

nominet

Nominet report and accounts 2005





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Highlights of 2004/05

- Over 4.5 million .uk domain names registered
- Average of 106,000 domain name registrations per month
- Income increased by over 19% to £12.6 million
- 97% of registrars satisfied with our level of customer support
- Registrant satisfaction index of 81.2%
- New style, look and feel for our communications - new brand
- 378% increase in press coverage - 351 articles published
- Awarded Investors in People standard
- Winner of Legal Week's 2005 award for Telecoms, Media and Technology team of the year





Change and growth

The financial year ended 30 September 2005 proved to be another successful year for us.

Chairman's Statement

In my first year as Chairman I am pleased to report that, once again, we saw continued strong demand for .uk domains, with a significant increase in both new registrations and renewals. The continued increase in the renewal rate is particularly encouraging, as it indicates that registrants still value their domain names.

We have worked hard to achieve further financial efficiencies and cash flow improvements over the course of the year and as a result our balance sheet remains strong, allowing investment throughout the company, enabling service excellence in all areas and positioning us well for the future.

Our role as a leading international example of the effectiveness of the private sector, self-regulated approach has strengthened during the year. We actively participated at the Working Group on Internet governance and the United Nations' World Summit on Information Society, where we promoted the self-regulated approach to Internet governance and Internet development. We believe that the outcome of the Summit maintains the enabling environment for private sector innovation and investment that has served the Internet community so well to date.

We continue our involvement in International governance and development of the Internet through attendance at and addressing the meetings of the Internet Corporation for Assigned Names & Numbers and Council of European Top Level Domain Registries (CENTR). We were pleased that our Director of Legal

and Policy, Emily Taylor, received recognition for her work in this arena when she was elected to the Board of CENTR in February 2005.

During March 2006 we held an Extraordinary General Meeting at which our membership voted against the proposed changes to corporate governance as recommended by the Board. This result was disappointing, more so because only a minority of members, less than 11%, voted. Having listened to the views of our members we have subsequently embarked on a series of consultations and votes to address the outstanding corporate governance issues we face. Of particular importance is the role and scope of Nominet, with particular reference to our ability to bid to run the UK ENUM registry. We hope that, with the support of our membership, we will have resolved all issues of corporate governance by early 2007.

Nominet finished the 2005 financial year a stronger and more dynamic company. I would like to thank our people for their innovation, dedication and hard work over the year. Together we look forward to exciting times ahead.

Bob Gilbert Chairman

Moving ahead

During 2004-2005 we took some significant steps on our journey to becoming the leading supplier of registry services.

Chief Executive's Statement

We made significant progress with our service excellence strategy to deliver systems and services that exceed our customers' expectations and achieved many of the milestones laid out in our service improvement plan. We were encouraged by the results of our registrar survey that indicated 97% of our registrars are pleased with the level and standard of support we provide them and our registrant survey, which indicated a satisfaction index of 81.2%. Both surveys and the other feedback we receive from our customers indicate that we are making excellent progress in this area as a result of the dedicated work of our support teams.

At the heart of our business are our people. We have made significant investment in the induction, training and development of our people in order that we can meet the needs of the business and this was recognised by our achieving the Investors in People standard for the first time in June 2005. We also made progress towards our aim of developing a high performance culture by implementing a performance related pay scheme and by improving our appraisal system.

Improving communications with all our stakeholders was a priority during the year and remains at the heart of our communications strategy going forward. We invested in a major re-branding exercise, which examined our relationships with our key stakeholder groups and led to a new communications style and logo, first revealed via our new web site in December 2005.

Nominet's legal team carried on with its outstanding programme of activity. The lawyers continued to fight a string of fraudsters and our Dispute Resolution Service (DRS) continues to receive accolades from both near and far, most recently when a service based on the DRS model was adopted by the .nz registry. During the year we won sizeable damages from our litigation in Australia over breach of copyright laws in connection with an attack on our WHOIS database,

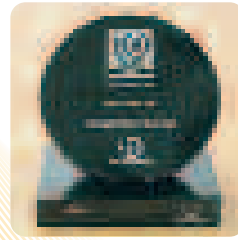
although it remains unlikely any monies in settlement of our damages will ever be recovered. We also achieved success in the civil courts against a fraudulent domain name scheme run by 'Domain Registry Services'. The capabilities of the legal team were recognised when they won Legal Week's 2005 award for Telecoms, Media and Technology team of the year.

Our technical team have been diligently working towards the delivery of a new single integrated product suite, and we are now beginning to reap the benefits of this new platform. Among a number of new product releases, the team also delivered real time zone file updates, enabling changes made to domain names to be visible on our name servers within one and a half minutes. This is a position matched by few other registries.

Over the year we have sought to respond to the needs of the UK Internet community through investment in our products, services, infrastructure, communication and most importantly our staff. The resulting improvements will enable Nominet to continue to provide all its customers and wider stakeholder communities with an outstanding quality of service.

As we celebrate our tenth anniversary, we look forward to delivering further service improvements over the coming years in this fast paced market in which we operate.

Lesley Cowley Chief Executive





Who we are

We are the fourth largest domain name registry in the world with over 2,800 members.

Nominet is the registry for all domain names ending in *.uk*. We are a private, not-for-profit organisation with members instead of shareholders and are limited by guarantee. Our mission is to excel in the management of the *.uk* domain and the provision of registry services in response to the needs of our customers and stakeholders.

We are the fourth largest domain name registry in the world with over 2,800 members representing a broad spectrum of the Internet industry. We hold over 5 million domain names on our database, a number that is growing all the time. Domain name registrations over the last year averaged 106,000 per month - an increase of 15% compared to the previous year. This is the highest registration rate since the Internet boom of 2000.



Supporting our customers

We recognise that it is essential to understand the impact of service improvements by talking to our customers.

Providing a consistently high standard of customer service

In 2004 we launched our Service Excellence strategy: a three year plan intended to deliver systems and services that exceed our customers' expectations. Our vision is to differentiate the registry services we provide from those of our competitors by providing a truly customer focused operation.

In 2004/5 we carried out a number of initiatives to help us deliver this strategy. We ran benchmarking projects studying other registries as well as companies defined by the quality of the service they provide. We also ran a project called 'The Perfect Transaction' to document a perfect interaction with Nominet from the customer's perspective and then looked at the gaps between this perfect scenario and our current practice to identify areas for improvement.

We have also invested in training our customer facing teams. During the year all the operations teams completed a 'Service Excellence' training course. The courses were carefully tailored to the teams involved to ensure that they delivered the best possible value for money. For our member and registrar support staff the training focused on helping staff to develop relationships with their customers. For the registrant services teams we continued to focus on the delivery of a 'one stop shop' approach so that all staff can support all the different services and systems we provide.

Customer support when you need it

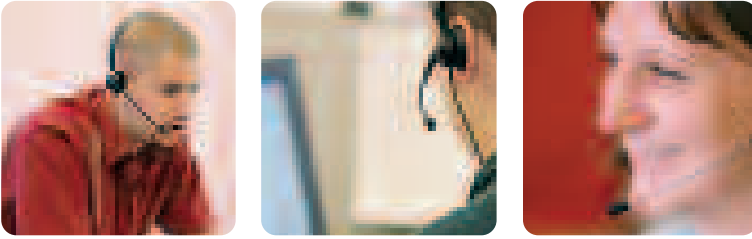
We launched emergency out of hours support for registrants halfway through the year. This has provided a valuable resource for registrars and their customers and we have been able to assist with a number of emergencies that could not wait until office hours. Looking forward, we are considering increasing the number of services that we support out of hours.

Registrar workshops

During the year we ran six registrar workshops at various locations around the country. The workshops attract both new and longstanding registrars and those with little experience to an in-depth understanding of our systems. On average 20 registrars attended each workshop, and 94% of attendees said they would recommend it to their colleagues.

Clarifying communications

At Nominet we have traditionally referred to our registration agents as tag holders. As part of our strategy to clarify and simplify our communications, we are changing this name to registrars - a term that is more meaningful to most in the Internet industry. This does not alter the nature of the contractual relationship that we have with these customers.



Supporting our customers (continued)

Customer research

In late 2004 we conducted an in-depth survey of our registrars. The survey covered a number of areas including communication, technical developments, company structure and principles, governance and policy. We also used the survey to assess member and registrar satisfaction with our service. The results were positive with 97% of respondents stating that they were either satisfied or very satisfied with our member and registrar support teams. The results of this research went on to inform a number of initiatives throughout the year.

At the end of 2005 we conducted our first survey focused solely on customer satisfaction amongst registrars. This research provided a satisfaction index of 82.1%. This is a very positive rating but there remains room for improvement, so we will work to address the areas our registrars told us were most important to them to ensure even higher ratings in the future.

In 2004/5 we also introduced customer satisfaction research for domain name registrants. The findings helped us to identify the things we were doing well and areas where we still needed to improve. The research also created a baseline for a rolling programme of satisfaction measurement. Our first registrant satisfaction index for 2005 was 80.0%.

Learning from the feedback we received, we introduced a number of initiatives to address the areas for improvement identified through the survey. Towards the end of 2005 we repeated the exercise with registrants to measure the progress we had made. We set ourselves a target of achieving a satisfaction index 80.9%. In fact we exceeded our target with a result of 81.2%. While we are very pleased with this improvement we are now looking at how we can get even better.



Human Resources

The start of the new year was focused on achieving Investors in People status.

Building on the momentum that had been created in 2003/4, creating a more performance led approach to people management, the start of the new year was focused on achieving Investors in People status.

Investors in People

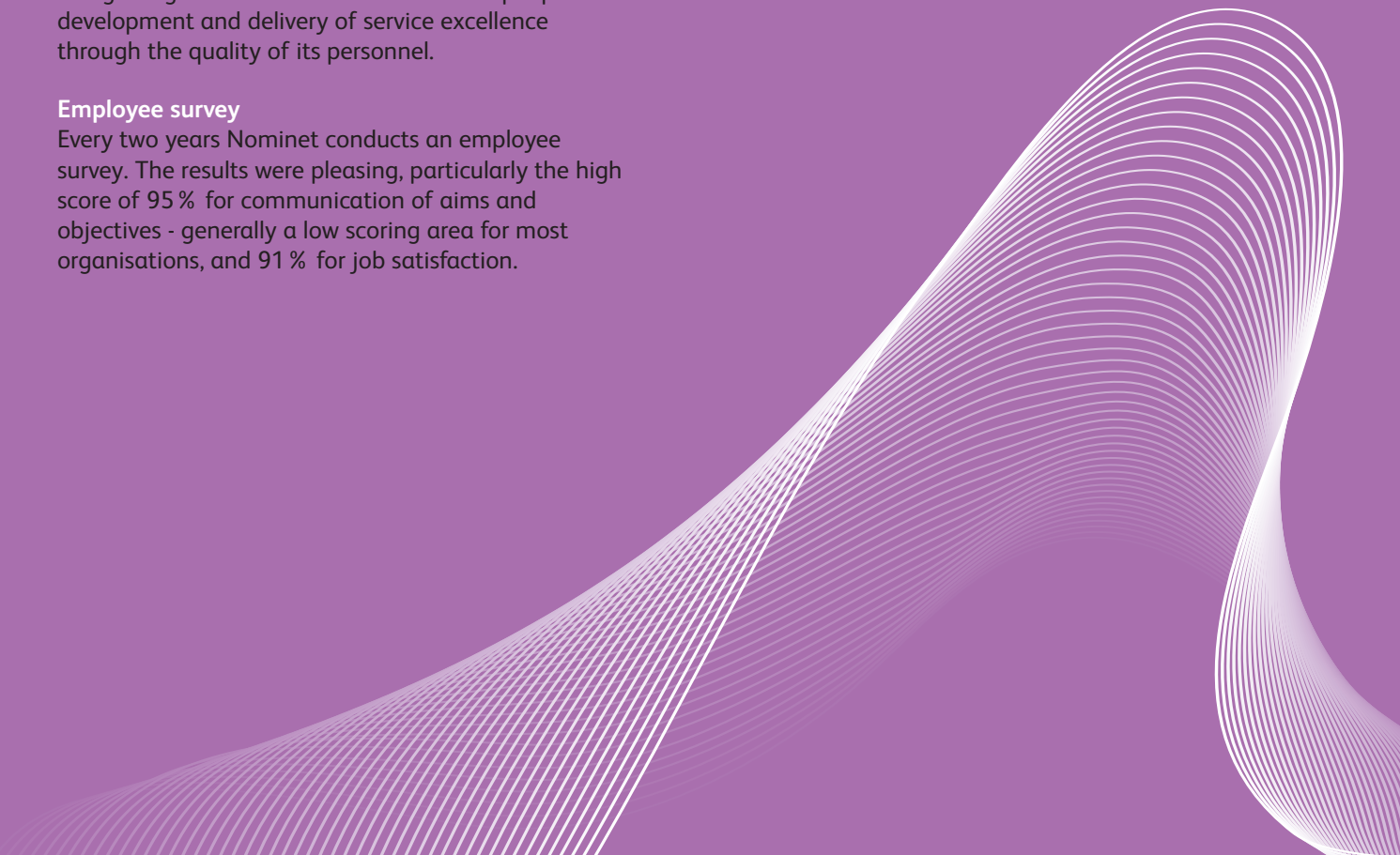
The IiP accreditation was received in June 2005 recognising Nominet's commitment to its people development and delivery of service excellence through the quality of its personnel.

Employee survey

Every two years Nominet conducts an employee survey. The results were pleasing, particularly the high score of 95% for communication of aims and objectives - generally a low scoring area for most organisations, and 91% for job satisfaction.

Future

We are committed to the introduction of new policies and practices to move the company forward. Focus continues to be on high performing teams with the introduction of 360 degree appraisal and reward more directly related to performance due for introduction in 2006.





Technical

Nominet's new web site and improvements to the automatic registration interface are just some of the technical challenges faced in the last year.

Overview

Our focus during 2004/5 was on the following:

- Expanding our customer-facing infrastructure to provide better performance and resilience.
- Refocusing our software development strategy to a more team-based, integrated and agile approach.
- Introduction of new systems for staff to increase productivity and inter-team communications.
- Continued establishment of Nominet as a centre of technical excellence.

Whilst this financial year saw only a few product releases, there has been a spate of them in the first few months of the next financial year building on the previous year's work.

Customer facing infrastructure

We greatly expanded the Automaton (our automated system for registering and manipulating domain names) and implemented a clustering solution to provide much lower downtime, fast processing and easier maintenance. We also implemented load balancers for our web site, WHOIS and middleware to enable clustering and greater fault tolerance.

We introduced a new monitoring system for our nameservers that enables us to understand traffic trends and what types of queries people are doing.

Software development

We refocused our development around two teams with new team leaders and began to work together on a single integrated product suite. We also introduced new development processes including a standard requirements gathering system and agile development plans.

Another significant change was that we built full alpha and beta networks for developers and staff to test systems in a more realistic environment before launch.

Staff systems

We launched an Intranet which has improved internal communication and enables staff to access shared information more easily. We also introduced a system called Touchpaper, for logging information about customer enquiries. This database is used by all customer services staff, so that anyone answering a call can access previous information about the enquiry.

Centre of technical excellence

The first set of Internet drafts was published in the area of DNSSEC. DNSSEC stands for DNS security extensions, which provide DNS with authentication of responses from DNS servers and thereby aim to prevent DNS spoofing, a common technique used by hackers. We also launched a DNSSEC testbed that offers an opportunity for stakeholders and other interested parties to interact with a server running a suite of test DNS data that has been secured with the latest version of DNSSEC.



We started a technical blog to enable any interested parties to follow the progress of the technical developments at Nominet.

We also pushed for the introduction of a commercial ENUM service in the UK by writing proposals for the company structure and new technical mechanism for the involvement of telephony service providers. ENUM is a protocol which enables telephone numbers to be mapped onto domain names, enabling users to send and receive communications by a variety of means (phone, fax, email, messaging, etc.) from a single telephone number.

New product releases

The major release of the year was real time zone file updates. Changes made to domain names are now visible on our name servers within one and a half minutes, which takes us into a position matched by few other registries.

We also launched PRSS (Public Register Search Service) beta and DAC (Domain Availability Checker) beta, backed up by mailing lists for beta testers to talk directly to developers, which is a first for us.

After the end of the year we had several more releases - DAC went live, and we launched a new and significantly improved version of the WHOIS/WHOIS2 and a new internal system to manage all member and registrar data.

Looking ahead

Online suite

We will be launching a new web based system for members and registrars that will continue to see new functionality added, and we have begun development on a single integrated suite of systems for registrars. We are also due to launch plans for Extensible Provisioning Protocol (EPP) followed by consultation and then the final system. 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 registrar that develops an EPP system compatible with ours will be able to quickly adapt it to any other registry that supports EPP.

Technical excellence

Some tools that are in development will be released to aid the understanding of DNS and the Internet in general. Over the next year we will make more testbeds available for users like the one we created for DNSSEC.

We will also be announcing cooperation initiatives with open source projects that we work with.

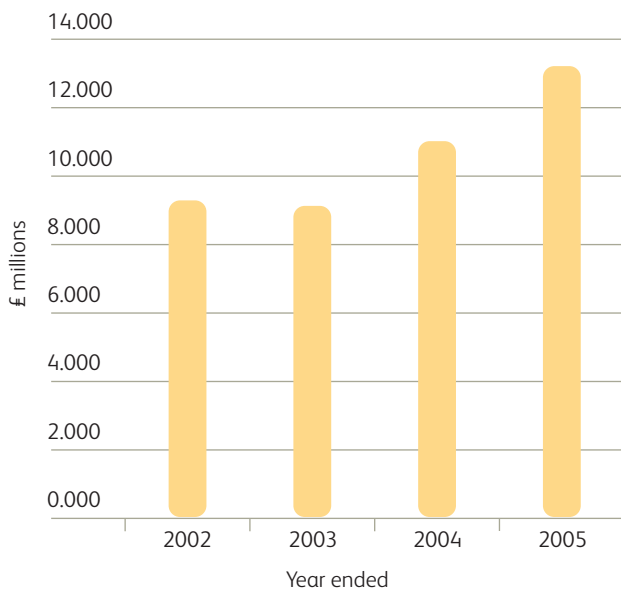
Finance

A successful year with income increasing more than 19%.

Income & expenditure

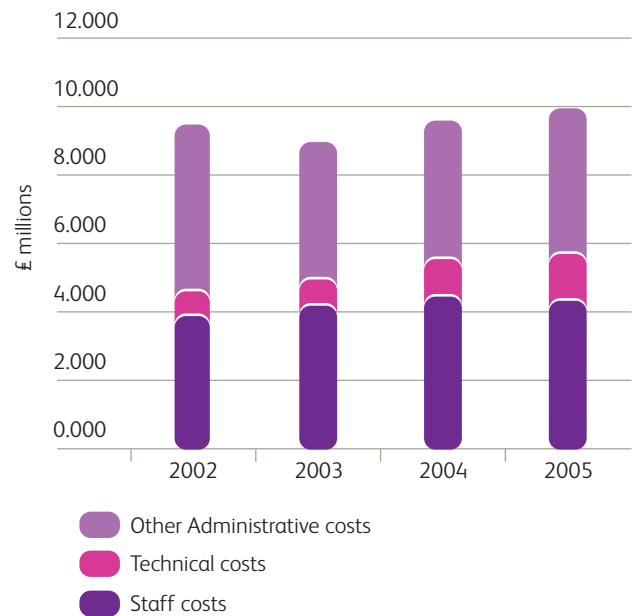
We have had a very successful year financially with income increasing by over 19% to £12.6 million compared to £10.6 million in 2003/4. This was due to a steady increase in new domain name registrations during the year and also an increase in the rate of domain name renewals. We received 15% more domain name registrations than in 2003/4 and overall the .uk register grew by 21% during the year.

Income over Time



We have continued to maintain strong expenditure control resulting in a 1% reduction in staff costs (including temporary staff) over the year, our largest area of expenditure. Total administrative expenses have increased by only 5% with a continuing emphasis on technical system improvements and IT infrastructure and staff training and development. There has been increased expenditure on Internet policy both nationally and internationally resulting from our strategic priority to improve communications with all our stakeholder groups.

Expenditure over Time



The result of the healthy growth in domain names and the ongoing management of our costs was an operating surplus of £2.7 million. With the addition of good returns on our investments, surplus before tax was over £3.4 million.



The balance sheet

We have continued to pro-actively manage our debtors with the result that our trade debtors have increased by less than 2% to £738,000 (£725,000 in 2003/4) despite the substantial increase in income noted above. Reflecting this, the average debtor days for the year were 25 days (29 days in 2003/4).

The other item of note on the balance sheet is our fixed asset investments, held in two offshore investment funds so that we can optimise our returns from a relatively low risk investment strategy and also minimise our tax liability. Taking into account additions to the offshore funds during the year, our cash inflow for the year was £4 million (compared to £5 million in 2003/4). These funds are held in the Isle of Man and Dublin. We transferred £6 million from a capital redemption bond to a lives assured bond during the year. This transfer was carried out in order to minimise our tax liability resulting from a change in tax legislation during the year.

As we continue to invest in the future of the company, we expect to spend more of our reserves over the next few years. An example of this is the exciting investment in our new office, on the Oxford Science Park, during the next year.





Communications

Improving communication with all stakeholders was a strategic priority for the year, together with improving our general visibility.

We have a large number of different stakeholder groups ranging from members and registrars to government, industry, international Internet organisations and the wider Internet community. Improving communication with all stakeholders was a strategic priority for the year, together with improving our general visibility.

Improving communication

Key to achieving the planned improvements in communication was the development of a new approach, involving a change of style together with a new look and feel. We have been aware from your feedback that we have not always communicated as clearly as we would all like and that our materials have sometimes been difficult to understand as well as containing jargon and acronyms. We have also been well aware that the structure of our web site needed improvement and that our logo and corporate colours were dated.

The project to establish a new style, look and feel - a new brand for us - started during the year with an assessment of our current position. We spoke to a wide range of stakeholders including members,

registrars, registrants, international organisations, government representatives and staff to find out what Nominet meant to them, the values we embodied and what our communications were saying about us. Building on this assessment and our agreed strategic plans, we then developed and agreed a set of ideas about the kind of company we want to be in the future and what this would mean for our communications.

The new brand incorporates a new style of communication, a new logo and a new web site with greatly improved navigation. By a new style of communication, we mean the start of a new approach to communicating with all of our stakeholders which links closely to our service excellence strategy. We want to ensure that we are approachable, understandable, consistent in our delivery, innovative and solution focused.

The new style of written communication was launched during the Autumn of 2005 but updating and reorganising the web site was a substantial task and the new site was not launched until December 2005.



Members and registrars

We have almost 4,000 members and registrars, who represent all areas of the Internet industry. Our popular programme of lunches and workshops held across the country continued during the year, with eleven events taking place. There were also meetings and discussions with individual registrars.

During the year, our online newsletter 'Nominet News' was re-launched as a more industry focused newsletter, with a mix of Nominet and industry related articles. Compared with the previous format, click-throughs increased by 300%, the number of readers who view more than one article by 100% and overall traffic to the news site increased by 250%. We ended the year with over 3,500 subscribers to the newsletter.

Media

Our media presence significantly improved during the year as we increased the scope of Internet related issues we became involved in, whilst at the same time earning a reputation for being forthcoming and approachable as a useful source of independent comment for the media.

A total of 351 articles of Nominet coverage were achieved in this period, up from 93 the previous year, reflecting a phenomenal 378% increase in coverage.

A total of 128 journalist briefings and interviews took place over the year, by telephone and also face to face, including 16 national newspaper interviews.

We also fared well in the local Oxford media with three dedicated articles published in the Oxford Mail and Times. Two broadcast appearances with BBC2 Television's Working Lunch programme took place during the year, one concerning general domain name advice and the other concerning a .com renewal problem on which we were able to offer expert opinion.

Some of the materials developed for media use included releases and media statements around Nominet judgements and court cases, including the well reported *itunes.co.uk* Dispute Resolution Service ruling and the Peter Francis-Macrae injunction, to list but two.

Developing our presence as a broader Internet commentator, we also issued a series of Top Ten Tips, around online topics such as registering and choosing a domain name, through to how to promote web sites.

Strong relationships were forged with top tier and national publications such as The Times, who utilised Nominet's presence at the World Summit on Information Society (WSIS) to publish our views as their 'official observer' at the event.

Proactive planning, diligent media liaison and forthcoming, pithy comment from spokespersons ensured the year up to Autumn 2005 was an extremely successful time for us in terms of enhancing our media presence and general awareness.



Policy & International

By taking an active role in Internet governance Nominet both influences and informs change.

In January 2005, Emily Taylor was appointed to the role of Director of Legal and Policy, taking over responsibilities formerly conducted by the outgoing Chairman.

World Summit on the Information Society

2005 was a critical year in Internet governance. Nominet actively participated in the Working Group on Internet governance consultations and the United Nations' World Summit on Information Society (WSIS). Throughout the process, which saw intense debate on the future of ICANN, we advocated an incremental approach building on existing structures as the best way forward.

We believe that the outcome of the Summit provides an incremental approach to Internet governance that successfully builds on existing structures. This maintains the enabling environment for private sector innovation and investment that has served the Internet communities so well to date.

We also welcome the creation of the Internet Governance Forum, and hope that it will fulfil the Tunis Agenda's vision of providing a space for 'multi-stakeholder policy dialogue'. To signify our support for this initiative, we have pledged €15,000 to help establish a secretariat for the Forum.

Government

We continued to strengthen our relationship with the DTI and worked closely with them on the WSIS agenda. The DTI acknowledged that our input on WSIS (for parliamentary answers on Internet and domain name issues) was influential and helpful. We have also been working towards strengthening relationships with other government departments, such as the Home Office.

Over the course of the year we have been working with the Office of Fair Trading (consumer) in relation to Internet scams, acting as an educator and passing on complaints from our customers. We also continued valuable dialogue with the Information Commissioner (the data protection authority in the UK). They have written a letter commending our WHOIS opt-out.

In addition we have continued to participate in relevant parliamentary Committees and forums, eg. PITCOM, APIG, and the Westminster e-Forum.



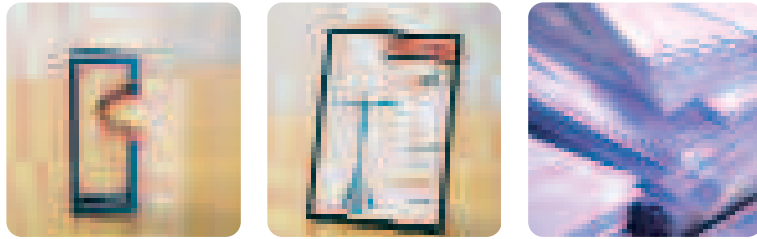
International

We are a member of the Council of European National Top Level Domain Registries (CENTR) and participated at 14 general and special interest group meetings during the year to share best practice and latest developments with our peers. During the year we made ten presentations to CENTR meetings sharing our best practice and learning on a diverse range of topics from dynamic registry updates to registrar services. In February this year Emily Taylor (our Director of Legal and Policy) was elected to the Board of CENTR.

We attended the three international meetings of the Internet Corporation for Assigned Names & Numbers that took place during the year. As a member of the informal country-code managers group, we made presentations to our peers on the management challenges that a growing registry presents and the Dispute Resolution Service that we offer. We also made a joint presentation with the Department of Trade and Industry representative to the Government Advisory Committee concerning the *.uk* policy model. In addition, we presented to a large audience of registrars, law enforcement representatives and government representatives regarding the *.uk* WHOIS policy.

We were able to participate in constructive discussions with the Country Code Names Supporting Organisation, which is part of the formal structure of the Internet Corporation for Assigned Names & Numbers, about how the bylaws of this organisation might be changed in order to permit more country code managers to participate. In the meantime, we attended the meetings of the organisation as an observer and joined one sub-Committee (in a non-member capacity) seeking to make improvements to the services provided to us.

In addition to the above, we attended and made presentations to several other international conferences, with a view to sharing best practices and liaising with our registrars who are based outside the UK.



Legal

Nominet's top two lawyers have successfully fought a string of Internet fraudsters.

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.

Awards

Our legal team was the winner of Legal Week's 2005 award for Telecoms, Media and Technology team of the year. The magazine noted that 'The [DRS] has won overseas admirers and is being adopted by New Zealand for the *.nz* domain registration' and went on to compliment the solicitors too, describing Emily Taylor as 'a prominent figure in the wider debate taking place about regulation of the Internet.'

The legal department was a finalist in 'The Lawyer' awards (In-house Technology, Media and Telecoms team). The magazine described Nominet as being 'of enormous benefit to the public' and said that '[Nominet's] top two lawyers have successfully fought a string of Internet fraudsters' and went on to praise the DRS.

The legal team's successes have been widely reported in the press.



Legal Cases

Success in Australia

Since 2003, Nominet has been involved in legal action in Australia. We were claiming breach of copyright and unfair trading laws, in connection with a large scale attack on the WHOIS database, followed by the sending out of misleading notices by 'UK Internet Registry' to *.co.uk* registrants, which many mistook for renewal notices from Nominet.

The litigation in Australia ended on a high with sizeable damages of AUD\$1.3 million being awarded against the defendants, including the equal highest ever award for 'punitive damages' by an Australian court.

Peter Francis-Macrae

In the UK there was success in the civil courts against 'Domain Registry Services' a fraudulent domain name scheme. Nominet obtained judgement and injunctions against Peter Francis-Macrae, the man behind the scheme and his company and costs of £81,000. During the year we worked closely with the police in their preparation of a criminal prosecution, and two Nominet staff gave evidence at trial. In the end Mr Francis-Macrae was convicted and sentenced to six years in prison for a number of crimes, including blackmail against Nominet.

itunes.co.uk

During the year there was an attempt to judicially review Nominet, in relation to the domain name *itunes.co.uk*, which had been subject to the Dispute Resolution Service (DRS). Nominet maintained throughout that the DRS proceedings had been eminently fair and the court rejected the claim at the earliest stage.

Dispute Resolution Service

Disputes account for only 0.05 % of all *.uk* domain name registrations, and the DRS has handled over 676 valid cases in the last year. Where a response to a dispute is received the parties receive the benefit of informal mediation, which is handled by Nominet's Centre for Effective Dispute Resolution (CEDR) trained mediators. The two mediators provided 13 % of the total number of commercial mediation cases handled across the entire UK market over the year with a settlement rate of 56 %.

The results of a recent survey showed that 87 % of users of the DRS are businesses of which 73 % have less than 50 employees. 87 % of users would recommend the Dispute Resolution Service as an effective way of resolving a dispute.

Corporate governance

The Board is committed to ensuring that proper standards of corporate governance operate throughout the company.

Nominet is a private company, limited by guarantee and is therefore not required to comply with the provisions of the 2003 Combined Code. However the Board is committed to ensuring that proper standards of corporate governance operate throughout the company and has therefore followed the principles of the Combined Code as far as is practical and appropriate for a company of this size and nature.

Right is a brief description of the role of the Board and its Committees followed by a statement about our risk management policy and procedures.

The Board

The role of the Nominet Board is to provide leadership of the company within a framework of prudent and effective controls. The Board sets the company's vision and strategic aims ensuring that the necessary financial and other resources are in place so that the company can meet its objectives and review management performance.

The Board meets every two months and during the last year approved a schedule of matters specifically reserved for its decision-making. The Board also agreed during the year to adopt a policy for the declaration of Board members' interests. Our external auditors reviewed this register during their audit of the company's financial statements.

Our Board of directors for the last year comprised a Chairman, Chief Executive and four non-executive directors who are elected by the company membership.

Elections were held at the time of the AGM in July 2005 to replace two retiring non-executive directors. Alex Bligh and Jonathan Robinson were re-elected for further two year terms as a result. Thus there were no changes to the Board composition during the year.



Current Board Members

1. 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.

2. 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.

3. Alex Bligh - Non-Executive Director

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 co-location 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.

4. Gordon Dick - Non-Executive Director

Gordon has been an active participant in Nominet UK for many years, initially as a registrar, then as a member of the Policy Advisory Board and more recently 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.

5. 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. More recently Fay worked as a project manager for EURid, the organisation selected by the European Commission to operate the new .eu Top Level Domain. She is now working for CENTR once more as interim General Manager.

6. Jonathan Robinson - Non-Executive Director

Jonathan Robinson is a co-founder of Group NBT (formerly NetBenefit) plc and is currently their Chief Operating Officer. Group NBT is a London listed domain name, email and web-hosting services business that includes NetNames, NetBenefit and Easily.co.uk. Jonathan was previously deputy chairman of the Internet Council of Registrars (CORE) and is a current non-executive director of the .info registry Afiliias.

Corporate governance (continued)

The following Committees deal with specific aspects of the company's affairs:

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 consists of a minimum of three members all appointed by the Board, two of whom must be non-executive directors. It is chaired by Fay Howard. Meetings are usually also attended, by invitation, by Lesley Cowley (Chief Executive) and Frances Maclean (Director of Finance). The Committee meets at least twice a year and provides a forum for reporting by the company's external auditors.

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;
- the careful review of any non-audit services provided by the auditors.

The Audit Committee met twice over the last year, in December 2004 and June 2005. At these meetings the Committee reviewed the 2004 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 as was the company's staff expenses policy.

The full terms of reference for the Audit Committee can be found on our web site:

www.nominet.org.uk/governance/board/audit/

Audit Committee Members

Fay Howard (chair)

Bob Gilbert

Alex Bligh

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 five times during the last financial year. At these meetings they agreed the overall increase in annual salary levels for employees within the company; reviewed and agreed senior management pay including the executive directors and agreed targets for senior management performance related pay. They also reviewed and agreed improvements to the performance related pay system for staff introduced the previous year.

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

www.nominet.org.uk/governance/board/remuneration/

Remuneration Committee Members

Alex Bligh (chair)

Gordon Dick

Bob Gilbert

Fay Howard

Jonathan Robinson

Policy Advisory Board (PAB)

The PAB's 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.

Membership of the PAB

The PAB is made up of 17 representatives - eight elected by the members of Nominet, seven appointed representatives from other stakeholder groups and organisations and two non-executive directors. A particular focus during the year was to ensure that the appointed organisations were able to send representatives who are interested in Nominet and able to attend meetings regularly. The appointed membership of the PAB is now much stronger than it was at the start of the year.

Amongst the new attendees at the PAB during the year were: David Evans (Office of the Information Commissioner, OIC), Lord Erroll (All Parliamentary Internet Group, APIG), and Geoff Smith (DTI).

Elected PAB Members

Denesh Bhabuta

James Conaghan

James Cronin

Clive Feather

Jason Johns

Alex Kells

Sebastien Lahtinen

Hazel Pegg

Representatives of Appointed Organisations

Mark Lewis (Companies House)

Sue Daley (CBI)

Eric Ramage (ITMA)

Geoff Smith (DTI)

Tom Adams (Cabinet Office)

The Earl of Errol (APIG)

David Evans (OIC)

Board representatives

Alex Bligh

Gordon Dick

Policy matters

Child pornography

The Policy Advisory Board thoroughly debated the issue of child pornography in .uk. The debate resulted in a new expression of Nominet's policy:

- We currently cancel domain names with false contact details. We will develop a fast track cancellation procedure for domain names associated with illegal materials.
- If we realise that a domain name may be illegal in and of itself, we will cancel and block it from future registration.

We worked closely with the Internet Watch Foundation during the development of this policy and have now become members of the IWF as a result of this contact.

Raising industry standards

The Policy Advisory Board has been involved in early discussions about Nominet's new strategic priority of raising industry standards. A public consultation will begin in early 2006.

Policy working groups

The PAB is also involved with a number of policy working groups that are discussing specific policy areas. These groups do most of their work on mailing lists and are open to all stakeholders provided they have subscribed to the list. The working groups currently in operation are Internationalised Domain Names, the possible reform of .net.uk and domain name Lock State.

The working group on Internationalised Domain Names held a three month public consultation on a number of proposals. The working group on variable registration periods recommended the introduction of one year registration periods, but rejected a proposal for ten year registration periods.



Corporate governance (continued)

Risk

The Board of directors has delegated responsibility for ensuring that Nominet maintains a sound system of risk management and control to the management team which acts as a risk management group.

The Board of directors is responsible for reviewing the effectiveness of the system of risk management and control. This system is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

During the last year we have conducted a risk review and have made good progress in putting together a

business continuity plan for the company. Over the next year we plan to fully implement changes to our risk management process which will ensure that our system of risk management and control follows accepted best practice standards. These changes will also guarantee that our system is based on an ongoing process that identifies the most critical risk to achieving our policies and objectives. We will evaluate the nature and extent of those risks and then manage them efficiently, effectively and economically.

Additionally the system of risk management will seek to ensure compliance with the Combined Code requirements on corporate governance.

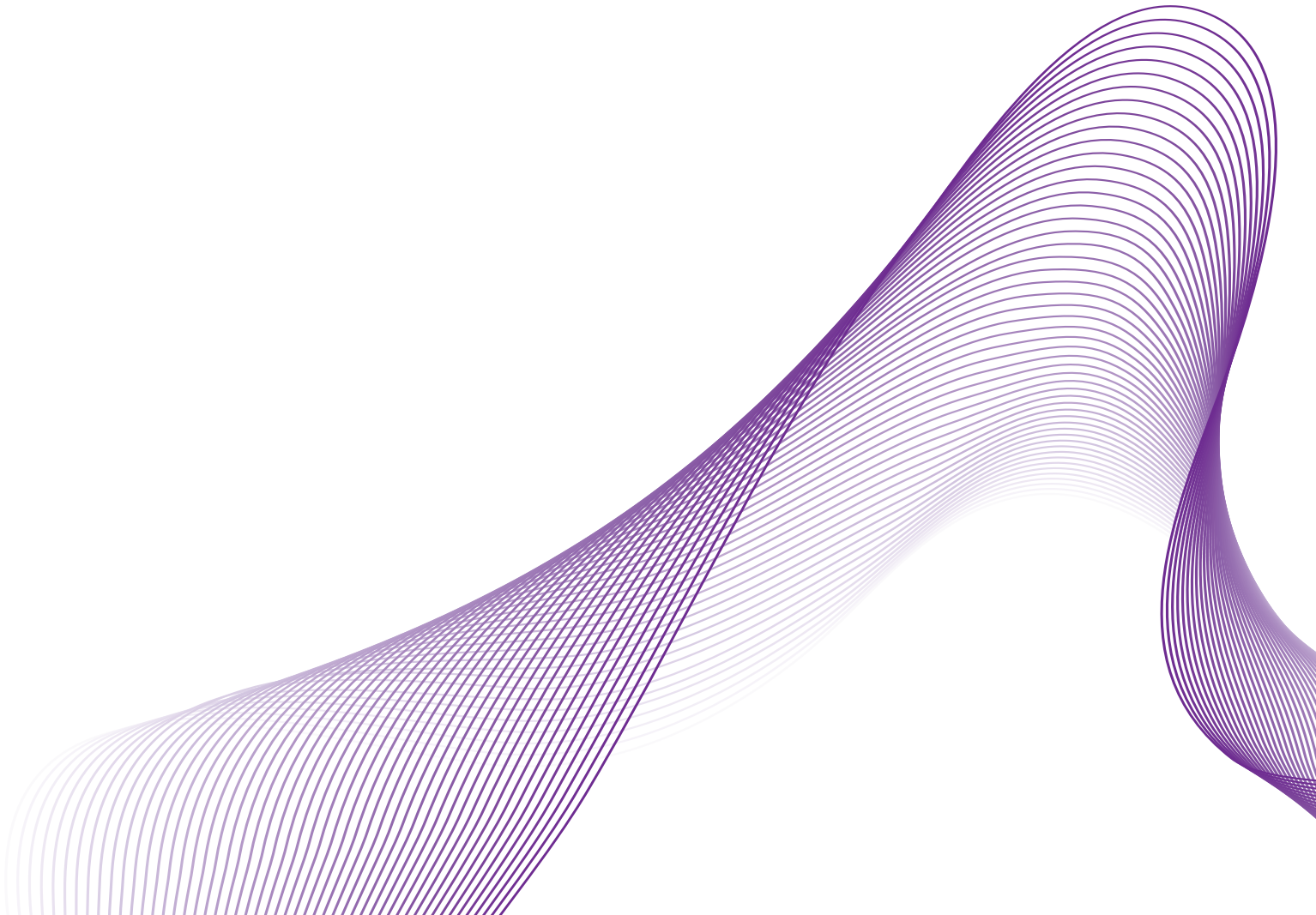
Directors' report and financial statements

for the year ended 30 September 2005

Company limited by guarantee

Company information

Directors	Dr W Black Mr A Bligh Mrs L Cowley Mr G Dick Mr R Gilbert Ms F Howard Mr J Robinson	<i>resigned 9 December 2004</i> <i>appointed 1 May 2005</i>
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 2005

The Directors present their report and the financial statements for the year ended 30 September 2005

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 £8,956,000. 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 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 web site at www.nominet.org.uk.

Directors

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

Dr W Black *resigned 9 December 2004*

Mr A Bligh

Mrs L Cowley

Mr G Dick

Mr R Gilbert *appointed 1 May 2005*

Ms F Howard

Mr J Robinson

Charitable and political contributions

During the year the company contributed £2,000 to charities. This sum matched donations made by Nominet staff to various fundraising activities organised by a staff volunteer led 'Charity Action Group'.

Register of directors' interests

During the year, the Board agreed a policy for the conduct of Board members and for declaring an interest. Consequently Nominet now holds and maintains a register of interests of Board members which was reviewed by the Auditors during their audit of the company's accounts.

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 enable them 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 2006 and signed on its behalf by

Mrs E Taylor

Secretary

Independent auditors' report to the members of Nominet

for the year ended 30 September 2005

We have audited the financial statements of Nominet UK for the year ended 30 September 2005 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 2005 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

*Greyfriars Court
Chartered Accountants and Registered Auditors
Paradise Square
Oxford OX1 1BE*

2 June 2006

Income & expenditure

for the year ended 30 September 2005

		Continuing Operations	
		2005	2004
		£'000	£'000
	Notes		
	Income 2	12,621	10,593
	Administrative expenses	(9,903)	(9,421)
	Other operating income	–	3
Operating surplus 3		2,718	1,175
	Investment income	551	48
	Other interest receivable and similar income	210	188
Surplus on ordinary activities before taxation		3,479	1,411
	Tax on surplus on ordinary activities	(1,055)	(394)
Surplus on ordinary activities after taxation		2,424	1,017
Retained surplus for the year		2,424	1,017
	Retained surplus brought forward	6,532	5,515
Retained surplus carried forward		8,956	6,532

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.

Balance sheet

as at 30 September 2005

	Notes	2005 £'000	£'000	2004 £'000	£'000
Fixed assets					
Tangible assets	9		6,071		6,393
Investments	10		10,997		5,985
			17,068		12,378
Current assets					
Debtors	11	2,590		1,936	
Cash at bank and in hand		4,435		5,511	
		7,025		7,447	
Creditors: amounts falling due within one year	12	(11,659)		(10,422)	
			(4,634)		(2,975)
Net current liabilities					
			12,434		9,403
Total assets less current liabilities					
Creditors: amounts falling due after more than one year	13		(3,478)		(2,801)
Provisions for liabilities and charges	14		–		(70)
			8,956		6,532
Net assets					
Capital and reserves					
Income and expenditure account			8,956		6,532
			8,956		6,532
Members' funds	16		8,956		6,532

The financial statements were approved by the Board on 21 February 2006 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 2005

	Notes	2005 £'000	2004 £'000
Reconciliation of operating surplus to net cash inflow from operating activities			
Operating surplus		2,718	1,175
Depreciation and disposals		1,042	837
(Increase)/decrease in debtors		(654)	346
Increase in creditors		1,158	3,404
Net cash inflow from operating activities		4,264	5,762
Cash flow statement			
Net cash inflow from operating activities		4,264	5,762
Returns on investments and servicing of finance	20	249	236
Taxation	20	(369)	(225)
Capital expenditure and financial investment	20	(5,220)	(6,708)
Decrease in cash in the year		(1,076)	(935)
Reconciliation of net cash flow to movement in net funds 21			
Decrease in cash in the year		(1,076)	(935)
Net funds at 1 October 2004		5,511	6,446
Net funds at 30 September 2005		4,435	5,511

Notes to the financial statements

for the year ended 30 September 2005

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
Fit-out	-	10% straight line
Computers (hardware and software)	-	33 $\frac{1}{3}$ % straight line

During the year the fit-out costs of buildings were transferred from Land & Buildings to Fit-out. Due to the anticipated disposal of the buildings in the next two years, this is now being depreciated over this shorter period.

1.4. Investments

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

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.

2. Income

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

Notes to the financial statements

for the year ended 30 September 2005

3. Operating surplus

	2005 £'000	2004 £'000
Operating surplus is stated after charging:		
Depreciation and other amounts written off tangible assets	1,041	834
Loss on disposal of tangible fixed assets	1	3
Operating lease rentals		
- Plant and machinery	2	2
Auditors' remuneration	5	5
Auditors' remuneration from non-audit work	3	3
	1,052	847

4. Income from investments

	2005 £'000	2004 £'000
Income from investments	147	48
Realised gain on investments	404	-
	551	48

5. Interest receivable and similar income

	2005 £'000	2004 £'000
Bank interest	210	188
	210	188

6. Employees

	2005 Number	2004 Number
The average monthly numbers of employees (including the directors) during the year were:		
Operations	99	102
Office and management	28	29
	127	131

Employment costs

	2005 £'000	2004 £'000
Wages and salaries	3,863	3,841
Compensation for loss of office	-	56
Social security costs	452	394
Other pension costs	48	45
	4,363	4,336

Notes to the financial statements

for the year ended 30 September 2005

6.1. Directors' emoluments

	2005 £'000	2004 £'000
Remuneration and other emoluments	274	395
Compensation for loss of office	–	56
	274	451

	2005	2004
Number of directors to whom retirement benefits are accruing under a money purchase scheme	–	1

Highest paid director

	£'000	£'000
Amounts included above: Emoluments and other benefits	170	257

7. 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 £48,000 (2004: £45,000). At the year end £1,000 was outstanding to the schemes (2004: £1,000).

8. Tax on surplus on ordinary activities

Analysis of charge in period

	2005 £'000	2004 £'000
Current tax		
UK corporation tax	1,125	369
Adjustments in respect of previous periods	–	5
	1,125	374
Total current tax charge	1,125	374
Deferred tax		
Timing differences, origination and reversal	(70)	20
Total deferred tax	(70)	20
Tax on surplus on ordinary activities	1,055	394

Note 8 is continued overleaf

Notes to the financial statements

for the year ended 30 September 2005

8. Tax on surplus on ordinary activities continued

Factors affecting tax charge for period

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

	2005 £'000	2004 £'000
Surplus on ordinary activities before taxation	3,479	1,411
Surplus on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (30 September 2004: 30%)	1,044	423
Effects of:		
Expenses not deductible for tax purposes	92	(74)
Depreciation for period in excess of capital allowances	26	27
Adjustments to tax charge in respect of previous periods	–	5
Marginal Relief	–	(7)
Offshore income not yet taxable	(11)	–
Research and development enhancement	(26)	–
Current tax charge for period	1,125	374

9. Tangible fixed assets

	Freehold land and buildings £'000	Computers £'000	Fittings £'000	Fit-out £'000	Equipment £'000	Total £'000
Cost						
At 1 October 2004	5,378	2,536	827	–	390	9,131
Additions	37	582	65	5	31	720
Transfers	(614)	–	–	614	–	–
Disposals	–	(64)	–	–	–	(64)
At 30 September 2005	4,801	3,054	892	619	421	9,787
Depreciation						
At 1 October 2004	306	1,580	595	–	257	2,738
Transfers	(30)	–	–	30	–	–
On disposals	–	(63)	–	–	–	(63)
Charge for the year	71	592	108	219	51	1,041
At 30 September 2005	347	2,109	703	249	308	3,716
Net book values						
At 30 September 2005	4,454	945	189	370	113	6,071
At 30 September 2004	5,072	956	232	–	133	6,393

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

Notes to the financial statements

for the year ended 30 September 2005

10. Fixed asset investments

	Cost	Investments	Total
	£'000	£'000	£'000
At 1 October 2004	5,985	5,985	5,985
Additions	10,904	10,904	10,904
Re-invested income	108	108	108
Disposals	(6,000)	(6,000)	(6,000)
At 30 September 2005	10,997	10,997	10,997
	Net book values		
At 30 September 2005	10,997	10,997	10,997
At 30 September 2004	5,985	5,985	5,985
	Fixed asset investments consist of:		
Investment funds (market value: £6,524,000)	6,228	6,228	6,228
Cash deposits	4,769	4,769	4,769
	10,997	10,997	10,997

11. Debtors

	2005	2004
	£'000	£'000
Trade debtors	738	725
Other debtors	28	–
Prepayments and accrued income	1,824	1,211
	2,590	1,936

12. Creditors: amounts falling due within one year

	2005	2004
	£'000	£'000
Trade creditors	352	271
Corporation tax	1,125	369
Other taxes and social security costs	586	502
Deferred income	9,022	8,760
Accruals	574	520
	11,659	10,422

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.

Notes to the financial statements

for the year ended 30 September 2005

13. Creditors: amounts falling due after more than one year	2005	2004
	£'000	£'000
Deferred income	3,478	2,801
See note 12.		

14. Provisions for liabilities and charges	Deferred taxation (Note 15)	Total
	£'000	£'000
At 1 October 2004	70	70
Movements in the year	70	70
At 30 September 2005	–	–

15. Provision for deferred taxation	2005	2004
	£'000	£'000
Accelerated capital allowances	–	70
Provision at 1 October 2004	70	
Deferred tax charge in income and expenditure account	(70)	
Provision at 30 September 2005	–	

The potential liability and provision are based on a corporation tax rate of 30% (2004: 30%).

16. Reconciliation of movements in members' funds	2005	2004
	£'000	£'000
Surplus for the year	2,424	1,017
Opening members' funds	6,532	5,515
Closing members' funds	8,956	6,532

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.

Notes to the financial statements

for the year ended 30 September 2005

17. Transactions with directors and officers

During the year Nominet UK purchased services with a value of £72,000 (2004: £63,000) 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 directors purchased domain names from Nominet in the year. 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 2005	Income to Nominet UK 2005	Purchases by Nominet UK 2005
	£'000	£'000	£'000
A Bligh (Mailbox Internet Ltd)	–	6	–
J Robinson (NetBenefit UK Ltd)	(6)	64	–
J Robinson (NetNames Ltd)	(7)	78	–
J Robinson (Easily Ltd)	(34)	377	–
R Gilbert (Winchdown Ltd)	6	–	33

Transactions with companies in which directors of Nominet UK hold directorships	Owed by/(to) Nominet UK at 30 Sept 2004	Income to Nominet UK 2004	Purchases by Nominet UK 2004
	£'000	£'000	£'000
A Bligh (Silterscale Associates Ltd)	–	–	2
A Bligh & S Dyer (Mailbox Internet Ltd)	–	7	–
S Dyer (Namegate Ltd)	–	1	–
J Robinson (NetBenefit UK Ltd)	(6)	79	–
J Robinson (NetNames Ltd)	(6)	65	–
J Robinson (Easily Ltd)	(39)	397	–

Alex Bligh's and Steven Dyer's involvement with Mailbox Internet Ltd has now ceased.

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 2005 was 2,814 (2004: 2,801).

Notes to the financial statements

for the year ended 30 September 2005

20. Gross cash flows

	2005 £'000	2004 £'000
Returns on investments and servicing of finance		
Interest received	210	188
Investment income received	147	48
less: investment income re-invested	(108)	–
	<u>249</u>	<u>236</u>
Taxation		
Corporation tax paid	(369)	(225)
Capital expenditure and financial investment		
Payments to acquire tangible assets	(720)	(723)
Payments to acquire investments	(10,904)	(5,985)
Receipts from sales of investments	6,404	–
	<u>(5,220)</u>	<u>(6,708)</u>

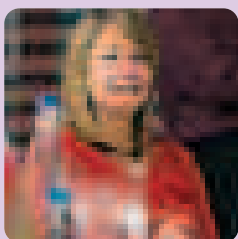
21. Analysis of changes in net funds

	Opening balance £'000	Cash flows £'000	Closing balance £'000
Cash at bank and in hand	5,511	(1,076)	4,435
Net funds	<u>5,511</u>	<u>(1,076)</u>	<u>4,435</u>

22. Subsequent events

Since the year-end Nominet UK has made financial commitments relating to a project to acquire a new office building. The estimated total cost will be around £10 million and this will be expended in the next two financial years.

The project will be funded from the proceeds of the planned disposal of the company's two existing office buildings and reserves accumulated for this purpose.





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