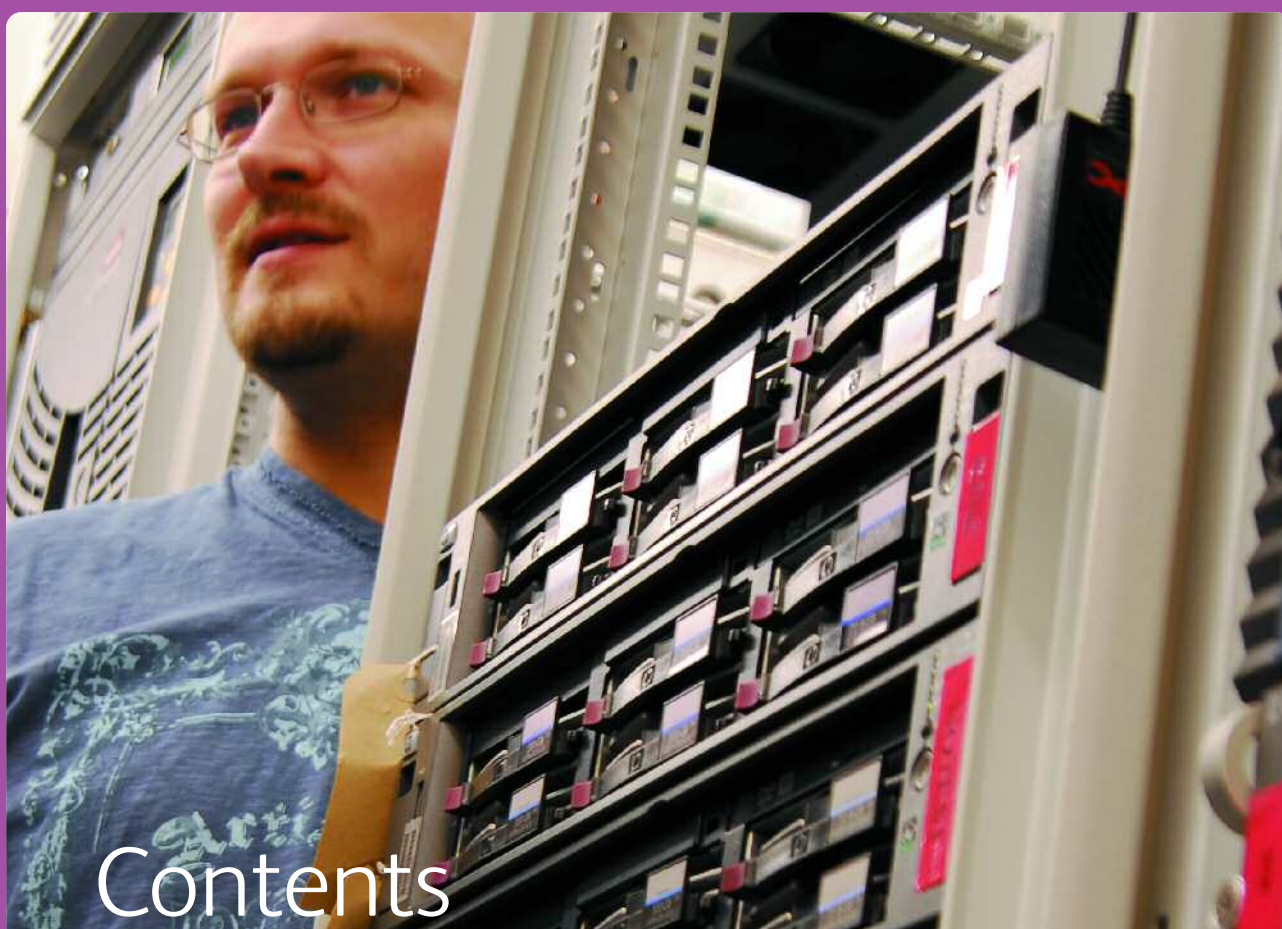


nominet

Nominet report and accounts 2006



We are a private, not-for-profit organisation with over 2,800 members instead of shareholders, representing a broad spectrum of the Internet industry, and the company is 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.



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Highlights of the year

- Over five million .uk domain names registered
- Average of 120,000 domain name registrations per month
- Income increased by 16% to £14.7 million
- Registrar satisfaction index of 85.2%
- Registrant satisfaction index of 84.3%
- 69% of domain names renewed
- Shortlisted for the National Customer Service Awards, CEDR Awards, Best Places to work in IT Awards, Britain's Best Boss Awards
- Our membership voted in favour of expanding our scope, enabling us to bid to run other Internet registry services, such as UK ENUM

Who we are

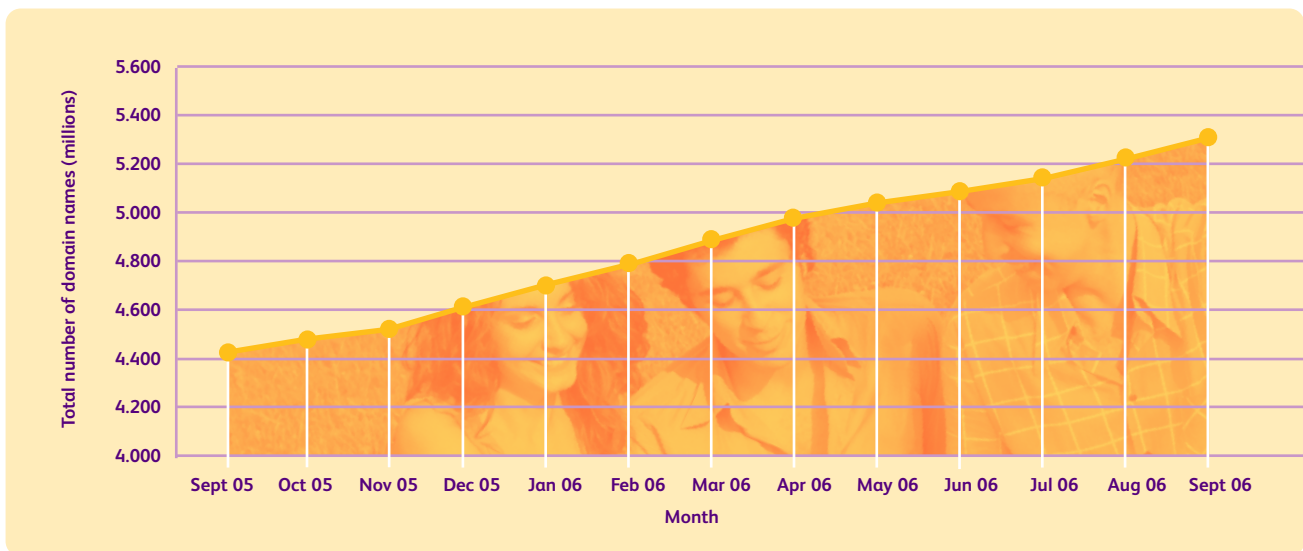
Nominet is a leading Internet registry services company and manages the registry for domain names ending in .uk. With over five million domain names currently registered, we are the fourth largest Internet registry in the world and operate at the heart of e-commerce in the UK. We employ over 100 people, and are responsible for the safe, stable and secure management of the .uk domain name space. New domain name registrations over the last year averaged 120,000 per month - an increase of 13% compared to the previous year.



The UK market for domain names

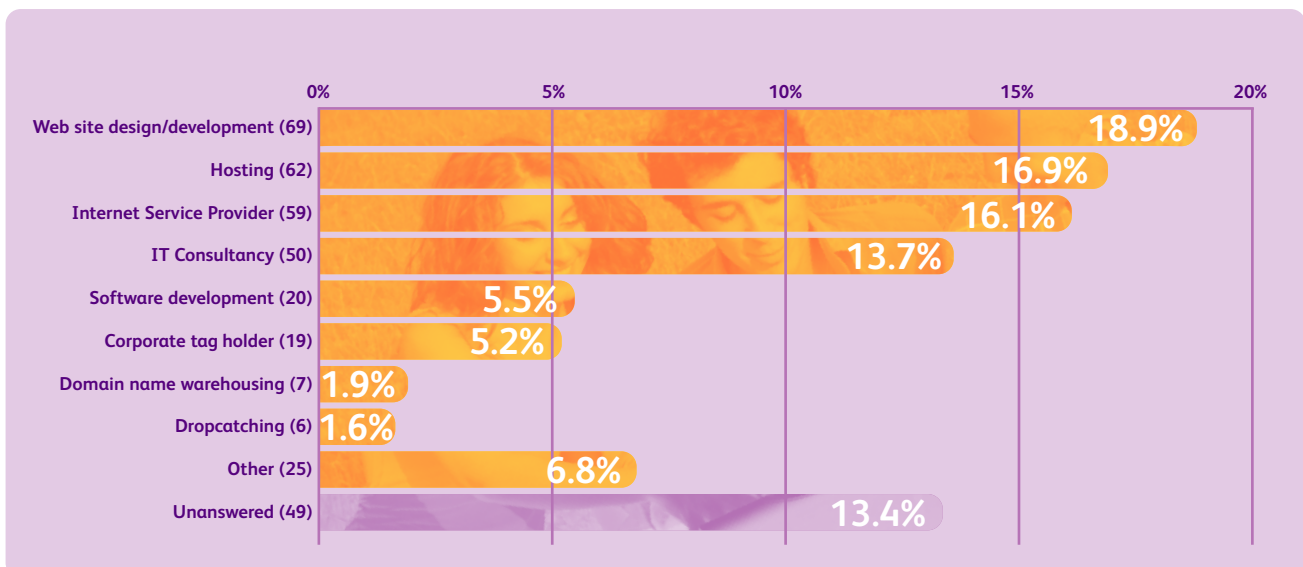
Growth in .uk registrations over the year

The market for .uk domain names has remained strong throughout the year.



Core business activities of Nominet registrars

Over 50% of our registrars' core business is web site design or development, hosting or providing Internet services.





Internet access and usage in the UK

Access to and usage of the Internet continues to grow at a high pace in the UK.

An estimated 13.9 million households (57 %) in Great Britain could access the Internet from home in 2006.⁽¹⁾

The UK's online shoppers spent £7.6 billion online in the ten-week run-up to Christmas 2006.⁽²⁾

32 % of adults in Great Britain prefer to surf the Internet at home rather than any other pastime, which equals the popularity of watching TV.⁽²⁾

67 % of people in Great Britain shop online once or more each month.⁽²⁾

In 2003, 8 % of UK households had broadband Internet access.⁽¹⁾

In 2006, 40 % of UK households had broadband.⁽¹⁾

UK Internet user preferences

British Internet users are loyal to local web sites.

48 % of adults would use a personal web page to share information with friends and family.⁽³⁾

72 % of adults visit a .uk web site first when browsing or shopping online.⁽³⁾

66 % visit a .uk search engine in preference to any other when looking for information online.⁽³⁾

62 % of Internet users think that a co.uk web address suggests that a company is more relevant and local.⁽³⁾

1 Source: National Statistics Omnibus Survey 2006

2 Source: Interactive Media In Retail Group (IMRG)

3 Source: YouGov independent survey, September 2006

Chairman's statement

This has been a year for significant milestones at Nominet. In 2006 we celebrated our 10th anniversary as a company and in many ways it has been our most successful and memorable year so far. When Nominet was formed and took over the management of the .uk domain name register in August 1996 there were only 26,038 .uk domain names. In May 2006 we passed the five million mark, and by the end of the financial year we were approaching 5.5 million. This is a clear indication of continued strong demand for .uk domains, with a significant increase in both new registrations and renewals. The continued increase in the renewal rate (an average rate of 69% for the rolling 12 months) is particularly encouraging, as it indicates that registrants are buying domain names that they want to keep.

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. One of the best illustrations of this was that in May 2006, Emily Taylor, our Director of International and Policy was appointed by the United Nations Secretary General, Kofi Annan, to serve on the Advisory Group for the Internet Governance Forum (IGF). We hosted a very successful event, 'The Road To Athens' in advance of the IGF meeting in Athens in October, that was chaired by Nitin Desai (Chair of the IGF) and attended by a number of different stakeholder groups to discuss the key themes of the IGF (openness, security, diversity and access).

During March 2006 we held an Extraordinary General Meeting (EGM) at which our membership voted against the proposed changes to corporate governance as recommended by the Board. This result was disappointing, however, 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.

First we held a consultation on the issue of voting rights allocations which led to a modified version of the voting rights being adopted by the Board. Then, we held a consultation on the scope of Nominet, followed by a further EGM and member vote in November 2006. This time our membership voted in favour of expanding our scope, enabling us to bid to run other Internet registry services, such as UK ENUM. We are delighted with this result and are now better equipped to meet the challenges facing us, and to take advantage of the opportunities presented by the market, for the benefit of our membership. During 2007 we will be consulting further on the unresolved corporate governance issues, with a view to completing this review by the end of 2007.

Nominet finished the 2006 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



Chief Executive's statement

It gives me pleasure to present this report and the financial statements for 2005/6.

I am especially pleased to report that we have made further strides with our service excellence strategy to deliver systems and services that exceed our customers' expectations. We were delighted that our registrar survey in September 2006 recorded a satisfaction index of 85.2%, an increase of 3.1% from the previous survey. Our August registrant survey yielded similarly encouraging results, with a satisfaction index of 84.3% another significant improvement from the previous score of 81.2% recorded in November 2005. 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.

As we have been celebrating our 10th anniversary during the year we have been reminded of the hard work and dedication of our people, who are at the heart of our achievements as a company. During the year we strengthened our recruitment process to ensure that new starters can maintain that high quality. We also continued to emphasise a performance culture by implementing a monthly awards scheme for staff that recognises outstanding achievement.

Continuing to improve communications with all our stakeholders was a priority during the year and we made significant progress with the implementation of our communications strategy. This was strengthened by the appointment of a Director of Marketing and Communications in March which signalled a move towards making Nominet more widely known to the general public and in particular developing the relationships we have with our registrars to raise the profile of .uk domain names.

The Dispute Resolution Service (DRS) continued to achieve a successful mediation rate of 58% despite extensive staff changes and an increased number of cases, 1,095 during the year. The DRS was again shortlisted in the awards held by the Centre for Effective Dispute Resolution. The capabilities of our legal team were recognised when they won Legal Week's 2005 award for Telecoms, Media and Technology team of the year in November 2005. We were also awarded significant damages in our Australian litigation in December 2005. The judgement awarded us AU\$810,953 in damages (around GB£345,000) plus a further AU\$500,000 (GB£212,700) in additional damages. This award of additional damages was the equal highest ever awarded in Australia.



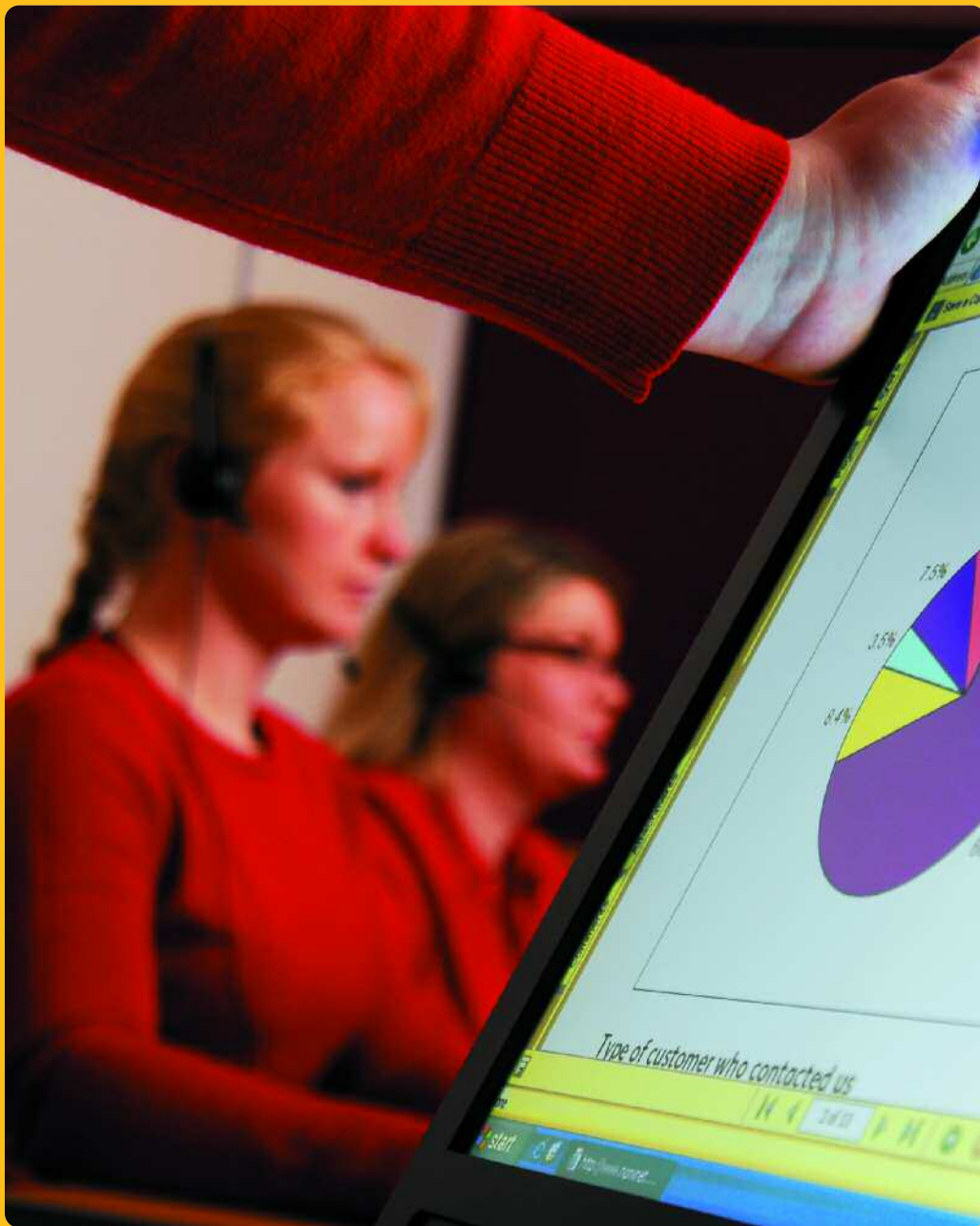
Our technical team have successfully delivered a number of products during the year, including a range of new look-up services, such as the Domain Availability Checker (DAC); a new Public Register Search Service (PRSS); and the first phase of our online service for registrars. The main development focus has been on finalising our data restructure programme to enable the delivery of a new single integrated product suite.

As always our staff have excelled throughout 2005/6 and the coming year promises to be every bit as exciting as 2005/6 with a number of new opportunities and challenges on the horizon. Internationally we will be building on our recent progress taking a leading role in the Internet Corporation for Assigned Names and Numbers (ICANN) and making our voice heard at the Internet Governance Forum (IGF). Closer to home we will be taking our first steps to significantly improve standards of service within the Internet industry as we launch our new Registrar Agreement and Good Practice Terms. We will also be taking our first steps towards offering our registrars and other customers expanded services, such as UK ENUM and investigating other potential Internet registry service offerings.

This is an exciting time for us and for the UK Internet industry. I look forward to reporting further successes.

Lesley Cowley
Chief Executive

Customer satisfaction ratings exceeded our expectations.



Supporting 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 2005/6 we carried out a number of initiatives to help us deliver this strategy.

Improved customer communications

We have recently focused on the quality of email correspondence with customers and rewritten our standard email responses in line with our new 'Nominet voice' following last year's re-branding, and in line with plain English principles. Customer support staff will be receiving tailor-made training to reinforce a plain English approach to written communication.

Raising industry standards

As part of our commitment to improving service standards to registrants and registrars, and as a direct result of feedback from registrars who supported the creation of a code of conduct within .uk, we ran a consultation between January and May 2006 on ways in which we can raise standards within the UK Internet industry. From the resulting feedback and discussions with members, MPs and other interested parties we have decided to replace the existing Tag Holder Agreement with a Registrar Agreement and Good Practice Terms, which will come into effect on 1 March 2007.

Preventing 'domain tasting'

In August 2006 we took industry-leading action to prevent 'domain tasting'. This is the practice of registering domain names, assessing their revenue generation potential, and if they create an insufficient return, deleting the domain names before the registry requests payment. From August we reduced the number of registrations that can be deleted by registrars which has proved an effective counter-measure.

Registrar workshops

During the year we ran five 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. A total of 87 registrars attended the workshops over the course of the year.

The measure of our success

Our programme of registrar and registrant surveys over the past year has produced very encouraging results that suggest our efforts to improve service quality are paying dividends.

All of these surveys produced customer satisfaction ratings that exceeded our expectations. In the registrar survey in September 2006 we recorded an overall satisfaction index of 85.2%, which was an increase of 3.1% over the score in January 2006. This excellent score places Nominet into the top quartile of suppliers in the Satisfaction Index League Table. A telephone and email mystery shopper campaign also produced encouraging results. We continued to use benchmarking against best in class businesses defined by the quality of the service they provide, finding that we were well above many benchmark companies in terms of our service levels.

Another sign of our continued success in improving service quality was our Member and Registrar Services team being shortlisted for customer service team of the year in the National Customer Services Awards.

Our first registrant satisfaction index in this financial year was 81.2% (November 2005), which was a significant improvement on the score of 80% recorded in the initial registrant survey in April 2005. However, we ended the financial year with even better news, as the satisfaction index from the registrant survey we carried out in August 2006 was a hugely encouraging 84.3%. This is a rate of increase many businesses would envy, and puts Nominet into the top quartile on the Satisfaction Index League Table.

While we are very pleased with this improvement we are now looking at how we can get even better.

Investing in our people

We continue to place great importance on our people, and our focus on development over the past year reflects this.



Recruiting for attitude and training for aptitude

Over the past year we have strengthened our recruitment process, including use of psychometric testing and assessment of 'cultural fit'. During 2005/6 we established a training group of interested employees to investigate how knowledge could be shared internally throughout the organisation. As a result an improved first day induction course was established and an internal training database has been developed. We have also implemented a programme to ensure people are multi-skilled and can step into many service roles. Known as the 'one-stop-shop' this has made a significant contribution to our business performance as well as ensuring employees learn and apply new skills.

Encouraging and recognising outstanding performance

Building on the introduction of 360-degree appraisals last year we have continued to focus on performance as part of the review process. We introduced 'Going the extra mile' awards to recognise outstanding performance.

Working as a cohesive customer focused team

We introduced team culture away-days within certain teams and have placed the focus of training and development on increasing all-round knowledge so that staff within the customer service departments can act as a 'one-stop-shop' rather than referring calls to other colleagues.

Empowering our people

We implemented a number of business process improvements in order to allow front line staff to have greater discretion, which in turn has improved efficiency in dealing with customer queries.

Communicating with our people

We continued to develop our programme of internal communications to encourage staff to participate in the decision making process. These included meetings with the CEO, monthly team briefing sessions and a number of specific project groups including our Property project team and the Charity Action Group. Our Nominet Company Day featured an Oscars ceremony at which people were rewarded for outstanding performance during the year.



Delivering technical excellence

Our technical focus during 2005/6 was on the following:

- Delivering systems and services that meet customer needs
- Participating in the design and implementation of new Internet protocols and standards
- Sharing our information and knowledge and collaborating with others



Delivering systems and services that meet customer needs

We implemented the first phase of our online system for registrars, with the launch of an online service that enables them to update their contact details, check their credit account and make online payments. We released new look-up services for subscribers in the form of the Domain Availability Checker (DAC) that allows high volume searches and the Public Register Search Service (PRSS) that is designed for use by the Intellectual Property community. We also launched enhanced versions of our WHOIS and WHOIS2 domain look-up services.

Participating in the design and implementation of new Internet protocols and standards

We have had a high level of involvement in the Internet Engineering Task Force regarding revisions to DNS Security Extensions (DNSSEC). These extensions provide the Domain Name System with authentication of responses from DNS servers and thereby aim to prevent DNS spoofing, which is a common technique used by hackers. We have recruited a world class DNS expert to work with us on this particular project and we aim to see the changes to this protocol through to completion. Geoff Sisson, our Chief Technical Architect became the first Nominet author to publish a Request For Comments entitled 'Derivation of DNS Name Predecessor and Successor'.

Sharing our information and knowledge and collaborating with others

We have delivered presentations to a large number of different conferences, including the CENTR GA (CENTR General Assembly), wwTLD (world wide alliance of TLD registries), ICANN, RIPE, World Summit on the Information Society events, Oxford Internet Institute events, the Oracle user group conference, a programming methodology conference and CBI breakfasts. We also relaunched our technical blog and began partnership discussions with Oxford Brookes University.

Pro-active financial management

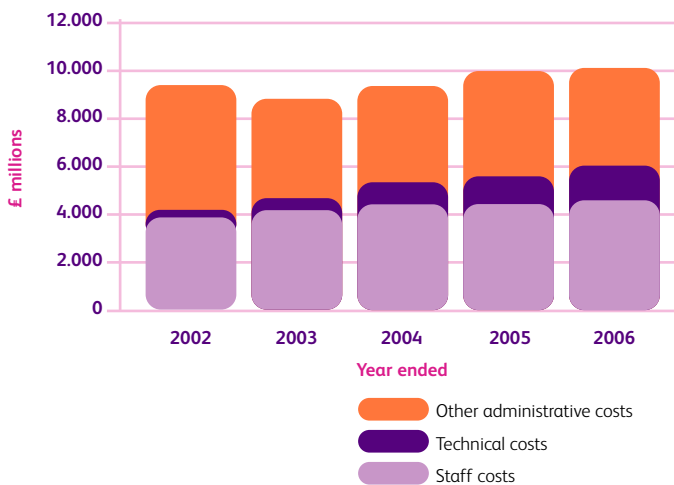


Profit and loss

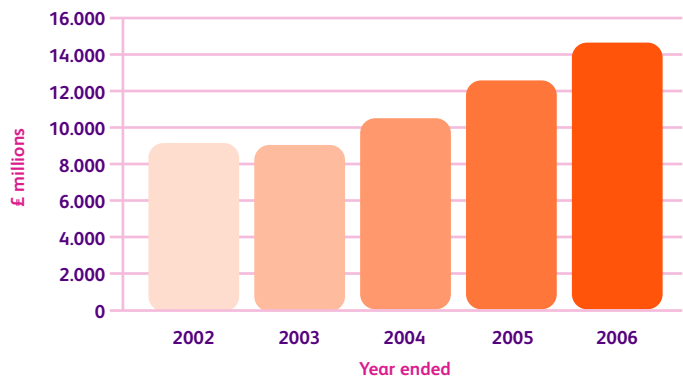
Another successful year financially with income increasing by over 16% to £14.7 million compared to £12.6 million in 2004/5. There was a continued increase in the rate of both new domain name registrations and also domain name renewals. We received 19% more domain name registrations than in 2004/5 and overall the .uk register grew by 18% during the year.

Expenditure has been kept under tight control, resulting in an overall increase of just 2%

Expenditure over time



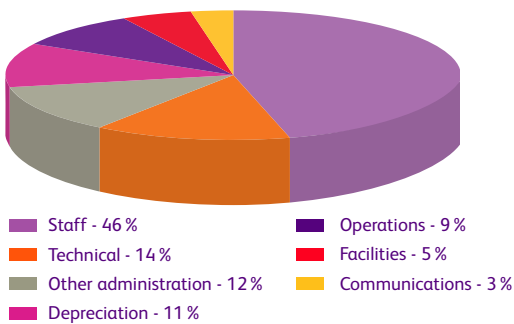
Income over time



Staff costs (including temporary staff) increased by 5%, this included expansion of the Technical department to meet development requirements and also recruitment of a full-time Director of Marketing and Communications, offset by a reduction of staff in other areas as a result of advancements in the use of technology within our systems. Other administrative costs reduced by 6%, including a reduction in legal costs as new cases of fraudulent activity fell and existing cases drew to a close.

The combined healthy growth in domain names and control of expenditure resulted in an operating profit of £4.6 million (£2.7 million in 2004/5). The loss on disposal of our properties of £0.6 million (the result of an early disposal and therefore a higher net book value of disposed assets) was offset against healthy investment and interest returns providing a profit after tax of £3.2 million (£2.4 million in 2004/5).

Cost analysis for 2005/6

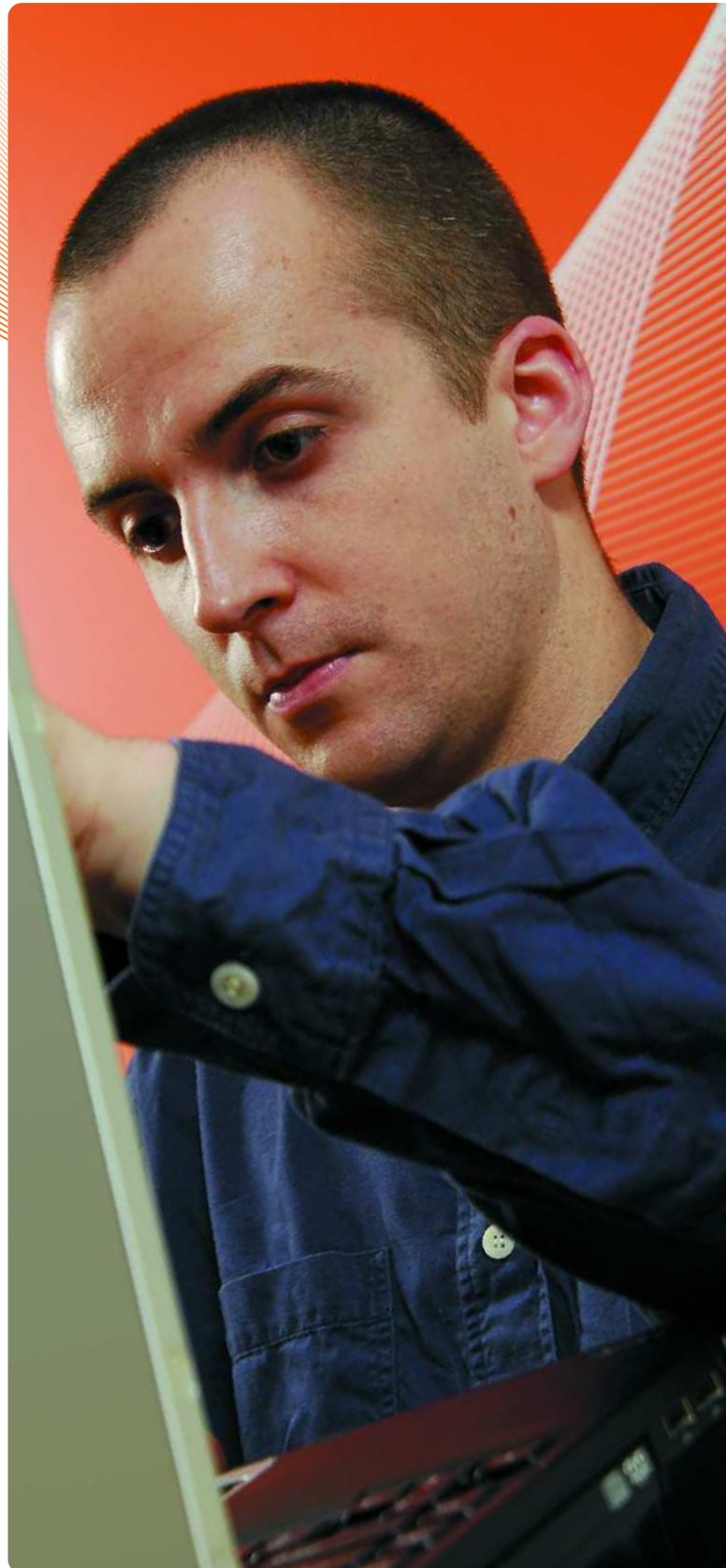


The balance sheet

Efficient debt management has seen our average debtor days for the year maintained at 26 days (25 days in 2004/5) despite another substantial increase in income.

We have continued to utilise the two offshore investment funds based in Dublin and the Isle of Man as part of long-term aim to provide the potential for capital growth in a tax efficient manner via a relatively low risk investment strategy.

We have also invested some of our reserves in the development of our new premises, on the Oxford Science Park. The project is well underway and we plan to take occupancy in the autumn of 2007. We have completed the sale of our existing properties at Sandy Lane West and are leasing them from the new owners until we are in a position to move.



Effective communication

Improving communication and consultation with all stakeholders

Improving communications with all our stakeholders was a priority during the year and the appointment of a Director of Marketing and Communications was a significant step towards increasing our understanding of the needs of all our stakeholders and how we can communicate better with them.

At the start of the year, we completed the roll out of our new brand, style and tone of voice in our written communications including letters, invoices and emails as well as the new web site. We have since received encouraging feedback from registrars and registrants about the clarity and ease of navigation of our web site and positive comment on much of our written material. To reinforce this message we have begun a programme of training in plain English and the new style for all staff, to ensure consistency.

We have undertaken consultations on a range of issues over the year, including raising standards within the Internet industry; changes to the rules for .uk domain names; the voting rights of member companies and the scope of Nominet. In order to ensure that the consultations we carry out obtain feedback from as many interested parties as possible we are striving to deliver clear and concise consultations which get to the heart of the issue quickly and cleanly. We are offering multiple methods of submitting feedback and have introduced other outreach events wherever possible.

Promotion of .uk in partnership with registrars

A significant change for us this year has been the recognition that we play a role in the promotion of the .uk brand. To that end we have emphasised the benefits of registering domain names through a registrar in a number of media interviews during the year, such as BBC's Working Lunch. We have also begun to implement a marketing and communications strategy that will concentrate on ways of providing support to our registrars in raising the profile of .uk registrations and increasing sales to their customers.

We continue to use the programme of member lunches (representatives of 80 members attended during the year) and registrar days to improve the flow of information to our registrars and encourage them to work in partnership with us. We deliver regular updates to our membership via our mailing lists and have spent time improving Nominet News, our quarterly email newsletter.

Increasing the profile and understanding of Nominet

2005/6 has seen us move towards making Nominet more widely known to the general public and in particular ensuring that they know when and how to contact Nominet.

Total media coverage for the year was 352 articles and included a wider spread of Internet industry issues related exposure, including domain tasting, the role and impact of the Internet Governance Forum (IGF) and in May we highlighted the five millionth domain name on the register – hosepipebanbuster.co.uk.

Our coverage has spread wide and includes numerous nationals, such as the Financial Times, The Times and BBC online through to the various technology, marketing and legal press. In support we have held journalist briefings, and accepted many speaking opportunities (CENTR, ICANN). We had a presence at or took part in various events (Growing Your Own Business and Internet World exhibitions).

Celebrating growth and the people who deliver it

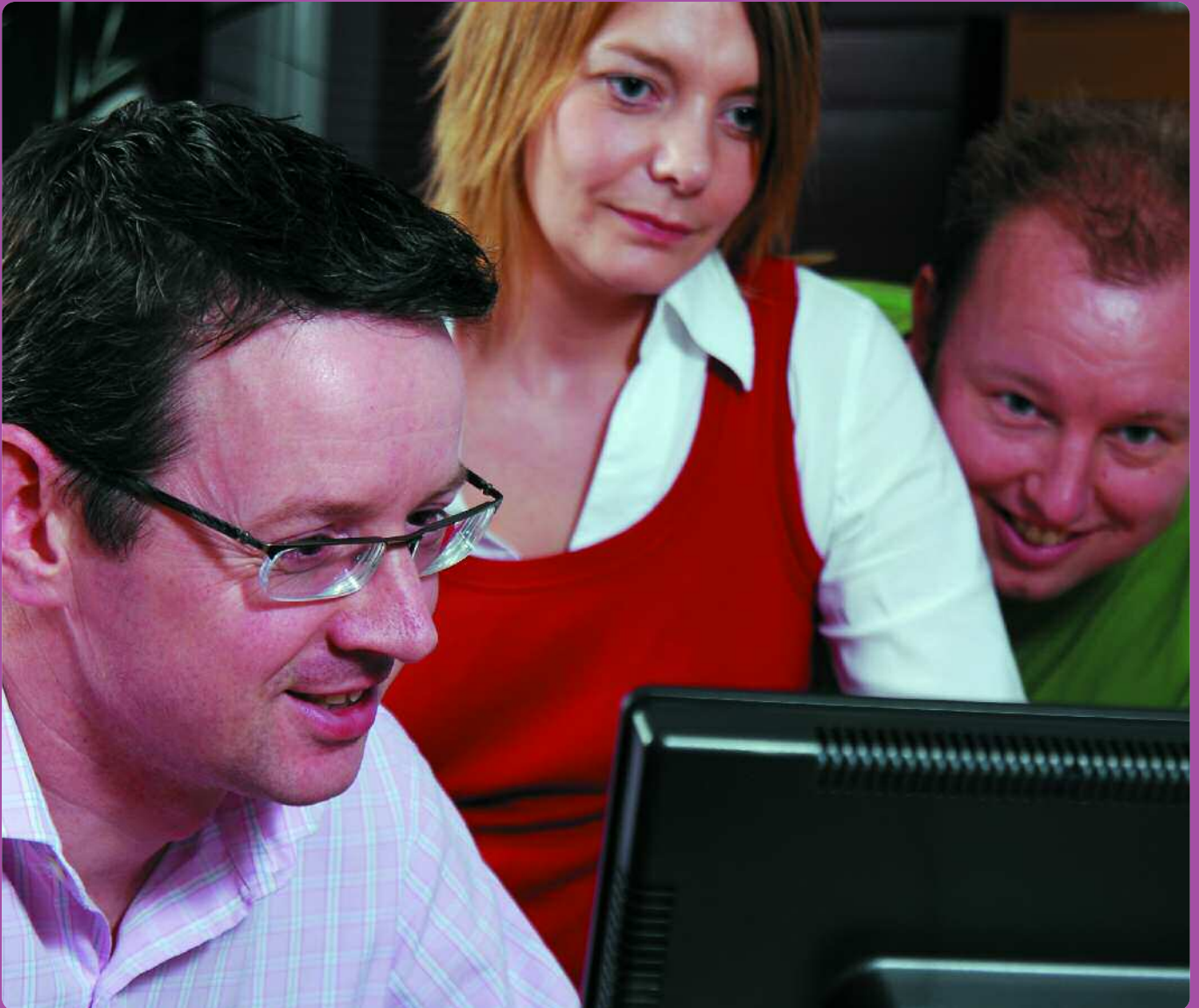
This year has also seen us celebrate our 10th anniversary and highlight the growth of Nominet and the UK Internet industry with numerous events for journalists, members and staff.

Communication with our own staff remains a priority, so we continue our regular monthly briefings with all staff, bi-monthly newsletter Team Talk, and ongoing updates to our Intranet.

Marketing and communications strategies

Going forward we are commencing the implementation of a series of clear marketing and communications strategies that will build on the existing brands of .uk and Nominet. We will be underpinning our activity with further market research and providing clarity to all our communication with all our audiences.

2005/6 has seen us move towards making Nominet more widely known.



Developing policy and increasing our international presence

The past year has seen Nominet playing more of a leading role in Internet governance whilst further developing our relationships with key decision makers within Government.

Playing a leading role in Internet governance

In May 2006, Emily Taylor was appointed by the United Nations Secretary General, Kofi Annan, to serve on the Advisory Group for the Internet Governance Forum (IGF). We held a successful event, 'The Road To Athens' in advance of the IGF meeting in Athens in October.

We negotiated an exchange of letters with the Internet Corporation for Assigned Names and Numbers (ICANN) to clarify our working relationship with them, and presented to two ICANN multi-stakeholder WHOIS meetings. During the year Nominet joined the Country Code Names Supporting Organisation, which is part of the formal structure of ICANN, took a lead role in organising wwTLD meetings, and were a member of the ccNSO IANA working group. We were also part of the UK delegation to the EU coordination meeting on WHOIS response and presented to the Washington MoU meeting. In February we hosted the CENTR General Assembly for the first time, which was well attended and very successful.

Influencing decision makers

We met with both current and former Department of Trade and Industry (DTI) ministers during the year, and met with many MPs. We made a presentation to the Conservative Technology Forum and Nominet was represented on the panel at the Parliament and Internet day in October. We held one to one meetings with Members of the European Parliament (MEPs) and European Commission officials, and succeeded in building relationships with 'like-minded' government officials from other countries (e.g. Norway, Latvia, Finland); with Nitin Desai and Markus Kummer, with senior DTI officials and with Ofcom. During the year we also tabled two parliamentary questions.

Optimising our relationships with key stakeholders

We greatly improved our links with the Department of Trade and Industry (DTI), by holding frequent meetings with key civil servants and forging good relationships across relevant departments, by participating in a DTI work placement exchange and sharing confidential documents. Through these measures we have become a trusted and reliable source of information and comment for ministers' cases and parliamentary questions.





Policy Advisory Body

The Policy Advisory Body's (PAB) role is to provide non-binding advice to the Board on the non-operational guiding principles regarding the oversight of the .uk domain name registry.

Membership of the PAB

The PAB is made up of 18 representatives - eight elected by the members of Nominet, eight 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 members were able to send representatives who are interested in Nominet and able to attend meetings regularly.

Elected PAB Members 2005/6

Members who served on the PAB for some or all of the year: Denesh Bhabuta, James Conaghan, James Cronin, Clive Feather, Jason Johns, Alex Kells, Subhi Hashwa, Sebastien Lahtinen, Richard Martin, Hazel Pegg.

Representatives of Appointed Organisations 2005/6

Jeremy Beale (CBI), Eric Ramage (ITMA), Geoff Smith (DTI), Tom Adams (Cabinet Office), The Earl of Erroll (APIG), David Evans (OIC), Francesca Woodhouse (Federation of Small Businesses).

Board representatives

Alex Bligh, Gordon Dick

Policy matters

Internationalised Domain Names

Following the consultation held on Internationalised Domain Names (IDN) last year, the IDN working group presented a final report to the PAB in March 2006 with recommendations for how Nominet should support IDN registrations. Nominet's Executive presented a paper to the PAB in July covering various technical issues that required further discussion and a sub committee has been working on resolving these issues and planning the strategy for implementation.

Raising industry standards

The PAB discussed the topic of raising standards within the Internet industry and drafted a response to Nominet's public consultation on the matter. They then provided further feedback after the Executive presented the results of the consultation and recommendations on how to proceed. As a result of these discussions a new registrar contract and Good Practice Terms have been finalised and will be introduced in early 2007.

PAB effectiveness

As part of Nominet's corporate governance review a number of measures were recommended that concerned the PAB directly and how it operates. Amongst these key issues were introducing a published work programme for the PAB for the following year, establishing a code of conduct for PAB members, the PAB's title and a review of the way the PAB Chair is elected. The work programme has been published, the title has changed from Policy Advisory Board to Policy Advisory Body, in order to avoid confusion with Nominet's Board, and the code of conduct will be finalised in early 2007.



Protecting the reputation of .uk

The legal department 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. They also work with the relevant authorities to find and prosecute those proved to be abusing the .uk domain space.

Awards

The DRS was shortlisted for the 2006 Centre for Effective Dispute Resolution Awards in the Industry category, having won that award in 2004.

The Legal team as a whole won the 2005 Legal Week magazine award for In-House Technology, Media and Telecoms team in November 2005.

Legal cases

Peter Francis-Macrae

Mr Francis-Macrae sought to appeal against his conviction for a number of crimes, including blackmail against Nominet (this is covered in detail in our Annual Report for 2005). This appeal was rejected, and we have been co-operating with the police in relation to the asset confiscation proceedings against him. If he does not assist the police, he may face further time in prison.

UK Internet Registry

In December 2005 we obtained damages orders against the respondents of AU\$810,953 (GB£345,000) plus a further AU\$500,000 (GB£212,700) in additional damages. This award of additional damages was the equal highest ever awarded in Australia and was designed to reflect the flagrancy of the copyright infringement. As the defendants did not pay the judgements against them, we and our Australian counterparts bankrupted them. We also defeated an attempt by the brother of one of the defendants to have some of their assets assigned to him.

Court of Appeal

A party was seeking leave to appeal to the Court of Appeal about the legal nature of a domain name. We obtained limited permission to intervene, but in the end the appeal attempt was rejected without a decision by the court.

Dispute Resolution Service

Disputes account for only 0.05 % of all .uk domain name registrations made, and this percentage has stayed fairly constant in line with increased registrations. Accordingly the number of disputes increased to 1095 in the financial year. The DRS continues to be a popular service and was copied in New Zealand during this financial 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 mediation settlement rate remained at about 58 % despite extensive staff changes. Towards the end of the year we were preparing for a review of the DRS being held in the next financial year that will address issues raised since 2003 when the last review was held. This financial year also saw the creation of an Experts' Review Group, to support the Chair of DRS Experts in his role of overseeing the group of experts, and a number of other administrative improvements.



Corporate governance

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 have therefore followed the principles of the Combined Code as far as is practical and appropriate for a company of this size and nature.

Below 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 of the 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 September 2006 to replace two retiring non-executive directors. Fay Howard and Gordon Dick 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

Bob Gilbert – Chairman

Bob is a highly experienced corporate lawyer and has been involved in most aspects of company and commercial law including insolvency. He was one of the few solicitors selected by the DTI to act as a Licensed Insolvency Practitioner. His legal career spanned 35 years and was spent at Wragge & Co where he was deputy senior partner until his retirement in April 2004.

Bob has wide-ranging business and boardroom experience having held many directorships of both private and public companies. He is currently Chairman of Victoria PLC, GSH Group PLC and ADAC Paintbox Group Ltd. His appointment to chair the Government's Motor Sport Development Board [MDUK] was announced by the Secretary of State for Trade and Industry in June 2004.

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.

She 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 also a Trustee of Kennet Housing, part of the Guinness Trust, which is a charitable Housing Association.



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 collocation company and was also a founding director of XchangePoint, an Internet interconnect company. Alex has also served as a Non-Executive Director and provided strategic advice to several other technology companies, including Mailbox Internet Ltd prior to its sale to 186k, and XCalibre Communication Ltd. 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.

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.

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 returned to CENTR as interim General Manager for 6 months in 2006.

Jonathan Robinson – Non-Executive Director

Jonathan Robinson is a co-founder of GroupNBT Plc and is currently their Chief Operating Officer. He ran the company from 1997 until 2001, firstly as Managing Director and then after flotation as CEO. GroupNBT 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.

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. During 2005/6 it was chaired by Fay Howard. Meetings are 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 and
- The careful review of any non-audit services provided by the auditors

Corporate governance

Continued

The Audit Committee met four times over the last year. At these meetings the Committee reviewed the 2005 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 2005/6

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. During 2005/6 the Committee was chaired by Alex Bligh.

The Committee met five times during the last financial year. At these meetings they agreed the overall remuneration award for all 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:

<http://www.nominet.org.uk/governance/board/remuneration/>

Remuneration Committee Members 2005/6

Alex Bligh (Chair)
Gordon Dick
Bob Gilbert
Fay Howard
Jonathan Robinson





Corporate governance review

In March 2006 we held an Extraordinary General Meeting (EGM) to seek the approval of our members for a number of changes to our Memorandum and Articles of Association proposed by the Board as part of our review of corporate governance. Unfortunately the members voted against these proposals on that occasion, which was disappointing. However, we listened to the views of the members and have embarked on a series of consultations and votes to address the outstanding corporate governance issues we face.

The first of these was a consultation on voting rights allocations that ran from May to June and led to a modified version of the voting rights being adopted by the Board and being used for the first time in the election of non-executive directors at the Annual General Meeting in September. We also held a consultation on the scope of Nominet from June to August which focused on options for amending the Objects clause in our Memorandum of Association to allow the company to pursue a wider range of business opportunities. After the consultation closed we held a further EGM in November at which our members voted in favour of the revised proposals to widen our scope. This result gives us the opportunity to bid to run other Internet registry services and in spring 2007 we intend to bid to run the registry for UK ENUM, an internationally approved method for connecting the telephone communications network to the Internet.

With the changes we have made to our Memorandum and Articles of Association we are far better equipped to meet the challenges facing us, and to take advantage of the opportunities presented by the market, for the benefit of our membership. During 2007 we will be running further consultations on the unresolved corporate governance issues, and hope to have fully completed this process by the end of 2007.

Risk management

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 updated our risk review and continued work on the business continuity plan.

In particular, backup technical and staff sites have been put in place to allow general registry operations to continue in the event of a major incident at our Oxford base. Over the next year we plan to continue to 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.

Corporate governance

Continued

Corporate social responsibility

Our mission as a company is to act in the interests of the UK Internet community and respond to stakeholder requirements (UK Internet users, our customers, the regulatory bodies etc). We recognise though that our responsibilities are wider than this as a facilitator of so much human activity that is dependent on the Internet such as commerce, communication, social pursuits and free speech. Consequently we consult with our stakeholders on a regular basis on any changes in policy and actively seek feedback on operational matters.

We understand that our strength and future success lies in the skills and well being of our people. As a result we have fostered an environment where everyone understands the company's expectations of them and where their input to the business is valued and appropriately rewarded. We encourage equal opportunities and diversity in our workforce and we have an unusually high representation of women for a company in this sector (53% of the work force), which can also clearly be seen on the senior management team, where 66% are women. Nominet is known locally as a good employer and has a good reputation for being an innovative and technologically focused organisation.

We fully support educational initiatives and in addition to taking work experience placements from local schools we are developing strong links with Oxford Brookes University exchanging research relating to the development of the Internet and its regulation. On the international front, we frequently host visitors from governments and academic institutions from across the world. We also regularly arrange for Computer Aid International to collect our old computer equipment. They are a registered charity and the world's largest supplier of refurbished computers to schools and community organisations in developing countries.

We are very supportive of our employees getting involved in fundraising for charities of their choice. We match employee fund-raising efforts pound for pound and encourage participation at all levels. We also have a nominated charity which we support as an organisation each year. During 2005/6 this was CLIC Sargent, a charity for children with cancer. Our employees raised a total of £2,629 for a variety of charities, a sum which Nominet matched.



Officers and professional advisers

Company Limited by Guarantee

Financial statements for the year ended 30 September 2006

Company registration number	3203859
Registered office	Sandford Gate Sandy Lane West OXFORD OX4 6LB
Directors	A Bligh L Cowley G Dick R Gilbert F Howard J Robinson
Secretary	E Taylor
Bankers	National Westminster Bank plc 91 London Road Headington OXFORD OX3 9AF
Solicitors	CMS Cameron McKenna Mitre House 160 Aldersgate Street LONDON EC1A 4DD
Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditors 1 Westminster Way OXFORD OX2 0PZ



Directors' report

for the year ended 30 September 2006

The directors present their report and the financial statements of the company for the year ended 30 September 2006.

Principal activities and business review

The principal activity of the company is the registration and maintenance of .uk Internet Domain Names. The company's balance sheet shows a satisfactory position, with members' funds amounting to £12,117,000. The Memorandum and Articles of Association of the company prohibit all distributions to the members. These funds are retained for the continuation of the ongoing operations and for contingencies.

A full business review for the year ended 30 September 2006, can be found on page 10. Other key performance indicators are discussed on pages 7 and 14.

Results

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements.

Financial risk management objectives and policies

The company uses various financial instruments. These include cash, equity investments and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to manage the finances for the company's operations.

The existence of these financial instruments exposes the company to a number of financial risks however as a result of cash levels available to the company these risks are minimal. The main risk therefore is cash flow risk. The directors review and agree policies for managing the cashflow risk which are summarised below. These policies have remained unchanged from previous years.

Cash flow risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. Short-term flexibility is achieved by treasury deposits and other bank facilities accordingly.

Directors

The directors who served the company during the year were as follows:

A Bligh
L Cowley
G Dick
R Gilbert
F Howard
J Robinson

The Board has implemented a policy for the conduct of Board members for declaring an interest in another entity. Nominet holds and maintains a register of these interests of Board members which is reviewed annually by the auditors during their audit of the company's accounts.

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then 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, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- There is no relevant audit information of which the company's auditors are unaware; and
- The directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Donations

During the year the company contributed £2,629 (2005-£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.

Auditor

Grant Thornton were appointed auditors at the last Annual General Meeting following the resignation of the previous auditors. A resolution to reappoint Grant Thornton as auditors will be proposed at the Annual General Meeting.

By order of the Board

E Taylor

Secretary

20 February 2007



Report of the independent auditor to the members of Nominet UK

for the year ended 30 September 2006

We have audited the financial statements of Nominet UK for the year ended 30 September 2006 which comprise the accounting policies, profit and loss account, balance sheet, cash flow statement and notes 1 to 21. These financial statements have been prepared under 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 auditor's 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 auditor

The directors' responsibilities for preparing the Report of the Directors and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 and the information given in the Report of the Directors is consistent with the financial statements. We also report to you if, in our opinion, 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 other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the highlights, the Directors' Report, the Chairman's Statement, Chief Executive's Statement, and Pro-active Financial Management. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 September 2006 and of its profit for the year then ended;
- The financial statements have been properly prepared in accordance with the Companies Act 1985; and
- The information given in the Report of the Directors is consistent with the financial statements for the year ended 30 September 2006.

Grant Thornton UK LLP

*Registered Auditors
Chartered Accountants*

Oxford

20 February 2007

Accounting policies

for the year ended 30 September 2006

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards.

Turnover

Turnover 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.

Fixed assets

All fixed assets are initially recorded at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Land and buildings	- Buildings 2%, Land nil
Computers	- 33.33%
Fixtures and fittings	- 20%
Fit out	- 10%
Equipment	- 20%

Investments

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

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

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 profits 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.



Profit and loss account

for the year ended 30 September 2006

	Note	2006	2005
		£000	£000
Turnover	1	14,679	12,621
Operating charges	2	10,089	9,903
Operating profit	3	4,590	2,718
Loss on disposal of fixed assets	6	(603)	–
Realised gain on fixed asset investments	6	–	404
		3,987	3,122
Income from fixed asset investments	7	333	147
Interest receivable	8	235	210
Profit on ordinary activities before taxation		4,555	3,479
Tax on profit on ordinary activities	9	1,394	1,055
Profit for the financial year		3,161	2,424
Balance brought forward		8,956	6,532
Balance carried forward		12,117	8,956

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

The accompanying accounting policies and notes form part of these financial statements.

Balance sheet

as at 30 September 2006

	Note	2006 £000	2005 £000
Fixed assets			
Tangible assets	10	5,754	6,071
Investments	11	11,312	10,997
		17,066	17,068
Current assets			
Debtors	12	3,226	2,590
Cash at bank		9,820	4,435
		13,046	7,025
Creditors: amounts falling due within one year	14	14,368	11,659
Net current liabilities		(1,322)	(4,634)
Total assets less current liabilities		15,744	12,434
Creditors: amounts falling due after more than one year	15	3,627	3,478
		12,117	8,956
Reserves			
Profit and loss account		12,117	8,956
Members' funds		12,117	8,956

These financial statements were approved by the directors on
and are signed on their behalf by:

R Gilbert, Chairman
20 February 2007

The accompanying accounting policies and notes form part of these financial statements.

Cash flow statement

for the year ended 30 September 2006

	Note	2006	2005
		£000	£000
Net cash inflow from operating activities	19	8,279	4,264
Returns on investments and servicing of finance	19	568	357
Taxation	19	(1,774)	(369)
Capital expenditure and financial investment	19	(1,373)	(5,328)
Increase/(decrease) in cash	19	5,700	(1,076)



The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements

for the year ended 30 September 2006

1

Turnover

The turnover and profit before tax are attributable to the one principal activity of the company.

An analysis of turnover is given below:

	2006	2005
	£000	£000
United Kingdom	14,679	12,621

2

Other operating charges

Staff	4,678	4,442
Technical	1,408	1,200
Other administrative	1,162	1,451
Depreciation	1,088	1,042
Operations	948	917
Facilities	472	455
Communication	333	396
	10,089	9,903

Notes to the financial statements

for the year ended 30 September 2006

3	Operating profit	2006	2005
	Operating profit is stated after charging/(crediting):	£000	£000
	Depreciation of owned fixed assets	1,087	1,041
	Loss on disposal of fixed assets	–	1
	Auditor's remuneration:		
	Audit fees	17	5
	Non-audit fees	27	3
	Operating lease costs:		
	Plant and equipment	–	2
	Non-audit fees includes tax compliance, VAT advisory and financial planning services.		
4	Particulars of employees	2006	2005
	The average number of staff employed by the company during the financial year amounted to:	No	No
	Operations	87	99
	Office and management	27	28
		114	127
	The aggregate payroll costs of the above were:	£000	£000
	Wages and salaries	4,110	3,863
	Social security costs	415	452
	Other pension costs	25	48
		4,550	4,363

Notes to the financial statements

for the year ended 30 September 2006

5	Directors	Remuneration in respect of directors was as follows:	2006	2005
			£000	£000
		Emoluments receivable	339	274
		Emoluments of highest paid director:	2006	2005
			£000	£000
		Total emoluments (includes performance related bonus but excluding pension contributions)	179	170
6	Exceptional items	Loss on disposal of fixed assets	2006	2005
			£000	£000
		Realised gain on disposal of fixed asset investments	(603)	–
			–	404
		The loss on disposal of fixed assets has arisen primarily from the sale of the property at Sandy Lane West, as previously outlined in Nominet's strategic plan. The loss incurred includes the write off of all internal fixtures and fittings.		
7	Income from fixed asset investments	Income from other fixed asset investments	2006	2005
			£000	£000
			333	147
8	Interest receivable	Bank interest receivable	2006	2005
			£000	£000
			235	210

Notes to the financial statements

for the year ended 30 September 2006

9

Taxation on ordinary activities

(a) Analysis of charge in the year

	2006	2005
	£000	£000
Current tax:		
In respect of the year:		
UK Corporation tax based on the results for the year at 30% (2005 - 30%)	1,560	1,125
Total current tax	1,560	1,125
Deferred tax:		
Origination and reversal of timing differences	(166)	(70)
Tax on profit on ordinary activities	1,394	1,055

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is the same as the standard rate of corporation tax in the UK of 30% (2005 - 30%).

	2006	2005
	£000	£000
Profit on ordinary activities before taxation	4,555	3,479
Profit/(loss) on ordinary activities by rate of tax	1,367	1,044
Expenses not deductible for tax purposes	49	92
Depreciation in excess of capital allowances	122	26
Offshore income not yet taxable	(98)	(11)
Research and development enhancement	(61)	(26)
Loss on the sale of fixed assets	181	–
Total current tax (note 9(a))	1,560	1,125

Notes to the financial statements

for the year ended 30 September 2006

10 Tangible fixed assets

	Freehold Property	Assets under construction	Plant & Machinery	Other Assets	Total
	£000	£000	£000	£000	£000
Cost					
At 1 October 2005	4,764	37	3,054	1,932	9,787
Additions	–	4,165	1,018	199	5,382
Disposals	(4,764)	–	(187)	(1,018)	(5,969)
At 30 September 2006	–	4,202	3,885	1,113	9,200
Depreciation					
At 1 October 2005	347	–	2,109	1,260	3,716
Charge for the year	67	–	655	365	1,087
On disposals	(414)	–	(186)	(757)	(1,357)
At 30 September 2006	–	–	2,578	868	3,446
Net book value					
At 30 September 2006	–	4,202	1,307	245	5,754
At 30 September 2005	4,417	37	945	672	6,071

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Investments

Fixed asset investment

	£000
Cost	
At 1 October 2005	10,997
Re-invested income	315
At 30 September 2006	11,312
Net book value	
At 30 September 2006	11,312
At 30 September 2005	10,997

Notes to the financial statements

for the year ended 30 September 2006

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Debtors

	2006	2005
	£000	£000
Trade debtors	1,057	738
Other debtors	30	28
Prepayments and accrued income	1,973	1,824
Deferred taxation (note 13)	166	–
	3,226	2,590

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Deferred taxation

The deferred tax included in the Balance sheet is as follows:

	2006	2005
	£000	£000
Included in debtors (note 12)	166	–

The movement in the deferred taxation account during the year was:

	2006	2005
	£000	£000
Balance brought forward	–	(70)
Profit and loss account movement arising during the year	166	70
Balance carried forward	166	–

The balance of the deferred taxation account consists of the tax effect of timing differences in respect of:

	2006	2005
	£000	£000
Capital allowances	166	–

Notes to the financial statements

for the year ended 30 September 2006

14 Creditors: amounts falling due within one year

	2006	2005
	£000	£000
Trade creditors	374	352
Corporation tax	911	1,125
Other taxation and social security	1,164	586
Other creditors	144	–
Accruals	724	574
Deferred income	11,051	9,022
	14,368	11,659

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.

15 Creditors: amounts falling due after more than one year

	2006	2005
	£000	£000
Accruals and deferred income (note 14)	3,627	3,478

Notes to the financial statements

for the year ended 30 September 2006

16

Related party transactions

	Owed by/(to) Nominet UK at 30 Sept 06	Income to Nominet UK 2006	Purchases by Nominet UK 2006
	£000	£000	£000
A Bligh (Xcalibre Communications Ltd)	(3)	35	–
J Robinson (Group NBT Plc)	(55)	605	–
R Gilbert (Winchdown Ltd)	8	–	65
	(50)	640	65

	Owed by/(to) Nominet UK at 30 Sept 05	Income to Nominet UK 2005	Purchases by Nominet UK 2005
	£000	£000	£000
A Bligh (Mailbox Internet Ltd)	–	6	–
J Robinson (Group NBT Plc)	(47)	519	–
R Gilbert (Winchdown Ltd)	6	–	33
	(41)	525	33

During the year Nominet UK purchased services with a value of £49,050 (2005 - £72,000) 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. Mrs Emily Taylor was a director of CENTR Ltd until her resignation on 28 July 2006, and Nominet UK paid membership fees to CENTR Ltd totalling £30,386 (2005 - £29,310) during the year.

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 arm's length basis, on normal business terms.

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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 2006 was 2,894 (2005 - 2,814).

Notes to the financial statements

for the year ended 30 September 2006

18	Profit and loss account	2006	2005
		£000	£000
	Balance brought forward	8,956	6,532
	Profit for the financial year	3,161	2,424
	Balance carried forward	12,117	8,956
19	Notes to the statement of cash flows		
	Reconciliation of operating profit to net cash inflow from operating activities	2006	2005
		£000	£000
	Operating profit	4,590	2,718
	Depreciation	1,087	1,041
	Loss on disposal of fixed assets	–	1
	Increase in debtors	(470)	(654)
	Increase in creditors	3,072	1,158
	Net cash inflow from operating activities	8,279	4,264
	Returns on investments and servicing of finance	2006	2005
		£000	£000
	Income from other fixed asset investments	333	147
	Interest received	235	210
	Net cash inflow from returns on investments and servicing of finance	568	357
	Taxation	2006	2005
		£000	£000
	Taxation	(1,774)	(369)

Notes to the financial statements

for the year ended 30 September 2006

19 Notes to the statement of cash flows (continued)

Capital expenditure and financial investment

	2006	2005
	£000	£000
Payments to acquire tangible fixed assets	(5,382)	(720)
Receipts from sale of fixed assets	4,009	–
Acquisition of fixed asset investments	–	(11,012)
Disposal of fixed asset investments	–	6,404
Net cash outflow for capital expenditure and financial investment	(1,373)	(5,328)

Reconciliation of net cash flow to movement in net funds

	2006	2005
	£000	£000
Increase/(decrease) in cash in the period	5,700	(1,076)
Change in net funds	5,700	(1,076)
Net funds at 1 October 2005	4,435	5,511
Net funds at 30 September 2006	10,135	4,435

Analysis of changes in net funds

	At 1 Oct 2005	Cash flows	At 30 Sept 2006
	£000	£000	£000
Net cash:			
Cash in hand and at bank	4,435	5,700	10,135
Net funds	4,435	5,700	10,135

20 Contingent liabilities

The company had no contingent liabilities at 30 September 2006 or 30 September 2005.

21 Capital commitments

At 30 September 2006 there was £6.2 million capital expenditure committed relating to the build, fit out and fixtures and fittings of Minerva House, which was purchased during the year. There were no capital commitments at 30 September 2005.



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