

**Nominet UK
Company Limited by Guarantee
Annual report and financial statements
For the year ended 30 September 2010**

WEDNESDAY



AG1Y7U1R

A55

11/05/2011

95

COMPANIES HOUSE

nominet[®]

Company No. 3203859

Contents

3	Highlights of the year
4	Who we are
5	Our vision, mission and values
6	The domain name market
10	Chair's statement
12	Chief Executive's statement
14	Excellence and innovation in our products and services
16	Making a positive difference
19	Shaping the development of the Internet
21	Stakeholder engagement
23	Becoming an employer of choice
24	Managing our finances
28	uk policy process
30	Corporate governance
37	Officers and professional advisors
38	Report of the directors
41	Auditor's report
43	Accounting policies
45	Profit and loss account
46	Balance sheet
47	Cash flow statement
48	Notes to the annual report and financial statements
60	Glossary

Highlights of the year

In a year when we celebrated 25 years of .uk, we had several notable achievements

- Income increased by 9% to £21.5 million
- Net growth of 11% equating to an extra 0.9 million domains in the register. By December 2010 the total of .uk domain names registered passed 9 million
- Became the fifth largest registry in the world by volume of domains registered
- .uk ran smoothly and we delivered extremely high availability across our entire suite of registry systems
- At our EGM in February 2010 members voted to change our constitution to enshrine our public purpose
- Signed .uk to be DNSSEC enabled, a key step in improving Internet security for .uk
- Revised the .uk policy process to increase stakeholder engagement
- Donated £5 million to Nominet Trust
- Won Oxfordshire Business Awards, 'Customer and Staff Care Award'
- Won Thames Valley Business Magazine Awards, 'Best Place To Work'
- Lesley Cowley awarded OBE for services to the Internet and e-commerce
- Our Dispute Resolution Service was awarded a special commendation by CEDR (Centre for Effective Dispute Resolution)

Who we are

Nominet is the not-for-profit organisation responsible for the smooth and secure running of the .uk infrastructure. A public purpose ethos drives everything we do – we are committed to making the Internet an ever more trusted space for everyone who uses it.

As one of the world's largest Internet registries, we maintain a 'directory' of domain names ending in .uk, and run the technology which locates the computer hosting the website or email address you are 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 are renowned for our expertise in providing a range of first-class registry services. Other Internet registries often visit us to share experiences and learn from what we do.

We have approaching 3,000 members (not shareholders, so we 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 are wide and varied, so we consult regularly with our stakeholders on any changes in policy.

Our vision, mission and values

Vision

Nominet's vision is to be a leading force in making the Internet a trusted space, which everyone can be part of and has a positive impact on people's lives

Mission

Our mission is to make a positive difference to our stakeholders, driven by their needs and to fulfil our public purpose. We will do this by

- Being a driving force in shaping the development of the Internet in the UK and globally
- Delivering a safe and secure uk
- Delivering excellence and innovation in our products and services
- Creating a company where our people are skilled, talented and engaged

Values

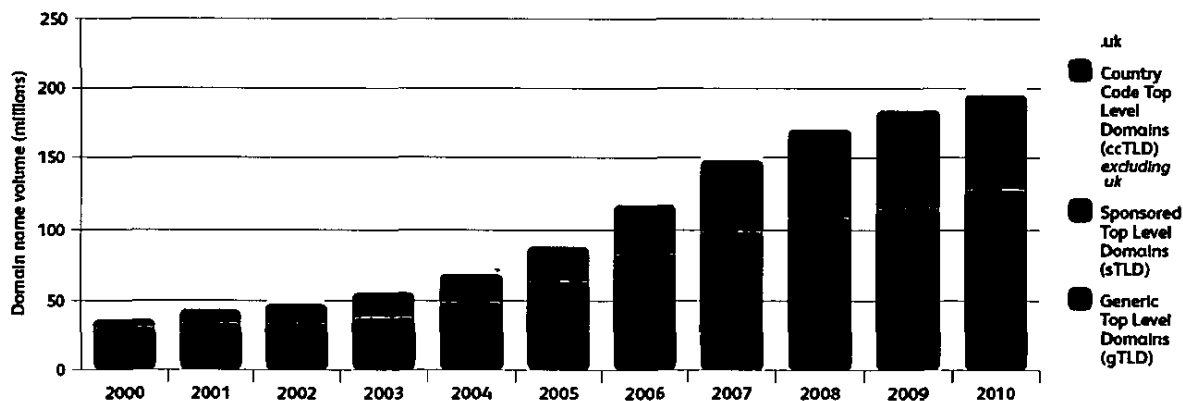
- We are open, honest and unbiased
- We bring a human touch to technology
- We listen, can be trusted and relied upon to do the right thing
- We are committed to making a positive impact on the community we live in
- We learn from others and share our knowledge to help shape the future of the Internet
- We innovate and continuously improve everything we do

The domain name market

Global domain name volumes

At the end of 2010 there were over 200 million domain names registered worldwide, representing an increase of 6.4% on the previous year's figure. However, there is a difference between the growth in generic Top Level Domains and country code TLDs. Generic TLD growth stood at 10.6% – driven by strong growth in .com and .info – whereas ccTLD growth has fallen to below 1%. This is mainly due to .cn, which had experienced a substantial reduction in the volume of domains registered and renewed. The ccTLD growth rate excluding China was a healthy 14%, higher than .com, showing that there is still significant growth in the ccTLD market.

Global domain name registrations



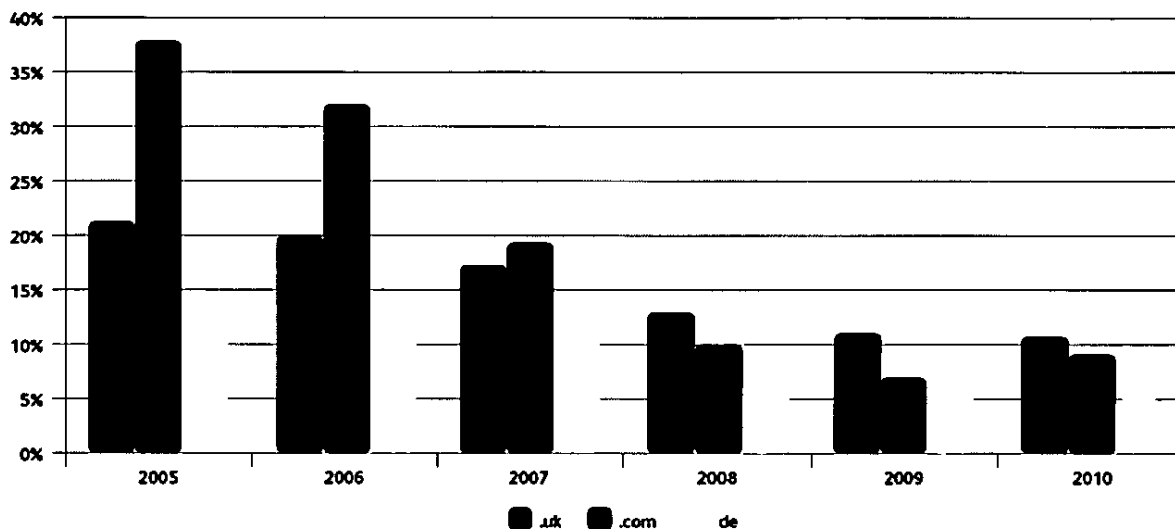
It is estimated that there are now almost 2 billion Internet users globally, an increase of 14% from last year. This represents approximately 29% of the global population. Internet use differs significantly between continents with Europe and North America having Internet penetration figures of 59% and 77% respectively, and Africa and Asia just 11% and 21%. In the UK it is estimated that 82.5% of the population now access the Internet, increasing from 79.8% last year.

Internetworldstats.com and Nielsen Online

Growth of .uk

The .uk register grew by 11.2% in 2009 and by 10.8% in 2010. Comparative growth for .com in 2009 and 2010 was 7% and 9%, and for Germany's .de was 6.8% and 5.5%.

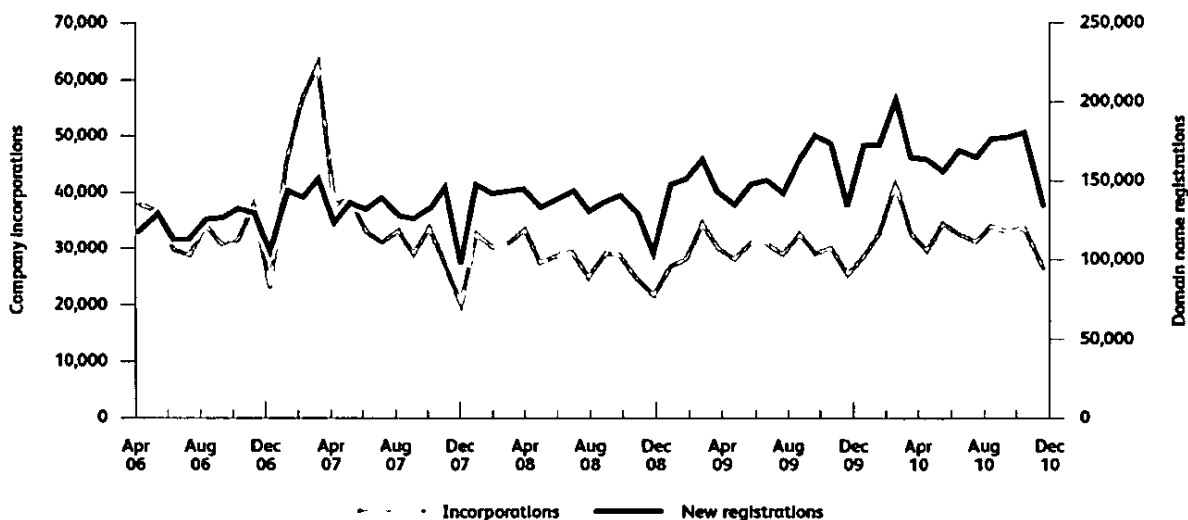
Annual growth of the .uk register



Monthly new registrations grew year on year for most of the past ten years, with current registrations averaging around 170,000 per month. The average volume of new registrations per month over the past 10 years was around 100,000.

As the chart below shows, in March 2010 we had over 200,000 new registrations, the highest monthly figure since the .com boom in 1999 and 2000.

Domain name registrations and company incorporations

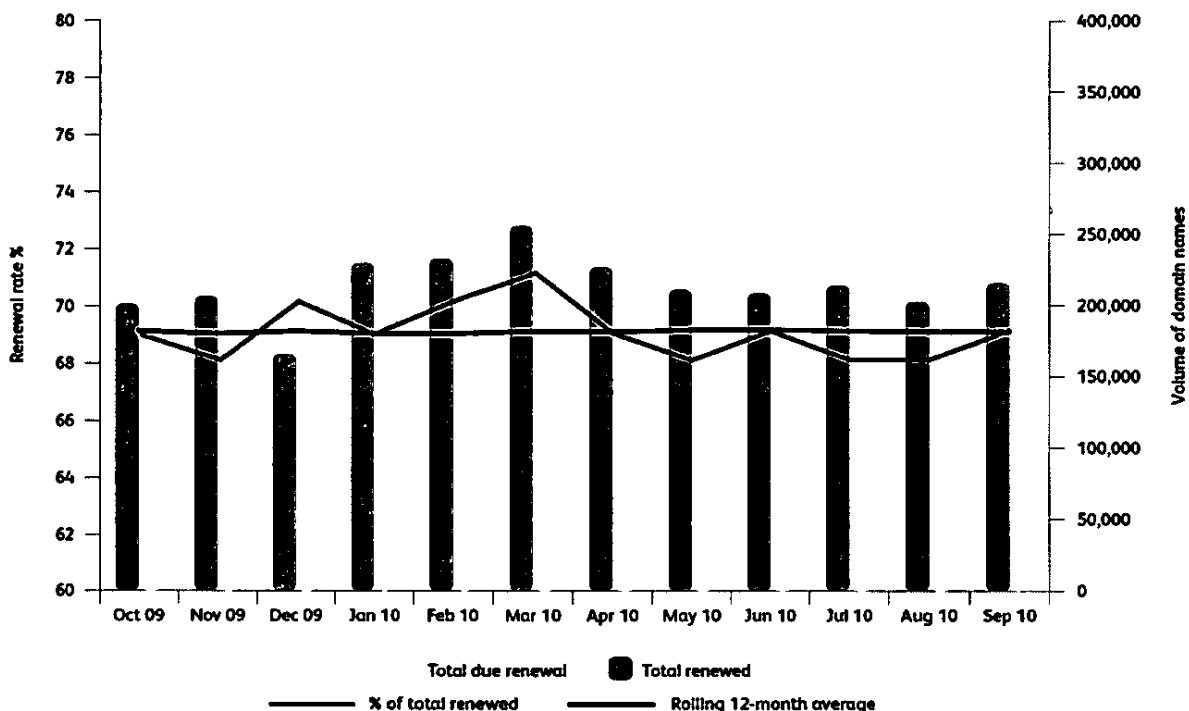


Looking at the UK economy, there is a strong correlation between the number of new companies incorporated at Companies House and domain name registrations. The dips in company incorporations in December 2009 and May 2010, along with the peak in March 2010, correlate clearly with falls and increases in domain name registrations at the same time.

Renewals

As the size of the .uk register has grown there has been pressure on renewal rates. During the past 12 months the rolling 12-month average for renewals remained at 69% as in 2009. This was lower than previous years when renewal rates were regularly in excess of 70%. Strong growth in monthly new registrations over the past few years has increased this pressure as a large volume of domain names are reaching their first renewal.

Renewal rates

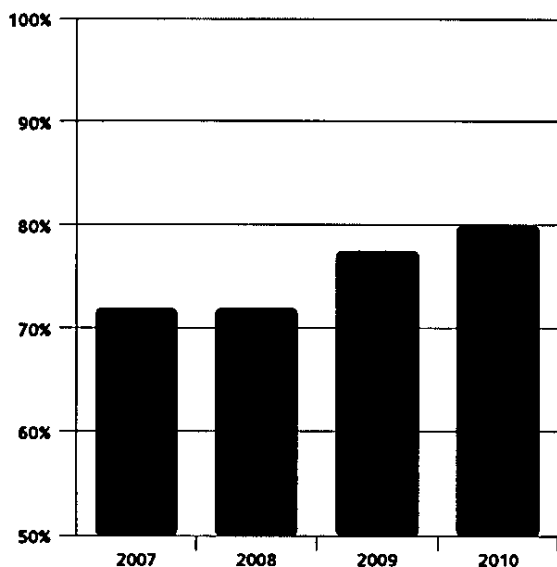


Trust in .uk

Trust amongst Internet users varies based on their knowledge and experience of using the Internet. One factor that affects this trust is the Top Level Domain of the site that the person is using. This year's research shows that UK consumers continue to have a distinct preference for .uk websites. This preference is driven by a higher level of trust and a perception that .uk sites deliver a more secure browsing and buying experience.

When consumers were asked if they would choose to visit a .uk site over a .com site when presented with a search result, 80% said that they would click on the .uk website. This same question has been asked over the past four years, and the trend shows that consumers increasingly expect .uk to provide a trusted environment, presenting relevant and local information. This is particularly significant for businesses wanting to attract consumers and shows that a .uk domain name is an important part of their marketing strategy when dealing with UK consumers.

Trust in .uk



Chair's Statement

The Internet has such social, economic and political importance that it is, quite simply, too important to fail, so in my capacity as the new Chair of Nominet I am delighted to share in the responsibility of making sure that uk continues to run smoothly for all

The many companies and organisations involved in making the Internet work – in the UK and globally – have a good story to tell in providing a secure infrastructure, creating the right conditions for innovation to thrive. This combination has underpinned the economic growth of the last decade and more

This is why the self-regulatory model is so important for the Internet – the need to be able to not only respond to change, but to promote and encourage it. Self-regulation has worked well and this approach to the Internet in the UK has been one of the keys to our success in the digital economy. As a responsible organisation with a public purpose, we continue to look at how we might best respond to the expectations of all UK Internet users. I believe that it is incumbent on all of us who work in this space to make a positive difference to our stakeholders – the tens of millions of people in the UK who use the Internet every day

This is why it was so important that, at our EGM last February, Nominet's membership overwhelmingly voted to enshrine a public purpose into our constitution. It was the start of an era where we shape our company and our policies so that we can clearly demonstrate that we are working in the best interests of our stakeholders

With our public purpose focus in mind, it is also important for us to involve and engage stakeholders when we formulate uk policy. During this year the Policy Advisory Body has been replaced by a process that puts stakeholders at the centre and gives scope for specific issues to be raised which are dealt with in specially convened Issue Groups. We want to hear from all stakeholders, we want them to know that we are listening, and value their input in shaping the future direction of our uk policy. We would urge interested parties to get involved with an Issue Group so that they can have their say

We cannot put the UK Internet into its own little bubble and survive in a global economy, and that is why Nominet continues to be a strong supporter of the UN Internet Governance Forum (IGF) since its inception. The IGF brings together interested parties from across all types of organisation – governments, legislators, civil society, academics, industry, individuals. It works by improving our knowledge and understanding of the issues and concerns. It helps us pool ideas, see what works and what doesn't – sharing best practice

For Nominet this opportunity to learn from others was what stimulated us to launch the Nominet Internet Awards (formerly the Best Practice Challenge). Over five years the awards have helped us celebrate the achievements of some of the many companies, organisations and individuals that are making that difference, making the Internet a safer, surer, more inclusive and more enjoyable place. We were very pleased this year to have unearthed so many great examples of inventive grassroots projects that are using the Internet to have a real impact on society. We were able to showcase some of the winning entries in Parliament and at the UN Internet Governance Forum in Vilnius, as examples of UK Internet innovation in action

A further example of our public purpose approach in action was the work we carried out during this period to develop www.knowthenet.org.uk, an educational website offering impartial advice, hints and tips about getting the most out of the Internet, helping everyone to use the Internet with confidence. For Nominet, [knowthenet.org.uk](http://www.knowthenet.org.uk) will also play an important part in our commitment to working in the public interest. Our vision is to be a leading force in making the Internet a trusted space, which everyone can be part of and has a positive impact on people's lives. [Knowthenet.org.uk](http://www.knowthenet.org.uk) is one of the ways we can see that vision becoming a reality

We also continue to support the development of the Nominet Trust, a charitable organisation that funds Internet education, inclusion and safety initiatives, which goes from strength to strength. Nominet Trust has so far invested over £3.5 million in over 120 projects, benefitting more than 3 million people. Annika Small has been appointed as Trust Director and we are confident her team will develop and strengthen the good work of this charity over the coming years. Following a review of Nominet Trust's second year of activities and careful consideration of our long term plans and financial forecasts, the Nominet Board approved a further donation of £5m to Nominet Trust. I look forward with interest to seeing the types of projects that will benefit from this funding and the impacts they will have for Internet users

Nominet UK
Company Limited by Guarantee
Annual report and financial statements for the year ended 30 September 2010

We have an enthusiastic Nominet Board and we have worked well together in what has been another highly successful year for the company. I would like to thank my Board colleagues for their commitment and insight. 2010 was a successful year for Nominet in many ways and it ended with us hearing that Lesley Cowley had been awarded an OBE for services to the Internet and e-commerce in the Queen's New Year's Honours List. This award is recognition of the professionalism, hard work and dedication of Lesley and all of the Nominet staff to making using the Internet a trusted and positive experience for all.

I look forward to working with Nominet members and the wider Internet community in the coming year.

Baroness Rennie Fritchie DBE
Chair

Chief Executive's statement

I am pleased to present this report and the financial statements for 2009/10

2010 was another very successful year of growth for Nominet, and appropriately in the year we celebrated 25 years since the first registration and enshrined our public purpose into our constitution, one of the most successful ever for the .uk Top Level Domain. New registrations hit their highest level since 2000, and in March 2010 we surpassed 200,000 new .uk domain names in a single month. Renewal rates have settled into a rolling 12-month average of 69%, and this consistency of renewal rates combined with the strength of new registrations has contributed to a .uk growth rate of more than 11% for the year. In December 2010, we also passed another milestone with the registration of the nine millionth .uk domain name. It is amazing to see how the UK domain namespace has developed in the last quarter of a century, from its humble origins in academia to its central role as part of critical national infrastructure today.

We have had another excellent year of operations, which has seen a number of important developments in our systems and services for registrars and registrants alike. We have also maintained our usual exceptional standards of customer service even though this has been an extremely busy period, with greater volumes of domain name registrations than we have seen for many years. This is once again testament to the skill, dedication and sustained hard work of our people.

Our income for the year totalled £21.5m, 9% growth versus 2009. We generated £8.6m of operating profit (2009 – £6.3m) before adjusting for £0.3m investment provision movement and the £5m donation (2009 – £3m) to the Nominet Trust.

To have achieved such significant growth during a period of increasing economic uncertainty both globally and in the UK is a considerable achievement. It is also encouraging to see that 2010 has been a good year for the domain name industry as a whole, with the recent decline in growth rates having come to an end, and most Top Level Domains having experienced an improvement in domain name sales. We were pleased to see .uk regain its position as the world's second largest country code TLD registry after .de, and closer to home, research for our annual Domain Name Industry Report revealed that 80% of consumers in the UK prefer to use a .uk website over a .com website, an increase of 3% on last year.

Trust and confidence in the .uk domain namespace is equally important for UK consumers and businesses, so with our public purpose focus in mind, we continue to work hard to ensure that .uk is a safe, secure and stable environment in which all Internet users can thrive. During 2010 we introduced new tools for registrars to use in the battle against cybercrime. The Phishing Feed and Investigation Lock allow registrars to quickly identify and remove domain names suspected of criminal activity from the domain name system, effectively rendering the site inaccessible while investigations are carried out.

The past year has also been a significant one in terms of further securing the Domain Name System itself. Amongst other registries we are implementing DNSSEC (secure extensions for DNS) in the zones under our management. DNSSEC prevents the interception and tampering with DNS queries between nameservers, which, in turn, prevents the faking of websites, and ultimately makes the Internet safer. The first phase of this programme was to add DNSSEC information to the top-level .uk domain which we successfully implemented on 1 March 2010, and a major milestone was passed on 16 July 2010 when the root zone of the Domain Name System (the top-level zone of the whole DNS hierarchy) was fully signed. We expect that work to secure our second level domains (.co.uk, .org.uk etc) will be completed in 2011 and we will be working with other global registries to encourage take up of DNSSEC amongst registrars, ISPs and the wider Internet community.

This past year has seen Nominet continue its positive work in the arena of international Internet governance and we have been active in the Internet Governance Forum, the UK-IGF and at ICANN. We are still committed to the multi-stakeholder participation approach to Internet policy development, and welcome the extended tenure of the IGF for a further five years. Our experience during the year has made it clear that not everyone shares this approach and has also illustrated that there is an urgent need to establish a better understanding and appreciation of the benefits of involving non-governmental stakeholders in this process. We have continued to represent .uk to our established contacts at the Department for Business, Innovation and Skills (BIS) together with Parliamentarians, and we were pleased to welcome Ed Vaizey, the Minister for Communication, Culture and the Creative Industries to Nominet in October 2010.

Over the past few years we have seen increasing political pressures on Internet governance in the UK, and the passing of the Digital Economy Act has given us further proof of this during 2010. This combined with our public purpose means that the UK domain name industry has to carefully balance the needs of all stakeholders when formulating policy and come up with innovative solutions to the issues we face if we are to continue to self-regulate. My colleagues and I passionately believe that a self-regulated Internet model is the right one for both Nominet and our industry and we were delighted that our members demonstrated their support for this model so emphatically at our Extraordinary General Meeting in February 2010. The resulting changes to our constitution have enabled us to move forwards positively, demonstrating the public service ethos behind our commitment to making the Internet an ever more trusted space for everyone who uses it.

As we look forward to the coming year, there is no doubt that with the long-awaited launch of new Top Level Domains there are fresh opportunities on the horizon for the broader industry and for us at Nominet. The re-launch of .co illustrated the strength of the market for new domains and the issue of new TLDs is one that registries, registrars and businesses, in particular, need to be aware of during 2011. As far as Nominet is concerned, we will continue to seek opportunities to grow our business that use our skills and experience to add value in our chosen markets, whilst ensuring that we satisfy the current and future needs of our stakeholder communities and our public purpose.

We look forward to the future with confidence as we work together with our membership to deliver a .uk experience which consumers and businesses alike can be proud of.

Finally, I would like to say a sincere 'thank you and well done' to all our people at Nominet, who have shown great unity and enthusiasm for their work and driven the company forward in a year of considerable change and challenge.

Lesley Cowley OBE
Chief Executive

Excellence and innovation in our products and services

Providing an excellent standard of service to our customers continues to be a priority for us. Our award winning support teams are highly skilled and provide a world-class service level to all our customers.

Providing an excellent customer experience

We continue to focus on the provision of high quality service to our customers and stakeholders whether through our online systems, call centre support or account management. This is recognised in our consistently high customer satisfaction scores for registrants and registrars, 84.9% and 91.8% respectively.

We launched several new systems this year aimed at improving our customers' experience. Our reseller functionality allows our registrars to record their resellers' details against domain names which provides greater clarity for the end customer and ensures we can better support them if the customer is unable to contact them or their relationship with the reseller breaks down. The new phishing feed and investigation lock functionalities are aimed at helping our registrars respond to phishing and other criminal activity in .uk.

The Dispute Resolution Service (DRS) continues to provide an efficient and effective mechanism for the resolution of .uk domain name disputes.

- 651 complaints were made to the DRS in the financial year 2009-10,
- 12% of all complaints resulted in an immediate resolution,
- Of the complaints that were referred to one of Nominet's in-house mediators, 62% were resolved by the mediator,
- 32% of all complaints were resolved by a decision of one of our panel of independent experts,
- Approximately half of all complaints submitted in this period resulted in a transfer of the domain name(s) in question to the complainant.

The DRS was also shortlisted this year for an award for "Excellence in the field of Dispute Resolution" by the Centre for Effective Dispute Resolution (CEDR). The awards panel commended Nominet for "[continuing] to operate, further develop and enhance its highly effective, multi-level ADR process for domain name dispute resolution in the UK".

Our responsive approach on criminal activity associated with .uk (removal of criminal sites from the zone file, Phishing Feed and Investigation Lock) is ground-breaking for a large, open TLD registry. This activity was referenced in the Digital Economy Act fact sheet and we feel it is a clear example of Nominet meeting our public purpose.

As previous winners, we continue to participate in judging the Help Desk Institute Customer Service awards. This provides useful networking opportunities and valuable insight into other customer service functions.

Continuing to develop an effective registrar channel that sells our products and services and engages with us

We have delivered an increase in the size of the register to 142.4 domain names per thousand inhabitants, above our target for the year of 138.5. Our renewal rate currently stands at 68.9%.

This year we ran our first commercial promotion of .uk, 'The Great .uk Prize Draw', which ran from 2 August to 27 September. In total, 77 registrars signed up to this promotion. We had 6,137 entrants which equates to 1.8% of domains registered during the period.

We are working to develop a system in the coming year to allow all our registrars access to information and data to help them optimise their potential for sales and renewals of .uk domains. As part of this project we delivered reports to a sample group of our registrars during the period that included sales data and trend analysis of domain name registrations and renewals. We have used the initial feedback from these registrars to help shape the new system which will be part of our registrar resources.

We held another successful .uk registrar conference, in November 2009, at Lord's Cricket Ground. A range of speakers from outside the industry and from our registrar base led to an engaged and interesting debate on topics ranging from the semantic web to the Digital Britain Review. Our Domain Name Industry Report for the year presented at the conference remains a valuable tool for helping registrars position the value of a .uk domain.

Improving the reputation of the industry through the design of our products and services

We launched a Phishing Feed and Investigation Lock during the year. These services are intended to help registrars respond promptly to phishing activity associated with their tag.

We have continued to promote the idea of working in partnership with our registrars on the removal of domain names associated with criminal activity from the register. This partnership approach is important because the registrar can remove the content (website) as well as the sign post (domain name) whereas, as the registry, we can only do the latter.

Diversifying

We have focused on laying a solid foundation for our diversification strategy.

We carried out a detailed analysis of the requirements set out in the ICANN Draft Application Guidelines for new Top Level Domain operators and identified the development activity required to support a new TLD. In response, we have reviewed our systems for readiness.

We have had discussions with stakeholders on potential new gTLDs such as Scotland, Wales and London.

In the coming year we will be actively pursuing appropriate opportunities for providing registry services to organisations applying for new gTLDs under the ICANN application process.

Another part of our diversification strategy involves ENUM (a registry service that combines telephone numbers and the Domain Name System to simplify the way telephone calls made over the Internet work). The uptake for ENUM has been slow. We continue to offer the service, are reviewing marketing options and have implemented a plan to ensure delivery of this service is cost-effective.

Providing excellent internal support services

We continue to focus on providing great customer service inside the business as well as to our external customers. We run an annual internal satisfaction survey from which we identify priorities for improvement and implement changes that we can make to improve our service.

Making a positive difference

Providing safe, stable and secure systems that are continuously developed to meet the needs of customers and other stakeholders is vital to the smooth running of .uk

Providing secure and robust systems and processes that keep .uk running

We have continued to maintain a strong reputation for security and stability of both the Domain Name System and our externally facing systems. The technical team has continued to strengthen both our infrastructure and software release process which has enabled us to deliver an even higher standard of service to our registrars. We have implemented new change control procedures and created standard operating procedures for key activities, and these remain an ongoing priority into 2011 as we look towards ISO accreditation.

We have delivered the first planned phase of our DNSSEC deployment into the UK Domain Name System with the signing of .uk in February 2010. DNSSEC expands upon the DNS protocol and adds cryptographic signatures into the transactions between the servers that resolve domain names. This prevents anyone from trying to spoof or intercept DNS traffic between computers. This project has been the culmination of over 3 years' work in firstly helping develop the DNSSEC standard as well as the supporting software to make this a reality. The successful deployment allows us to move forward with our plans to sign co.uk and the other second level zones during 2011.

The development team has delivered a number of key upgrades to our software, most importantly improved security around online services, to help prevent malicious use of the web portal and protect registrars' account activity.

We have carried out a full review of our business continuity management, including the introduction of comprehensive incident management plans and the implementation of a managed failover programme. In early 2010, our plans were tested during a period of bad weather that meant some of our people were unable to reach the office. During this period we maintained full customer service using home working arrangements. We subsequently reviewed our performance and acted upon identified areas for improvement.

Supporting and behaving responsibly towards all our stakeholders and encouraging them to act likewise

Throughout the governance review process over the past two years we worked with many key stakeholders including the Department for Business, Innovation and Skills (BIS), Nominet registrars and members and the wider community that depends on the operation of .uk to ensure that we were responding to their concerns and engaging them in the process.

The new .uk Policy Process has been designed to provide the opportunity for a broad range of stakeholders to participate. The Secretariat is proceeding with work on the implementation of the process which has included the establishment of the .uk Policy Stakeholder Committee which had its first meeting in September 2010 and is now focused on the development of a robust mechanism for identifying and engaging relevant stakeholders.

We continue to develop relations with other stakeholders to ensure that we understand their concerns and are looking constructively to address them.

We have engaged with law enforcement agencies to look at their recommendations for the development of a policy to deal with abuse of our terms and conditions and cases of alleged criminality on .uk sites.

During 2010 we worked with law enforcement agencies and security experts to suspend and lock over 2,000 domain names being used in criminal activity, most notably in supporting Operation Papworth run by the Police Central e-Crime Unit to suspend over 1,200 domain names being used to sell fraudulent goods. This action, timed in the run-up to Christmas 2009, was used by the police to raise awareness amongst consumers.

Using our influence and skills to help the development of safety and security on the Internet

We have continued to engage actively with key technical groups around the world (such as Internet Engineering Task Force, Internet Corporation for Assigned Names and Numbers, DNS Operations, Analysis and Research Centre, Réseaux IP Européens, CENTR) to

develop new standards for the Domain Name System as well as the supporting technologies. We have made further contacts with both the Cabinet Office, Cyber Security Operations Centre and Centre for the Protection of National Infrastructure to ensure we are connected in to Government thinking on security and resilience, and in the European Network and Information Security Agency (ENISA). We have also engaged with law enforcement agencies, the Home Office, and the Department for Business, Innovation and Skills (BIS).

We continue to promote DNSSEC and have presented on work at significant security events in both the UK and internationally and been interviewed or quoted broadly across the technical press.

We are members of key committees within the ICANN community such as the Security and Stability Advisory Committee (SSAC), the country codes Names Supporting Organisation (ccNSO) and DNSSEC, where we have been able to apply both influence and input to make sure that DNS security (and Nominet's role as a key player) is publicised. We also contributed to ICANN's consultations on security, stability and resilience culminating with our Director of IT being elected to ICANN's Security, Stability and Resilience review committee.

During the year we have invested in developing a site – www.knowthenet.org.uk – to help educate consumers and businesses on how to get the most out of being online in a safe, stable and secure manner.

Supporting and behaving responsibly towards our local, national and international community

At a local level, we have developed good relationships with the Oxfordshire Education Business Partnership (OEBP), Business in the Community (BITC), our CSR Twin the mid counties co-op and with Matthew Arnold our partnership school. Our work with Matthew Arnold School has led to us being shortlisted for an award in the OEBP awards.

Our people have undertaken a variety of volunteering opportunities, including carrying out careers fairs at Matthew Arnold, gardening at Helen and Douglas House and even making curtains for Helen and Douglas house.

Nationally, Nominet has been working with other stakeholders on the UK-Internet Governance Forum initiative, developing a multi-stakeholder dialogue contributing to making the Internet a safer, better environment for businesses and private users. In particular, we have run the Nominet Internet Awards (formerly the Best Practice Challenge) to highlight and champion initiatives that make a positive difference to UK Internet users. We have worked with government, parliamentarians and business, civil society and academic stakeholders to identify a shared understanding of issues of specific interest.

Internationally, we have contributed strongly to the success of the Internet Governance Forum, with a major presence in Vilnius, and worked with others in the Commonwealth and in Europe to make a positive and strong contribution to the IGF debates. We have also worked within the European registries association (CENTR) and with ICANN.

We have also become the new UK and Ireland office of the World Wide Web Consortium (W3C), the international community created by Sir Tim Berners-Lee to develop standards to ensure the long-term growth of the Web. We believe the work they do promoting web accessibility standards, and developing other standards that help web users to trust in the reputation of the Internet is well aligned with Nominet's public purpose remit and vision. As hosts of the W3C office, we are the contact point for W3C in the UK and Ireland and the local face of W3C's global mission. We have an ongoing programme of activity that aligns with W3C's objectives – such as our work with the Internet Governance Forum and sharing Internet best practice through the Nominet Internet Awards. We look forward to playing our part in W3C's global mission to lead the World Wide Web to its full potential by developing protocols and guidelines that ensure the long-term growth of the Web.

Continuing to support Nominet Trust

Nominet Trust has continued to raise its profile and support a broad range of activities and organisations. It has so far invested over £3.5 million in over 120 projects, benefitting more than 3 million people.

Nominet has continued to support the work of the Trust through staff secondment, operations and communications support. The finance team has also contributed to the work of the Trust – through management and statutory reporting, co-ordinating the statutory audit, budgeting and treasury management. The Trust's financial processes have also been refined and documented during the year.

In addition, two staff members were Trustees of the Trust during the period and they were actively involved in the assessment of grant applications, the successful appointment of a Trust Director, Annika Small, and the development of the first Nominet Trust strategic and operational plan

Having a positive impact on the environment

We have continued to focus on having a green building and on being carbon aware. We have considered environmental factors in all our facilities decisions especially around suppliers and recycling.

We continued to donate IT equipment that needs replacing (but is still usable outside a corporate environment) to ComputerAid, where it is distributed to a number of charities for use both in the UK and abroad.

We carefully consider our travel arrangements and offset the carbon of all journeys. We continue to recycle office waste wherever possible.

Shaping the development of the Internet

Shaping the future of the Internet through policy dialogue and debate with all stakeholders remains key to ensuring the long-term success of .uk and the stability of the global Internet.

Playing a leading role in worldwide Internet Governance

Nominet has continued to ensure a strong presence in international fora. Lesley Cowley has been appointed Vice Chair of the country codes community organisation in ICANN (the ccNSO) and continues to engage with other senior ICANN stakeholders and government representatives. We frequently present on Nominet developments to the ccNSO and contribute actively to discussions in ICANN and to its most relevant consultations (for example on the review of the ccNSO and on security, stability and resilience). We continue to be an active member of CENTR – the Council of European National Top Level Domain Registries, where we share best practice and are able to benchmark our own services.

We also play a leading role in the international Internet Governance Forum, seeking to shape the agenda by working with other stakeholders, by positioning ourselves at the heart of the UK-IGF initiative, by sponsoring UK parliamentary engagement, and through developing privileged access to key people in other organisations.

Nominet continues to have a strong reputation in government and with leading stakeholders. We provided briefings and information about the management of domain names to those preparing the Digital Economy Act. We welcomed the clear statements made in parliament about the Government's intentions for the legislation and the publication of a fact sheet clarifying the extent of the Act. We again sponsored the annual Parliament and the Internet Conference and remain strongly engaged in this forum. We used the keynote speech in 2009 to highlight our commitment to public interest and to multi-stakeholder engagement in Internet governance issues.

Engaging with the Internet community and those who depend on the Internet

Our technical team continues to work across the main Internet technology committees (such as IETF, ICANN, RIPE, NICC etc) to ensure that we are at the forefront of current thinking and understanding. Our team holds key chair or organiser positions on a number of these committees and we continue to get very positive feedback from our involvement. We continue to engage through forums, blogging, email list participation and (increasingly) twitter activity.

In addition to working with stakeholders through organisations such as ICANN, UK-IGF, IGF and CENTR, we have been developing our relationships with Government and with MPs to improve our understanding of (and help shape responses to) the concerns that they hear from constituents. The new .uk Policy Process has been designed to provide an opportunity for a wide range of stakeholders to participate.

Contributing to the development of new Internet technologies

We have continued to work heavily with OpenDNSSEC, a software project for DNSSEC signing, contributing as the dominant player in the v1.3 release. This release significantly enhances the capabilities of OpenDNSSEC and stabilises many of the key features, following operational deployment and experience. Notably the challenges with key-synchronisation will be addressed in the next release.

We have had our second Request for Comment (RFC – 5966) published from a member of the Technical Research Team. This RFC works to ensure that DNS is fully supported across the TCP protocol. This will enable older network equipment to handle DNSSEC traffic, thus ensuring backwards compatibility.

Innovating new technologies to meet predicted needs

During 2010 we restructured our research efforts to create a focused and dedicated research team within the Technical Department. Newly led by Roy Arends, a global expert in the Domain Name System, the team has taken a fresh look at some of the challenges of managing a high-profile and high-volume DNS infrastructure.

During the past six months the team has been doing exciting and ground-breaking work looking into ways in which DNS traffic can be

captured and monitored, with the aim of helping prevent outages and identifying unusual DNS activities. The team continues to work within the Internet Engineering Task Force (IETF) and other key groups helping make DNSSEC a reality around the world and looking to push the boundaries of what can be achieved through the global Domain Name System.

Promoting and developing industry best practice

In addition to the active role we played from a technical perspective on DNSSEC (see above), and our initiatives to combat cybercrime, we also ran an awards programme – the Nominet Internet Awards – to recognise the good work being done by all types of organisations to make the Internet a secure, open and accessible experience for all.

These awards highlight the work of UK companies, charities, individuals and other public and private sector organisations, winners gained international exposure to parliamentarians, academics and the wider Internet community through promotion at both UK-IGF and IGF events.

We renamed the awards (formerly known as the Best Practice Challenge) ‘The Nominet Internet Awards’, as well as making significant changes to the structure of the categories, to attract entries from a broader spectrum of organisations. These changes led to a doubling of the number of entries compared with the previous year.

Promoting self-regulation and the industry as a “good citizen”

During the year we have highlighted examples of how we respond to the expectations of our stakeholders in dealing with serious issues associated with the use of the Internet. This was particularly important during the passage of the Digital Economy Bill and for example, helped inform the fact sheet produced by the Department for Business, Innovation and Skills on the domain name industry.

We continued to work with Government and Parliamentarians in support of the industry self-regulation model and on improving understanding of how the industry can respond to legitimate concerns.

Stakeholder engagement

Effective communications with our broad range of stakeholders remains a priority and developing these relationships has been a focus of the year.

Improving member and registrar engagement

We have continued to spend time engaging with our registrars on matters that are of interest to them. We held six member lunches during the year and continue to get positive, in-depth feedback at them. We only held three Registrar Information Days this year, due to the poor turnouts that we have had in the past in certain locations. These days are a great opportunity for our registrars to better understand how they can work with us to promote our products and services to their customers. To replace those which get a poor turnout we are introducing a webinar programme, which has the advantage of not being tied to a specific location and enables registrars to attend for the part of the session that is of particular interest to them.

We reviewed the communications processes around the introduction of new systems and services and have introduced a more formal timeframe for releases along with a more comprehensive forward view of upcoming releases. This enables our registrars to better plan for future releases.

One of the key challenges during the year was in engaging our membership to alter our constitution to reflect the need to formalise our public purpose and to create a more stable and balanced Board structure. The changes required the agreement of our membership in a vote with exceptionally high thresholds of up to 90%. We engaged our members in a variety of ways to gain their support from online consultations, to innovative use of social media, to the more traditional face-to-face engagement with a truly wide variety of stakeholders. The result was a resounding success, when around 40% of members voted (in previous votes the maximum turnout was 16%), with more than 90% voting in favour of all the changes proposed. The changes are a significant step towards bringing the organisation's governance up to date and enable us to create a safe, stable and secure .uk domain name space for the future in an ever-changing Internet industry.

Increasing our knowledge of our stakeholders

We have continued with our programme of research during the year including

- Registrant trust in .uk
- Preference for .uk in advertising
- Requirements for an educational portal
- Production of the third Domain Name Industry Report
- Usability review of our online services to allow us to take into account best practice HCI (Human Computer Interaction) thinking
- Registrant, Registrar and Key Account research

We also expanded our relationships with stakeholders, having more dialogue with organisations such as the CBI, LINX and Trading Standards in order to better understand their perspectives.

Maintaining good relations with government, supporting effective self-regulation

Most of the first half of the year was spent on the governance review which provided some good opportunities for engagement with Government specifically on our approach to self-regulation. The outcome of the EGM was positive and positions us well with regard to the Industry acting responsibly in regard to self-regulation.

The Nominet Internet Awards, (formerly the Best Practice Challenge) was an even more successful and high profile event with lots of positive publicity and a significant increase in the number of entries from last year. Stakeholders have a positive view of Nominet's role in showcasing good practice. The judges' panel for the Awards was chaired by The Rt Hon Alun Michael, MP and The Rt Hon David Blunkett, MP and Rt Hon Philip Dunne, MP were judges.

We have good relationships with established contacts at the Department for Business, Innovation and Skills (BIS) and are active members of PITCOM and EURIM, groups that have strong engagement from Parliamentarians. We supported a Parliamentarian

delegation involvement in the US Internet Caucus and organised cross-party delegations of MPs to the Internet Governance Forum (IGF) in Sharm el-Sheikh and Vilnius. We joined the briefing meetings between the Parliamentarians and the Rt Hon Stephen Timms, MP (then First Secretary to the Treasury) to brief him on the IGF in Sharm el-Sheikh. Our current Minister Ed Vaizey visited the Nominet office in October 2010.

Creating an environment where we have higher levels of engagement on policy matters

We ran three stakeholder consultations during the year: shaping the future of .uk (part of the governance review), reform of the policy advisory process, and release of reserved domains.

The 'shaping the future of .uk' consultation received over 280 responses, our highest level of responses to a consultation and the release of reserved domains consultation received 165 responses, also a very high response rate. The information received from these consultations has enabled us, in all cases, to shape our proposals for resolution of these issues.

During the year the Policy Advisory Body (PAB) made radical proposals for the reform of the way we develop policy input for the Board. Its proposals – for an approach based on issues and with stakeholders at the heart of the process – went out for consultation. We received 37 responses. Support was high with over 88% supporting the general concepts of the proposals and over 75% for points of detail.

The Board accepted the PAB's recommendations at its April meeting, the Stakeholder Committee has been appointed and held its first meeting in September and we are working on the creation of the first Issue Group. Stakeholder interest has been high.

We briefed BIS and Parliamentarians during the passage of the Digital Economy Act.

The Serious and Organised Crime Agency has submitted a proposal to establish a .uk Policy Process Issue Group to discuss developing an abuse policy for registrants.

Building the reputation of Nominet and .uk

We continued to raise the profile and understanding of Nominet amongst media, influencers and stakeholders.

We have consistently engaged with media on a number of key issues, including DRS judgements, .uk policy, changes to our constitution, our intention to release previously reserved short domains and our work to combat cybercrime, as well as commenting on domain industry news and trends. We exceeded our targets for the year, securing coverage across a broad range of media from domain name industry titles to national outlets. There was extensive coverage of the work in partnership with the Police Central e-crime Unit (PCeU).

We continued to work on building trust in .uk, and our research shows a rise in consumers preferring to use a .uk rather than a .com domain name from 77% to 80%.

Our success in building our reputation is further evidenced in the following areas:

- Awards won: Oxfordshire Business Awards, 'Customer and Staff Care Award', Thames Valley Business Magazine Awards, 'Best Place To Work'
- Shortlisted for: National Business Awards, 'The Health, Work and Wellbeing Award', ISPA, 'Security'

Becoming an employer of choice

Our people remain at the heart of our business, and we have continued to focus on helping them to love coming to work.

We have continued to focus on getting our people doing roles that challenge and stretch them and allow them to do their best work. We continue to strive for high quality in all our recruitment activity, with the emphasis on ensuring we get the right people with the right skills, experience and culture fit into the roles, which has on occasion taken longer than we would have wanted.

We are committed to developing our manager community and have seen a good return on investment for this strategy in terms of improvements in feedback scores from their teams.

During the year it was very encouraging to receive recognition for our efforts when Nominet won two significant awards – ‘Best Place to Work’ in the Thames Valley Business Magazine Awards and ‘Customer and Staff Care’ in the Oxfordshire Business Awards.

We have continued to develop internal communications to encourage our people to engage and give us clear and timely feedback. Our new intranet, launched in November 2009, has proved invaluable in ensuring higher quality and more impactful information is available to all our people, and has encouraged more interactive two-way communication across the business. We used the intranet to tap into our people’s creativity with a suggestion scheme on ways in which we could improve the way we work. This delivered some interesting ideas that are being followed up.

Our Charity Action Group has worked hard for Helen and Douglas House all year and through a variety of fundraising activities, that have entertained all our people. In total (including the company matching) £14,079 was raised.

During the year we undertook a major review of organisation structure in the Technical and Operations teams. We created new structures in line with our current and future business needs and then implemented a reorganisation to put these structures in place.

Our engagement level for the year remains strong at 31.6% (this is the number of people in the organisation who are ‘strongly engaged’ and the industry average is around 20%) and given the difficult year when for the first time we made six people redundant, this is an outstanding performance.

Managing our finances

Our financial strategy is based on ensuring we can fund appropriate levels of investment in our business to achieve our strategic objectives and maintain an adequate level of reserves to safeguard the stable and secure operation of the .uk registry.

Income & Expenditure

The 2010 trading results were pleasing, with income growing by 9% to £21.5m. Demand for .uk registrations remained strong at a time when we were focussed on creating the right structure for the future – initially through constitutional change and then by addressing our internal resource requirements. During this transitional period we continued to carefully manage our operating costs, and operating expenditure for the year fell by 4%.

The result was an enhanced operating profit margin of nearly 40%, before exceptional items (2009 – 32%).

Income

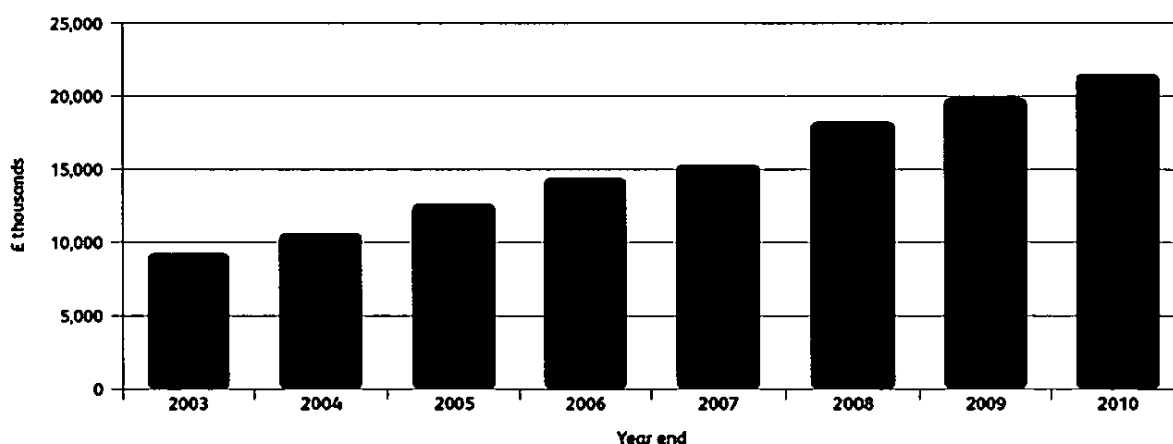
Income in 2010 totalled £21.5m, a 9% growth on 2009. This included an 11% increase in discounted registration income reflecting the growth in the underlying register. In line with the previous year, this was slightly diluted by a decline in non-member registration income as we continued to direct registrants back to their registrar.

2010 was another strong year of growth for .uk. New registration volumes exceeded 2.0 million for the first time in Nominet's history (2009 – 1.7million) reflecting creative promotional initiatives delivered by our registrars and a growing consumer preference for the .uk extension.

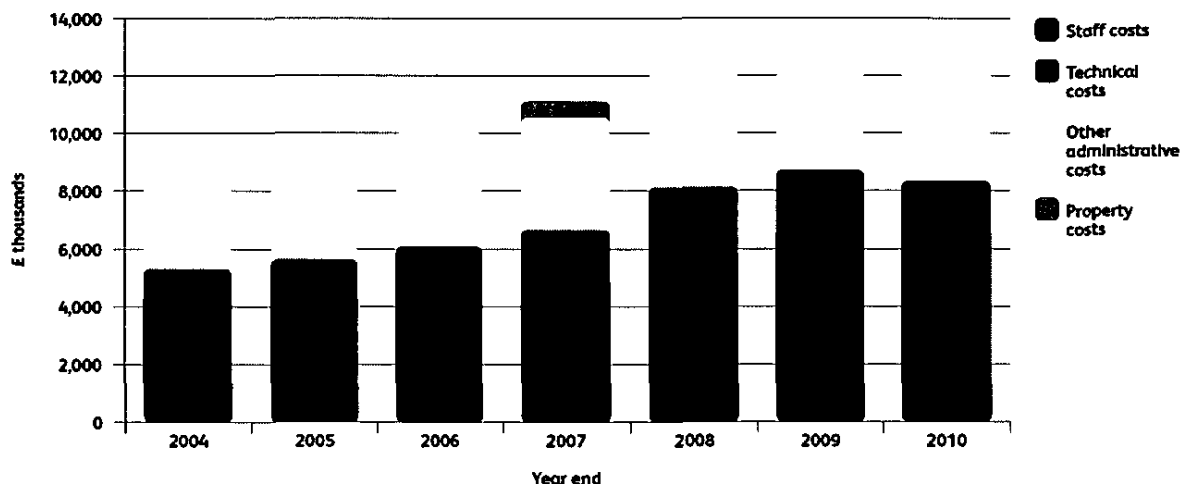
Renewal rates improved slightly to 68.9% (2009 – 68.5%), which was in line with our expectations given the favourable mix of domains that were due for renewal. The volume of domains renewed increased to 2.6m (2009 – 2.2m).

As a result the register grew by 0.9m domains in the year (2009 – 0.8m). This equated to 11% growth for the second year running, which was a very pleasing result given the challenging economic conditions. When compared to other mature registries, the net growth in volume terms was the highest of all the country codes. .uk is currently the fifth largest registry in the world.

Income over time

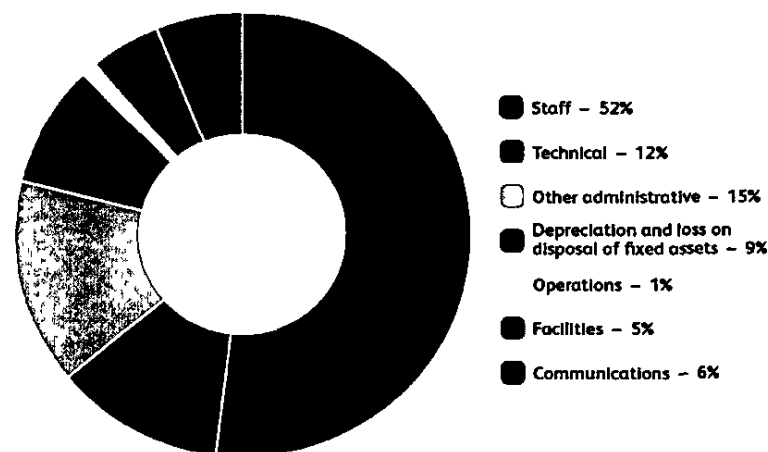


Expenditure over time



Operating expenditure in 2010 totalled £12.9m (2009 – £13.5m), which was a saving of 4% on the prior year, resulting in a reduction in the percentage of revenue spent from 68% (2009) to 60%.

Other operating charges – 2010



Despite an increase in the average staff numbers to 119 (2009 – 115), staff costs remained at the same level as in the prior year, totalling £6.7m. The cost increases from new hires including the full year effect of new starters from the previous year, the annual pay review and redundancies were offset by savings in contractor costs (as there were non-recurring contractor costs incurred in 2009).

We restructured the technical department during the year following an assessment of the required resources to best support our IT strategy. During this period of assessment project expenditure was carefully managed, and as a result our technical costs fell by £0.4m. However, expenditure increased in the second half of 2010 as we started the process of implementing the strategy.

Other administrative costs fell by £0.1m to £1.9m in 2010. This reduction was primarily due to £0.3m lower legal costs as we reached a successful outcome with a partial recovery of costs on a domain-related litigation matter and on a dispute with a former employee. We also saw a reduction in regulatory legal advice following the conclusion of the governance changes.

Following on from the successful EGM in February, the Board and Executive were able to transfer their focus to the development of the company's strategy. As a result, we invested £0.1m in market research to inform the strategy process. There was also a £0.1m increase in finance costs resulting from a combination of exchange rate movements and higher investment valuations resulting in higher management charges.

Operations costs fell by £0.2m to just £0.1m, reflecting a full year of printing and postage cost savings due to the cessation of sending out paper-copy pro-forma invoices. This concluded our initiative to migrate to online customer documentation.

Communications costs increased by £0.2m to £0.7m. Activity during the year focussed initially on building awareness for the constitutional changes in the build up to February's EGM. We then invested in developing the www.knowthenet.org.uk education portal which was launched in November 2010.

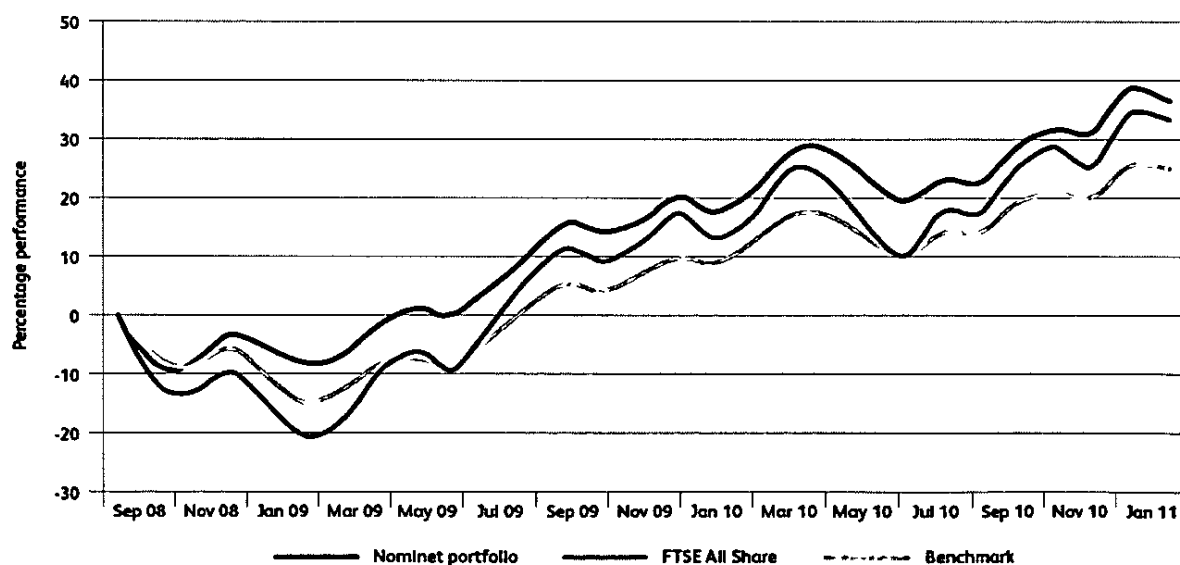
Investments

The market value of our investment portfolio increased to £27.0m during the year (2009 – £19.9m). This was the result of an additional £5m capital contribution to the portfolio and £2.1m growth in our investment valuations. We are pleased with the current market valuation when compared against the original £22.5m of capital invested.

The 2010 financial year saw an overall trend of improving investor confidence and this was reflected in our portfolio valuation. As required by our investments accounting policy, we have aligned the carrying value of our investments with the prevailing market values for any investments where the market value at 30 September 2010 was below the historic cost. The result of this review was to reduce the investment impairment provision further to just £0.3m (2009 – £0.6m).

During the year we realised £0.5m of gains on disposal of investments within the portfolio (2009 – £0.8m loss). Investment income from the portfolio during the year totalled £0.4m (2009 – £0.4m). The Bank of England base rate remained at 0.5% for the whole year, so despite holding higher cash deposits the interest earned remained at a similar level to the previous year at £0.2m.

Investment performance over time



Charitable donation

Following a review of our financial year-end position and our future financial projections, we were pleased to be able to donate a further £5m to Nominet Trust (2009 – £3m). The Trust was incorporated in 2008 with the objectives of funding Internet education, inclusion and safety initiatives.

The balance sheet

Retained funds increased by £3.7m during the financial year to £21.0m (2009 – £17.3m).

Our underlying cashflow from operations increased to £11.6m in the year (2009 – £8.4m). This was in part due to the increase in new registrations and renewal volumes resulting in higher billings and a higher deferred income balance.

Other than from trading activities, the key cash movements were the £5m donation to Nominet Trust (2009 – £3m) and the £5m contribution to the investment portfolio (2009 – nil). We also increased our corporation tax payments to £1.6m (2009 – £0.1m), including payments on account for the 2010 year.

As a result of the above movements our cash balances reduced by £0.4m in 2010 (2009 – £4.5m increase).

Cash collections from customers improved in the year, with average debtor days for the year reducing to 22 (2009 – 24 days). Trade creditor days at the year-end were 12 (2009 – 21), as we continued to ensure that our suppliers were paid on a timely basis according to contracted terms.

.uk policy process

In November 2009 the Policy Advisory Body (PAB) put forward recommendations for a new Policy Process which they believed addressed the issues raised in the Garratt review regarding engaging a wider range of stakeholders. The recommended new process is stakeholder-led and works through issues-based groups where all interested parties from the stakeholder community (including Nominet members and registrars) can contribute and participate in the issues that are relevant to them.

The recommendations were accepted by the Board and the proposals were put out to consultation from March to April 2010. In total 37 responses were received from a broad mix of stakeholders including Nominet members, industry associations, law enforcement agencies and child protection agencies. The proposals for an issue-based process that is driven by the needs and interests of stakeholders received very strong support.

Through the .uk Policy Process we intend to engage the broadest range of appropriate stakeholders possible in a way that supports our mission to make a positive difference to our stakeholders, driven by their needs and to fulfil our public purpose.

We believe that our stakeholders' contribution and participation in the process will enable us to develop .uk policy that is innovative and pragmatic, helping to ensure that our policies are well understood.

The Board requested the Executive ensure that effective resources were made available to the Secretariat to support the new .uk Policy Process. We have therefore appointed a Head of Secretariat whose role is to manage the process. Their focus will be on stakeholder engagement and the implementation of the new process including developing a robust mechanism for ensuring that all relevant stakeholders have the opportunity to participate in .uk policy development.

The Board has appointed nine people to the .uk Policy Stakeholder Committee (which includes the Head of Secretariat) with members drawn from a broad range of backgrounds bringing expertise from different aspects of the industry. The Stakeholder Committee has an important and independent role in supporting the .uk Policy Process.

To date, two proposals for Issue Groups have been submitted: one on developing a formal abuse policy to deal with domain names being used in connection with criminal activity and one which proposes to discuss the practice of expired domain tasting. The Secretariat continues to work on outreach to stakeholders to highlight the current proposals.

The PAB

The PAB was operational for the period covered by the report but has been replaced by the revised .uk Policy Process. The PAB's role was 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 was made up of up to 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. At the point the PAB ceased to exist there were only 11 members.

Elected PAB Members 2009-10

Nominet members who served on the PAB during this period were:

James Conaghan, Mark Healey, Nora Nanayakkara, Rob Taylor, Michael Toth

There were no elections held in 2010 as the PAB recommended that Nominet suspend the rules on the election process as it had recommended significant reform of the Policy Process. PAB members agreed that holding elections at a time when the role for which members would stand may cease to exist would be inappropriate.

Representatives of Appointed Organisations 2009/10

Eric Ramage (Institute of Trade Mark Attorneys, Chair), Stephen Rhodes (Department for Business, Innovation and Skills), The Earl of Erroll (apComms – the All Party Communication Group), David Evans (Information Commissioner's Office), Marie-Claude Hemming (Federation of Small Businesses) and Tom Wills-Sandford (Intellect) and Sara Draper (CBI) attended as an observer

Board representative

Gordon Dick

Policy matters

Reform of the PAB

In November 2009 the PAB agreed recommendations for a Policy Process which would be more outward facing, provide an opportunity for a broad range of stakeholders to participate and put forward well reasoned, balanced policy advice to the Nominet Board

The review and extension of the Phishing Lock

The PAB reviewed the use of the Phishing Lock which they had recommended be implemented at the March meeting. The Lock had been used around 60 times in the six-month period and there was no evidence of abuse. As the PAB was content with how the Phishing Lock was being used in practice it was agreed that its use should be extended to cover domain names that were being used in connection with criminal activity. This recommendation responded to the need to supply registrars with the tools necessary to work towards making uk a safer place.

.ltd.uk/.plc.uk

The PAB were asked to consider how the current rules for .ltd.uk and .plc.uk domain names could work in line with the rules set out in the 'Company and Business Names (Miscellaneous Provisions) Regulations 2009'. The PAB recommended that the rules of registration for .ltd.uk and .plc.uk should be aligned with the Companies House rules. The recommendations were accepted by the Board and following confirmation from BIS that there are no longer any current intentions to pursue an amendment to the 'Company and Business Names (Miscellaneous Provisions Regulations)' the Executive is preparing a proposal which outlines how the rules should be changed and which will be put out to consultation during 2011.

Trust and the .uk brand

In May 2010, the PAB engaged in discussion with a representative from the Trading Standards Institute on whether registrants of a .uk domain name should be required to have a presence in the UK. Trading Standards report an increase in the number of complaints regarding counterfeit goods and non-delivery of items purchased on the Internet. The PAB recognised that awareness raising and relationship building between Nominet and Trading Standards were important and the Executive have begun work in this area. Nominet's CEO spoke at the Trading Standards Conference and has established links with relevant contacts as a result.

Corporate governance

Nominet is a private company, limited by guarantee and is therefore not required to comply with the provisions of the UK Corporate Governance Code (formerly the 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 UK Corporate Governance Code as far as is practical, relevant and appropriate for a company of Nominet's size and nature.

Following 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 usually meets every two months. Our external auditors reviewed the register of Board members' interests during their audit of the company's financial statements.

Our Board of Directors for the last year comprised a Chairman, Chief Executive, one executive director, two appointed non-executive directors and four non-executive directors who were elected by the company membership.

Bob Gilbert resigned from the Board in March 2010. We would like to thank Bob for his service on the Board from 2005 to 2010.

Baroness Rennie Fritchie DBE was appointed as Chair of Nominet in June 2010 following a competitive selection process. Piers White MBE was appointed as a non-executive director in June 2010 following a competitive selection process. Glenn Hayward, Nominet's Director of Finance was appointed as an executive director in September 2010.

Gordon Dick stood down as a non-executive director and we would like to thank Gordon Dick for his service on the Board from 2004 to 2010.

Non-executive director elections were held during June/July 2010 and Sebastien Lahtinen and Thomas Vollrath were elected to the Board.

Current Board Members

Baroness Rennie Fritchie DBE Chair

Baroness Fritchie DBE is an Independent Crossbench Peer, Chair of the 2gether NHS Trust for Gloucestershire, a consultant on strategy and leadership working out of Mainstream Development. She was appointed as Chair of Nominet in June 2010 following a competitive selection process.

She was Chair of the Web Science Research Initiative at Southampton University and MIT until 2009 and is a former Pro Chancellor of Southampton University.

She was Vice Chair of Stroud and Swindon Building Society until 2008. In 1999 she was appointed Commissioner for Public Appointments and a Civil Service Commissioner, a post she held for seven years.

Baroness Fritchie DBE is the holder of seven Honorary Degrees from the Universities of Southampton, York, Oxford Brookes, St Andrews, The Open University, Hull University and Queen's University, Belfast. She is also a Fellow of the University of Gloucestershire, City & Guilds, London, the Chartered Institute for Public Finance and the Sunningdale Institute, part of the National School of Government. She was appointed a Dame Commander of the Order of the British Empire in 1996 and a life peer in 2005.

Nominet UK
Company Limited by Guarantee
Annual report and financial statements for the year ended 30 September 2010

Lesley Cowley OBE
Chief Executive

Lesley Cowley OBE has been Managing Director/Chief Executive of Nominet since 2002

She is responsible for leading Nominet and for the development and implementation of strategy. She leads relationship building and liaison with Nominet members and stakeholders and international representation and leadership in the Internet field.

In 2011, Lesley was awarded an OBE for services to the Internet and e-commerce. 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.

Lesley is an elected Council member and Vice Chair of the Country Code Names Supporting Organisation (ccNSO) of ICANN. She is a Fellow of The British Computer Society, The Institute of Credit Management, The Chartered Management Institute and the Royal Society for Arts. She is a member of the Institute of Directors, The Inspirational Women Network and is a STEM Ambassador to schools.

Lesley was a founding Trustee of the Nominet Trust charity and served on the Board of the Trust until December 2010. She is currently a Trustee of the Jenner Hall charity. She has an MBA, with distinction.

Glenn Hayward
Director of Finance

Glenn Hayward has been Director of Finance since 2008 and also takes responsibility for Nominet's Business Development and Business Analysis functions.

Glenn qualified as a Chartered Accountant in 1998 while working for Morris & Co, a medium-sized practice in Chester. Glenn stayed in practice for a further two years after qualification, working for Arthur Andersen in their Assurance and Business Advisory division, where he took on responsibility for large company audits and due diligence projects for company acquisitions and disposals. Since then Glenn has performed senior finance and analysis roles for Psion, Go Fly, easyJet and most recently for Northgate Information Solutions where he was the Finance Director for the SME division focused on payroll and HR outsourcing. Glenn also has extensive Acquisitions experience, having project managed a number of acquisitions during his time at Northgate.

Glenn has a degree in Physics from the University of Birmingham and is a member of the Institute of Directors and the Institute of Chartered Accountants in England and Wales.

Clive Grace
Non-Executive Director

Clive Grace is an experienced Board level executive and non-executive with a strong regulatory, audit, legal and forensic background. Clive has experience across the public, private, commercial and professional sectors and has also worked at a senior level with Government officials and politicians.

He has a public policy and public services background, including social enterprise and charitable foundation expertise with particular experience in the field of governance.

Clive, an Honorary Fellow of Cardiff Business School, is currently chair of the Local Better Regulation Office, Chair of the Research Councils' Shared Services Company, Trustee of the Solace Foundation, Chair of CIPFA's International Board, Chairman of Supporta Plc, a non-executive director on the BT Wales Board and an Adviser on public policy matters to the Board of BT Wales.

Clive has been a non-executive director since December 2008.

Sebastien Lahtinen
Non-Executive Director

Sebastien Lahtinen has a B Sc Management and M Sc Management of 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, an independent broadband information site

Previously (from 2007 to 2009) he was a non-executive director of Nominet. He was also a member of Nominet's Policy Advisory Body for four years, two of them as Chair

Nora Nanayakkara
Non-Executive Director

As a non-executive director, Nora Nanayakkara brings experience in online business, digital media and international domain markets within both New Media and the not-for-profit sector. She provides business consultancy to UK charities through Pilotlight and working at Sedo/Adlink Media over the last six years has given her valuable insight into both the primary and secondary international domain markets

Nora was also an active member of Nominet's Policy Advisory Body (PAB). Her formal education includes an MBA in International Business in addition to a BA from University College Cork, Ireland, and on-the-job training in media communications and strategic financial modelling

Jonathan Robinson
Non-Executive Director

Jonathan Robinson is a co-founder of Group NBT (formerly NetBenefit) plc and was Chief Operating Officer of the Group until June 2009. Jonathan was most recently responsible for the areas of product management and associated strategic planning, fulfilment operations and industry policy issues, as well as acquisition integration projects

He holds a PhD in Materials Engineering and a BSc (Physics) from the University of Cape Town. He previously held research posts at Imperial College, London from 1993-94 and then the Rolls Royce Technology Centre at the University of Cambridge until 1997

Previously (from 2003 to 2007) he was a non-executive director of Nominet and is a current non-executive director of the domain name registry operator Afiliis Limited

Thomas Vollrath
Non-Executive Director

Thomas Vollrath is an accomplished, results oriented international business executive with experience in establishing, acquiring and leading diverse operations in multiple international locations

He has succeeded in delivering business growth in a variety of contrasting situations, including turning around and realising significantly enhanced value in previously underperforming divisions

Thomas is currently CEO of the Host Europe Group, which comprises two leading Internet services businesses. He is also co-founder of three high growth, profitable new operating divisions

Thomas holds an MBA in International Management from Long Island University, NY, as well as a BA in International Business Management from Franklin College, Switzerland

Piers White MBE
Non-Executive Director

Piers White MBE is an experienced non-executive director, with an extensive board level business career. He was appointed as a non-executive director of Nominet in June 2010 following a competitive selection process.

Piers is a non-executive director of Ordnance Survey and has been Chair of their Audit and Risk committee for the past eight years. He is also a non-executive director of ACS International Schools Ltd and CIPFA Business, the commercial arm of the Chartered Institute of Public Finance and Accountancy. Pro bono, Piers makes time to act as Chair of The Larks Nursery School, as Deputy Chair of Hazelwood School and as a Governor of Croydon College.

Piers had a successful executive career in banking including Service Director for all Barclays UK branches, senior executive roles at Flemings and UK Chief Executive Officer of Insinger de Beaufort, the Anglo Dutch Private and Investment Bank.

Piers has a degree in Economics and Statistics from Exeter University and an MBA from Henley Management College. He is a member of the Chartered Institute of Marketing and an associate of the Chartered Institute of Bankers. He was awarded an MBE for public service in 2009.

Corporate Governance Review

During the year we completed a significant stage in our corporate governance reforms to ensure Nominet can embrace the challenges that lie ahead.

Following the independent governance review by Professor Bob Garratt published in March 2009 we consulted with our members and wider stakeholders on the changes to our constitution that the review recommended. The feedback we received helped us to better understand the challenges we faced in altering our governance structure in a way that would be satisfactory to our membership, wider stakeholders and also to the Government, whose concerns about the existing structure had prompted us to commission the independent review.

After much careful consideration and wide ranging discussions, we developed a statement of commitments that outlined how we believed Nominet and its members could work together to shape the future of .uk. Based on those commitments we presented a set of proposals for changes that would enable the industry and Nominet to continue to prosper into the future and stave off the threat of Government regulation of the industry.

We held a further consultation on these proposals between November and December 2009 to engage member support for these changes. We received an encouraging number of responses indicating support for the proposals.

At an Extraordinary General Meeting on 24 February 2010 our members voted to change our constitution. Each of the proposed changes was supported by over 90% of the member votes cast and so all resolutions were carried. Turnout for the vote was over 38%, representing more than 72% of the possible votes that could be cast and was the highest we have ever achieved.

The amended constitution encapsulates our public purpose, ensuring that the Board takes all stakeholders' views into account when developing policy and making business decisions. This will ensure that

- We conduct our business for the public benefit
- We have a well balanced Board that is able to make good business decisions and reflect our public purpose
- Our Board has the ability to set prices for registrations and renewals
- We will work with our members to find a way for other stakeholders to have an influence over the way Nominet continues to develop

The vote was cast against the backdrop of the Government's Digital Economy Act, which includes reserve powers to regulate the UK domain name industry.

We believe that Nominet's members have now proven their commitment to consider the needs of all stakeholders by reaffirming our public purpose, as well as ensuring that we are governed according to best practice standards. We hope that by implementing in full the changes that respond to the Government's concerns, the reserve powers in the Digital Economy Act will not be needed.

At the EGM, members agreed to the principle of wider stakeholder involvement in Nominet, and requested the directors to begin a considered process of examining the membership structure and voting rights so as to bring them into line with the Garratt recommendations and ensure representation of wider UK stakeholders. The Board has started that process of examining the membership structure and is considering the implications of any changes carefully. Once the Board has a set of options or recommendations that it feels meet the needs of our stakeholders it will present them to the members for consultation to seek their opinions. On listening to the feedback the Board will further develop a set of plans to present to the membership to instigate any new structures.

Following the successful outcome of the EGM, we have been able to strengthen the Board to ensure we have a well balanced and appropriately skilled team to meet future challenges that face Nominet. This is a firm foundation from which the Board can work together with the executive to strengthen Nominet's future and make UK a more stable, secure and robust space.

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 UK Corporate Governance Code (formerly the Combined Code).

The Committee consists of a minimum of three 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. Meetings are usually also attended, by invitation, by the Chief Executive and the Director of Finance. The Committee meets at least twice a year.

The Committee's role is to monitor on the Board's behalf the appropriate processes and controls resulting from policies set by the Board with particular focus on:

- the scope, results and effectiveness of the external audit
- careful review of any non-audit services provided by the external auditors
- effectiveness of the processes of governance
- effectiveness of spend/ value for money
- compliance with policy and statutory requirements
- internal controls including adherence to policy
- safeguarding of assets

The Audit Committee met twice over the last financial year, in January 2010 and September 2010.

At these meetings the Committee reviewed:

- the 2009 Annual Report and Accounts and audit report and recommended that the Board approve these
- an external report of the Company's security systems
- the distribution of the Company's cash deposits
- a presentation from Quilter, the Company's investment managers
- the scope of the external audit for the financial year 2010
- the Company's risk report, business continuity planning and insurances schedule

The full terms of reference for the Audit Committee can be found on our website: www.nominet.org.uk/governance/board/audit/

Audit Committee Members 2009/10

October 2009 – March 2010

Clive Grace (chair)
Gordon Dick
Bob Gilbert
Nora Nanayakkara

March 2010 – July 2010

Clive Grace (chair)
Gordon Dick
Nora Nanayakkara

September 2010

Clive Grace (chair)
Nora Nanayakkara
Piers White MBE

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 reviews and determines the Company's policy on remuneration and advises the Board on the specific remuneration packages of senior management, in particular the executive directors.

The committee consists of no fewer than three non-executive directors who are all independent of management and free from any business or other relationship that could interfere with the exercise of their independent judgement.

The committee met four times during the last financial year, in October 2009, December 2009, April 2010 and September 2010. At these meetings they reviewed and agreed the overall remuneration policy 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.

Remuneration Committee Members 2009/10

October 2009 – March 2010

Jonathan Robinson (chair)
Gordon Dick
Bob Gilbert
Nora Nanayakkara

March 2010 – July 2010

Jonathan Robinson (chair)
Gordon Dick
Nora Nanayakkara

September 2010

Jonathan Robinson (chair)
Rennie Fritchie
Nora Nanayakkara
Piers White MBE

Full terms of reference for the Remuneration Committee can be found on our website at
www.nominet.org.uk/governance/board/remuneration/

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 and Operations Management Teams, which act as a risk management group. The Board of directors is responsible for regularly 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. We are continuing to evaluate the nature and extent of risks that we face and how we manage them efficiently, effectively and economically.

As part of our risk management and business continuity planning we have carried out periodic business continuity tests to ensure that our disaster recovery and emergency mitigation plans are fit for purpose and well rehearsed. We have powered our office with our backup generator, invoked home working plans for our customer support and systems administration teams during the extreme wintry weather that we experienced at the start and end of the year, as well as established a rigorous schedule of regular failover and business continuity plan tests.

We have carried out security penetration testing using external experts to test our security measures and have further developed our relationships with key security and critical national infrastructure governance experts who have been able to offer advice and assistance to us on an ongoing basis.

Nominet UK
Company Limited by Guarantee
Annual report and financial statements for the year ended 30 September 2010

Officers and professional advisors

Company registration number
3203859

Registered office

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

Directors

L Cowley OBE
Baroness I Fritchie DBE
C Grace
G Hayward
S Lahtinen
N Nanayakkara
J Robinson
T Vollrath
P White MBE

Secretary

N Wenban-Smith

Bankers

National Westminster Bank plc
91 London Road
Headington
OXFORD
OX3 9AF

Solicitors

CMS Cameron McKenna
Mitre House
160 Aldersgate Street
LONDON
EC1A 4DD

Investment Managers

Quilter
39 Bennetts Hill
BIRMINGHAM
B2 5SN

Auditor

Grant Thornton UK LLP
Chartered Accountants and Statutory Auditor
3140 Rowan Place
John Smith Drive
Oxford Business Park South
OXFORD
OX4 2WB

Report of the directors

The directors present their annual report and the financial statements of the company for the year ended 30 September 2010

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 £21,018,000. The Articles of Association of the company prohibit all distributions to the members. These funds are retained for the continuation of the ongoing operations, for contingencies and to enable education, research and development initiatives in the UK Internet industry.

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 cashflow 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 risk

The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest surplus cash assets safely and profitably within reputable FSA regulated institutions. 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:

L Cowley OBE
G Dick (resigned 6 July 2010)
Baroness I Fritchie DBE (appointed 7 June 2010)
R Gilbert (resigned 30 March 2010)
C Grace
G Hayward (appointed 22 September 2010)
S Lahtinen (appointed 7 July 2010)
N Nanayakkara
J Robinson
T Vollrath (appointed 7 July 2010)
P White MBE (appointed 7 June 2010)

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 Report of the directors and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare 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). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 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 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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 made a donation of £5m (2009: £3m) to the Nominet Charitable Foundation ('Nominet Trust'). Nominet Trust was set up during 2008 for the purpose of funding education, research and development initiatives in the UK Internet Industry.

The company has exercised its right to appoint two trustees of Nominet Trust, from a total of six. Nominet Trust operates independently from the company.

In addition to the above, during the year the company contributed £11,208 (2009: £10,874) to charities. A significant proportion of this sum matched donations made by Nominet staff to various fundraising activities organised by a staff volunteer led 'Charity Action Group'.

Nominet UK
Company Limited by Guarantee
Annual report and financial statements for the year ended 30 September 2010

Auditor

The company's articles require annual reappointment of the auditors. Grant Thornton UK LLP have expressed their willingness to continue in office. In accordance with s485(4) of the Companies Act 2006 a resolution to reappoint Grant Thornton UK LLP as auditors will be proposed at the Annual General Meeting.



ON BEHALF OF THE BOARD
Baroness I Fritchie DBE
Chair

24 March 2011

Auditor's report

Report of the independent auditor to the members of Nominet UK

We have audited the financial statements of Nominet UK for the year ended 30 September 2010 which comprise the principal accounting policies, profit and loss account, balance sheet, cash flow statement and the notes to the financial statements. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 Part 16 of the Companies Act 2006. 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 39, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 30 September 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

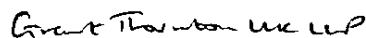
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the other information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements. This other information comprises only the Highlights, the Report of the directors, the Chair's Statement, the Chief Executive's Statement and Managing our Finances.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Janet Crookes
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford

25 March 2011

Nominet UK
Company Limited by Guarantee
Annual report and financial statements for the year ended 30 September 2010

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. 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

The principal accounting policies remain unchanged from the prior year and are set out below

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 on the balance sheet 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:

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.

Movements in unrealised provisions are included in operating expenses. Realised profits and losses on disposal, net of any provisions previously made, are disclosed after operating profit.

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

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Profit and loss account

For the year ended 30 September 2010.

	Note	2010 £000	2009 £000
Turnover	1	21,503	19,798
Movement in provision against investments	9	(315)	(366)
Donation to Nominet Trust	2	5,000	3,000
Other operating charges	2	12,924	13,490
Total operating charges		17,609	16,124
Operating profit before amounts provided against investments and donation to Nominet Trust		8,579	6,308
Operating profit	3	3,894	3,674
Income from fixed asset investments	9	358	382
Interest receivable	6	155	165
Profit/(loss) on disposal of investments	9	461	(819)
Profit on ordinary activities before taxation		4,868	3,402
Tax on profit on ordinary activities	7	(1,120)	(1,070)
Profit for the financial year	17	3,748	2,332

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 2010

	Note	2010 £000	2009 £000
Fixed assets			
Tangible assets	8	10,430	10,837
Investments	9	23,184	17,176
		<u>33,614</u>	<u>28,013</u>
Current assets			
Debtors	10	4,169	3,813
Cash at bank		8,595	9,009
		<u>12,764</u>	<u>12,822</u>
Creditors amounts falling due within one year	12	2,200	2,910
Net current assets		<u>10,564</u>	<u>9,912</u>
Total assets less current liabilities		44,178	37,925
Deferred income	13	23,160	20,655
		<u>21,018</u>	<u>17,270</u>
Reserves			
Profit and loss account	17	21,018	17,270
Funds		<u>21,018</u>	<u>17,270</u>

These financial statements were approved by the directors and authorised for issue on 24 March 2011, and are signed on their behalf by



Baroness I Fritchie DBE

Chair

Company Registration Number 3203859

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

Cash flow statement

For the year ended 30 September 2010.

		2010	2009
	Note	£000	£000
Net cash inflow from operating activities	18	6,635	5,357
Returns on investments and servicing of finance	18	513	547
Taxation	18	(1,578)	(95)
Capital expenditure and financial investment	18	(5,984)	(1,278)
(Decrease)/increase in cash	18	<u>(414)</u>	<u>4,531</u>

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 2010.

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.

	2010	2009
	£000	£000
United Kingdom	15,402	14,415
Overseas	6,101	5,383
	<u>21,503</u>	<u>19,798</u>

2. Other operating charges

	2010	2009
	£000	£000
Staff	6,713	6,735
Technical	1,594	1,998
Other administrative	1,923	2,025
Depreciation and loss on disposal of fixed assets	1,159	1,175
Operations	130	320
Facilities	668	711
Communications	737	526
	<u>12,924</u>	<u>13,490</u>

During the year the company made a donation of £5m (2009: £3m) to Nominet Trust (see page 3).
This amount has been separately disclosed on the face of the profit and loss account due to its material nature.

3. Operating profit

Operating profit is stated after charging	2010	2009
	£000	£000
Depreciation of owned fixed assets	1,159	1,175
Auditor's remuneration		
Audit fees	18	17
Non-audit fees	15	22
Operating lease costs		
Plant and machinery	62	53

Non-audit fees include tax compliance and VAT and other tax advisory services

4. Particulars of employees

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

	2010	2009
	No	No
Operations	84	83
Office	29	28
Management	6	4
	119	115

The aggregate payroll costs of the above were

	2010	2009
	£000	£000
Wages and salaries	5,461	5,261
Social security costs	608	556
Other pension costs	110	95
	6,179	5,912

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

5. Directors

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

	2010	2009
	£000	£000
Emoluments receivable	507	341
Payments to third parties for directors' services	85	85
Pension contributions to money purchase pension schemes	8	8
	<u>600</u>	<u>434</u>
Emoluments of highest paid director		
	2010	2009
	£000	£000
Total emoluments (excluding pension contributions)	<u>280</u>	<u>275</u>

The above summary information is expanded in the table set out below

	Salary/ fees £000	Other payments*** £000	Bonus (PRP) £000	Pension £000	Other benefits £000	2010 £000	2009 £000
R Gilbert *	85	—	—	—	—	85	85
L Cowley **	162	43	62	8	13	288	283
G Hayward	2	9	1	—	—	12	—
G Dick	68	—	—	—	—	68	21
S Lahtinen	6	—	—	—	—	6	16
A Hanton	—	—	—	—	—	—	2
T Vollrath	6	—	—	—	—	6	—
I Fritchie	21	—	—	—	—	21	—
P White	9	—	—	—	—	9	—
J Robinson	35	—	—	—	—	35	5
C Grace	35	—	—	—	—	35	17
N Nanayakkara	35	—	—	—	—	35	5
Year ended 30 Sep 2010	464	52	63	8	13	600	
Year ended 30 Sep 2009	356	—	57	8	13		<u>434</u>

*Payment made to a third party for director services

**Total emoluments of £283,000 in 2009 include £46,000 in relation to the estimate cost of the company's Long Term Incentive Plan, now closed

***Other payments include contract variation, reimbursement of legal fees and associated costs. Other benefits consist of income protection, private health insurance and a 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 Interest receivable

	2010	2009
	£000	£000
Bank interest receivable	<u>155</u>	<u>165</u>

7. Taxation on ordinary activities

(a) Analysis of charge in the year	2010	2009
	£000	£000

Current tax

In respect of the year

UK Corporation tax based on the results for the year at 28% (2009 - 28%)	1,134	1,109
Over provision in prior year	<u>(6)</u>	<u>(17)</u>

Total current tax	1,128	1,092
-------------------	-------	-------

Deferred tax

Origination and reversal of timing differences (note 11)	<u>(8)</u>	<u>(22)</u>
Tax on profit on ordinary activities	<u>1,120</u>	<u>1,070</u>

(b) Factors affecting current tax charge	2010	2009
--	------	------

The tax assessed on the profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 28% (2009 - 28%)	£000	£000
Profit on ordinary activities before taxation	<u>4,868</u>	<u>3,402</u>

Profit on ordinary activities multiplied by rate of tax	1,363	953
Expenses not deductible for tax purposes	6	217
Income not allowable for tax purposes	(183)	–
Depreciation in excess of capital allowances	70	(4)
Research and development enhancement	(63)	(65)
Other short term timing differences	(59)	8
Adjustments to tax charge in respect of previous periods	(6)	(17)

Total current tax (note 7(a))	<u>1,128</u>	<u>1,092</u>
-------------------------------	--------------	--------------

8 Tangible fixed assets

	Leasehold land & buildings	Computers	Other Assets	Total
Cost	£000	£000	£000	£000
At 1 October 2009	8,352	4,443	2,176	14,971
Additions	–	725	27	752
Disposals	–	(126)	–	(126)
At 30 September 2010	8,352	5,042	2,203	15,597
Depreciation				
At 1 October 2009	287	3,289	558	4,134
Charge for the year	135	773	251	1,159
On disposals	–	(126)	–	(126)
At 30 September 2010	422	3,936	809	5,167
Net book value				
At 30 September 2010	7,930	1,106	1,394	10,430
At 30 September 2009	8,065	1,154	1,618	10,837

Leasehold land is 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.

9 Investments

Fixed asset investments

Cost and net book value	2010 £000	2009 £000
At 1 October	17,176	17,263
Additions	5,000	–
Re-invested gains/(losses) on disposal of investments	461	(819)
Re-invested income	358	382
Management charges and foreign exchange movements	(126)	(16)
Movement on provision against investments	315	366
At 30 September	23,184	17,176

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.

A provision against fixed asset investments has been made by the company to reflect investments at the lower of cost and market value, in accordance with the accounting policy on page 43. At 30 September 2010 the total provision against fixed asset investments was £298,000 (2009: £613,000).

At 30 September 2010 the aggregate market value of the fixed asset investments was £27.0m (2009: £19.9m).

10 Debtors

	2010 £000	2009 £000
Trade debtors	1,482	1,411
Other debtors	3	4
Prepayments and accrued income	2,676	2,398
Deferred taxation (note 11)	8	–
	4,169	3,813

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

11. Deferred taxation

Deferred taxation

The deferred tax included in the Balance sheet is as follows

	2010	2009
	£000	£000
Included under assets (note 10)	8	–
Included under liabilities	–	–

The movement in the deferred taxation account during the year was

	2010	2009
	£000	£000
Balance brought forward	–	(22)
Profit and loss account movement arising during the year (note 7)	8	22
Balance carried forward	8	–

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

	2010	2009
	£000	£000
Excess of taxation allowances over depreciation	(27)	(86)
Other short term timing differences	35	86
Balance carried forward	8	–

12. Creditors, amounts falling due within one year

	2010	2009
	£000	£000
Trade creditors	314	577
Corporation tax	126	576
Other taxation and social security	721	438
Other creditors	274	230
Accruals	765	1,089
	2,200	2,910

13. Deferred income

	2010	2009
	£000	£000
Amounts to be recognised within one year	17,114	15,342
Amounts to be recognised after more than one year	6,046	5,313
	<u>23,160</u>	<u>20,655</u>

Deferred income consists of those parts of membership subscription fees and registration fees that relate to future accounting periods

14. Commitments under operating leases

Assets other than land and buildings

	2010	2009
	£000	£000
At 30 September 2010 the company had annual commitments under non-cancellable operating leases as set out below		
Operating leases which expire		
Within 1 year	22	19
Within 2 to 5 years	3	26
	<u>25</u>	<u>45</u>

15 Related party transactions

The company defines related parties as the directors of Nominet UK and companies that those persons could have a material influence on as related parties. Details of transactions with related parties are set out in the table below.

	Owed by/(to) Nominet UK at 30-Sep-10 £000	Income to Nominet UK 2010 £000	Purchases by Nominet UK 2010 £000
R Gilbert (Winchdown Ltd)	–	–	87
Baroness I Fritchie DBE	–	1	1
P White MBE	–	1	–
S Lahtinen (NetConnex Ltd)	–	3	–
S Lahtinen (LONAP Ltd)	–	–	2
T Vollrath (Webfusion Ltd)	(440)	4,256	–
	<u>(440)</u>	<u>4,261</u>	<u>90</u>

	Owed by/(to) Nominet UK at 30-Sep-09 £000	Income to Nominet UK 2009 £000	Purchases by Nominet UK 2009 £000
R Gilbert (Winchdown Ltd)	8	–	90
S Lahtinen (NetConnex Ltd)	–	2	–
S Lahtinen (LONAP Ltd)	–	–	2
	<u>8</u>	<u>2</u>	<u>92</u>

The directors personally purchased domain names from Nominet in the year. The total amount invoiced per director was less than £750.

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

16. 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 2010 was 2,857 (2009: 2,869).

17. Profit and loss account

	2010	2009
	£000	£000
Balance brought forward	17,270	14,938
Profit for the financial year	3,748	2,332
Balance carried forward	<u>21,018</u>	<u>17,270</u>

The Articles of Association of the company prohibit all distributions to the members. These funds are retained for the continuation of the ongoing operations, for contingencies and to enable education, research and development initiatives in the UK Internet industry.

18 Notes to the cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	2010	2009
	£000	£000
Operating profit	3,894	3,674
Depreciation	1,159	1,175
Amounts provided against investments	(315)	(366)
Increase in debtors	(348)	(202)
Increase in creditors	2,245	1,076
Net cash inflow from operating activities	<u>6,635</u>	<u>5,357</u>

The operating profit for the year ended 30 September 2010 is stated after a donation to the Nominet Trust of £5,000,000 (2009 £3,000,000) and a movement on provisions against investments of £315,000 (2009 £366,000).

Returns on investments and servicing of finance

	2010	2009
	£000	£000
Income from other fixed asset investments	358	382
Interest received	155	165
Net cash inflow from returns on investments and servicing of finance	<u>513</u>	<u>547</u>

18. Notes to the statement of cash flows (continued ..)

Taxation

	2010	2009
	£000	£000
Taxation	<u>(1,578)</u>	<u>(95)</u>

Capital expenditure and financial investment

	2010	2009
	£000	£000
Payments to acquire tangible fixed assets	(752)	(912)
Acquisition of fixed asset investments	(5,000)	—
Income re-invested in fixed asset investments, net of management charges and foreign exchange	<u>(232)</u>	<u>(366)</u>
Net cash outflow for capital expenditure and financial investment	<u>(5,984)</u>	<u>(1,278)</u>

Reconciliation of net cash flow to movement in net cash

	2010	2009
	£000	£000
(Decrease)/increase in cash in the period	<u>(414)</u>	<u>4,531</u>
Net cash at the beginning of the year	<u>9,009</u>	<u>4,478</u>
Net cash at the end of the year	<u>8,595</u>	<u>9,009</u>

Analysis of changes in net cash

	At 1 Oct 2009 £000	Cash flows £000	At 30 Sep 2010 £000
Cash at bank	<u>9,009</u>	(414)	<u>8,595</u>
Net cash	<u>9,009</u>	(414)	<u>8,595</u>

19. Contingent liabilities

At 30 September 2010 and 30 September 2009 the company was involved in a dispute with a former employee of the company who has brought a claim against the company. The dispute had not been resolved at the time of approval of these financial statements. The directors have not made various disclosures as required by paragraphs 89 - 94 of FRS 12 as they consider that such disclosures could prejudice the position of the company in the dispute.

20. Capital commitments

There were no capital commitments at 30 September 2010 or 30 September 2009.

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).

Nominet UK
Company Limited by Guarantee
Annual report and financial statements for the year ended 30 September 2010

Nominet UK
Minerva House
Edmund Halley Road
Oxford Science Park
Oxford OX4 4DQ
t +44 (0) 1865 332211
e nominet@nominet.org.uk

www.nominet.org.uk

© Nominet UK 2011