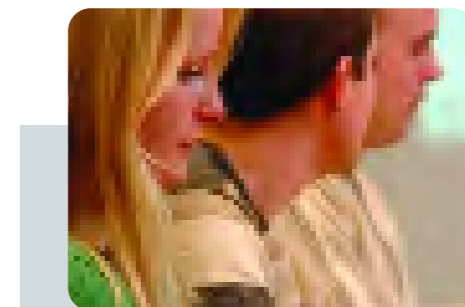
Some of the main risk factors that have been identified as having a potential impact on Nominet are:

Economic

As can be seen from the days of the dot.com boom and bust, business confidence and economic cycles have a profound affect on the registration of domain names. Regular monitoring of economic conditions and market activity, together with sound contingency planning mitigates such risks.

Political

Internet governance is an area of heated debate at several different levels - national, regional and global. Nominet liaises with the UK government to influence these debates, as well as participating in discussions at an international level. Closer to home the most pressing question is that of industry standards, and we are working towards trying to raise these through various initiatives.

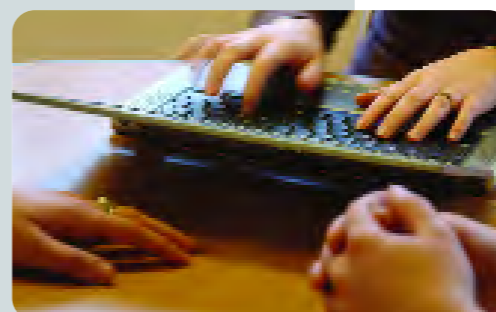


Technical Failure

A considerable amount of work has been done to increase the resilience of our networks and improve the reliability of our systems through the addition of secondary server capacity.

External Attack

Many companies now view denial-of-service attacks as an ever present danger. Nominet has contracts with a number of colocation companies to ensure that we have multiple live servers running at all times. Intrusion detection systems are utilised to detect and respond to attacks quickly whilst equipment is carefully assessed before procurement to ensure that it has the capability and capacity to withstand most attempts.



Policy Advisory Board

Corporate Governance

The Policy Advisory Board's (PAB) role is to represent the views of the wider UK Internet community to the Nominet Board and to ensure that policy is developed for the good of the many and not the few.

The PAB is made up of 18 representatives - eight elected by the members of Nominet, eight appointed representatives from other stakeholder groups and organisations - including the Confederation of British Industry, The Department of Trade and Industry and the Institute of Trademark Attorneys - and two non-executive directors.

2003/4 was another challenging and productive year for the PAB in which it developed a number of far reaching policies that have resulted in changes to Nominet's procedures and working practices.

In 2003/4 the PAB formed a number of policy working groups to discuss specific policy areas. These groups do most of their work on mailing lists and are open to all stakeholders including the general public. There are currently three working groups in operation discussing the policy implications of Internationalised Domain Names, Variable Registration Periods and domain name Lock State.

The PAB also contributed to three public policy consultations during 2003/04. These related to a review of Nominet's Dispute Resolution Service, a review of Nominet's Registrant Terms and Conditions, and a review of the rules for the .me.uk Second Level Domain (SLD). All three revised policies were accepted and implemented following consultation.

In addition the PAB contributed to the review of the positive renewals system and a subcommittee of the PAB assisted in the recruitment of a chair and panel members for the new Second Level Domain Policy and Procedure Panel. This is a panel of 20 members gathered from across the Internet industry who will judge whether an application for a new Second Level Domain is valid and acceptable.

Elected PAB Members

Denesh Bhabuta, James Conaghan, James Cronin, Clive Feather, Peter Gradwell, Alex Kells, Sebastien Lahtinen (Chair), Hazel Pegg

Appointed PAB Members

Mark Lewis (Companies House), Jeremy Beale/Sue Daley (CBI), Eric Ramage (Institute of Trademark Attorneys), Michael Duggan (DTI), Tom Adams (Cabinet Office), Iain Bourne (Information Commissioner's Office), Brian White (All Party Parliamentary Internet Group)

Board representatives

Alex Bligh, Gordon Dick

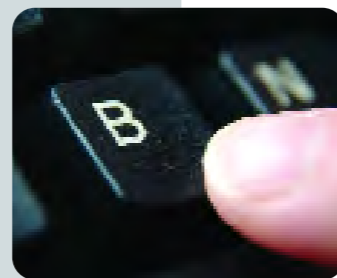
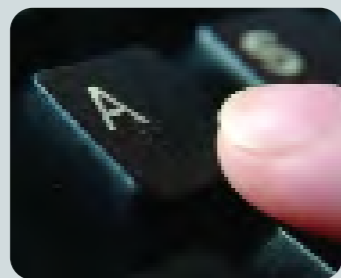
Nominet strives to promote best practice in all aspects of its business. This is done through its dealings with members, customers and other stakeholders in its relationship with its staff and by following corporate governance guidelines.

Directors

The Board of Directors (or Council of Management as it was historically called) comprises a Chairman, a Chief Executive and four non-executive directors who are elected by the members of Nominet.

Elections were held at the time of the AGM in July 2004 to replace two retiring non-executive directors. Fay Howard was re-elected for another two year term and Gordon Dick replaced Steve Dyer on the Board. Dr Willie Black resigned with effect from December 2004 as Chairman and was replaced by Bob Gilbert as Chairman in May 2005. In the interim Alex Bligh served as Chairman.

The Board makes strategic and policy decisions and is ultimately responsible for the financial performance and actions of the company.



Current Board Members

Bob Gilbert - Chairman

Bob had a long and extensive career as a solicitor with Wragge & Co, one of the UK's major law firms. Bob joined Wragge & Co in 1972 and became its youngest ever partner at the age of 25. During his 33 years with the company he was actively involved in most aspects of company and commercial law and after specialising in insolvency work, became one of the few solicitors selected by the DTI to act as a licensed Insolvency Practitioner.

In 1993 Bob was elected Deputy Senior Partner of Wragge & Co and had special responsibility for developing the firm's practice in the Far East as well as acting as Liaison Partner with many City institutions.

In April 2004 Bob retired from full-time practice although he remains a consultant with the firm. Bob has had extensive boardroom experience as both a director and chairman of various companies from a wide range of industry sectors.

Lesley Cowley - Chief Executive

Lesley joined Nominet UK as Operations Director in April 1999 and has extensive experience of management in both the public and private sectors.

Lesley was appointed Managing Director in March 2002 and Chief Executive in January 2005 with responsibility for the running of the company and overseeing the management team. She is particularly involved in looking after relationships with Nominet's members, managing company performance and introducing improvements to Nominet's systems and processes.

Lesley is heavily involved with the planning process and has made a major contribution to the development of strategic planning across Nominet. Lesley also sits on the Nominet Audit Committee.

Alex Bligh - Non Executive Director, Interim Chairman (Dec 04 - May 05)

Alex is an active private investor, and an independent consultant advising technology-based companies and investors through his company Silverscale Associates Ltd. Alex has been heavily involved with the Internet since he founded an early UK Internet Service Provider, Xara Networks.

Alex co-founded Redbus Interhouse PLC, a quoted Internet collocation company and was also a founding director of XchangePoint, an Internet interconnect company. Alex has served on Nominet's Board as a non-executive director since its foundation in 1996 - a process in which he was very closely involved. He is a member of the Policy Advisory Board and has served on, and chaired, several sub-committees. He is chairman of the Remuneration Committee and also sits on the Audit Committee.



Gordon Dick - Non-Executive Director

Gordon has been an active participant in Nominet UK for many years, initially as a tag holder, then as a member of the Policy Advisory Board and more latterly as a non-executive director.

Gordon graduated from the University of Edinburgh with a Bsc (Hons) in Artificial Intelligence and Computer Science. In 1995 he was involved in the start up of an e-commerce and web design company for which he was technical director. In this role he ran a large number of secure e-commerce sites and the surrounding online marketing environments. Having spent two years working overseas, he is now an independent project consultant. Gordon sits on the Remuneration Committee and is a Board representative to the PAB.

Fay Howard - Non Executive Director

By professional training Fay is a Legal Liabilities Insurance Underwriter though she has worked in the not-for-profit sector of the Internet since 1995.

Working at RIPE NCC she managed the project to establish CENTR, the Council of European National Top-Level Domain Registries and was subsequently appointed General Manager. She represented the country code Top Level Domain (ccTLD) community in the process to form ICANN and represented Europe in the Names Council of ICANN's Domain Name Support Organisation.

Subsequently Fay worked for Nominet to carry out a feasibility study into establishing an industry code of practice for Internet services in the UK. Fay is currently the Project Manager with EURid, the organisation selected by the European Commission to operate the new .eu Top Level Domain. Fay sits on the Remuneration Committee and is chair of the Audit Committee.

Jonathan Robinson - Non-Executive Director

Jonathan Robinson is a co-founder of NetBenefit plc and is currently their Business Development Director. He ran the company from 1997 until 2001, firstly as Managing Director and then after flotation as CEO. NetBenefit is a London listed domain name, email and web-hosting services provider. Jonathan was previously Deputy Chairman of the Internet Council of Registrars (CORE) and is a current director of Afilias, the registry for all domain names ending in .info. Jonathan sits on the Remuneration Committee.



The Audit Committee

The Nominet Audit Committee was established in September 2002 in line with the best practices of corporate governance as set out in the Combined Code.

The Committee is chaired by Fay Howard, one of the four non-executive directors. The other members of the Committee are currently Alex Bligh (non-executive director), Bob Gilbert (Chairman) and Lesley Cowley (Chief Executive).

The Committee's role is to monitor the use of appropriate processes and controls across the company with particular focus on:

- Provision of value for money for stakeholders.
- Compliance with statutory requirements, current legislation and internal policies and control
- The effectiveness of the risk management process
- The effectiveness of the processes of governance
- Safeguarding the company's assets
- The scope, results and effectiveness of the external audit and
- The careful review of any non-audit services provided by the auditors

The Director of Finance (Frances Williams) attends the Audit Committee meetings by invitation and the company's auditors, Critchleys, attend when required, for example to review the annual report and accounts.

The Audit Committee met twice over the last financial year, in December 03 and June 04. At these meetings the Committee reviewed the 2003 Annual Report and Accounts and recommended that the Board approve these. The Committee reviewed the company's risk register, ensuring that progress was made on the various actions required in order to minimise risk.

Nominet's insurance cover was also reviewed and the Committee is pleased to report that following a review of Nominet's insurance brokers, new brokers were appointed resulting in significant cost savings to the company. The Committee ensured that issues raised in the previous year's management letter, for example fixed asset record keeping and asset disposal procedures, were dealt with during the year. Furthermore the Committee reviewed the company's tax planning arrangements, ensuring that government tax relief schemes to minimise corporation tax (e.g. research and development tax relief) are being fully utilised.

The full terms of reference for the Audit Committee can be found on the Nominet website:

www.nominet.org.uk/ReferenceDocuments/AuditCommittee-TermsOfReference.

Audit Committee Members

Fay Howard (chair)
Bob Gilbert (appointed May 2005)
Alex Bligh
Lesley Cowley

The Remuneration Committee

The Remuneration Committee was established in September 2002 and formalised the process of reviewing and determining the company's overall policy on remuneration that was already in place. It also advises on the specific remuneration packages of senior management, in particular the executive directors.

The committee consists of no fewer than three members, each being appointed by the Board. All committee members are non-executive directors who are independent of management and free from any business or other relationship that could interfere with the exercise of their independent judgement. The committee is chaired by Alex Bligh.

The committee met six times during 2003/4. At these meetings they agreed the overall remuneration award for all employees within the company including the introduction of a bonus scheme linked to individual and company wide targets; reviewed and agreed senior management pay including the executive directors and agreed targets for senior management performance related pay.

Full terms of reference for the Remuneration Committee can be found at:

<http://www.nominet.org.uk/ReferenceDocuments/RemunerationCommittee-TermsOfReference>

Remuneration Committee Members

Alex Bligh (chair)
Gordon Dick
Fay Howard
Jonathan Robinson

Company Information

Directors	Dr W Black	<i>resigned 9 December 2004</i>
	Mr A Bligh	
	Mr G Dick	<i>appointed 7 July 2004</i>
	Mr S Dyer	<i>resigned 7 July 2004</i>
	Mrs L Cowley	
	Ms F Howard	
	Mr J Robinson	
Secretary	Mrs E Taylor	
Company number	3203859	
Registered office	Sandford Gate, Sandy Lane West, Oxford, OX4 6LB	
Auditors	Critchleys, Greyfriars Court, Paradise Square, Oxford, OX1 1BE	
Bankers	National Westminster Bank, Headington, Oxford	
Solicitors	CMS Cameron McKenna, London	



Directors' Report

for the year ended 30 September 2004

Auditors' Report

as at 30 September 2004

Directors' Report The directors present their report and the financial statements for the year ended 30 September 2004.

Principal activity and review of the business

The principal activity of the company is the registration and maintenance of .uk Internet Domain Names. The company's balance sheet on page 29 shows a satisfactory position, members' funds amounting to £6,531,762. The Memorandum and Articles of Association of the company prohibit all distributions to the members. These funds are retained for the continuation of ongoing operations and for contingencies.

Results and dividends

The results for the year are set out on page 28.

Future developments

Work is continuing on the re-engineering of existing systems and processes and the development of new customer facing projects, particularly the development of greater online and web based services. In addition, Nominet publishes an annual report covering its activities during the year and providing further details on our plans for the future. Copies can be obtained from the website at www.nominet.org.uk.

Directors

The directors who served during the year are as stated below:

Dr W Black	<i>resigned 9 December 2004</i>
Mr A Bligh	
Mr G Dick	<i>appointed 7 July 2004</i>
Mr S Dyer	<i>resigned 7 July 2004</i>
Mrs L Cowley	
Ms F Howard	
Mr J Robinson	

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the company and of the surplus or deficit of the company for that year. In preparing these the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Critchleys be reappointed as auditors of the company will be put to the Annual General Meeting.

This report was approved by the Board on 21 February 2005 and signed on its behalf by Mrs E Taylor, Secretary.

Independent Auditors' Report to the members of Nominet UK

We have audited the financial statements of Nominet UK for the year ended 30 September 2004 which comprise the income and expenditure account, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 September 2004 and of its surplus and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Critchleys

*Chartered Accountants and Registered auditors
Greyfriars Court, Paradise Square, Oxford, OX1 1BE
24 February 2005*

Income and Expenditure

for the year ended 30 September 2004

Balance Sheet

as at 30 September 2004

Continuing Operations

	Notes	2004 £	2003 £
Income	2	10,592,469	9,192,287
Administrative expenses		(9,420,703)	(8,775,195)
Other operating income		3,469	4,261
Operating surplus	3	1,175,235	421,353
Investment income		48,031	-
Other interest receivable and similar income	4	187,497	186,217
Surplus on ordinary activities before taxation		1,410,763	607,570
Tax on surplus on ordinary activities	7	(393,727)	(230,267)
Surplus on ordinary activities after taxation		1,017,036	377,303
Retained surplus for the year		1,017,036	377,303
Retained surplus brought forward		5,514,726	5,137,423
Retained surplus carried forward		6,531,762	5,514,726

There are no recognised gains or losses other than the surplus or deficit for the above two financial years.

The notes on pages 31-38 form an integral part of these financial statements

	Notes	2004 £	2003 £
Fixed assets			
Tangible assets	8	6,392,853	6,506,923
Investments	9	5,984,851	-
		12,377,704	6,506,923
Current assets			
Debtors	10	1,936,197	2,282,663
Cash at bank and in hand		5,511,048	6,445,789
		7,447,245	8,728,452
Creditors: amounts falling due within one year	11	(10,421,522)	(7,509,295)
Net current (liabilities)/assets		(2,974,277)	1,219,157
Total assets less current liabilities		9,403,427	7,726,080
Creditors: amounts falling due after more than one year	12	(2,801,236)	(2,160,341)
Provisions for liabilities and charges	13	(70,429)	(51,013)
Net assets		6,531,762	5,514,726
Capital and reserves			
Income and expenditure account		6,531,762	5,514,726
Members' funds	15	6,531,762	5,514,726

The financial statements were approved by the Board on 21 February 2005 and signed on its behalf by

Mrs L Cowley, *Chief Executive*

The notes on pages 31-38 form an integral part of these financial statements

Cash Flow Statement

for the year ended 30 September 2004

Notes to the Accounts

for the year ended 30 September 2004

	2004 £	2003 £
Reconciliation of operating surplus to net cash inflow from operating activities		
Operating surplus	1,175,235	421,353
Depreciation and disposals	836,593	783,938
Decrease in debtors	346,466	102,912
Increase/(decrease) in creditors	3,403,538	(21,954)
Net cash inflow from operating activities	5,761,832	1,286,249
Cash flow statement		
Net cash inflow from operating activities	5,761,832	1,286,249
Returns on investments and servicing of finance	235,528	186,217
Taxation	(224,727)	172,419
Capital expenditure and financial investment	(6,707,374)	(748,720)
Decrease in cash in the year	(934,741)	896,165
Reconciliation of net cash flow to movement in net funds		
Decrease in cash in the year	(934,741)	896,165
Net funds at 1 October 2003	6,445,789	5,549,624
Net funds at 30 September 2004	5,511,048	6,445,789

Notes



1. Accounting policies

1.1. Accounting convention

The financial statements are prepared under the historical cost convention.

The company has consistently applied all relevant accounting standards.

1.2. Income

Income represents fees for domain name registration and related services and membership subscriptions, excluding value added tax. Only subscriptions and fees relating to this accounting period are included as income of this accounting period. That part of subscriptions and fees which relates to future accounting periods is included in creditors as deferred income.

1.3. Tangible fixed assets and depreciation

Depreciation is provided at rates calculated to write off the cost less residual value of each asset over its expected useful life, as follows:

Freehold land	-	Nil
Freehold buildings	-	2% straight line
Equipment	-	20% straight line
Fittings	-	20% straight line
Computers	-	33 1/3% straight line

(hardware and software)

1.4. Investments

Fixed asset investments are stated at the lower of cost and market value.

2. Income

The total income of the company for the year has been derived from its principal activity wholly undertaken in the UK.

3. Operating surplus

Operating surplus is stated after charging:		
Depreciation and other amounts written off tangible assets	834,139	783,183
Loss on disposal of tangible fixed assets	2,454	755
Operating lease rentals		
Plant & machinery	1,978	8,926
Auditors' remuneration	5,250	5,000
Auditors' remuneration from non-audit work	3,000	2,750

1.5. Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned.

However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable surpluses from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the Accounts

for the year ended 30 September 2004

Notes to the Accounts

for the year ended 30 September 2004

4. Interest receivable and similar income

	2004	2003
	£	£
Bank interest	187,497	186,217

5. Employees

Number of employees

The average monthly numbers of employees (including the directors) during the year were:

	2004	2003
	Number	Number
Operations	102	103
Office and management	29	29
	131	132

Employment costs

	2004	2003
	£	£
Wages and salaries	3,840,501	3,608,694
Compensation for loss of office	56,140	-
Social security costs	394,181	391,043
Other pension costs	45,224	48,507
	4,336,046	4,048,244

5.1 Directors' emoluments

	2004	2003
	£	£
Remuneration and other emoluments	394,146	314,484
Pension contributions	300	300
Compensation for loss of office	56,140	-
	450,586	314,784

	Number	Number
Number of directors to whom retirement benefits are accruing under a money purchase scheme	1	1

Highest paid director (Executive Chairman)

	2004	2003
	£	£
Amounts included above:		
Emoluments and other benefits	257,091	137,157
Pension contributions	300	300
	257,391	137,457

Managing Director

	2004	2003
	£	£
Amounts included above:		
Emoluments and other benefits	151,700	137,327
Pension contributions	-	-
	151,700	137,327

6. Pension costs

The company makes contributions to group personal pension schemes that are classified as defined contribution schemes. The pension cost charge represents contributions payable to the schemes and amounted to £45,224 (2003: £48,507). At the year end £1,105 was outstanding to the schemes (2003: £Nil).

7. Tax on surplus on ordinary activities

Analysis of charge in period

	2004	2003
	£	£
Current tax		
UK corporation tax	369,134	219,550
Adjustments in respect of previous periods	5,177	-
	374,311	219,550
Total current tax charge	374,311	219,550
Deferred tax		
Timing differences, origination and reversal	19,416	10,717
Total deferred tax	19,416	10,717
Tax on surplus on ordinary activities	393,727	230,267

Factors affecting tax charge for period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004	2003
	£	£
Surplus on ordinary activities before taxation	1,410,763	607,570
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (30 September 2003: 30%)	423,229	182,271

Effects of:

	2004	2003
	£	£
Expenses not deductible for tax purposes	(74,413)	13,076
Capital allowances for period in excess of depreciation	27,108	43,502
Adjustments to tax charge in respect of previous periods	5,177	-
Marginal Relief	(6,790)	(19,299)
Current tax charge for period	374,311	219,550

Notes to the Accounts

for the year ended 30 September 2004

Notes to the Accounts

for the year ended 30 September 2004

8. Tangible fixed assets	Freehold land and buildings	Computers	Fittings	Equipment	Total
Cost	£	£	£	£	£
At 1 October 2003	5,378,521	2,672,655	811,383	372,607	9,235,166
Additions	-	646,511	20,103	55,909	722,523
Disposals	-	(783,637)	(4,675)	(38,568)	(826,880)
At 30 September 2004	5,378,521	2,535,529	826,811	389,948	9,130,809
Depreciation					
At 1 October 2003	226,107	1,815,058	453,545	233,533	2,728,243
On disposals	-	(781,183)	(4,675)	(38,568)	(824,426)
Charge for the year	79,570	545,785	146,471	62,313	834,139
At 30 September 2004	305,677	1,579,660	595,341	257,278	2,737,956
Net book values					
At 30 September 2004	5,072,844	955,869	231,470	132,670	6,392,853
At 30 September 2003	5,152,414	857,597	357,838	139,074	6,506,923

Included within freehold land and buildings is freehold land valued at £1,400,000 which is not subject to a charge for depreciation.

9. Fixed asset investments	Investments	Total
Cost	£	£
Additions	5,984,851	5,984,851
At 30 September 2004	5,984,851	5,984,851
Net book values		
At 30 September 2004	5,984,851	5,984,851

10. Debtors	2004	2003
	£	£
Trade debtors	725,235	643,261
Other debtors	-	47,609
Prepayments and accrued income	1,210,962	1,591,793
	1,936,197	2,282,663

11. Creditors: amounts falling due within one year	2004	2003
	£	£
Trade creditors	270,549	311,487
Corporation tax	369,134	219,550
Other taxes and social security costs	502,316	113,772
Deferred income	8,759,546	6,628,805
Accruals	519,977	235,681
	10,421,522	7,509,295

Deferred income consists of those parts of membership subscription fees and registration fees that relate to future accounting periods. Registration fees are for a two year period, hence 1/24 of the income is deferred for each future month.

12. Creditors: amounts falling due after more than one year	2004	2003
	£	£
Deferred income	2,801,236	2,160,341
See note 11.		

Notes to the Accounts

for the year ended 30 September 2004

Notes to the Accounts

for the year ended 30 September 2004

13. Provisions for liabilities and charges

	Deferred Taxation (Note 14)	Total
	£	£
At 1 October 2003	51,013	51,013
Movements in the year	19,416	19,416
At 30 September 2004	70,429	70,429

14. Provision for deferred taxation

	2004	2003
	£	£
Accelerated capital allowances	70,429	51,013
Provision at 1 October 2003	51,013	
Deferred tax charge in income and expenditure account	19,416	
Provision at 30 September 2004	70,429	

The potential liability and provision are based on a corporation tax rate of 30% (2003: 30%).

15. Reconciliation of movements in members' funds

	2004	2003
	£	£
Surplus for the year	1,017,036	377,303
Opening members' funds	5,514,726	5,137,423
Closing members' funds	6,531,762	5,514,726

The Memorandum and Articles of Association of the company stipulate that, in the event that the company is wound up, these surpluses cannot be returned to the members.

16. Capital commitments

	2004	2003
	£	£
Details of capital commitments at the accounting date are as follows: Contracted for but not provided in the financial statements	-	16,838

17. Transactions with directors and officers

During the year Nominet UK purchased services with a value of £62,900 from Taylor Smith Ltd. Mr Lucien Taylor, a director of Taylor Smith Ltd, is married to Mrs Emily Taylor who is company secretary of Nominet UK. The total amount invoiced per director was less than £200. These transactions were on an arms length basis, on normal business terms.

18. Related party transactions**Transactions with companies in which directors of Nominet UK hold directorships**

	Owed by/(to) Nominet UK at 30 Sept 2004	Income to Nominet UK	Purchases by Nominet UK
	£	£	£
A Bligh (Siversscale Associates Ltd)	-	-	1,800
A Bligh & S Dyer (Mailbox Internet Ltd)	(564)	6,870	-
S Dyer (Namegate Ltd)	-	660	-
J Robinson (NetBenefit UK Ltd)	(5,902)	79,295	-
J Robinson (NetNames Ltd)	(5,884)	64,715	-
J Robinson (Easily Ltd)	(39,098)	396,730	-

19. Company limited by guarantee

The company is limited by guarantee and each member's liability will not exceed £10. The number of members at 30 September 2004 was 2,801.

Notes to the Accounts

for the year ended 30 September 2004

20. Gross cash flows

	2004 £	2003 £
Returns on investments and servicing of finance		
Interest received	235,528	186,217
Taxation		
Corporation tax paid	(224,727)	-
Corporation tax repaid	-	172,419
	(224,727)	172,419
Capital expenditure and financial investment		
Payments to acquire tangible assets	(722,523)	(748,817)
Payments to acquire investments	(5,984,851)	-
Receipts from sales of tangible assets	-	97
	(6,707,374)	(748,720)

21. Analysis of changes in net funds

	Opening balance £	Cash flows £	Closing balance £
Cash at bank and in hand	6,445,789	(934,741)	5,511,048
Net funds	6,445,789	(934,741)	5,511,048

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