

Report & accounts 2007

nominet[®]



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Highlights of the year

Who we are

Nominet operates at the heart of e-commerce in the UK, running one of the world's largest Internet registries and managing over six million domain names. With highly respected industry credentials, we are entrusted with the safe, stable and secure management of the .uk Internet name space.

We maintain the register of .uk domain names. We also run the technology which locates a computer on the Internet hosting the web site or email system you're looking for when you type in a web address or send an email to an address that ends in .uk.

We have a reputation for excellent customer service that is consistently reflected in the results from our satisfaction

surveys, and other national Internet registries often visit us to learn from our registry model.

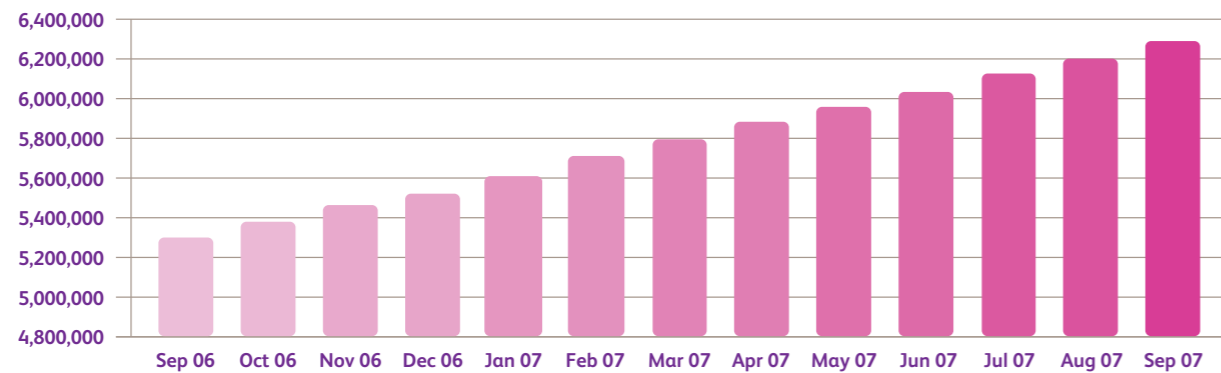
We are a private, not-for-profit company. We have 3,000 members not shareholders, and pay no dividends. We are not a governing or regulatory body, but provide a public service for the .uk namespace on behalf of the UK Internet community. We recognise that our responsibilities to this community are wide and varied, so we consult regularly with our stakeholders on any changes in policy.

We work closely with the UK Government and parliamentarians. We also play a key role in international Internet governance and policy development. We regularly liaise with organisations such as the Internet Corporation for Assigned Names and Numbers (ICANN) and worldwide domain name registry organisations.

- **Over 6 million .uk domain names registered**
- **Awarded the contract to run the Tier 1 registry for UK ENUM**
- **Held our first Best Practice Challenge for Internet Governance**
- **Launched our Online Services for registrars and registrants**
- **Moved into our new building, Minerva House on Oxford Science Park**
- **Our CEO Lesley Cowley won CBI First Woman of Technology award**
- **Average of 140,000 domain name registrations per month**
- **70% of domain names renewed**
- **Income increased, on a like for like basis, by 16% to £15.3 million**
- **Registrar satisfaction index of 86.1%**
- **Registrant satisfaction index of 84.2%**

Growth in .uk registrations over the year

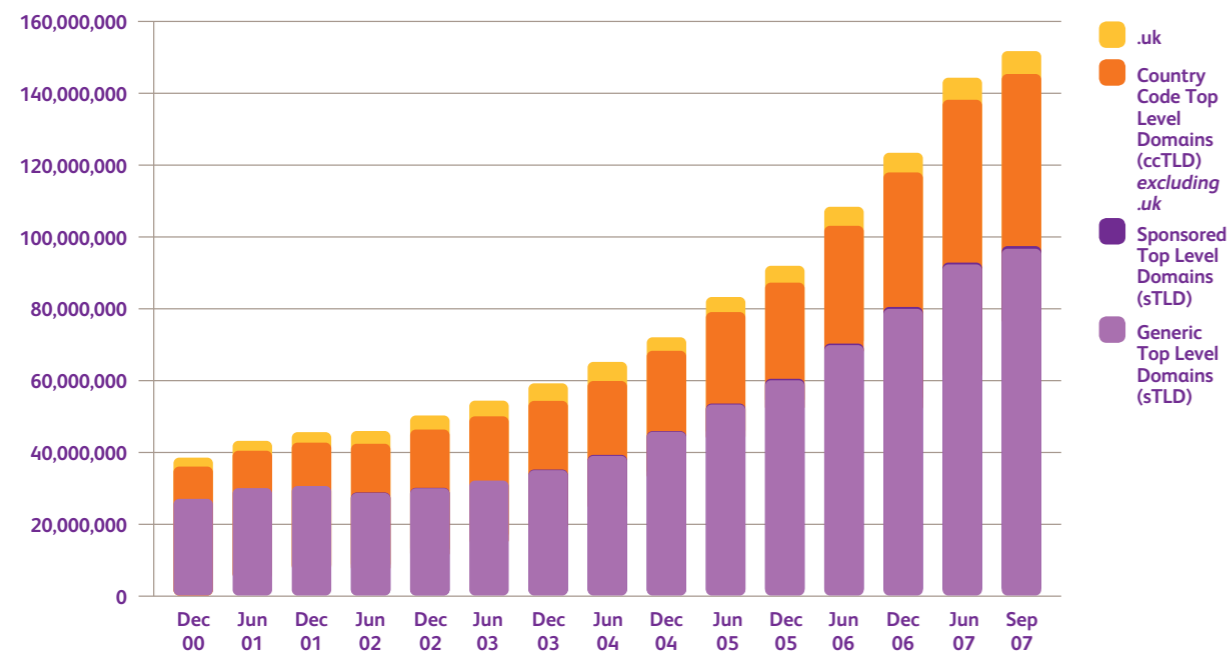
Size of the register



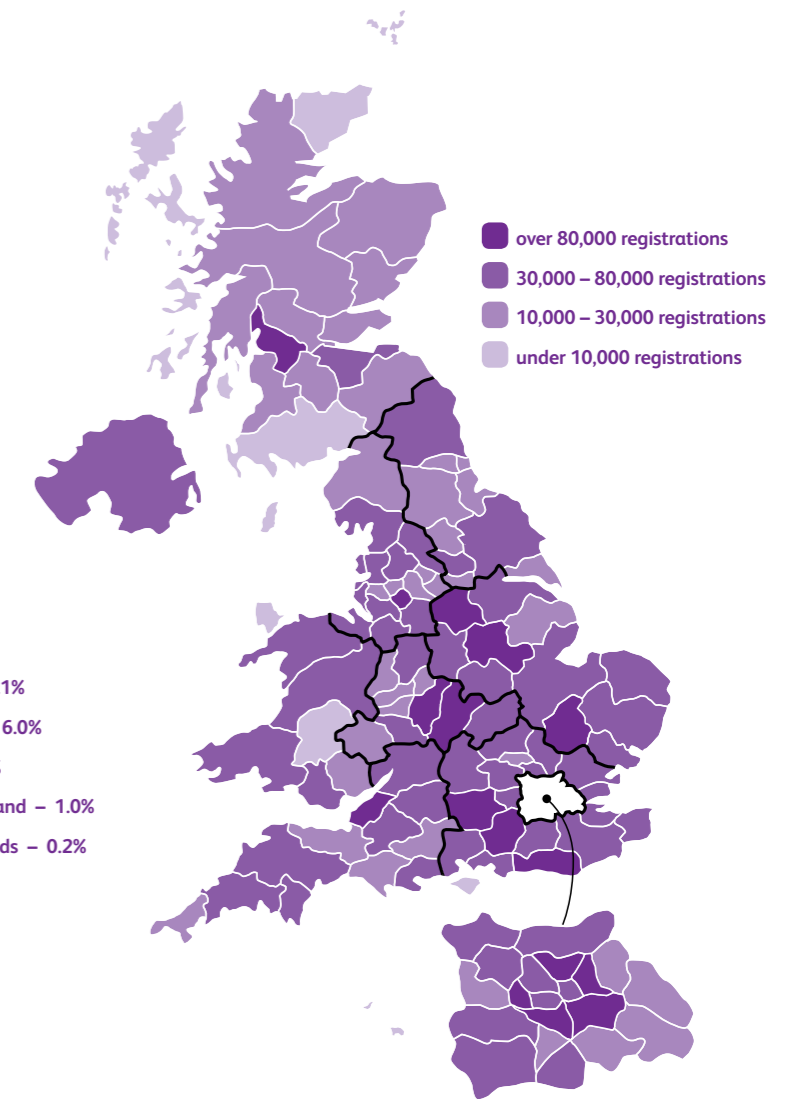
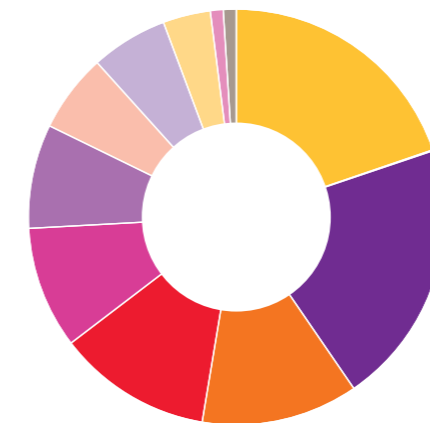
The UK market for domain names

Global domain names market

Global domain name registrations



Registrant locations in the UK



- South East – 20.7%
- Greater London – 20.6%
- North West – 12.2%
- East Midlands – 12.0%
- South West – 9.5%
- West Midlands – 8.1%
- Scotland – 6.1%
- North East – 6.0%
- Wales – 3.7%
- Northern Ireland – 1.0%
- Channel Islands – 0.2%

Data for registrant location is based on the address given by the registrant and is assumed to be accurate.

Internet access and usage

There are over 1,173 million Internet users globally. UK ranks 7th with over 37.5 million Internet users. Internetworldstats.com, 2007

In 2007, nearly 15 million households in Great Britain (61%) had Internet access. Office for National Statistics, July 2007

86% of Internet connections are broadband. Ofcom

The average British Internet user now spends 164 minutes online each day for personal use. This compares to 148 minutes spent watching television.

£42 billion will be spent online by UK shoppers in 2007, up from £30.2 billion in 2006. Forecasts predict online sales in the UK to grow to £78 billion by 2010. IMRG, May 2007

Online advertising spend for the first half of 2007 increased by 41% to £1.33 billion. IAB, Oct 2007

Paid search accounts for 57% of online advertising spend. IAB, Oct 2007

Online advertising has grown to 15% of total UK ad spend. IAB, Oct 2007

UK Internet user preferences

32% of consumers believe that it is important for international companies to have local domain names to attract local customers.

.co.uk is the Internet domain of choice for 60% of UK marketers.

Brand protection, locality and trust are the key choice factors for a UK marketer when choosing a domain name.

Tickbox, Aug 2007

2007 has been another year of change and growth for Nominet. Demand for new registrations continues to be strong and is matched by an encouraging renewal rate of 70%. Consequently the register of .uk domain names has continued to grow and in June we passed another milestone, with the registration of the 6 millionth .uk domain name.

We have continued to build on our role as a leading international example of the effectiveness of the private sector, self-regulated approach to running a registry. We demonstrated our commitment to the themes of the Internet Governance Forum (IGF) by launching our Best Practice Challenge, designed to highlight UK Internet success stories. The winning entries were showcased at the IGF in Rio in November. Our contribution was greatly appreciated by other



Chairman's statement

delegates, and there are signs that our initiative to create a national IGF is being emulated in other countries.

One of our most pleasing achievements this year was being awarded the contract to run the Tier 1 registry for UK ENUM. ENUM is a service that makes it possible to relate a domain name to a telephone number and enable cheaper telephony services over the Internet. After our members gave us the green light last November to widen our scope as a company and diversify into other areas, we worked hard to prepare an excellent tender for the contract as we recognised ENUM as a great opportunity for us. It is exciting for us to have the opportunity to take a leading role in how this new technology develops.

We ran two further consultations on the proposed changes to our corporate governance during the year. The first concentrated on Board composition, policy and fees and the second covered the remaining issues of membership, poll voting, proxies and legal technicalities. We received an encouraging level of response to both of these consultations. The Board has analysed the responses and after further review we have developed a set of special resolutions which will be put to a member vote at the 2008 Annual General Meeting.

As our business continues to grow, we are equally keen to put something back. Consequently I am delighted that, following positive feedback from our members and stakeholders, we are

planning to launch the Nominet Foundation in Summer 2008. We aim to use this charitable organisation to fund education, research and development initiatives in the UK Internet industry.

On a personal note, I was very pleased that Lesley Cowley, our Chief Executive Officer, won the Confederation of British Industry (CBI) First Woman of Technology award this year. This achievement is not only recognition for Lesley, but also for the hard work and dedication of all our people whose contribution is so vital to our continued success. I would like to thank them for their outstanding and consistent hard work over the last year.

2007 has been another successful year for us and we look forward to exciting challenges ahead with the many new opportunities we are developing.

Bob Gilbert
Chairman

It gives me pleasure to present this report and the financial statements for 2006/7.

Our commitment to providing excellent customer service was illustrated this year by our Registrant Services team being runners-up in the Help Desk and IT awards and continued encouraging results in our customer satisfaction surveys from both registrants and registrars.

One of the most satisfying achievements this year was the completion of our new building, Minerva House, situated on the Oxford Science Park. This project was a major investment in time and resources and a huge amount of planning went into making our move to Minerva House smooth and successful. As a company we believe in providing the best possible working environment for our people and so we are justly proud of our new surroundings. As well as all the advantages you would expect from a light and airy



Chief executive's statement

modern office we are delighted to be back together in one building. We are already reaping the benefits of improved communications and a growing sense of a united purpose.

During the year, we carried out a management restructure designed to facilitate our future success. Our new operations management team will take responsibility for developing the operational aspects of the business, leaving our senior management team to concentrate on business leadership and strategy. Moving to a more commercial management style across the company will enable us to manage the business more dynamically and allow us greater flexibility.

Our focus on stakeholder communications this year was particularly aimed at raising the profile of .uk domain names through the relationships we have with our registrars. We have made strides in this area through a variety of initiatives, including a revised Registrar Agreement and Good Practice terms; the introduction of a key account management team; an improved Online Services package to help registrars manage their accounts and our first .uk registrar conference in November 2007 at which we launched our Domain Name Industry Report and announced the addition of a registrar resources section to our web site.

The completion of our data restructure and launch of Online Services was a significant achievement and is the culmination of much planning and hard work from our technical team and our operations department. This work also laid the foundations for us to launch Extensible Provisioning Protocol

(EPP), an alternative method for registering domain names, early in 2008. The success of our ENUM bid means that our investment in the development of new technologies will continue and getting the Tier 1 registry for UK ENUM up and running will be one of the most exciting challenges in the coming year.

We have also enjoyed success on the international stage this year and it is encouraging to see the ways in which we are increasing our influence both in the Internet Governance Forum and at the Internet Corporation for Assigned Names and Numbers (ICANN). I was pleased to be elected to the country code names supporting organisation (ccNSO) council within ICANN and will be representing the interests of .uk and other country code Top Level Domains (ccTLDs) within the ICANN structure over the coming year.

Establishing the Nominet Foundation in the coming year is a fantastic opportunity for us. It will provide a purpose for the profits we have been making and will also act as a further significant motivator for our people, who have once again been an inspiration to me throughout the year. I would like to thank them for their hard work and dedication, together with their willingness to change and develop going forward.

The UK Internet industry never stands still and we look forward with confidence to the challenges ahead.

Lesley Cowley
Chief Executive

Providing an excellent standard of service to our customers continues to be a huge priority for us. We have dedicated teams to support the varied needs of domain name registrants and our registrars.



Supporting our customers

The move to our new building has been especially beneficial to the support teams as they are now based on the same floor, which has improved internal communications.

As part of our commitment to improving service standards to registrants and registrars, we launched a new Registrar Agreement and Good Practice Terms in March 2007. This new contract included several important changes, including greater clarity on what registrants can expect from their registrar in terms of pricing, range of services and level of customer service provided, and a term stating that unless specific permission is given any domain name will only be registered in the name of the customer. Under the new contract, new registrars are required to show an understanding of the .uk business process and are required to demonstrate this through online competence testing.

One of the most significant developments this year was launching our new Online Services for registrants and registrars, to allow our customers greater flexibility and more control of their own accounts with Nominet. Registrants now receive a welcome email instead of a confirmation of registration letter when they register a domain name, which allows them access to the Online Service to confirm their

contact details. They can also use the service to change their registrar, and in the near future other processes such as transferring a domain name to another registrant will be moved online. Registrars can use the Online Service to perform a range of tasks such as managing their credit account, updating their contact details, managing their security settings and accessing other services such as Public Register Search Service (PRSS) that they have subscribed to.

The data restructure we implemented to move to an account based system has also helped us to develop further services that our registrars will benefit from. We have since been able to release Extensible Provisioning Protocol (EPP) as an alternative method for registering domain names, and we are also developing a web-based front end for the Automaton. This is a tool for those registrars who only make occasional purchases of names and want a simple web interface. It will also be useful for larger registrars who occasionally want to use something other than the Automaton or EPP.

As part of our continuing efforts to develop strong working relationships with our registrars, we introduced a key account management function to gain feedback on our services. As a result of meetings with them we have compiled a list of

common issues for discussion with our senior management team. This is the first time we have taken a proactive approach to supporting our registrar channel in this way and it is already beginning to bear fruit. We also recognise the need to give support to new registrars and have developed a service where a new registrar's application and account is handled by one member of the support team for the first three months, to provide a single point of contact as they start working with us. The introduction of payment by direct debit has also been popular with our registrars and many have switched to payment by this method.

In order to measure the success of our efforts to improve service quality, we have continued with our programme of registrar and registrant surveys over the past year and complemented these with a series of mystery shopper telephone call and email campaigns. In the registrar survey we conducted in September 2007, we recorded an overall satisfaction index of 86.3%, which was a slight increase over our score of 86.1% in February. Both of these were an improvement on our score of 85.2% in September 2006, which suggests that the changes we have implemented as a result of feedback are paying off in customer satisfaction.

Our focus is on continuously trying to improve the service we provide so we are disappointed that our registrant research showed a slight drop in overall satisfaction from 84.2% in February 2007 to 83.5% in September. The results of the research suggest that while the level of satisfaction with our service has remained fairly constant, our customers are placing a higher level of importance on the different aspects of the service we provide. In short, as we get better our customers expect more from us, so our focus must now be on responding to this across the board.

However, our continued commitment to service excellence was illustrated by our Registrar Services department being finalists in the Help Desk and IT Support Excellence awards and finishing runners-up, which was a very significant achievement. In order to continue improving our service levels we have joined the Institute of Customer Service, the UK body responsible for promoting excellence in customer service. We hope to gain valuable insight into how we can better run our operations and make use of the various networking, training and development opportunities that they offer.

We continue to place great importance on our people, and our focus on becoming an Employer of Choice over the past year reflects this.

Investing in our people



We were very pleased to have been accredited as a First Class Company under the Best Companies Accreditation standard. There were 434 organisations assessed for the standard in 2007, of which only 273 achieved accreditation.

One of the most significant developments this year was a management restructure we implemented in order to best meet the future needs of the business. The objectives of this restructure were as follows:

- To more effectively manage the performance of the business and the people who work in the business
- To enable more effective cross-company communication
- To succession plan, building management potential throughout the business

- To empower management for the future challenges of delivering the vision to be a leading supplier of registry services
- To enable more dynamic and flexible management of the business
- To introduce a more commercial management style

Senior Management Team

The Senior Management Team is tasked with the development of strategy proposals and plans and the oversight of the business and plan implementation. Members of this team also take the leading roles in business development.

Operations Management Team

An Operations Management Team was introduced below the Senior Management Team. Chaired by the Director of Operations, it is tasked with managing the operational aspects of the business and assisting with the development of cross-company communication.

We were pleased to welcome Gill Crowther as our Director of Human Resources who joined us from running her own company, Great Managers, following time working with several major corporations including Ford, Glaxo Wellcome UK and Microsoft. Her knowledge, experience and enthusiasm have proved great assets as we strive to achieve our strategic aim of becoming an employer of choice.

As part of the journey to becoming an employer of choice, we are focusing on our people managers. We have created

a manager community and have been able to work with this group to develop them and enable them to learn from each other. We recognise that concentrating on developing our managers is a more efficient and, ultimately, more effective method of improving overall staff performance.

We have established an Employee Consultation Group comprising people from all areas of the business. This group will be used to provide input to appropriate business discussions, as well as contributing to our monthly staff bulletin. They provide the management team with an additional conduit for feedback from staff. The team gave valuable input into the staff survey process this year.

We also updated our contracts of employment in line with recent employment law and European Union legislation and guidance and all staff signed up to the new contract.

We completed our data restructure project and successfully launched our Online Services, the culmination of over 18 months' work.

Delivering technical excellence



In addition to providing a range of useful services for registrars and registrants, the move to an account based data structure has given us the platform from which we can launch an extended range of new technologies. One example of this is Extensible Provisioning Protocol (EPP) a way of registering and maintaining domain names that is XML based and a standard used by many other registries. We launched the beta version of our new EPP system on 1 October and the fully working version on 4 February 2008.

Having been awarded the contract to run the Tier 1 registry for UK ENUM we are looking forward to developing the systems infrastructure to support this new technology. ENUM is a standard that will unify the telephone numbering system with the Internet's Domain Name System, making it possible

to link different Voice over Internet Protocol (VoIP) servers so that telephones within businesses that use VoIP technology can connect to other businesses who also use VoIP, via the Internet. As a result, telephone calls between businesses using this technology will be much cheaper or possibly even free, because there will be no need to connect to the telephone network for the call.

The past year has also seen us make good progress with planning on Domain Name System Security Extension (DNSSEC) and defining the potential implications on infrastructure, which needs to be done in order to protect the register. We have taken a leading role internationally in this field and our proposals to fix the data leaking became accepted as an international standard.

Another exciting development was agreeing a Knowledge Transfer Partnership with Oxford Brookes University for which we obtained funding from the Department for Business, Enterprise and Regulatory Reform (formerly the Department for Trade and Industry). This means that we have two researchers working with us for two years, looking for ways of detecting patterns of distributed abuse of our systems. Taking advantage of Oxford Brookes' highly respected research and academic experience in knowledge discovery and data mining, we intend to utilise advanced data mining and visualisation techniques to develop algorithms and software tools that can help detect and prevent abuse of our systems.

Improvements to our web site, including the technology that drives it and the content management system used to update it, has allowed us to add extra features such as feeds for news stories, planned changes, job vacancies, Dispute Resolution Service (DRS) decisions and service announcements.

In the fast moving environment we operate in, we can never afford to rest on our laurels and this year we have carried out work on future domain server technology to ensure that our systems can cope with substantial increases in the number of domain names. We have been working closely on this project with ISC – the people who write the software BIND, which is widely used as a core component of the operation of the Domain Name System.



Proactive financial management

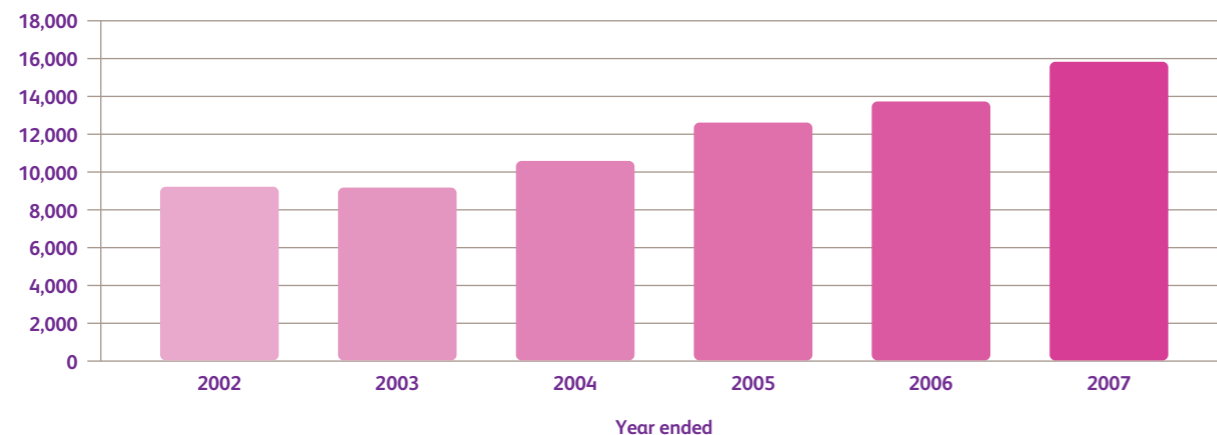
Income & expenditure

Our income for the year amounted to £15.3 million, which includes an adjustment of £0.6 million relating to the adoption of a more precise method of accounting for deferred income from a monthly to a daily basis. On a like for like basis,

income increased by 16% compared to 2006, reflecting growth of 8% in new registrations of domain names and an ongoing renewal rate of over 70%. The total register size at the year-end was approximately 6.29 million domain names, an increase of 19% over the register at 2006.

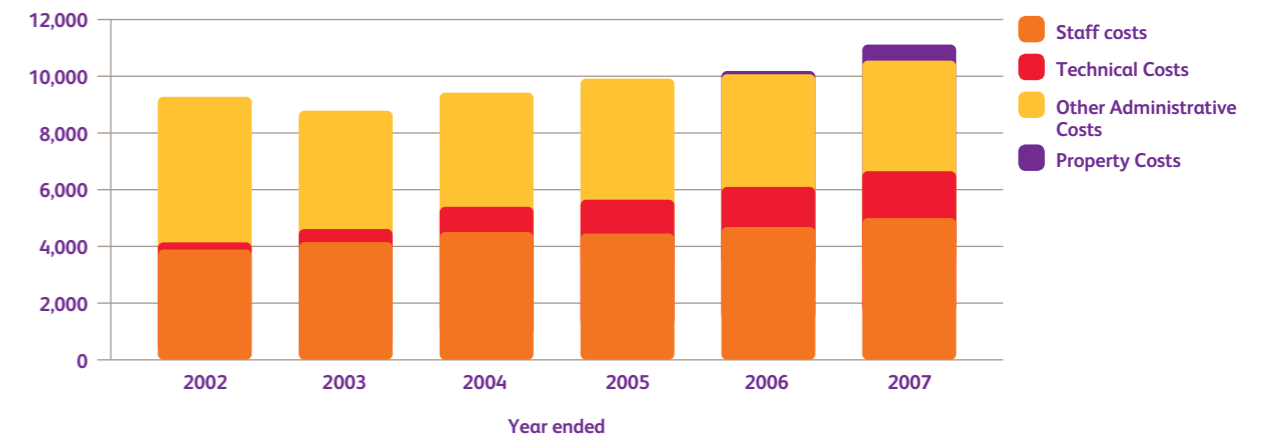
Income over time

£ millions



Expenditure over time

£ thousands



Operating expenditure (excluding those costs associated with the office move to Minerva House) increased by 5% compared to 2006, but declined as a proportion of revenue from 73% to 70%.

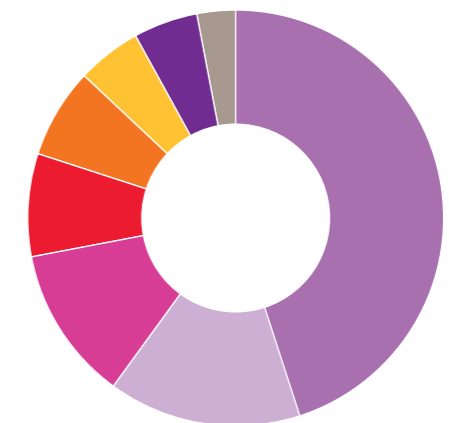
Staff costs (including temporary staff) increased by 7% from £4.7m to £5.0m and reflect both new recruitment and the full year effect of headcount increases during 2006. Average staff numbers for the year were 112 (2006, 114).

Technical costs increased by 17% from £1.4m to £1.6m with investment in our core IT infrastructure and contract staff driving further improvements in our online presence and standards of customer service.

Other administrative costs decreased by 2% from £4.0m to £3.9m. The decrease is attributable primarily to reduced amortization charges following the disposal of the office buildings at Sandy Lane West.

Operating profit before tax amounted to £4.9m (2006 £4.2m) and included £0.8m in interest and investment income (2006 £0.6m).

Other operating charges – 2007



- Staff – 45%
- Operatives – 7%
- Facilities – 5%
- Property – 5%
- Communications – 3%
- Other Administrative – 12%
- Technical – 15%
- Depreciation and loss on disposal of fixed assets – 8%

The balance sheet

Retained funds at the year-end increased by 32% to £15.5m (2006, £11.7m) as a result of the strong trading performance.

The fixed asset base was strengthened by capital expenditure of £6.4m relating primarily to the construction and fitting out of Minerva House.

Cash collections from customers continued to keep pace with the significant increase in revenue and average debtor days

for the year were 25 (2006, 24 days). Trade creditor days at the year-end were 13 (2006, 14 days) in keeping with our commitment to ensure suppliers are paid according to contracted terms.

Cash and investment balances at the year-end were £21.8m (2006, £21.1m) after the capital expenditures referred to earlier, which were financed entirely from our working capital. Surplus funds remain under management for long-term growth over short-term income, with an emphasis on low risk investments in preference to cash deposits.

This year has seen the start of the implementation of our new marketing and communication strategy.



Effective communication

Improving communications and consultation with all stakeholders

During the year we ran five consultations with our membership and wider stakeholder communities, including two on corporate governance and one on updating the .uk Dispute Resolution Service. We introduced the use of an online survey tool to increase the ease of responding to consultations and the outcome was a significantly higher response rate. We also held events to discuss the content of the consultations which varied widely in attendance numbers according to the topic being discussed, but nevertheless provided great feedback on key issues.

We have used a number of new tools to enhance our online communications such as our corporate blog, Insight, which features articles from our management team on a range of topics associated with the domain name and registry services industries. We have also continued our programme of face-to-face member engagement with our member lunches which are well attended and always stimulate interesting and lively debate.

Promotion of .uk in partnership with registrars

We continue to promote new and renewal sales of .uk registrations through our registrar channel. We raised the profile of .uk in the media through an enhanced programme of promoting .uk issues, providing commentary on the introduction of new Top Level Domains and the work of the IGF. We also took the lead on various industry issues such as consumer and business trust in the .uk brand, growth of the domain name market and predictions for the development of the market for .uk domains.

Increasing the profile and understanding of Nominet

We continued to raise the profile of Nominet in the media by developing our programme of proactive and reactive public relations (PR). We started working with our new PR agency, Racepoint Group, in January and enjoyed some great results during the year, including coverage in the nationals, trade publications and various online journals

on a variety of issues, including the Best Practice Challenge, our Oxford Brookes Knowledge Transfer Partnership and UK ENUM. We were finalists in two awards, the Helpdesk Institute Service Desk Awards and the Best of British Industry Awards and Lesley Cowley won the First Woman in IT Award in the CBI First Women Awards. We presented at a growing number of conferences over the year, including the IT in the Community Conference, Centr, ICANN, and the Westminster eForum: A UK IT Skills Gap.

Increasing stakeholder participation

Following the change to our Articles of Association in November 2006, we were able to introduce electronic voting for membership for the first time in the Policy Advisory Body elections. We were pleased that the number of members voting rose by 29% over the previous year and that 59% of those voting voted electronically. The subsequent Board elections were also managed electronically and now over 60% of our members have chosen to communicate with us electronically.

Research

During the year, we started a structured research programme including, amongst others, investigations into consumer and business reaction to the .uk brand, renewals buying behaviours, reasons for non-renewal and how domain names are used in the UK. This culminated in the .uk Domain Name Industry Report which we introduced in November 2007. Feedback on the report has been positive with many requests for further in-depth information.

Internal communications

We have had a strong focus on developing good internal communications as a tool for increasing the effectiveness of our workforce. We provide regular updates on what is happening across the business through monthly Team Brief, bi-monthly staff newsletter and ongoing business updates to our intranet. Our annual company day was a great success again this year, as were a number of events in the build up to and after the move into our new building.



Developing policy & increasing our international presence

We were very pleased that Emily Taylor, our Director of Legal and Policy was reappointed to the Advisory Group to the Internet Governance Forum (IGF). Building on the success of our event 'The Road to Athens' in October 2006 before the first IGF in Athens, we continued to develop our support for the work of the IGF using a number of different initiatives.

The first of these was our Best Practice Challenge for Internet Governance in the UK. Launched at Westminster by Rt Hon Margaret Hodge MP (the then Department for Trade and Industry Minister), and reaching a wide audience of parliamentarians, business and the media, the challenge invited entries from organisations that had demonstrated best practice in the areas of access, security, diversity and openness. Rt Hon Stephen Timms MP (Minister for Competitiveness) announced the winners at our UK Internet Governance Forum event on 11 October 2007.

At the same event, we asked more than 100 participants to identify their messages for the international IGF. We then shared these messages from the UK, and examples of Internet governance best practice, at the second IGF meeting in Rio in November 2007.

We have been increasingly involved with the formation of a UK IGF that will build on processes at the national level: this is an idea that is gaining traction. To foster engagement in this issue we brought a cross-party delegation of parliamentarians to the Rio IGF meeting.

During the year, we made a concerted effort to raise our profile in the parliamentary community and the findings of our MP Survey suggests that our recognition by MPs has risen from about 13% to 29%, which is an excellent result.

We also made significant strides towards fulfilling our strategy of taking a leading role in international Internet governance, with Lesley Cowley being elected to the country code names supporting organisation (ccNSO) council within ICANN. The ccNSO is the organisation for ccTLDs within the ICANN structure that shares best practice and develops global policies for ccTLDs, where global policy is necessary.

Lesley Cowley attended a conference in China, where a group of country registry operators shared their experiences of growth, company, culture, and vision with approximately 200 attendees from the Chinese government, the Chinese registry and Chinese registrars. We attend conferences

like this to share our experiences, to learn from others in attendance, and to develop links with other ccTLD registries.

We also met with several other organisations and individuals during the year, including RIPE NCC with whom we were able to share some of our practice regarding international policy, communications with members and our approach to the IGF and learn their views on Nominet and how we are perceived in a positive light externally. We had a visit from a representative of the Pakistani registry who runs their DRS and shared our experiences with him regarding our DRS, ccNSO participation and our IGF process.

Emily Taylor attended the Internet Caucus in Washington with a number of MPs and had some very useful one-to-one meetings with members of the US Congress and the US Ambassador.

Policy Advisory Body

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

Membership of the PAB

The PAB is made up of 18 representatives – eight elected by the members of Nominet, up to eight appointed representatives from other stakeholder groups and organisations and up to two non-executive directors.

Elected PAB Members 2006/7

Members who served on the PAB for some or all of the year: Andrew Bennett, James Conaghan, Clive Feather, Jason Johns, Alex Kells, Subhi Hashwa, Mark Healey, Sebastien Lahtinen, Richard Martin, Hazel Pegg, Jarrod Robinson, Michael Toth.

Representatives of Appointed Organisations 2006/7

Jeremy Beale/William Brocklehurst (Confederation of British Industry), Eric Ramage (Institute of Trade Mark Attorneys), Geoff Smith/Tracy Halsey (Department of Trade and Industry/BERR), The Earl of Erroll (apComm – the All Party Communication Group), David Evans (Office of the Information Commissioner), Francesca Woodhouse/Ulrika Almen (Federation of Small Businesses).

Board representatives

Alex Bligh, Gordon Dick.

Policy matters

Phishing

The topic of phishing was initially discussed in response to a background paper from the DTI in November 2006, and remained on the PAB agenda up to the July meeting. An initial paper from the executive in January was followed by presentations from APACS, the UK trade association for payments, in March and the Federation of Small Businesses in May. There was some discussion about whether Nominet should develop a phishing policy for the .uk namespace. The PAB eventually adopted a policy that encouraged Nominet to co-operate with other agents to educate users and improve security measures, rather than duplicate existing efforts by other agencies.

Variable registration periods

The PAB discussed whether Nominet should introduce multiple year registration periods. In the initial discussion at the March meeting, there were mixed feelings on the topic. However, in September, in response to another paper from the executive, the PAB agreed to recommend that a policy of one-year registration periods and extended registration periods up to ten years be introduced in due course.

Domaining, drop catching and the secondary market

The initial discussion on the secondary market for domain names in May was followed by presentations to the PAB from Sedo (who offer a global marketplace for the brokerage and auction of domain names) and Com Laude (who offer domain registration and management services). In response to the second executive paper on this topic in September, a consensus emerged for adopting a policy statement on domaining recognising that the sale of domain names is legitimate so long as no third party rights are infringed.

Dispute Resolution Service review

The PAB discussed the feedback from the Dispute Resolution Service review consultation and, in particular, the proposal to introduce a default transfer scheme for cases with no response, an idea that had arisen during the consultation period. As a result of this discussion, Nominet held a mini-consultation on the default transfer process in October. Both the PAB and other stakeholders expressed concerns, as a result of which the proposal was modified to a summary transfer process.

Protecting the reputation of .uk



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. The Dispute Resolution Service (DRS) handled 540 new, valid cases during the financial year. Where a response to a dispute is received the parties receive the benefit of informal mediation, handled by our professional mediators. In cases where there is a response, 62% settle either before or through mediation and only a quarter of response cases go to an expert decision.

From November 2006 to February 2007, we carried out a public consultation that had 128 responses from a broad

range of people, the most responses we had ever received to a consultation. There was no consensus on the difficult issues and we subsequently ran a further consultation on a proposed default transfer process to handle cases where there is no response from the registrant, which produced over 150 comments. After further review, we will be introducing a revised DRS policy and procedure that will implement several of the proposed changes, in early 2008.

In September, we began recruiting for new experts for the DRS and received a large volume of applications of an extremely high calibre. We appointed 14 new experts in January 2008.

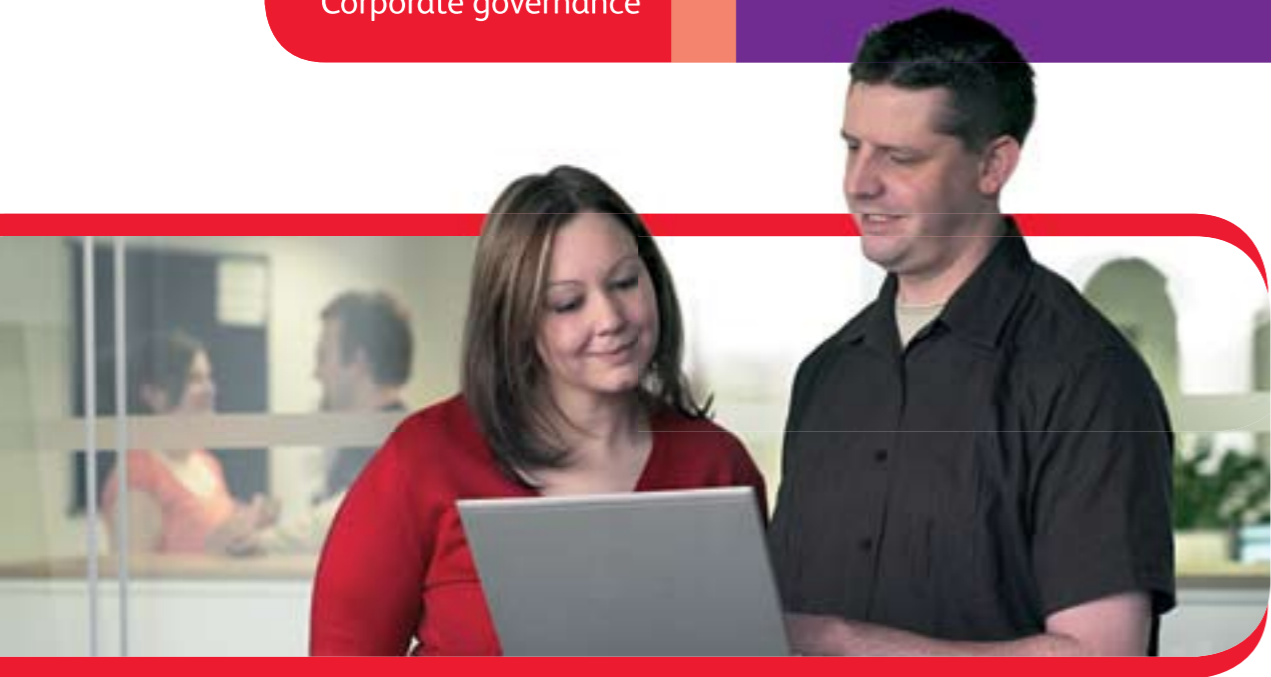
Legal cases

In August, we received AUS\$ 64,041 (about £27,000) from Brad Norrish – one of the defendants in our Australian litigation from 2003-2005 – whom we have made bankrupt. We continue to seek recovery of damages and costs from Mr Norrish and the other defendants in that case.

We received signed undertakings from Webagentur.at (the Austrian registrar who abused our WHOIS service in March). These confirm the destruction of all data wrongfully abstracted from Nominet and an acknowledgement of Nominet's Intellectual Property rights.

We cooperated with other CENTR members against a German company called DAD, Deutscher Adressdienst GmbH, which sent out scam invoices to our customers as "UK INTERNET REGISTER". As other CENTR members were affected by the scam, we jointly tried to persuade the prosecutor's office in Hamburg (where DAD are based) to take action.

As part of our ongoing brand and intellectual property protection work, we regularly correspond with those who infringe our rights. We have obtained satisfactory outcomes throughout the year.



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

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. The Board continued its policy to maintain a register of Board members' interests. Our external auditors reviewed this register during their audit of the company's financial statements and confirmed it was in order.

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

Elections were held during May 2007 to replace two retiring non-executive directors. Alex Bligh decided not to stand for re-election, and we would like to thank him and Jonathan Robinson for their excellent contribution to the Board. Angus Hanton and Sebastien Lahtinen were elected to the Board.

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 Paintbox Limited and the Government's Motor Sport Development Board (MDUK).



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 together with an MBA, with distinction.

She was appointed Managing Director in March 2002 and Chief Executive in 2005. She is responsible for leading the development of Nominet and the senior management team. She is particularly involved in looking after relationships with Nominet's members and stakeholders, developing company performance and representing Nominet nationally and internationally.

In 2007, she won the CBI First Women award for Technology. In 2006, she was a top five finalist in Britain's Best Boss awards and received a special commendation. She was also a finalist at the 2005 Blackberry Women in Technology awards.

Lesley is an elected Council member of the Country Code Names Supporting Organisation (ccNSO) where she represents Europe and she is Chair of the ccNSO Participation Working Group.

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

Current Board Members (continued)



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 Body and more latterly as a non-executive director.

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

Gordon has been a non-executive director since 2004.



Angus Hanton
Non-executive director

An economics graduate, Angus is a director of Woodland Investment Management Ltd (woodlands.co.uk), a forestry company, and Dulwich Storage Limited, a self-storage company. For the last 10 years, he has invested in Internet businesses and has been developing generic domain names. Angus's ancestral roots are in Scotland and Wales, but he lives happily in London with his family.

Angus has been a non-executive director since 2007.



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 now works as a consultant in the domain name industry.

Fay has been a non-executive director since 2002.



Sebastien Lahtinen
Non-executive director

Sebastien served as a member of Nominet's Policy Advisory Body for four years, two of them as Chair. He has a BSc Management and an MSc Management Information Systems degree from the London School of Economics.

An entrepreneur with a strong interest in Internet related projects, Sebastien is Director of NetConnex, a hosting company, Chairman and Director of LONAP, a not-for-profit Internet Exchange Point and co-founder of thinkbroadband.com, a broadband news and comparison site.

Sebastien has been a non-executive director since 2007.



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. Meetings are also usually attended, by invitation by the Chief Executive and the 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 four times over the last financial year, in October 2006, December 2006, February 2007 and August 2007. At these meetings the Committee reviewed the 2006 Annual Report and Accounts and audit report and recommended that the Board approve these. The Committee also agreed the investment policy and changed professional

advisors, reviewed the company's insurance policies, reviewed the business continuity plan and risk review, and reviewed the Board's register of interests.

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 2006/7

September 2006-January 2007

Fay Howard (chair)
Bob Gilbert
Alex Bligh

January 2007-June 2007

Alex Bligh (chair)
Gordon Dick
Bob Gilbert

June 2007 onwards

Gordon Dick (chair)
Bob Gilbert
Angus Hanton

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.

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 met five times during the last financial year. At these meetings they reviewed and 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 agreed revised contracts of employment for all employees.

Remuneration Committee Members 2006/7

September 2006-January 2007

Alex Bligh (chair)
Jonathan Robinson
Fay Howard
Gordon Dick

January 2007-June 2007

Fay Howard (chair)
Jonathan Robinson
Bob Gilbert

June 2007 onwards

Fay Howard (chair)
Bob Gilbert
Sebastien Lahtinen

Full terms of reference for the Remuneration Committee can be found on our web site at: <http://www.nominet.org.uk/governance/board/remuneration/>

Corporate Governance Review

In November 2006 we held an Extraordinary General Meeting at which our members voted for us to expand our scope as a company and use electronic voting and communication. This result was very pleasing as it enabled us to mount our successful bid to run the Tier 1 registry for

UK ENUM. It also enabled us to simplify our voting processes, which has in turn increased stakeholder participation in elections.

We ran two public consultations during the year to gain feedback from our membership and wider stakeholders on proposed changes to our Articles of Association, the document that describes how Nominet interacts with its members and the way in which it is governed.

The first consultation ran from February to March 2007 and dealt with Board composition, policy and fees. We received over 70 responses to this consultation.

The second consultation ran from July to October 2007, and covered the remaining issues of membership, poll voting, proxies and legal technicalities. We received 30 responses to this consultation.

The Board analysed the responses to both consultations, together with feedback from consultation meetings, Nominet lunches and other discussions with members. After further review the Board has developed some special resolutions which will be put to a member vote at the 2008 Annual General Meeting.

Risk management

The Board of Directors has delegated responsibility for ensuring that Nominet maintains a sound system of risk management and control to the Senior 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 again updated our risk review and further developed the business continuity plan. The backup technical and staff sites have been tested to ensure general registry operations are able to continue in the event of a major incident at our Oxford base. We have continued to refresh our risk management process to ensure that our systems of risk management and control follow accepted best practice standards.

We are continuing to evaluate the nature and extent of risks that we face and then manage them efficiently, effectively and economically. Additionally, the system of risk management will continue to seek to ensure compliance with the Combined Code requirements on corporate governance.



Corporate Social Responsibility

Corporate Social Responsibility (CSR) is all about a company knowing, managing and improving its impact on the economy, the environment and society. At Nominet we believe that CSR is not just an add-on to our day-to-day activity, we believe behaving responsibly should be a part of everything we do.

Our vision for CSR is to ensure that all our business activities are conducted in a responsible manner. The impact on society of any business activity we undertake should be considered and appropriate action taken to ensure we have a positive impact.

The marketplace

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 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. Working with our registrar community and government, we promote industry self-regulation and the raising of industry standards.

The workplace

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 workforce), 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.

The community

The majority of our workforce is based locally. 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. We have strong relationships with the global Internet community and regularly share best practice with other registries, governments and academic institutions from across the world.

We are very supportive of our employees getting involved in fundraising for charities of their choice. We match employee fundraising efforts pound for pound and encourage participation at all levels. We have a nominated charity that we support as an organisation each year. During 2006/7 we rounded off our time supporting CLIC Sargent, a charity for children with cancer, with a job swap auction involving our senior management team. Our employees raised a total of £10,394 for this and other charities, a sum which Nominet matched. In October 2007 we started supporting SeeSaw, a local charity that provides support for bereaved children, and we have already donated over £5,000 to them.

The environment

We seek to have a positive impact on the environment by recycling, reducing the amount of energy we use, reducing the amount of paperwork we produce and have tied in a number of green initiatives around the move to our new building. 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.

The Nominet Foundation

At the start of 2008 we announced the creation of the Nominet Foundation, a charitable organisation that will fund education, research and development initiatives in the UK Internet industry. The Foundation will aim to launch in Summer 2008 with a first year donation of £5 million.

Officers and professional advisers

Company registration number 3203859

Registered office Minerva House
Edmund Halley Road
Oxford Science Park
OXFORD
OX4 4DQ

Directors L Cowley
G Dick
R Gilbert
F Howard
T S Lahtinen
A Hanton

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 Auditor
1 Westminster Way
OXFORD
OX2 0PZ

The directors present their Annual Report and the financial statements of the company for the year ended 30 September 2007.

Report of the directors

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 funds amounting to £15,483,000. 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 2007, can be found on pages 5 and 6. Other key performance indicators are discussed on page 5 and pages 8 to 28.

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 although as a result of cash balances 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 cash flow 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 (retired as a director on 2 May 2007)
L Cowley
G Dick
R Gilbert
A Hanton (appointed as a director on 2 May 2007)
F Howard
T S Lahtinen (appointed as a director on 2 May 2007)
J Robinson (retired as a director on 2 May 2007)

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. The auditors found no problems with the register of interests during their review.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to 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 period. In preparing these 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 UK 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 that disclose with reasonable accuracy at any time the financial position of the company and 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.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditor is 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 auditor is aware of that information.

Donations

During the year, the company contributed £10,394 (2006:£2,629) to charities. This sum matched donations made by Nominet staff to various fundraising activities organised by a staff volunteer led 'Charity Action Group'.

Auditor

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD

E Taylor
Secretary

19 February 2008



Report of the independent auditor to the members of Nominet UK

Auditor's report



We have audited the financial statements of Nominet UK for the year ended 30 September 2007 which comprise the accounting policies, profit and loss account, balance sheet, cash flow statement, statement of total recognised gains and losses and notes 1 to 22. 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. We also report to you whether in our opinion the information given in the Report of the Directors is consistent with the financial statements.

In addition we 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 of the Year, the Report of the Directors, the Chairman's Statement, the Chief Executive's Statement and Proactive 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 2007 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.

GRANT THORNTON UK LLP
Registered Auditors
Chartered Accountants
Oxford.

25 February 2008

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's web site. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Accounting policies



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.

The company has amended the method by which it estimates its deferred income balance from a monthly basis to a daily basis. The effect of this amendment is an increase in the deferred income balance at 30 September 2007 and a reduction in sales for the year ended 30 September 2007

of £641,000. The directors have adopted this method of estimation as they consider that it provides a more accurate reflection of the deferred income balance.

If the above method had been able to have been used to estimate the deferred income balance at 30 September 2006, the directors consider that an amendment of £570,000 would have been reflected reducing the sales for 2006 and increasing those for 2007.

The company has amended the presentation of deferred income within the financial statements. Deferred income is now shown separately on the balance sheet, below creditors due within one year, as the directors consider that this more appropriately reflects the nature of the company's activities. The 2006 figures have been restated to reflect this change in approach.

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:

Leasehold buildings	-	2%
Computers	-	33.33%
Other assets:		
Fixtures and fittings	-	20%
Fit out costs	-	10%
Other equipment	-	20%

Leasehold land is not depreciated.

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 2007

		2007	2006 (restated)
	Note	£000	£000
Turnover	1	15,275	14,309
Other operating charges	2	11,106	10,089
Operating profit	3	4,169	4,220
Exceptional items	6	–	(603)
		4,169	3,617
Income from fixed asset investments	7	302	333
Interest receivable	8	470	235
Profit on ordinary activities before taxation		4,941	4,185
Tax on profit on ordinary activities	9	1,205	1,394
Profit for the financial year	19	3,736	2,791

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

Balance sheet

as at 30 September 2007

		2007	2006 (restated)
	Note	£000	£000
Fixed assets			
Tangible assets	11	11,367	5,754
Investments	12	11,462	11,312
		22,829	17,066
Current assets			
Debtors	13	3,294	3,226
Cash at bank		10,343	9,820
		13,637	13,046
Creditors: amounts falling due within one year	15	3,756	3,317
Net current assets		9,881	9,729
Total assets less current liabilities		32,710	26,795
Deferred income	16	17,227	15,048
		15,483	11,747
Reserves			
Profit and loss account	19	15,483	11,747
Funds		15,483	11,747

These financial statements were approved by the directors on 19 February 2008 and are signed on their behalf by:

R Gilbert, Chairman

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

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

Cash flow statement

for the year ended 30 September 2007

		2007	2006
	Note	£000	£000
Net cash inflow from operating activities	20	7,988	8,279
Returns on investments and servicing of finance	20	772	568
Taxation	20	(1,643)	(1,774)
Capital expenditure and financial investment	20	(6,594)	(1,688)
Increase in cash	20	523	5,385

Other primary statements

for the year ended 30 September 2007

Statement of total recognised gains and losses

	2007	2006
	£000	£000
Profit for the financial year	3,736	2,791
Total recognised gains and losses for the year	3,736	2,791
Prior year adjustment (note 10)	(370)	–
Total gains and losses recognised since the last financial statements	3,366	2,791

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

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

Notes to the annual report and financial statements

for the year ended 30 September 2007

1. Turnover

The turnover and profit before tax are attributable to the one principal activity of the company. An analysis of turnover, based on the geographical location of the registrars, is given below:

	2007	2006 (restated)
	£000	£000
United Kingdom	11,304	11,018
Rest of World	3,971	3,291
	15,275	14,309

2. Other operating charges

	2007	2006
	£000	£000
Staff	4,991	4,678
Technical	1,651	1,408
Other administrative	1,301	1,138
Depreciation and loss on disposal of fixed assets	913	1,088
Operations	825	948
Facilities	543	472
Property	562	24
Communications	320	333
	11,106	10,089

3. Operating Profit

Operating profit is stated after charging:

	2007	2006
	£000	£000
Depreciation of owned fixed assets	806	1,087
Loss on disposal of fixed assets	25	–
Auditor's remuneration:		
Audit fees	15	17
Non-audit fees	53	27
Operating lease costs:		
Plant and equipment	21	–
Non-audit fees include tax compliance, VAT advisory and financial planning services.		

4. Particulars of employees

The average number of staff employed by the company during the financial year amounted to:

	2007	2006
	No	No
Operations	83	87
Office	22	20
Management	7	7
	112	114

The aggregate payroll costs of the above were:

	2007	2006
	£000	£000
Wages and salaries	4,267	4,110
Social security costs	460	415
Other pension costs	36	25
	4,763	4,550

The company does not operate a pension scheme. The pension costs above are the employer's contributions payable to employee stakeholder pension schemes.

Notes to the annual report and financial statements

for the year ended 30 September 2007

5. Directors

Remuneration in respect of directors, as set by the Remuneration Committee, was as follows:

	Salary/ fees	Bonus	Pension	Other Benefits	2007	2006
	£000	£000	£000	£000	£000	£000
B Gilbert*	71	–	–	–	71	62
L Cowley	136	46	7	5	194	183
A Bligh	10	–	–	–	10	14
F Howard	18	–	–	–	18	14
J Robinson	10	–	–	–	10	14
G Dick	18	–	–	–	18	14
T S Lahtinen	7	–	–	–	7	–
A Hanton	7	–	–	–	7	–
Year ended 30 September 2007	277	46	7	5	335	301
Year ended 30 September 2006	251	41	6	3		301

* Payment made to a third party for director services.

Other benefits consist of income protection, private health insurance and company car.

The company does not operate a pension scheme. The pension costs above are the employer's contributions payable to employee stakeholder pension schemes.

6. Exceptional Items

	2007	2006
	£000	£000
Loss on disposal of fixed assets	–	603

The loss on disposal in the prior year arose primarily from the sale of the property at Sandy Lane West, as reported in last year's report and accounts. The losses incurred include write offs of all internal fixtures and fittings.

7. Income from fixed asset investments

	2007	2006
	£000	£000
Income from other fixed asset investments	302	333

8. Interest receivable

	2007	2006
	£000	£000
Bank interest receivable	470	235

9. Taxation on ordinary activities

(a) Analysis of charge in the year

	2007	2006
	£000	£000
Current tax:		
UK Corporation tax based on the results for the year at 30% (2006 - 30%)	1,288	1,560
Tax effect of prior year adjustment (note 10)	(111)	–
Over provision in prior year	(53)	–
Total current tax	1,124	1,560
Deferred tax:		
Origination and reversal of timing differences (note 14)	81	(166)
Tax on profit on ordinary activities	1,205	1,394

(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% (2006 – 30%).

	2007	2006
	£000	£000
Profit on ordinary activities before taxation	4,941	4,185
Profit on ordinary activities multiplied by rate of tax	1,482	1,256
Expenses not deductible for tax purposes	47	49
Capital allowances in excess of depreciation	(163)	122
Offshore income not yet taxable	(66)	(98)
Research and development enhancement	(20)	(61)
Loss on the sale of fixed assets	8	181
Tax effect of prior year adjustment (note 10)	(111)	111
Over provision in prior year	(53)	–
Total current tax (note 9(a))	1,124	1,560

Notes to the annual report and financial statements

for the year ended 30 September 2007

10.

Prior year adjustment

A prior year adjustment has been made to reverse an error in the recognition of revenue due to an incorrect deferral of income at 30 September 2006. Turnover of £370,000 has been deducted from sales for the year ended 30 September 2006 together with a corresponding increase in deferred income due in less than one year.

The error arose from a miscalculation of the deferred income balance at the year end. The directors are confident this will not recur with the adoption of the new method of estimating deferred income.

11.

Tangible fixed assets

	Leasehold land and buildings	Computers	Other assets	Total
	£000	£000	£000	£000
Cost:				
At 1 October 2006	4,202	3,885	1,113	9,200
Additions	4,013	608	1,823	6,444
Disposals	–	(1,532)	(867)	(2,399)
At 30 September 2007	8,215	2,961	2,069	13,245
Depreciation:				
At 1 October 2006	–	2,578	868	3,446
Charge for the year	21	715	70	806
On disposals	–	(1,531)	(843)	(2,374)
At 30 September 2007	21	1,762	95	1,878
Net book value:				
At 30 September 2007	8,194	1,199	1,974	11,367
At 30 September 2006	4,202	1,307	245	5,754

The brought forward net book value of leasehold land and buildings of £4,202,000 was previously classified as assets under construction. Following completion of the building in July 2007, the cost has been capitalised within leasehold land and buildings, with the buildings being depreciated on a 2% straight line basis in accordance with the company's accounting policy.

The land is owned by Magdalen College and leased by the company over 150 years.

12.

Investments

	Fixed asset investments
	£000
Cost:	
At 1 October 2006	11,312
Net re-invested income	150
At 30 September 2007	11,462
Net book value:	
At 30 September 2007	11,462
At 30 September 2006	11,312

The Company also holds 100% of the equity share capital of its subsidiary undertaking, Nominet Limited. Nominet Limited was incorporated for intellectual property protection purposes on 25 May 2007, when it issued one £1 share to Nominet UK. Nominet Limited has been dormant since its incorporation.

13.

Debtors

	2007	2006
	£000	£000
Trade debtors	1,299	1,057
Other debtors	6	30
Prepayments and accrued income	1,904	1,973
Deferred taxation (note 14)	85	166
At 30 September 2007	3,294	3,226

All debtors are repayable within one year of the balance sheet date.

Notes to the annual report and financial statements

for the year ended 30 September 2007

14. Deferred taxation		2007	2006
The deferred tax included in the balance sheet is as follows:			
		£000	£000
	Included in debtors (note 13)	85	166
The movement in the deferred taxation account during the year was:			
		2007	2006
		£000	£000
	Balance brought forward	166	–
	Profit and loss account movement arising during the year (note 9)	(81)	166
	Balance carried forward	85	166
The balance of the deferred taxation account consists of the tax effect of timing differences in respect of:			
		2007	2006
		£000	£000
	Excess of depreciation over capital allowances on fixed assets	85	166
15. Creditors: amounts falling due within one year		2007	2006 (restated)
		£000	£000
	Trade creditors	487	374
	Corporation tax	392	911
	Other taxation and social security	1,719	1,164
	Other creditors	167	144
	Accruals	991	724
		3,756	3,317

16. Deferred income		2007	2006 (restated)
		£000	£000
	Amounts to be recognised within one year	13,146	11,421
	Amounts to be recognised after more than one year	4,081	3,627
		17,227	15,048

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.

The company has amended the presentation of deferred income within the financial statements. Deferred income is now shown separately on the balance sheet, below creditors due within one year, as the directors consider that this more appropriately reflects the nature of the company's activities. The 2006 figures have been restated to reflect this change in approach.

17. Related party transactions		Owed by/(to) Nominet UK at 30 Sept 2007	Income to Nominet UK 2007	Purchases by Nominet UK 2007
		£000	£000	£000
	A Bligh (Xcalibre Communications Ltd)	(3)	33	–
	J Robinson (NetBenefit (UK) Ltd)	(3)	48	–
	J Robinson (NetNames Ltd)	(12)	112	–
	J Robinson (Easily Ltd)	(36)	400	–
	A Hanton (Giant Games Ltd)	(13)	20	–
	T S Lahtinen (LONAP Ltd)	–	–	2
	T S Lahtinen (NetConnex Ltd)	–	2	–
	R Gilbert (Winchdown Ltd)	8	–	71
		(59)	615	73

Notes to the annual report and financial statements

for the year ended 30 September 2007

17. Related party transactions (continued)

	Owed by/(to) Nominet UK at 30 Sept 2006	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

During the year Nominet UK purchased services with a value of £210 (2006: £49,050) from Taylor Smith Ltd. Mr Lucien Taylor, a director of Taylor Smith Ltd, is married to Mrs Emily Taylor who is the company secretary of Nominet UK.

The directors personally purchased domain names from Nominet in the year. The total amount invoiced per director was less than £250.

All of these transactions were at an arm's length basis, on normal business terms.

18. 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 2007 was 2,901 (2006: 2,894).

Profit and loss account	2007	2006
	£000	£000
Balance brought forward as previously reported	12,117	8,956
Prior year adjustment (note 10)	(370)	–
Balance brought forward restated	11,747	8,956
Profit for the financial year	3,736	2,791
Balance carried forward	15,483	11,747

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.

Notes to the statement of cash flows Reconciliation of operating profit to net cash inflow from operating activities	2007	2006 (restated)
	£000	£000
Operating profit	4,169	4,220
Depreciation	806	1,087
Loss on disposal of fixed assets	25	–
Increase in debtors	(149)	(470)
Increase in creditors	3,137	3,442
Net cash inflow from operating activities	7,988	8,279

Returns on investments and servicing of finance	2007	2006
	£000	£000
Income from other fixed asset investments	302	333
Interest received	470	235
Net cash inflow from returns on investments and servicing of finance	772	568

Taxation	2007	2006
	£000	£000
Taxation	(1,643)	(1,774)

Capital expenditure and financial investment	2007	2006
	£000	£000
Payments to acquire tangible fixed assets	(6,444)	(5,382)
Receipts from sale of fixed assets	–	4,009
Income re-invested in fixed asset investments	(150)	(315)
Net cash outflow for capital expenditure and financial investment	(6,594)	(1,688)

Notes to the annual report and financial statements

for the year ended 30 September 2007

20. Notes to the statement of cash flows (continued) Reconciliation of net cash flow to movement in net funds	2007	2006
	£000	£000
Increase in cash in the period	523	5,385
	523	5,385
Change in net funds	523	5,385
Net funds at 1 October 2006	9,820	4,435
Net funds at 30 September 2007	10,343	9,820

Analysis of changes in net funds

	At 1 Oct 2006	Cash flows	At 30 Sep 2007
	£000	£000	£000
Cash at bank	9,820	523	10,343
Net funds	9,820	523	10,343

21. Contingent liabilities

The company had no contingent liabilities at 30 September 2007 or 30 September 2006.

22. Capital commitments

There were no capital commitments at 30 September 2007. At 30 September 2006 there were capital commitments of £6.2m relating to the fit out and fixtures and fittings of Minerva House which were purchased during the year.

Glossary

ccTLD

A Country Code Top Level Domain (ccTLD) is a top level domain used and reserved for a country or dependent territory. Examples of ccTLDs include .uk for the United Kingdom, .de for Germany, .us for the United States of America, .ca for Canada, and .fr for France. Each country appoints a manager for its ccTLD and sets the rules for allocating domains. Nominet manages the .uk ccTLD.

DNSSEC

Domain Name System Security Extensions provide the Domain Name System with authentication of responses from DNS servers and aim to prevent DNS spoofing, which is a common technique used by hackers.

ENUM

Telephone Number Mapping or ENUM is an internationally approved method for connecting the telephone communications network to the Internet.

Extensible Provisioning Protocol (EPP)

EPP is a new automated method for registering domain names.

ICANN

Internet Corporation for Assigned Names and Numbers. An international, not-for-profit, private sector organisation created to coordinate four key functions of the Internet: managing the domain name system, allocating IP address space, assigning protocol parameters and managing the root server system.

IGF

The Internet Governance Forum (IGF) was established by the United Nations to accommodate multi-stakeholder policy dialogue in the field of Internet governance. It aims to bring together all stakeholders in the Internet governance debate, whether they represent states, the private sector or civil society, on an equal basis and through an open and inclusive process.

Register

The definitive database of all domain name registrations within the .uk Top Level Domain.

Registrant

The individual or organisation (e.g. limited company, partnership, sole trader, etc.) that registers a specific domain name. They hold the right to use that domain name for a specified period of time (two years for a domain name ending in .uk). The registrant is the 'legal entity' who is bound by Nominet's terms and conditions of domain name registration.

Registrar

A registrar is the company or organisation that people register their domain name through. The registrar is the agent through which people register domain names – it does not mean that they are an agent of Nominet. The registrar may be a member of Nominet, but they act on their customer's behalf rather than our behalf.

Registry

An Internet domain name registry receives domain name service (DNS) information into a centralised database and transmits the information in Internet zone files on the Internet so that domain names can be found by users around the world via the world wide web and email. Nominet is the registry for the .uk country code Top Level Domain (ccTLD).

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