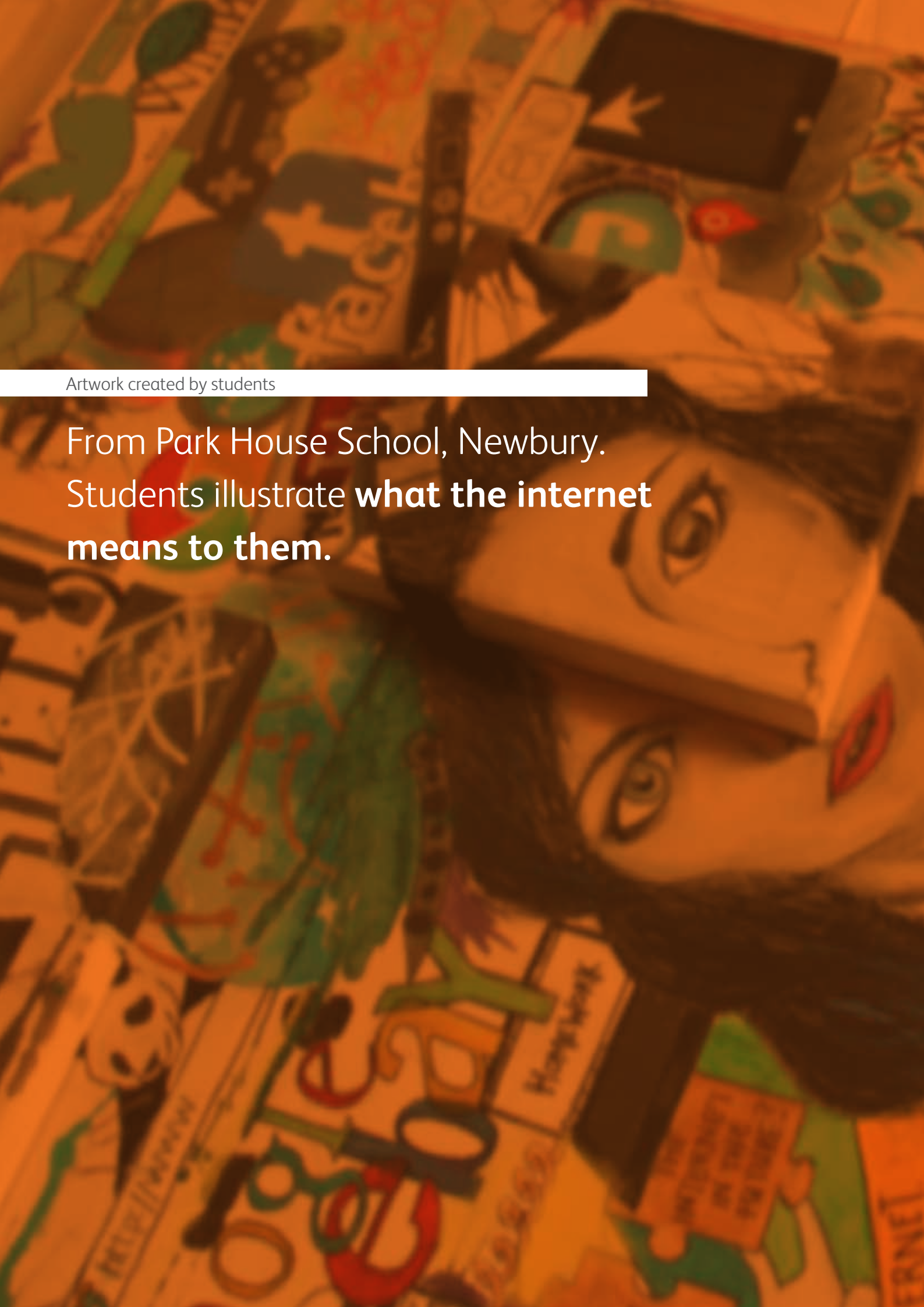


Annual Report & Accounts 2013

nominet®





Artwork created by students

From Park House School, Newbury.
Students illustrate **what the internet
means to them.**

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Chair's statement

Welcome

It is with a sense of both achievement and optimism that I write this statement, after what has been another busy year defined by our commitment to embrace the challenge of a changing and more competitive landscape while staying true to our public purpose credentials.

Whilst our number of members has remained fairly static in recent years, this apparent stability masks real and significant changes impacting our industry, our membership and its composition.

Members speak frequently to me about how substantially their businesses have changed and how they will continue to evolve.

Consolidation amongst registrars through acquisition, competitive pressure on margins, the as-yet unknown implications of vertical integration, the impact of Google changes to search relevancy and domain values, and the liberalisation of domain names are all driving significant change in the industry.

The changes in our wider operating environment have been just as acute. Over the last decade, we have moved from an era where the internet was on the periphery of the political agenda to being considered an essential piece of national infrastructure and a key driver of economic success. Five years ago, getting people online and having access to the internet was central to political debate. While this remains key to social inclusion, now it is the way the internet affects its users, specifically with regard to people who are vulnerable, the threat of cybercrime, and the use of personal data, that commands significant political and media attention.

As guardians of what can rightly be viewed as a national asset, Nominet's actions therefore remain subject to a high degree of scrutiny. Expectations of Nominet, along with many other internet businesses, are increasing. Having the trust of our stakeholders, from members and registrars,

to our new gTLD customers and potential legislators, is an essential component of our continued success. We place great store by our relationships, but we take nothing for granted and will continue to work hard to continue to earn the trust placed in us.

Throughout Nominet's history, we have taken key decisions with long-term sustainability and success in mind. The relatively recent introduction of multi-year registration periods and earlier governance changes that paved the way for Nominet to expand beyond its '.uk only' remit in 2006 are prime examples of this. Last year saw a quickening of the pace of change as we sought to re-focus our core business ahead of the impact of new gTLDs and investigated other potential revenue streams in response to a slowdown in the rates of growth of the registry.

After a year of significant consultation, for which we thank members and wider stakeholders, we made the decision to progress with second level registrations within the UK namespace and also shaped a new Registrar Agreement that acknowledges the diversity of registrars while supporting the raising of standards and encouragement of good data quality.

The work of the past year has paved the way for an exciting 2014 – with the Registrar Agreement now in place, the imminent launch of second level domains and the creation of a unique online home for Welsh communities and businesses with .cymru and .wales.

Our public purpose commitment has seen us continue to work with others who share our vision of a safe, secure and flourishing internet. Over the last year, this has included supporting Safer Internet Day, and Girls in ICT day – an international initiative aimed at ensuring companies driving the digital economy benefit from the widest possible pool of talent.

Nominet has continued to be an active participant in the global internet community, which is an important plank of our commitment to ensuring an open internet and sharing best practice. Our CEO's long-standing contribution to the domain name industry, and the multi-stakeholder model of internet governance led to her being awarded the inaugural ICANN Leadership Award.

Closer to home, we have continued to support the Nominet Trust, which is gaining strong recognition for its work funding initiatives that contribute to ensuring that the internet is, and continues to be, a force for good. Our Knowthenet website offered advice to internet users on how to ensure that they, and those they care for, can stay safe online. At our Nominet Internet Awards, held in July, we shone the spotlight on organisations that are deploying the power of the internet to help others. It is a privilege to help gain wider recognition for the people behind the most inspiring and innovative projects. We look forward to celebrating the very best in online innovation and achievement again at this year's awards.

As we look to the future, we will continue to take significant steps to adapt, evolve and strengthen our position in an environment where the pace of change continues to accelerate. Nominet will change, but we will do so in a way that is guided by our public purpose ethos, and that carries forward, and builds on, the very best aspects of our organisation.

We will continue to provide the excellent customer service for which we are known, while also seeking to apply our skills elsewhere to successfully diversify our business. We will continue to demonstrate responsible self-regulation; advocate the benefits of an open, trusted internet that is a great place to do business; tackle the misconceptions around issues on the



internet through legislation or technical fixes and consult with a wide range of stakeholders. We will seek to be the best business partner we can for members and registrars.

I would like to extend my thanks to all Nominet members, registrars, and the wider internet community for their time, contributions and support in helping us to

continue to evolve and build a successful and thriving UK namespace. I am also very pleased to congratulate Clive Grace, one of our independent non-executive Board directors, on his OBE for services to business and voluntary service to communities.

Finally, I wish to thank every member of staff, and my Board colleagues, for their hard work and enthusiasm in ensuring

that the UK domain name space remains a great place to be and that our business continues to contribute towards an exciting online future.

Baroness Rennie Fritchie DBE
Chair

CEO's statement

Nominet in 2012/13

I am pleased to present this report and financial statements for the 2012/13 financial year. Nominet, and our members, are navigating an increasingly challenging and changing global market. However, with their support and engagement, our performance during the 2012/2013 financial year remained strong. The .uk registry continued to grow – although at 3.3 % that growth has slowed compared to previous years – and income grew 6.3 % to total £26.8 million. Our operating profit margin reduced to 26 % from 33 % last year, as we sought throughout the year to invest in the staff and infrastructure required to strengthen, improve and diversify our business.

Nominet views the security, stability and availability of our systems as a key part of our public purpose commitment – the businesses and consumers who use the UK namespace should be able to rely on it every day. Our continued investment in world-class technical infrastructure included the addition of two new state of the art data centres to our architecture in 2012, and a European data centre in 2013. This investment provides increased resilience and assurance that our systems are fit for the future, and was shortlisted for the Network Infrastructure Project of the Year in the BCS and Computing UK IT Industry Awards.

Our technical expertise was further recognised at the 2013 Council of European National Top Level Domain Registries (CENTR) Awards, where our work with the Swedish .se registry on the OpenDNSSEC software won the Security Award.

Security remains a focus for Nominet, and the year saw continued progress in developing and adopting techniques and technologies to offer increased security in the management and registration of domain names. A number of projects begun in the financial year will come to fruition in 2014, including a domain-locking tool

to protect high-value domains from DNS hijacking and the opportunity for registrars to adopt additional security controls when accessing Nominet's registry systems, to give the domains they manage a stronger second line of defence against hacking. Over the coming years we will be releasing a number of new products and services in support of our objective to make our namespace the most trusted in the world.

Nominet's reputation as a stable and secure registry provider is reflected in our winning the contract to be one of the Emergency Back End Registry Operators for ICANN and our successful bid to ICANN, as part of its new generic Top Level Domain (gTLD) programme, to manage the new .cymru and .wales domains. Progress on the new Welsh namespace has continued throughout the year, and we look forward to bringing .cymru and .wales to market in 2014. Further, we have continued to work with a number of well-known organisations – Bentley, the BBC, Comcast and Telecity – to provide registry services for their new gTLD applications which are set to launch through 2014 and 2015.

After many years in the making, the unprecedented expansion of the domain name landscape is now here, with new domains already beginning to hit the market. A key element of our competitive strategy in response to this is the introduction in the summer of 2014 of shorter, snappier 'example.uk' domains alongside existing domains such as 'example.co.uk'. The decision to allow second-level domain registration in the UK namespace represents the biggest modification since it began, and follows a lengthy consultation process alongside extensive research and analysis that indicated likely significant demand. The move will bring us in to line with other large country-code registries, like Germany's .de and France's .fr.

Over ten million existing .uk customers will be offered the shorter equivalent of their current address, with five years to decide whether they want to use it in addition to, or instead of, the domain they already have. The five-year free reservation period is designed to help businesses taking up the new domain to do so at a time that coincides with when they next change signage or stationery, so they don't incur unnecessary incremental costs. The decision to proceed was a complex one, given the significance of the change to the UK namespace. Many of our members engaged strongly on this issue and we made significant changes to the original proposition to reflect the feedback received.

Further efforts in 2012/13 to strengthen and raise standards across the UK namespace included work towards introducing a new Registrar Agreement and Data Quality Policy, aimed at recognising the diversity of business models, helping registrants have a positive customer experience, and ensuring the data the registry holds is of the highest quality. In addition, we launched our "A Great Place to Be" marketing campaign, which showcased .co.uk as the most relevant and trusted Top Level Domain for doing business in the UK, through an integrated campaign with a number of our registrars online and on the road.

We continue to work with the government and other national and international bodies to help shape an open, trusted internet and promote the multi-stakeholder model of internet governance. Over the past year, we continued our strong involvement with ICANN and CENTR, sponsored the UK Internet Governance Forum and participated in the international IGF. We were invited by the government to join the new Cyber Crime Reduction partnership and to be a member of the UK delegation to a number of ITU events. We also continued our support for W3C by hosting their UK

and Ireland office, and will join with them in celebrating 25 years of the web in 2014.

This year also saw us focus on diversifying our business, seeking to develop commercial opportunities beyond our core role as the .uk domain name registry. This work will of course seek to build on our capabilities in the DNS, but through the investment in Research & Development, should also increasingly see us exploring new ways to help internet users and offer a broader range of products and services to our registrars.

We continued to invest in our people in order to have the appropriate resourcing and expertise in place to meet our business objectives and function in an increasingly competitive environment. At the start of 2014, we were delighted to welcome Antonia Seymour to lead the Commercial team (which includes marketing, communications and business development), completing the internal restructure which has organised our company into three directorates – Technical, Operations and Commercial. I believe that Nominet is now well placed as a capable, resilient organisation that can embrace the variety of opportunities ahead with confidence.

I would like to thank our members, registrars and wider stakeholders for their strong contributions and support during 2012/13. My thanks also to the Board for their oversight and counsel during the year. Finally, I would like to thank our staff for their hard work, dedication and enthusiasm in what was an incredibly busy and challenging year. With their continued drive and determination, we will continue to deliver for our members, customers and stakeholders in the years to come.

Lesley Cowley OBE
CEO

Managing our finances

Financial strategy

Our financial strategy is based on ensuring that we can both 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 our registry operations.

2013 has been another year of strategic investment and expansion, as we prepare ourselves for a more competitive operating environment, not least due to the launch of the new gTLDs.

Growth on the .uk register during the year slowed when compared to earlier years, reflecting a global trend in developed markets where demand for domain names was showing signs of maturity. The slowdown in demand could also be linked to some consumers opting to wait for the new gTLDs before buying their domains, combined with changes in search engine algorithms impacting the online advertising segment of the market.

Despite the more challenging market conditions, the growth at 3.3 % was pleasing with the register closing the year at 10.6 million domain names under management. While new registrations fell by 2 % compared to the previous year, this was offset by the renewal rate steadying at 67.5 %.

Underlying revenues grew by 6.3 % to £26.8m, reflecting both the growth in the register and the full year effect of the introduction of single year registration periods in 2012. The operating profit margin, before exceptional items (charitable donation and investment provision movement) reduced to 26 % (2012: 33 %). This reflected increased investment in staff and related recruitment costs, a full year effect of the new technical infrastructure and costs relating to both the .uk second level domain proposal and the .cymru/.wales top level domains.

Income

Income totalled £26.8m in 2013, primarily due to a 6.6 % increase in discounted registration income. This was attributed to the 3.3 % growth in the register combined with the full year effect of the differential pricing for single-year domains. The single year domains under management grew from 0.25m at the start of the year to 1.24m by the year-end, equating to 12 % of the overall register.

New registration levels reached 1.96 million in 2013 (2012: 1.99 million). While this represented a reduction overall, this was due to declining activity levels on specific registrar promotional initiatives that had boosted demand in 2011 and 2012. Underlying new registration volumes, excluding the promotional initiatives, increased in 2013 by 1.8 %.

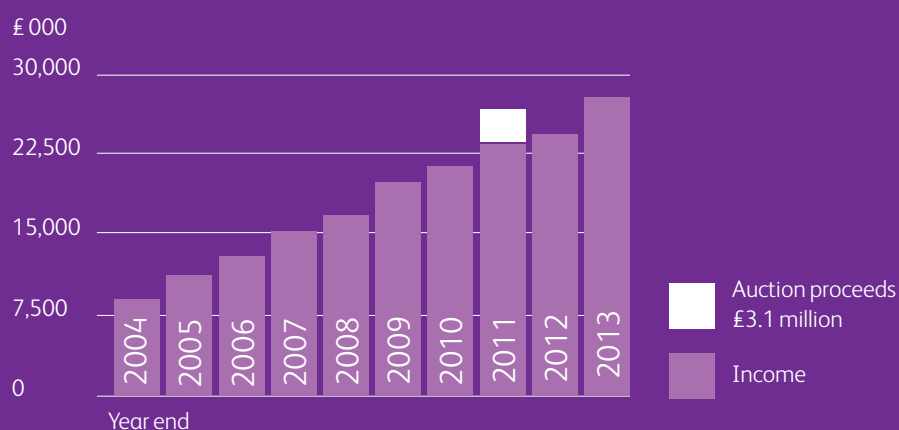
Average renewal rates steadied at 67.5 % (2012: 67.6 %) although we noted that this benefitted from the timing and profile of previous registrar promotions coming due for renewal. The underlying renewal rate, removing the effect of these promotions, actually reduced in the year by 1 %. The impact of single year registrations coming up for renewal from May 2013 was a contributory factor to the underlying rate.

Maintaining renewal rates continues to challenge domain registries and registrars, with a number of influencing factors including the upcoming new gTLDs, changes to search engine algorithms, general economic conditions and consumer confidence levels. Renewals performance will remain a key area of focus for the UK namespace in the coming years.

10.6 million

Domain names under Nominet's management

Income over time



Total income in 2013

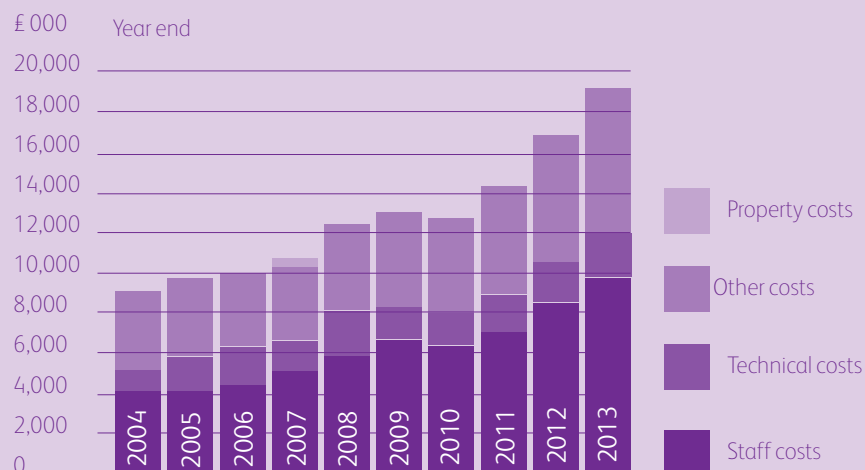
£26.8 million

New registrations for 2013

1.96 million

Managing our finances

Expenditure



Other costs

Operating expenditure increased by £2.9m (17 %) to £19.8m (2012: £16.9m). Operating costs now represent 74 % as a proportion of revenue (2012: 67 %).

Average staff numbers increased to 134 (2012: 126) and permanent staff costs increased by £0.7m (9 %). This cost increase reflected the new hires as well as the full year effect of the 2012 hires, the impact of the Commercial team restructure and the annual pay review. Contractor resource costs also increased by £0.3m, driven by a requirement for additional temporary resources in the project management office and for business development.

Third party technical expenditure increased by £0.6m to £2.7m (2012: £2.1m). The investment in the new IT infrastructure during 2012 resulted in expected additional operating expenditure in 2013, reflecting the new run rate and full year effect of data centre charges and support contracts.

Other administrative costs increased by £0.6m to £3.0m in 2013 (2012: £2.4m). The cost increase mainly resulted from £0.3m additional recruitment costs including the Executive team restructure and the subsequent selection processes for the Chief Operating Officer and Chief Commercial Officer roles. There were also additional policy development costs, including the costs of the Registration Policy Review. The costs related to .cymru/.wales and the .uk second level domain proposal totalled £0.5m, an increase of £0.3m over the previous year.

Commercial (marketing, communications and business development) costs were consistent with the previous year at £1.5m. In 2013 we ran a co-marketing campaign, investing alongside participants from the registrar channel to promote .uk registrations and renewals using a variety of traditional and online media. In addition, we also executed a broader awareness campaign, including above-the-line advertising and reinforcing the Great Place to Be branding. Offsetting these costs were reductions in expenditure from the .co.uk brand development from 2012 which did not recur and reduced spend on events.

Depreciation increased significantly by £0.6m to £2.1m (2012: £1.5m), relating to the full year effect of the capital investment in the new IT infrastructure.

Investments

2013 was a very good year for investors, with positive economic news across the majority of global markets reflected in consistent improvements in valuations. This buoyant environment helped to increase the market value of the investment portfolio, which closed the year at £40.9m (2012: £35.6m). There have been further valuation gains since the year-end, although these have been tempered by the announcements related to US quantitative easing.

The growth in the market value of the portfolio predominantly reflected valuation gains and reinvested income, although there was also an additional £1m capital contribution made during the year (2012: £2.5m).

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 2013 was below the historic cost. The result of this review was to reduce the investment impairment provision to £0.6m (2012: £0.8m).

The current market valuation compares favourably against the £30.0m of capital invested.

During the year we realised £0.9m of gains on the disposal of investments within the portfolio (2012: £0.6m) and investment income from the portfolio during the year totalled £0.9m (2012: £0.8m).

The Bank of England base rate remained at 0.5 % throughout the year and interest earned remained at a similar level to 2013 at £0.1m.

Charitable donation

We conducted a review of our financial year-end position and our future financial projections and were pleased to be able to donate £6m to Nominet Trust (2012: £6m). In line with our public purpose objectives, the donation included £2m of funds earmarked to finance projects in the area of economic growth, trust in the internet, cybersecurity and child protection. The Trust was incorporated in 2008 with the objectives of funding internet education, inclusion and safety initiatives.

**£6.0
million**

Donated to Nominet Trust

The balance sheet

Retained funds increased by £2.7m during the financial year to £31.6m (2012: £28.9m).

Underlying cash inflow from like-for-like operations (excluding the donation to Nominet Trust) was consistent with the previous year at £10.1m (2012: £10.1m). The lower operating profit in 2013 was offset at the operating cashflow level by a lower increase in prepayments compared to 2012, combined with a higher depreciation charge in 2013.

Other key cash movements included the £6m donation to Nominet Trust, capital expenditure on fixed assets at £1.2m (2012: £3.9m) and the £1.0m contribution to the investment portfolio (2012: £2.5m). The cash outflow for corporation tax at just £0.6m (2012: £1.5m) reflected the timing of instalments and a repayment relating to earlier years offset against the liability for the year. As a result the cash balances increased by £1.4m in 2013 (2012: £3.8m decrease).

Further costs were incurred on developing our gTLD registry system, with a further £0.3m of internal costs capitalised in line with our accounting policy for intangible fixed assets. The development work and ICANN application fees now total £0.6m. We intend to amortise the costs once revenues start to be recognised.

Cash collection performance during the year was in line with our expectations, with average debtor days of 18 days (2012: 19 days). We continue to ensure that suppliers are paid on a timely basis to contracted terms, resulting in trade creditor days at the year-end at 14 days (2012: 22 days).

Two new state of the art data centres

Our year

The 2012/13 year was one of change and transition for us, as we progressed a range of initiatives and projects designed to help the company evolve the UK namespace in the face of a rapidly changing internet landscape.

The domain name market is undergoing a major transition, with a new and more competitive market emerging, driven by over 1,000 new top level domains now entering the market and vertical integration. The UK namespace is a vital building block for the UK's digital economy, and throughout the year Nominet focused its efforts on an ambitious programme to secure its long-term relevance and competitiveness. The company has been examining the breadth of the products and services it offers, with security and data-quality increasingly important areas of focus.

Delivering on our public purpose

Nominet's public purpose is a key element of who we are and what we do as an organisation. A critical aspect of our commitment to public purpose is in ensuring that the businesses and consumers who make use of the UK namespace can continue to rely on it every day. In order to meet this expectation, Nominet has plans in place to enable its key functions and services to continue in spite of disruption by a range of factors from severe weather to an attack on our building. However, we recognise that as an open registry, the risk of a co-ordinated and deliberate attack on our DNS infrastructure – similar to that experienced by other registries – remains.

As well as maintaining high levels of availability for services throughout the year, we also continued our investment to ensure that our technology infrastructure is fit for the future. This year saw the switch to two new state of the art data centres, which now provide additional resilience for our systems.

In keeping with our commitment to operating in the public interest, in September Nominet launched a review of its registration policy for .uk domain names. Nominet has had an open policy on domain registrations since 1996, which has played a key role in promoting a dynamic and open internet in the UK. However, the year saw increasing public debate around this and broader issues around illegal and

offensive content online, which led us to take the opportunity to ensure our own policies remain current and in the public interest. The scope of the review focused on whether there should be restrictions on the words and expressions permitted in .uk domain name registrations.

The review was independently chaired by former Director of Public Prosecutions Lord Ken Macdonald QC. Lord Macdonald worked with Nominet's policy team to conduct a series of meetings with key stakeholders, and to review and assess wider contributions from the internet community. Nominet published Lord Macdonald's report in January 2014, alongside an announcement that our Board unanimously agreed to implement all recommended changes, which centre around preventing the registration of domain names that appear to signal or encourage serious sexual offences. The targeted move aims to provide an effective way of tackling the isolated instances of domain names used to promote serious sexual offences, while not preventing entirely legitimate registrations or imposing disproportionate and cumbersome restrictions on well over one million new registrations each year.

We believe that a critical factor in future-proofing a strong digital economy is addressing the shortage of skilled and

talented applicants across the industry. Our 2013 Apprenticeship Scheme, launched in May, sought to encourage school leavers to consider an internet career by offering a number of 12-14 month technical apprenticeship roles. We offer high quality external learning and on-the-job training, with apprentices working alongside technical teams, a line manager, and a workplace mentor on real-world projects that are part of everyday operations at Nominet.

We also marked International Girls in ICT day, held on the 25th of April, with a number of initiatives, including a nationwide survey of over 2000 13-24 year olds to investigate attitudes to IT careers, and locally, by hosting a day of workshops at Didcot Girls' School.

Another initiative we were proud to support was Make Things Do Stuff, a campaign to mobilise the next generation of digital makers – those who will create our future websites, apps, games or even computers themselves. Our CEO, Lesley Cowley, attended the campaign's launch in London in May, where a group of teenagers came up with their own digital creations. At the event, Chancellor George Osborne spoke of his ambition to make the UK the world's leading digital economy and the importance of investing in young people to make this a reality. The Make Things Do Stuff campaign is led by Mozilla, Nesta and the Nominet Trust.



nominet[®]

Proud to support
Safer Internet Day

Our year

Delivering on our public purpose (continued)

It's one of many exciting initiatives supported by the Nominet Trust, which we established in 2008 to fund internet-based projects that address big social challenges. The Nominet Trust is now the UK's leading 'Tech for Good' funder, and we were delighted to be able to donate another £6 million to the Trust this year. Other programmes include the Digital Edge: a funding initiative to support projects and organisations that address the key challenges faced by young people through innovative uses of digital technologies; and Innovation Labs – a UK-wide project working with young people aged 16-25, technology experts, youth workers and mental health professionals to explore how technology could better help young people look after their mental health.

It was a busy year for our internet advice site, knowthenet.org.uk, set up to help individuals, families and businesses get the most out of the internet. Knowthenet's focus is on providing reliable, accessible, impartial advice to help people stay safe and secure online and make the internet a more trusted space for everyone who uses it.

In March Knowthenet launched its Trolled Nation campaign, highlighting the impact of trolling and online bullying, and offering advice for teenagers and parents of those affected. We also sought to help MPs understand more about the issue of trolling and how they could support their constituents through a parliamentary event with BeatBullying and a widely circulated briefing paper.

Knowthenet's subsequent campaign -Netspeak – highlighted the risks posed by parents' lack of understanding of teens' everyday vocabulary. Knowthenet launched an interactive test to help parents understand the type of online activities their children may be involved in and encourage closer lines of communication about their experience of the web.

Via Knowthenet, we were also proud to support the 10th Safer Internet Day on 5th February 2013. A range of charities, not-for-profit organisations, businesses, schools and individuals took part in activities to raise awareness of internet safety. The theme of the day was online rights and responsibilities, with the slogan "Connect with Respect" designed to highlight the power of the internet. Nominet and Knowthenet featured on a special Safer Internet Day radio station which broadcast online throughout the day.

Dedicated to honouring UK initiatives using the internet as a force for good, the 2013 Nominet Internet Awards were the biggest and best yet, with a record number of entries leading to 29 shortlisted nominees.

We worked with the Guardian Media Network as our media partner as well as a range of category partners: CBI, NCVO, Getsafe Online, The Open University and Intellect (now Tech UK) to help promote the awards and reach out to a wider network.

The awards evening was held at The British Library, after a panel of independent judges had selected winners in five categories.

My Mummy Made It, a service delivering homemade, cooked-to-order baby food to nurseries and busy parents won the Innovative Internet Business category; Brightside, a charity providing online mentoring, won the Online Skills and Training category; Oii My Size, a youth-led campaign aimed at raising awareness and encouraging young men to speak to young women with respect, won Making the Internet a Safer Place; Global Giving UK, which allows people to donate time, skills and money through a dynamic virtual marketplace, won Doing Good Online; and the Lambeth Library Challenge, where the Lambeth Council created a tool to give residents genuine influence on how their libraries budget was spent, won the award for Digital Innovation in Public Services.

Our year

Strengthening the UK namespace

As the trusted guardian of the UK namespace, Nominet works to ensure .uk domains remain an attractive option to both existing and new registrations and continues to be a popular, trusted choice for businesses, individuals and organisations. This is particularly important in an environment of increased competition, with the introduction of hundreds of new gTLDs.

This changing domain name landscape and more challenging market led us to consider offering second-level domain name registration, similar to other country code Top Level Domains (ccTLDs). Further market research confirmed that second level .uk registrations were seen as a snappier, up-to-date option and that this would be a logical step in ensuring the ongoing strength and relevance of the UK namespace.

However, with such a major change to the namespace proposed, it was essential to gather the views and perspectives of our stakeholders.

We undertook a lengthy consultation process to ascertain whether and how to introduce the new, shorter domain names. We began consulting on an initial proposal in October 2012, and, following feedback, launched a revised proposal in July 2013. The consultation process attracted a large number of formal submissions and we also held multiple roundtable sessions with stakeholders. We listened and carefully considered the feedback. This resulted in a decision in November 2013 to proceed, albeit with a significantly different proposal, reflecting many aspects of the feedback received.

Domain names will be available to register with just the .uk (www.example.uk) alongside our existing domains (example.co.uk; example.org.uk; example.me.uk etc) from the summer of 2014.

A further reflection of our work to strengthen the UK namespace is our “A Great Place to Be” campaign. To help drive .co.uk as the number one relevant and trusted domain for doing business in the UK, we ran an integrated campaign with a number of our registrars online and on the road. We showcased a number of .co.uk registrants and how they benefit from the association with .co.uk in videos, blogs, social media and at live events. In June, we showcased our .co.uk brand at The Business Show at ExCeL London, with the objective of raising awareness among SMEs, start-ups and entrepreneurs about why .co.uk is a great place to be for British business.

Nominet’s role as trusted guardian of a crucial part of the UK internet means that we are committed to ensuring our systems and services are underpinned by the best technical infrastructure available. With significant changes and new opportunities for our industry on the horizon it is vital to ensure our technology can continue to deliver.

We began a two year programme to enhance our infrastructure by adding two new hi-specification data centres into our architecture in 2012, with an additional European data centre in 2013. This change allows us to take advantage of faster communications, additional resiliency and the latest virtualisation technology to both maximise the capacity available and allow us to expand our technology capabilities. This work allows greater agility from a technology point of view giving us the ability to respond to new developments and opportunities even more quickly. The new systems have been chosen with long-term growth in mind to ensure that our needs can be met, not only for our current operations, but also in the future. This programme of work was shortlisted for Network Infrastructure Project of the Year in the BCS and Computing UK IT Industry Awards.

Raising standards

We continue to work to ensure Nominet functions at the highest standard across all aspects of our organisation – whether it's how we work with registrars, our technical infrastructure, the customer service we provide, or our data quality requirements. Together, these contribute to Nominet's programme for keeping our business and the UK namespace relevant, competitive and trusted.

Subsequent to our review of our .uk Registrar Agreement in 2011/2012, on 24th June 2013 we launched a second stage consultation on a revised agreement to help us work with registrars to raise standards of service and data quality. As the contract that governs the commercial relationship between Nominet and over 3,700 registrars who act as the sales channel for UK domain names, it's important for the Registrar Agreement to reflect the changing business landscape and increasing stakeholder expectations.

Stakeholders were invited to make submissions and we held a number of roundtable sessions and webinars to discuss the proposal. The final version of the new agreement came into force in March 2014.

The objectives were to help ensure registrants have a positive customer experience, ensure that the data the registry holds is of the highest quality, and to put in place procedures that demonstrate responsible and effective industry self-regulation. The revised agreement raises baseline standards and recognises that a 'one-size-fits-all' approach is no longer appropriate for the industry, allowing registrars to self-select from three tag classifications (Self-managed, Channel Partner, or Accredited channel partner) with each offering different standards and incentives. The framework set out standards for professional engagement and compliance with legal requirements

for data protection and beyond, is designed to ensure registrars can meet the higher standards required for accredited status regardless of the size of their business, recognising that small and large registrars alike are committed to high standards.

Alongside the introduction of the new Registrar Agreement we have introduced a new Data Quality Policy, which sets out how we work with registrars to help improve the quality of data provided for registrants of UK domain names.

Improving and maintaining the quality of the data we have for registrants, and that we subsequently publish in our WHOIS database, is a key objective for Nominet. We believe it is critical part of ensuring that the UK namespace is a trusted and safe space. We are working closely with registrars to establish a minimum threshold of valid data required for each registration.

As part of our commitment to provide all of our customers with the highest levels of service, we commissioned an independent market research company to measure the level of customer satisfaction with the support services that we offer, and identify areas for improvement.

Two surveys were carried out in August and September 2013: a web-based registrant satisfaction survey and a member and registrar satisfaction survey via either telephone or web. Our registrar satisfaction levels dipped slightly this year to 89.5 % from 91.6 %. Although still in the top quartile of suppliers in the Satisfaction Index™ League Table we recognise that there were a number of issues this year that caused registrars to mark us lower and we hope that through improved communication and listening to their needs we are addressing those points. The key areas of dissatisfaction lay with the consultations we were running

concerning the Registrar Agreement review and the potential introduction of second level registrations. We were pleased to see an increase in our overall registrant customer satisfaction index rating to 90.5 %, a 2.8 % rise when compared against our last survey, conducted in September 2012.

We continued to move forward with our business improvements programme and in January 2013 Nominet was assessed by the British Standards Institution and our IT Service Management System was found to meet the requirements set out in the ISO 20000 standard. This is our first ISO certification and demonstrates that our IT service management process is robust and in line with internationally recognised best practice.

Our technical efforts and expertise were recognised at the 2013 Council of European National Top Level Domain Registries (CENTR) Awards, where our work with the Swedish Registry .se and a number of others on the OpenDNSSEC software won the Security Award. OpenDNSSEC software is open source software that manages the security of domain names on the internet, within the aim of driving the adoption of Domain Name System Security Extensions (DNSSEC) to further enhance internet security. Also at the CENTR Awards, our Chief Executive Lesley Cowley was shortlisted for the Contributor of the Year Award for her work as Chair of the Country Code Name Supporting Organisation (ccNSO) of ICANN.

Our year

Shaping the internet

Nominet continued its work and advocacy throughout the year to further the development of an open internet. An example of this is our work with the Internet Corporation for Assigned Names and Numbers (ICANN), which is responsible for the coordination of global internet systems, in support of its multi-stakeholder model. This work was marked with ICANN awarding our CEO Lesley Cowley the inaugural ICANN Leadership Award for her contributions to the domain name industry - improving the relationship between ICANN and the various Supporting Organisations and Advisory Committees, building trust with the ccTLD community and co-founding the DNS Women Group. The new annual award, which acknowledges an individual's leadership in promoting ICANN's multi-stakeholder model, is decided unanimously by the ICANN leadership team.

There will be a number of major international events in 2014 where the current international environment for internet governance will be under discussion. 2012/2013 was a time to assess the way forward and to work with partners in developing thinking, both nationally and globally. The Internet Governance Forum in Baku, Azerbaijan in November 2012 had strong UK participation, including the Culture, Communications and Creative Industries Minister, the Hon Ed Vaizey MP. The Minister has taken a keen interest in internet governance issues and in the IGF. We again sponsored the UK Internet Governance Forum, which allowed attendees to contribute views to the IGF in Baku. For 2012/13, we worked with other stakeholders to improve engagement in the UK-IGF, redefine national priorities, provide lightweight coordination for IGF 2013 in Indonesia, and start preparations for the 2014 IGF. The key UK priorities are the development of the internet governance landscape (and the Internet Governance Forum in particular); internet governance principles; child online protection; identity and trust; and security, with some more immediate work on combating spam and on uptake of IPv6.

As we prepare to become a contracted party, both as a new gTLD and as an accredited registrar, ICANN becomes

increasingly important for us. The Nominet team has developed and maintained strong links with ICANN, led by CEO Lesley Cowley. She remains an active member of the ccNSO Council and completed a successful period as Chair of the country code name supporting organisation in 2013. Moving forward, we recognise the increasing impact that ICANN can have on our activities and Nominet delegations to ICANN meetings reflect this change.

Nominet was invited by the government to be a member of the UK delegation to WCIT, the ITU inter-governmental conference on international telecommunications regulations, in December 2012 and for the ITU's World Telecommunications Policy Forum in May 2013. We also engaged in national coordination on Internet governance and on preparation for ITU and other key inter-governmental meetings: we welcome the strong support the UK gives to multi-stakeholder processes to underpin international internet governance. We remain actively involved in Europe as members of the European ccTLD association CENTR and involved in the European IGF EuroDIG.

Our CEO Lesley Cowley was invited by the Minister for Security, James Brokenshire MP, to join the Government's Cyber Crime Reduction Partnership. Launched in 2013, this initiative brings together around a dozen leading representatives from industry, academia, government and law enforcement to share knowledge and best practice on tackling cyber crime in the UK. The partnership is jointly chaired by Ministers from the Home Office and Department of Business, Innovation and Skills. Nominet's role as guardian of the UK namespace gives us a unique insight into the nature, timing and shape of many organised cyber crime attacks in the UK and we are using this expertise to contribute to the work of the Partnership. Our work in this area will further develop in 2014 with our pilot of our Nominet Cyber Assist service which will provide cyber security advice and support to small businesses.

Also in the field of cyber security we actively lobbied for improvements to the Network and Information Security Directive proposed by the European Commission. We were

concerned that the wording of the proposed directive would have placed inappropriate regulatory burdens on registrars operating in EU markets including those which are small businesses. In February 2014 the European Parliament voted to amend the proposed directive in a way which we believe will ensure that registrars are not covered by the scope of the directive. We will continue to lobby in support of these changes while the directive continues through the European legislative process.

We continue to work with Parliamentarians to help them understand and engage in policy issues related to the internet. In 2013 we sponsored the annual Parliament and Internet Conference, which brought together leading figures from Government, Parliament, academia and industry to discuss a wide range of issues including the pressures on the industry to police content, the development of the European Digital Single Market, cyber security, surveillance and the Internet of Things. With 2014 being a critical year for the development of internet governance we will be continuing to work with Parliamentarians in Westminster and Brussels to facilitate their engagement and understanding of the issues and to support a free and open internet.

During the year, we continued our support for the World Wide Web Consortium (W3C), the international community established by Web inventor Sir Tim Berners-Lee, where member organisations and the public work with W3C staff to develop web standards. Nominet is a member and hosts the UK and Ireland Regional Office of the W3C to support it in its 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. During the year we expanded our ability to support existing W3C UK and Ireland members and engage a wider audience in actively shaping the web. We commissioned market research that led to a greater understanding of the issues and requirements of industries that are being changed by the World Wide Web, and worked with industry sectors such as Publishing, Automotive and Telecommunications to raise awareness of W3C's role and the opportunities for innovation that membership offers.



Our year

Working with members and registrars

We continued to work with our members and registrars to expand and improve our service offering and ensure the UK's domain name industry remains strong and secure. This included significant consultation on policy development, including proposals for our new Registrar Agreement and the introduction of second-level domain names. We also carried out customer service surveys to ensure registrars are satisfied with the levels of service we provide. Throughout the year we held events to keep members and registrars up-to-date with our initiatives, and give them the opportunity to talk with Nominet representatives and network with others in the community. Our Annual General Meeting was held in London on 22 July 2013 and the 2012 .uk registrar conference in London on 21 November. Both of these events were dominated by discussion of the .uk Second Level Domain Registration proposal, given the significance of this change.

Following the introduction of the .co.uk brand we issued a full digital toolkit for registrars including guidelines and customisable assets to use and further drive .co.uk registrations. We offered registrars the option to be listed on our customer information site agreatplacetobe.co.uk. We ran our first .co.uk co-marketing campaign with 10 registrars taking part, jointly promoting .co.uk as a great place to be. Together we ran TV, print, digital and outdoor campaigns driving .co.uk registrations.

We continued to invest in our registrar resources website, the home for all registrar-related information, as well as access to our online services and business intelligence tools. These platforms underwent a programme of upgrades throughout the year to provide registrars with the latest information to enable them to serve their customers and help us maintain the UK namespace.



£24,000 raised
by staff for
charity

Diversification and supporting business growth

In September we were selected to be among the suppliers providing a database as part of Ofcom's 'white space' trials for making use of available wireless frequencies without causing interference to other devices. Given our expertise in successfully managing and maintaining the database that underpins the UK domain name registry, we are well positioned to build and operate a similar facility for this new trial. There are a range of possible applications for the frequencies made available, which could include, for example, delivering rural broadband. We expect that, depending on Ofcom timescales, we will be participating in a trial in 2014.

In April, we were selected by ICANN as one of three Emergency Back-End Registry Operators (EBERO) for new generic gTLDs that are beginning to launch. As an EBERO, Nominet will provide emergency support for any newly launched gTLD registry which encounters technical difficulties. This would involve transferring and maintaining the core operations of the gTLD whilst a longer term resolution is established. Nominet was chosen as an EBERO for its service excellence, transition team expertise, strong customer support and financial stability. We will now work closely with ICANN to shape and define the service offering to ensure a successful, seamless outcome for all organisations involved.

We continued preparations for new top level domains, working with our brand partners: Bentley, the BBC, Comcast and Telecity with us as the registry services provider for their new gTLD applications. We are pleased to report that progress with these services continues well and we will be launching these services with them through 2014 and 2015.

During the year, Nominet made exciting progress with our two geographic Top Level Domain applications, .cymru and .wales, and look forward to going live with both in

2014. Since passing the ICANN evaluation, we have continued to work with these and other stakeholders to help ensure the success of the new Welsh namespace. We have engaged an Advisory Group chaired by ex Welsh rugby captain Ieuan Evans and including Nominet board member Clive Grace, who between them bring a wealth of expertise and experience across Welsh politics, business and culture. With their help and advice we have further secured support, advice and statements of intent to use the domains from the Welsh Assembly and a number of key Welsh businesses and public bodies.

From the very earliest stages, making the registries bilingual Welsh and English entities has been important to us. All literature and information is created in each language separately and delivered across a number of communication platforms in its own right. During the year, we progressed development of a brand for .cymru and .wales that embraces the personality of Wales - inclusive, upbeat and honest. Represented by the "Dots" - who you can meet at www.ourhomeonline.org.uk and www.eincartrefarlein.org.uk. A high profile above the line media campaign will coincide with launch, forming part of a programme of event attendance and brand communication.

With the need for Welsh and English speaking communication and liaison we have opened an office in Cardiff Bay which is home to the Welsh Commercial Team, and engaged Gwynedd County Council's Galw Gwynedd team to deliver Customer Services support from their offices in North Wales. These initiatives will help us deliver on our commitments to run a fully bilingual service that provides ongoing economic benefit to Wales. In order to secure a route to market for the .cymru and .wales registries, we set up Nominet Registrar Services Limited (NRS). NRS is an ICANN

Accredited Registrar designed to allow non-ICANN accredited registrars to sell the cymru and .wales domains.

As the business grows we are continuing to invest in our people to ensure they are able to deliver the strategic objectives of the business. During the year, we completed a restructure programme which saw us organised into three directorates: Technical, Commercial and Operations, in order to better deliver for our customers in the current changing market. Our leadership team has developed over the year. We were disappointed that our first appointment to the Chief Commercial Officer position was short-lived. However, we launched a new recruitment process and were pleased to appoint Antonia Seymour as Chief Commercial Officer at the start of 2014.

Especially while undergoing such significant change, which can be unsettling for some, we were pleased to be listed at number 63 in the not for profit section of the Sunday Times Best Companies list.

Giving back to the local community is important to us, and our people raised over £24,000 for our charity partner Maggie's Cancer Care in Oxford during the year. Maggie's Centres offer free, comprehensive support for anyone affected by cancer. This financial year we are supporting Oxford Food Bank, a local charity providing food to those who need it that would otherwise have gone to waste. In addition we continue to support local schools and initiatives to help connect education to business. Through initiatives such as these, we seek to ensure people who work at Nominet have a strong relationship with our company and surrounding community, maintain excellent levels of engagement, and we attract and retain great employees to grow our business.

Corporate governance

The Board is committed to ensuring high standards of corporate governance. As a private company limited by guarantee, Nominet is not obliged to comply with the provisions of the UK Corporate Governance Code, however we have followed its principles as far as is practical, relevant and appropriate for a company of this size and structure.

Nominet's Board is organised into committees and working groups, which report back into the main Board, as does Nominet Registrar Services Limited (NRS).

Nominet Registrar Services Limited (NRS) is a wholly-owned subsidiary created to guarantee a route to market for .cymru and .wales. Under ICANN rules, there must be a formal separation of registry and registrar, a criteria fulfilled by the creation of NRS as a legally distinct company.

Best practice guidelines for structuring decisions in some areas recommend dedicated committees. Nominet has adopted this approach to staff pay policy and executive performance (via the Remuneration Committee), director appointment and termination (via the Nominations Committee) and oversight of financial processes and controls (via the Audit Committee). It also allows for specific focus on key areas for the company: oversight of our investments, diversification strategy and international policy development input.

NRS has two Board directors, both of whom are members of the main Nominet Board.

While working independently, Nominet Trust, our charitable foundation, includes a Nominet Board representative, a Nominet member representative and a staff representative amongst its Trustees.

The role of the Board is to provide leadership for 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 reviews management performance.

The Board usually meets every two months. Every Board member is required to declare their interest in any matter to be discussed at a meeting of the directors. Where appropriate, directors are not party to any discussion or decision where they have an interest. Our external auditors reviewed the register of Board members' interests during their audit of the company's financial statements.

During the 2012/13 year, our Board comprised three executive directors, including the CEO, and seven non-executive directors, including the Chair. Four of the non-executive directors are elected by the membership. The proportion of women on the Nominet Board was 40 %.

Non-executive director elections were held in July 2013. Dickie Armour and Nora Nanayakkara were re-elected to the Board. The members of Nominet approved changes to the Board structure at the 2013 AGM to allow for an additional executive director, an increase in the term of an elected non-executive director from two to three years, and the removal of an inflexible maximum term limit for non-executive directors.

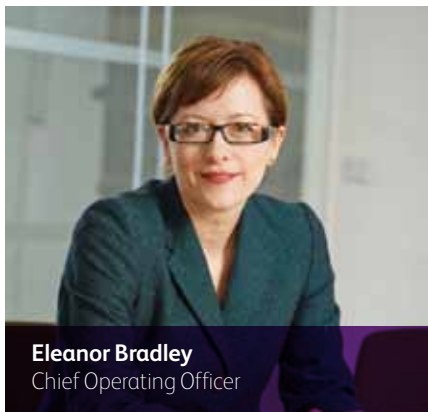
The Board met seven times during the year. Board activities included a regular review of management accounts and key performance indicators, updates on key projects and consideration of policy matters. The Board also approved a revised corporate Vision and Mission and 2018 strategic targets. Following each meeting a communiqué is published on the company website outlining the matters discussed.

The Board approved the budget for the financial year starting on 1 October 2013 and resolved to make a charitable donation of £6 million to the Nominet Trust. It also expressed a wish that £2m of the donation should be used to encourage the use of digital technology to address economic challenges in society.

During the year a small number of members raised concerns about corporate governance issues at Nominet, and how the Board had dealt with them. In response, the Board sought an external legal opinion on the appropriateness and legitimacy of its decisions throughout the period of concern. The conclusion of this opinion was that there had been no breaches of fiduciary duty by Nominet Board members, and that Board decisions had been appropriate and entirely reasonable in the circumstances. A copy of the full opinion is available on the company website.

A related dispute had also led to the commencement of legal proceedings by Nominet on grounds of defamation, but we are pleased to say that the action has subsequently been discontinued, allowing the business to maintain its focus on the major business challenges ahead.

Board members



Board members

Baroness Rennie Fritchie DBE

Chair

Baroness Fritchie DBE is an Independent Crossbench Peer; member of the Parliamentary Internet, Communication and Technology Forum; Chair of the 2gether NHS Trust for Gloucestershire until 31 December 2012; a consultant on strategy and leadership working out of Mainstream Development; a non-executive director of UKSBS and Chancellor for the University of Gloucestershire. Having joined as Chair of Nominet in 2010, Rennie was reappointed following a member vote in 2013. She chairs the Development Working Group and the Nominations Committee, and serves on the Remuneration Committee and in the International Working Group.

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

Baroness Fritchie served as 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.

She 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.

Lesley Cowley OBE

Chief Executive

Under Lesley's leadership, Nominet has become the trusted guardian of a vital part of the UK internet, providing services relied upon by millions of businesses and consumers. This success has enabled over £30m to be donated to its charitable foundation, the Nominet Trust, of which Lesley was a founding Trustee. Lesley currently chairs Nominet's International Working Group, and serves on its Development Working Group and its Nominations Committee. She is a board member of Nominet Registrar Services.

Respected in the international internet community, Lesley is a Council Member of ICANN's Country Code Names Supporting Organisation (ccNSO) and served as Chair from 2011 until 2013.

Lesley Cowley was awarded an OBE for services to the internet and e-commerce in 2011. She champions IT skills and women in computing and IT and was named as one of the 500 Most Influential People in the UK by Debretts & The Sunday Times in 2014 and the top five most influential women in UK IT by Computer Weekly in 2012 and 2013. In 2013, she was the recipient of the inaugural ICANN Leadership Award for her leadership in the multi stakeholder community, involving the ccNSO and Women in DNS, together with her leadership of Nominet. She is a member of the UK Government's Cyber Crime Reduction Partnership and a member of the BCS Policy and Public Affairs Board.

Lesley is a Fellow of a number of respected bodies including; the Royal Society for the encouragement of Arts, Manufacturers and Commerce; The Institute of Directors; The British Computer Society; The Institute of Credit Management and The Chartered Management Institute. She is a Freeman at The Worshipful Company of Information Technologists, a Member of The Inspirational Women Network, and a STEM speaker for schools.

Lesley has been Chief Executive of Nominet since 2002.

Dr Clive Grace OBE

Non-Executive Director

Clive has a keen interest in the internet as an end-user across the range of his business and personal interests, and a particular commitment to its self regulation. He was co-opted to the Board in December 2008 following a competitive selection process, then elected by the membership in July 2009, and subsequently appointed as one of the independent non-executive directors under the revised constitution. He is Chair of the Audit Committee and the Nominet representative on the Wales Advisory Group.

He has extensive Board level experience in the not-for-profit, public and commercial sectors. He chairs UK Shared Business Services Ltd, and the Board of BT Wales. He is the Honorary Secretary of the Solace Foundation, and an Honorary Research Fellow at Cardiff Business School.

He is a former Deputy-Auditor General of Wales, and the former Chief Executive of Torfaen County Borough Council.

Clive was awarded an OBE for services to business and to the community in 2013.

Eleanor Bradley

Chief Operating Officer

Eleanor is responsible for operations and corporate services at Nominet - this includes customer service, dispute resolution, policy development, and the finance, legal and HR functions.

Eleanor also leads Nominet's business continuity and risk management team, key areas of focus in a company operating at the heart of the UK internet.

She has over 15 years' experience in the internet industry with a focus on customer service, continuous improvement and stakeholder engagement.

She has been an executive director since December 2012 and is a member of the Investment Committee.

Simon McCalla
Chief Technology Officer

Simon leads the team responsible for the technology behind Nominet's world class registry services, providing a vital resource on which millions of businesses and individuals depend.

Building on Nominet's expertise with the Domain Name System, Simon provides technical leadership within the UK and international internet communities, regularly representing Nominet with technical, government and media audiences. In 2011, Simon co-ordinated an international review of the security and stability of the global Domain Name System.

Tasked with driving Nominet's diversification, Simon has introduced a new emphasis on technical research and development. Under his direction, Nominet's Research labs have developed technology that allowed them to identify a major bug in the global internet infrastructure.

Simon is a fellow of the British Computer Society, and has over 20 years' experience overseeing information technology for global enterprises across retail, entertainment and consultancy sectors.

Simon joined the Board of Nominet as an executive director in November 2012, and is a member of the Development Working Group.

Thomas Vollrath
Non-Executive Director

Thomas was first elected to the Nominet Board by our members in May 2010 and re-elected in May 2012. He serves on the Remuneration Committee and is a Trustee of the Nominet Trust.

Thomas has succeeded in delivering business growth in a variety of contrasting situations, including turning around and realising significantly enhanced value in previously under-performing divisions.

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

Nora Nanayakkara
Non-Executive Director

Nora is an experienced Business Development, Marketing and Communications professional. From experience gained at Sedo (United Internet), Nominet and IPRota, she is an advocate for registries and registrars working together to ensure the internet remains secure, stable and interoperable.

Nora is a member elected non-executive director at Nominet, where she serves as a member of the Audit, Remuneration and Nominations committees.

Prior to joining the Nominet Board, Nora served as an elected member of Nominet's Policy Advisory Body. She has provided business consultancy services to small charities through Pilotlight, a UK charity that works to help small local charities build sustainable operating models. A fluent German speaker, Nora brings an informed perspective of the international domain name industry and a wide network of strong and positive relationships with key stakeholders. Nora is a non-executive director at the Intellectual Property Office and a member of its Audit Committee.

Dickie Armour
Non-Executive Director

Dickie joined the Nominet board as a non-executive director in May 2011 and was re-elected in 2013. He serves on the Investment Committee and the Audit Committee.

He has extensive experience of the internet services industry and the domain name market, having set up, run and sold two successful hosting businesses. He is currently General Manager of Fibrant Services Ltd, a domain name registrar and software development company.

Dickie is a passionate advocate of social media. He is a founder of the Business Mentors Club, which helps businesses in the South West share best practice, including social media opportunities. Dickie is also an active member of 4Networking and runs regular group sessions in Bristol.

Sebastien Lahtinen
Non-Executive Director

Sebastien is a member elected non-executive director and is Nominet's Senior Independent Director. He currently serves on Nominet's Remuneration and Nomination Committees, and the Development Working Group. He previously served as a non-executive director of Nominet between 2007 and 2009. Sebastien was also a member of Nominet's Policy Advisory Body for four years, two of them as Chair.

An entrepreneur with a strong interest in internet related projects, Sebastien is a director of hosting company NetConnex and co-founder of independent broadband information site thinkbroadband.com. Until January 2013, he was also Chairman and director of LONAP, a not-for-profit Internet Exchange Point.

Piers White MBE
Non-Executive Director

Piers 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 and re-appointed by the members in May 2012. He currently chairs Nominet's Remuneration and Investment Committees. Piers is also on the Board of Nominet Registrar Services Limited.

Piers is a non-executive director at Ordnance Survey, The Hyde Housing Association, ACS International Schools Ltd and Chair of Ploughshare Innovations Ltd, the technology transfer arm of Dstl, the MOD's research establishment. Piers is a Governor of Croydon College.

Previously, Piers held a number of executive roles in banking including as; Service Director for Barclays UK branches, senior executive roles at Flemings and as UK Chief Executive Officer of Insinger de Beaufort, the Anglo-Dutch private investment bank.

Piers 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.

Board committees

Audit Committee

Clive Grace (Chair), Nora Nanayakkara & Dickie Armour

Purpose

The Audit Committee was established in September 2002, and 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 independent judgement. The committee reports to the Board on how it is discharging its responsibilities following each committee meeting.

The role of the committee is to monitor the financial processes and controls resulting from policies set by the Board, in addition to monitoring the integrity of the company's financial statements and any significant judgements therein. The committee particularly focuses on the independence, scope, results and effectiveness of the external audit, as well as reviewing the effectiveness of the safeguards in place to mitigate any independence concerns resulting from non-audit services provided by the external auditors. It looks at the effectiveness of the processes of governance and value for money. The committee also checks on compliance with policy, statutory requirements, professional standards and the operation of internal controls. Full terms of reference are available on the Nominet website.

Report from the Chair

The Audit Committee met three times over the last financial year, in December, February and September. On these occasions we:

- Carried out a re-tendering process for external audit suppliers, which led to the recommendation to re-appoint Grant Thornton.
- Piloted a scheme to establish an internal audit function, which was subsequently rolled out across the company.
- Instigated a review of the risks associated with diversification.
- Reviewed staff policies leading to the introduction of a revised whistle-blowing policy, and a new bribery policy.
- Reviewed security procedures, and oversaw the achievement of IT security standards ISO20000 and PCI level 2.

Investment Committee

Piers White (Chair), Dickie Armour & Glenn Hayward

Purpose

The Investment Committee monitors the development and application of Nominet's investment strategy, to ensure investments are made according to that strategy and related asset allocation limits. The committee assesses the performance of our investment managers, Quilter Cheviot, in matters of compliance with the strategy, service provision and value for money.

The committee also sets and reviews treasury policy, including monitoring the distribution of the company's cash balances, and proposing recommendations on treasury policy to the Board as appropriate. The Investment Committee was established in March 2011 and is required to meet at least twice a year. Full terms of reference are available on the Nominet website.

Report from the Chair

The Investment Committee met three times over the last financial year, in November, February and June.

The committee completed the planned Investment Manager retendering process, reviewing market leading investment management organisations with a focus on service quality, investment approach, risk management and value for money. The market review was particularly helpful as other reputable investment managers endorsed our current strategy and asset allocation for the achievement of our Investment Objectives.

As a result of this process, the committee decided to re-appoint Quilters as our Investment Managers. This was on an improved fee basis. Since the conclusion of the selection process, Quilters has acquired Cheviot Asset Management, another investment management firm, merging with them in January 2013 to form Quilter Cheviot.

Our Investment Objectives were unchanged during the year with a continued focus on a disciplined approach to investing with a primary objective of capital protection and retaining sufficient liquid funds to execute corporate strategies. Our secondary objective is long-term capital growth and income from the portfolio and it is pleasing to note the performance of the portfolio remains above comparable benchmarks. Over the course of the financial year the portfolio aggregate market value increased from £35.6m to £40.9m.

The committee routinely assessed the performance of the company's investments, reviewing reports provided by Quilter Cheviot relating to the performance of the various asset classes held within the Nominet portfolio. The committee also reviewed the investment strategy and related asset allocations, proposing various minor amendments that were then adopted by the Board.

The committee continued to track the reliability of the company's cash-flow forecasts at each meeting as well as the credit status of the panel of banks with which we hold funds on an ongoing basis as part of our monthly financial reporting.

During the year the committee reviewed its terms of reference to ensure they were complete and comprehensive.

Board committees

Continued

Remuneration Committee

Piers White (Chair), Rennie Fritchie, Sebastien Lahtinen, Nora Nanayakkara & Thomas Vollrath

Purpose

The Remuneration Committee shall review and determine the company's policy on remuneration and advise on the specific remuneration packages of Senior Management, including the CEO, so as to:

- ensure that Senior Management are rewarded for their individual contributions to the Company's overall performance in accordance with Nominet's policy on pay and remuneration;
- and demonstrate that the pay of Senior Management is set by a committee which has no personal interest in the outcome of its decision and which gives due regard to the interests of the public and of the financial health of the company.

It shall provide a medium of public accountability, which is not controlled by the company's Management.

The full terms of reference can be found on Nominet's website.

Governance

The Committee makes recommendations to the Board. No Director plays a part in any discussion about his or her own remuneration. In determining the Directors' remuneration for the year, the Committee consults AON Hewitt market related data and takes advice from the Director of HR.

Report from the Chair

During the last financial year, the Remuneration Committee met four times – in November, April, June and September.

The Remuneration Committee continued to review the application of the company's remuneration strategy and uphold the company's principles of remuneration, which are:

- Pay competitive base salaries defined as between median and upper quartile of the market
- To reward our best performers the most and not to reward poor performance
- Attract great employees to grow the business
- Motivate employees to continue to excel by supporting a performance-orientated culture
- Create the environment to retain the right employees to promote continuity and preserve intellectual capital
- Maintain a reasonable cost structure
- Be driven by local market and industry data

In line with our remuneration principles we allocated a budget of 3 % for pay rises this year; very high performers were rewarded with increases of up to 10 %, while over 30 % of employees received no increase in pay.

For the year ended 2012/13 companywide performance was assessed as having met 74 % of the key performance targets. This figure was down on recent years reflecting a continued focus on stretching targets and a more challenging trading environment. The company paid out bonuses of £413.8k to staff, £57k to the executive team (excluding the CEO) and £43k to the CEO. One third

of executive bonuses were deferred for three years as part of a deferred bonus arrangement. The deferred element of any award is subject to adjustment, up or down, depending upon the company performance against medium term objectives, with a maximum potential increase of £28k.

During the year the committee reviewed the company's bonus and benefits arrangements with the objective of ensuring some simplification and to ensure we considered the impact of the diversification of Nominet's business on performance targets. For 2013/14 a simpler new bonus scheme closely linked to the company's key strategic priorities has been launched. The scheme requires a series of threshold measures to be met before any bonuses are awarded and ensures only high performance is rewarded. The review of benefits has led to a revised benefits package for new starters in 2013/14 with the level of benefits closely aligned to the market. This is to be followed by the introduction of Flexible Benefits for all staff in 2014.

In addition, the committee oversaw the introduction of the new executive team (comprising the Chief Commercial Officer, Chief Operating Officer and Chief Technology Officer) on market based employment Terms and Conditions and approved the internal restructuring of the commercial team to ensure appropriate expertise was in place to meet the company's objectives.

The committee also monitored the plans to ensure the smooth implementation of the pension auto enrolment process which takes effect for Nominet staff in May 2014.

Nominations Committee

Rennie Fritchie (Chair), Lesley Cowley, Nora Nanayakkara & Sebastien Lahtinen

Purpose

The Nominations Committee was established in March 2010. It is required to meet at least twice a year. The role of the committee is to evaluate the balance of skills, knowledge, experience, diversity and general capability on the Board. It also oversees appointments of the appointed non-executive directors and any executive appointments. The committee endeavours to ensure that any appointments maintain or improve the composition of the Board. The full terms of reference are available on the Nominet website.

Report from the Chair

The Nominations Committee met three times during the year. The work of the committee included reviewing the Annual General Meeting and non-executive director elections process, the time commitment required of our non-executive directors, recruitment of a Chief Commercial Officer and senior executive succession planning. The work of the committee is regularly reported back to the Board.

Development Working Group

Rennie Fritchie (Chair), Lesley Cowley, Sebastien Lahtinen, Simon McCalla & Piers White

Purpose

The Development Working Group was established in February 2012, consists of at least three directors and is chaired by the chair of the Nominet Board. The chair provides a report at each Board meeting on the proceedings of the Working Group.

The role of the Working Group is to provide Board oversight of early stage opportunities for business diversification. The Working Group provides thought leadership and strategic thinking in order to maximise the conversion of any early stage opportunities which meet the business strategy as agreed by the Nominet Board. The Working Group also aims to leverage industry networks and other business contacts where possible so as to best support business development activity.

Report from the Chair

The Development Working Group met six times during the year. At each meeting the Business Development Pipeline and Research and Development update are reviewed and a progress update is given. Specific updates on key business development projects are discussed at periodic intervals, and then reported back to the Board.

Internal controls and risk management

Nominet's risk management strategy is to identify, understand and appropriately treat the risks that Nominet faces as an organisation using the risk management processes set out in our risk management statement and risk management policy, which together form our risk assessment process. The Board of Directors holds responsibility for ensuring that Nominet maintains a sound system of risk management and control.

Day-to-day responsibility for identifying risks and managing risk treatments lies with the Senior Management Team. The Board of Directors is responsible for regularly reviewing the effectiveness of this system of risk management and control. We work to manage and reduce risk with full acknowledgement that it is not always possible to eliminate risk completely. We follow the best practice guidance set out in ISO 31000:2009.

During the year we continued to develop and enhance the corporate Risk Register, fine tuning the reporting mechanisms and formalising elements that are required for the ISO Information Security standard (ISO27001:2013). The Board's Audit Committee reviews the Risk Register and our progress with treating risks at each of its meetings, as well as conducting a full review of the Risk Register on an annual basis. New risks or substantive changes to previously identified risks are reviewed at each Board meeting.

We have developed an internal audit capability within the business which has reported on its first year of activity to the Audit Committee. A new programme of activity has been produced which will be delivered over the coming year.

Nominet completed its transition to the ISO standard for Business Continuity (ISO22301:2012) and is now certified to this new standard. We have carried out routine business continuity exercises

throughout the year to ensure that our disaster recovery and emergency response plans are fit for purpose and well rehearsed. We are progressing well with preparing for certification to the ISO standard for Information Security (ISO27001:2013).

In recognition of our dependence on IT security, we maintained our regular schedule of security testing using external experts. The experts' reports and recommendations were considered and used to further strengthen our IT controls. We have forged strong relationships with governmental and non-governmental groups ensuring that Nominet is at the centre of security discussions about the UK internet.

Managing our risks

Taking and managing risks is an inevitable part of doing business and, like all businesses, Nominet faces potential threats and opportunities that could affect the long term success of the company, the protection of its reputation and assets and the delivery of its Public Purpose agenda. The key challenge is to identify the principal risks and to develop and monitor appropriate and proportionate responses.

A successful risk management approach balances risk and rewards and relies on a sound judgement of their likelihood and impact.

The Board is responsible for approving the company's strategy and the level of acceptable risks. Our risk management approach enables informed decision-making based on an assessment of the impact and likelihood of events, and seeks to balance risk and reward rather than eliminate risk entirely.

The company has a formal risk management approach that is used to identify and record risks. These are consolidated into a corporate

risk register which is considered by the Audit Committee at each of its meetings. Responsibility for managing each risk and the associated controls and mitigations is allocated to an individual member of the senior management team. As part of the risk management process the senior management team routinely review risks and their management at their monthly meetings.

The table on the next page sets out the principal risks faced by the company and outlines examples of relevant controls and mitigating factors. The Board considers these to be the most significant risks to the company. They do not comprise all risks associated with the company and are not set out in any order of priority. Additional risks not currently known to management, or currently deemed to be less material, may also have an adverse effect on the company.

Description of risk	What we are doing to manage the risk
<p>Business disruption</p> <p>Key to our business is the infrastructure and technology through which we provide our core services.</p>	<ul style="list-style-type: none"> • Continued significant investment in the resilience of our DNS infrastructure with the completion of a major infrastructure transformation programme in the FY. • Strong IT policies and operational controls are in place. • Levels of security are monitored and continue to be enhanced. • Robust disaster recovery plans and a comprehensive business continuity management system are in place and tested on a regular basis.
<p>Market risk</p> <p>We are entering a more competitive environment as a result of the liberalisation of the Top Level Domain market. We must ensure we invest and adapt to remain competitive and relevant.</p>	<ul style="list-style-type: none"> • Continuing to focus on the quality of our core business through initiatives to improve industry standards and reputation of the UK namespace. • Investing in the development of our brands. • Maintaining the quality of our products and investing in new products to meet the needs of our customers.
<p>Business development and change</p> <p>We fail to deliver our plans for the development and growth of our business due to capacity or capability constraints.</p> <p>Failure to manage these change programmes adequately could put at risk our objectives and financial targets and expose the business to significant liability.</p>	<ul style="list-style-type: none"> • Ongoing commitment to building capacity commensurate with the development of the business, while recognising that we are doing so in a challenging employment market. • The Board's Development Working Group is designed to ensure appropriate rigour and prioritisation is applied to decisions to explore new business areas. • Effective approaches to risk assessment, management and mitigation regarding business development and growth are deployed. • We operate a rigorous programme and project management approach including regular reviews of each programme to consider resource requirements, progress, dependencies between projects, and risks. • Effective governance structures for major programmes with close monitoring by Executive Management and, where appropriate, the Board. • Engagement of key stakeholders and colleagues involved in and affected by change.
<p>Reputation and brand</p> <p>Our reputation is damaged by a significant adverse event leading to a loss of trust and confidence amongst our stakeholders.</p>	<ul style="list-style-type: none"> • Ongoing commitment to operating in the public interest, recognising our obligation to balance the needs of our broad and diverse range of stakeholders. • Focus on business continuity and resilience, customer service, multi-stakeholder policy development and the development of products and services to enhance trust and confidence in the internet.
<p>Regulation</p> <p>Nominet is subject to strategically damaging regulation.</p>	<ul style="list-style-type: none"> • We continue to focus on demonstrating that the industry can effectively self-regulate its activities. • In relation to our core business we have worked to raise standards across the industry through revisions to our contract with our channel, improving the quality of customer data and launching a review of our registration policies. • We maintain strong relationships with our key Government stakeholders and remain committed to the multi-stakeholder model for developing policy in relation to the broader governance of the internet. We actively support the IGF and its role in this regard.
<p>Failure to diversify</p> <p>We are committed to diversifying our products and services building on our skills and reputation to deliver our strategic objectives.</p>	<ul style="list-style-type: none"> • Ongoing investment in our Research & Development and business development capability to deliver technical innovations and commercially successful new products.

During 2012/13, a formal internal audit function was introduced to Nominet. This function is consistent with and complementary to our risk management process and provides assurance to senior management of the effectiveness of the controls framework that is in place to manage our compliance with the relevant ISO and British Standards, as well as delivery of all business processes that provide a service or benefit to our customers.

Having a positive impact on the environment

Nominet has continued to be committed to reducing its environmental impact and carbon emissions.

In support of this we scrutinise our electricity consumption through half hourly metering so that we can understand our electricity usage patterns and make efforts to reduce consumption wherever possible. We recycle extensively with all recyclables (glass, paper, cardboard, plastic), electrical goods and food waste collected and sent to appropriate recycling facilities. We use sustainably produced stationery.

Our purpose-built offices were designed with environmental concerns in mind and we have maintained this approach in all refurbishments that have taken place over the year. We have naturally cooled open plan office spaces and movement activated lighting which turns off when no-one is using a particular space. We have an ongoing programme of replacing traditional light bulbs with LED replacements and have reduced our usage of traditional light bulbs by 50 %. We have plumbed in water coolers throughout the building and have

reduced our usage of bottled water and plastic cups significantly.

We promote sustainable commuting and have provided new facilities for cyclists and runners to dry and store their sportswear. We carefully consider all corporate travel arrangements and use sustainable forms of transport where we can.

We ask suppliers to include their environmental credentials and solutions when submitting tenders for business to us.

Welcoming diversity

Nominet is committed to a fair, equal opportunity approach at all levels of its business. Attracting great employees and rewarding great performance is a key aspect of our growth strategy and we do this regardless of gender, race, age, disability, ethnic or national origin, sexual orientation, family status or religion.

nominet[®]
is committed
to reducing its
environmental impact
and carbon emissions

Officers and professional advisers

Company registration number

03203859

Registered office

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

Directors

L Cowley OBE
Baroness I Fritchie DBE
R Armour
E Bradley (appointed 29 November 2012)
C Grace OBE
S Lahtinen
S McCalla (appointed 1 November 2012)
N Nanayakkara
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
Statutory Auditor
3140 Rowan Place
John Smith Drive
Oxford Business Park South
OXFORD
OX4 2WB

Strategic report

Introduction

The principal activity of the Group is the registration and maintenance of Internet Domain Names, primarily within the UK namespace. The principal activity of the subsidiary, Nominet Registrar Services Ltd, is the business of providing .cymru and .wales top level domains to registrars who are not ICANN accredited.

Business Review and financial key performance indicators

The business review and financial key performance indicators are shown in the Managing our finances section.

Outlook and future developments

Nominet continues to plan for a changing domain name and internet landscape.

We are committed to building a sustainable long-term business that allows us to play a part in building a safer internet and a strong digital economy.

The primary focus of our business to date, the management of domain names, is undergoing its biggest ever period of change. Anticipating this will bring increased competition, the Board remains committed to strengthening our offering, and working in partnership with our registrars to drive awareness of the benefits of choosing a UK domain.

We will strengthen the core registry business through a greater focus on raising standards in the way both we and our channel operate, to ensure that our portfolio of domain names represent trust and security for registrants and internet end-users alike.

Our core registry business remains solid, but it is under a competitive pressure we expect will only increase. We have therefore placed a greater focus on becoming a more diversified business. The Nominet of the future will not be based solely on the management of domain names, but will expand to include additional products and services. Our investments in R&D reflect a serious commitment to plan for the future in a way that builds on our knowledge base. We will continue to explore opportunities to expand our offer within the DNS space, and to diversify outside of the DNS space with a strong focus on R&D-driven technology innovation.

Expectations from government are increasing, with both national and international bodies looking for an adequate internet response to challenging internet issues. We will continue to

put the case for responsible self-regulation, while taking appropriate proactive action to ensure we are playing our part in maintaining the security and stability of the internet, in line with our public purpose.

There is, however, an increasing risk of a cyber-attack that would disrupt our registry – as we've seen with other registries being victims of large scale 'Denial of Service' attacks. Despite prudent mitigation strategies, we cannot guarantee we will remain unaffected in future.

The Board recognises the importance of the membership, and accordingly, we will assess our relationship with members to understand how this should evolve in the years ahead. We are also committed to continual evolution – keeping pace with the business's development and with best practice – to ensure the highest standards of corporate governance.

Principal risks and uncertainties

The group is exposed to a variety of financial risks which result from both its operating and investing activities. The Board is responsible for coordinating the group's risk management and focuses on actively securing the group's cash flows.

The most significant financial risks to which the group are exposed are described below.

Financial instrument risk

The group 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 expose 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 group 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 PRA and FCA regulated institutions. Short-term flexibility is achieved by treasury deposits and other bank facilities accordingly.

This report was approved by the Board and signed on its behalf.

Baroness I Fritchie DBE

Chair

4th April 2014

Report of the directors

The directors present their annual report and the financial statements of the Group for the year ended 30 September 2013.

Information given in the Strategic report

Information on the future developments of the business and financial risks is given in the strategic report.

Directors

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

Baroness I Fritchie DBE
Nominet Chair

L Cowley OBE

C Grace OBE
(Senior Independent Director to 3 September 2013)

R Armour

G Hayward
(resigned 1 November 2012)

S Lahtinen
(Senior Independent Director from 3 September 2013)

N Nanayakkara

T Vollrath

P White MBE

E Bradley
(appointed 29 November 2012)

S McCalla
(appointed 1 November 2012)

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 group's accounts.

Donations

During the year the company made a donation of £6m (2012: £6m) to the Nominet Charitable Foundation ("the Nominet Trust"). The 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 the Nominet Trust, from a total of six. The Nominet Trust operates independently from the company.

In addition to the above, during the year the company contributed £6,830 (2012 : £ 12,854) 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".

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 Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). 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 group and company and of the profit or loss of the group 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 group's transactions and disclose with reasonable accuracy at any time the financial position of the group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that: so far as each director is aware, there is no relevant audit information of which the group's auditor is unaware; and the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

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.

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.

This report was approved by the Board and signed on its behalf.

Baroness I Fritchie DBE
Chair
4th April 2014

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 2013 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. 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, 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 and express an opinion on 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/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 September 2013 and of the group's 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 Strategic report, the Report of the directors, the Chair's statement, the Chief Executive's statement and the Managing our finances section.

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Perry Burton

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

Principal 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.

Basis of consolidation

The financial statements consolidate the accounts of Nominet UK and all of its subsidiary undertakings ("subsidiaries"). These are adjusted, where appropriate, to conform to group accounting policies.

Acquisitions are accounted for under the acquisition method and the results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes retrospectively. The results of subsidiaries acquired or incorporated during the year are included from the effective date of acquisition or incorporation. A separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 408 of the Companies Act 2006.

The profit for the financial year for the company, as opposed to the group, was £2,756k (2012: £3,598k).

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.

Turnover from the auction of domain names is recognised when the ownership of the domain name passes to the customer.

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.

Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred.

Development costs are capitalised within intangible assets where they can be identified with a specific product or project anticipated to produce future benefits, and are amortised on the straight line basis over the anticipated life of the benefits arising from the completed product or project, as set out in SSAP 13 - Research and Development.

Deferred research and development costs are reviewed annually, and where future benefits are deemed to have ceased or to be in doubt, the impaired element of the balance of any related research and development is written off to the profit and loss account.

Amortisation is provided at the following rates:

gTLD development costs
- over 10 years

other development costs
- over the life of the asset

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.

Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year.

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.

Consolidated profit and loss account

For the year ended 30 September 2013

	Note	2013 £000	2012 £000
Turnover from registrations and subscription fees		26,830	25,237
Turnover from auction of domain names		-	12
Total turnover	1	26,830	25,249
Movement in provision against investments	10	(267)	(373)
Donation to the Nominet Trust	2	6,000	6,000
Other operating charges	2	19,810	16,904
Total operating charges		25,543	22,531
Operating profit	3	1,287	2,718
Operating profit before amounts provided against investments, donation to charitable foundation and auction proceeds		7,020	8,333
Income from fixed asset investments	10	854	826
Interest receivable	6	90	138
Profit on disposal of investments	10	880	608
Profit on ordinary activities before taxation		3,111	4,290
Tax on profit on ordinary activities	7	(423)	(692)
Profit for the financial year	18	2,688	3,598

All amounts relate to continuing activities

The group has no recognised gains or losses other than the results for the year as set out above in both the current and preceding financial periods.

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

Consolidated balance sheet

As at 30 September 2013

	Note	2013 £000	2012 £000
Fixed assets			
Tangible assets	8	11,429	12,400
Intangible assets	9	579	327
Investments	10	34,472	31,681
		46,480	44,408
Current assets			
Debtors	11	5,979	5,403
Cash at bank		9,307	7,908
		15,286	13,311
Creditors: amounts falling due within one year	13	2,878	2,492
Net current assets		12,408	10,819
Total assets less current liabilities		58,888	55,227
Deferred income	14	27,293	26,320
		31,595	28,907
Reserves			
Profit and loss account	18	31,595	28,907
Total funds		31,595	28,907

These financial statements were approved by the directors and authorised for issue on 4th April 2014, 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.

Company balance sheet

As at 30 September 2013

	Note	2013 £000	2012 £000
Fixed assets			
Tangible assets	8	11,429	12,400
Intangible assets	9	579	327
Investments	10	34,472	31,681
		46,480	44,408
Current assets			
Debtors	11	6,247	5,403
Cash at bank		9,107	7,908
		15,354	13,311
Creditors: amounts falling due within one year	13	2,878	2,492
Net current assets		12,476	10,819
Total assets less current liabilities		58,956	55,227
Deferred income	14	27,293	26,320
		31,663	28,907
Reserves			
Profit and loss account	18	31,663	28,907
Funds		31,663	28,907

These financial statements were approved by the directors and authorised for issue on 4th April 2014, 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.

Consolidated cash flow statement

For the year ended 30 September 2013

	Note	2013 £000	2012 £000
Net cash inflow from operating activities	19	4,056	4,085
Returns on investments and servicing of finance	19	944	964
Taxation	19	(550)	(1,509)
Capital expenditure and financial investment	19	(3,051)	(7,376)
Increase/(Decrease) in cash		1,399	(3,836)

Notes to the financial statements

For the year ended 30 September 2013

1 Turnover

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

	2013 £000	2012 £000
United Kingdom	17,283	16,863
Overseas	9,547	8,386
	26,830	25,249

2 Other operating charges

	2013 £000	2012 £000
Staff	9,295	8,230
Technical	2,789	2,103
Other administrative	2,989	2,443
Depreciation and loss on disposal of fixed assets	2,126	1,553
Operations	304	331
Facilities	776	713
Communications	1,531	1,531
	19,810	16,904

During the year the company made a donation of £6m (2012: £6m) to the Nominet Trust (see page 9). This amount has been separately disclosed on the face of the profit and loss account due to its material nature.

Notes to the financial statements

For the year ended 30 September 2013

3 Operating profit

Operating profit is stated after charging:

	2013 £000	2012 £000
Depreciation of owned fixed assets	2,126	1,553
Auditor's remuneration:		
Audit fees	24	20
Non-audit fees	15	16
Operating lease costs:		
Plant and machinery	59	69

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:

	2013 No	2012 No
Operations	87	79
Office	36	37
Management	11	10
	134	126

The aggregate payroll costs of the above were:

	2013 £000	2012 £000
Wages and salaries	6,812	6,298
Social security costs	839	766
Other pension costs	233	161
	7,884	7,225

Notes to the financial statements

For the year ended 30 September 2013

5 Directors

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

	2013	2012
	£000	£000
Emoluments receivable	869	722
Pension contributions to money purchase pension schemes	45	23
	914	745

Emoluments of highest paid director:

Total emoluments (excluding pension contributions)	252	273
Company pension contributions to defined contribution pension schemes	21	14

Notes to the financial statements

For the year ended 30 September 2013

5 Directors (continued)

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

	Salary/fees £000	Bonus (PRP)* £000	Pensions £000	** Other benefits £000	2013 £000	2012 £000
L Cowley	193	43	21	16	273	287
I Fritchie	90	-	-	-	90	90
R Armour	30	-	-	-	30	30
C Grace	32	-	-	-	32	32
G Hayward	13	-	1	1	15	184
S Lahtinen	30	-	-	-	30	30
N Nanayakkara	30	-	-	-	30	30
T Vollrath	30	-	-	-	30	30
P White	32	-	-	-	32	32
E Bradley	117	26	10	12	165	-
S McCalla	133	31	13	10	187	-
Year ended 30 Sept 2013	730	100	45	39	914	
Year ended 30 Sept 2012	592	105	23	25		745

* Of the bonus amounts disclosed above, with the exception of L Cowley, 33 % is deferred for a period of three years and payment is dependent on the director remaining in employment at Nominet for that period. The deferred element is subject to adjustment, up or down, depending upon the company performance against medium term objectives, with a maximum potential increase of £28k.

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

6 Interest receivable

	2013 £000	2012 £000
Bank interest receivable	90	138

Notes to the financial statements

For the year ended 30 September 2013

7 Taxation on ordinary activities

(a) Analysis of charge in the year

	2013	2012
	£000	£000
Current tax:		
In respect of the year:		
UK Corporation tax based on the results for the year at 23.5 % (2012 - 25 %)	604	703
Under/ (Over) provision in prior year	(52)	9
Total current tax	552	712
Deferred tax:		
Origination and reversal of timing differences (note 12)	(129)	(20)
Tax on profit on ordinary activities	423	692

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year differs from the standard rate of corporation tax in the UK of 23.5 % (2012: 25 %)

Profit on ordinary activities before taxation	3,111	4,290
Profit on ordinary activities multiplied by rate of tax	731	1,073
Fixed asset differences	32	9
Expenses not deductible for tax purposes	14	34
Income not allowable for tax purposes	(395)	(367)
Chargeable gains	127	-
Depreciation in excess of capital allowances	156	21
Research and development enhancement	(82)	(60)
Other short term timing differences	21	(7)
Adjustments to tax charge in respect of previous periods	(52)	9
Total current tax (note 7(a))	552	712

Notes to the financial statements

For the year ended 30 September 2013

8 Tangible fixed assets

Group and company

	Leasehold land and buildings £000	Computers £000	Other assets £000	Total £000
Cost				
At 1 October 2012	8,352	9,034	2,390	19,776
Additions	-	1,083	72	1,155
Disposals	-	(229)	-	(229)
At 30 September 2013	8,352	9,888	2,462	20,702
Depreciation				
At 1 October 2012	693	5,390	1,293	7,376
Charge for the year	136	1,766	224	2,126
On disposals	-	(229)	-	(229)
At 30 September 2013	829	6,927	1,517	9,273
Net book value				
At 30 September 2013	7,523	2,961	945	11,429
At 30 September 2012	7,659	3,644	1,097	12,400

Leasehold land is not depreciated. The land is owned by Magdalen College and leased by the company over 150 years.

Notes to the financial statements

For the year ended 30 September 2013

9 Intangible fixed assets

Group and company

	Development work £000	Total £000
Cost		
At 1 October 2012	327	327
Additions	252	252
Disposals	-	-
At 30 September 2013	579	579
Amortisation		
At 1 October 2012	-	-
Charge for the year	-	-
On disposals	-	-
At 30 September 2013	-	-
Net book value		
At 30 September 2013	579	579
At 30 September 2012	327	327

Intangible asset additions in the year relate to development costs associated with the generic top level domains project. These will be amortised over ten years from the date the company begins to generate revenue from the generic top level domains, which is expected to be in 2014.

Notes to the financial statements

For the year ended 30 September 2013

10 Investments

Group and Company

Listed investments

	2013	2012
	£000	£000
Cost and net book value		
At 1 October	31,681	27,554
Additions	1,000	2,500
Re-invested gains on disposal of investments	880	608
Re-invested income	854	826
Management charges and foreign exchange movements	(210)	(180)
Movement on provision against investments	267	373
At 30 September	34,472	31,681

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 37. At 30 September 2013 the total provision against fixed asset investments was £581,000 (2012: £847,000).

At 30 September 2013 the aggregate market value of the fixed asset investments was £40.9m (2012: £35.6m).

In addition to the investments above, the company has the following interests in subsidiary undertakings:

The company 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.

The company also holds 100 % of the equity share capital of its subsidiary undertaking, Nominet Registrar Services Limited. Nominet Registrar Services Limited was incorporated in preparation for the new gTLD project on 26 July 2012, when it issued one £1 share to Nominet UK.

Notes to the financial statements

For the year ended 30 September 2013

11 Debtors

	Group		Company	
	2013	2012	2013	2012
	£000	£000	£000	£000
Trade debtors	2,008	1,598	2,008	1,598
Other debtors	60	2	60	2
Prepayments and accrued income	3,710	3,729	3,707	3,729
Deferred taxation (note 12)	178	49	178	49
Corporation tax repayable	23	25	23	25
Amounts owed by group undertakings	-	-	271	-
	5,979	5,403	6,247	5,403

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

12 Deferred taxation

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

Balance brought forward	49	29	49	29
Profit and loss account movement arising during the year (note 7)	129	20	129	20
Balance carried forward	178	49	178	49

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

Excess of taxation allowances over depreciation	168	38	168	38
Other short term timing differences	10	11	10	11
Balance carried forward	178	49	178	49

Notes to the financial statements

For the year ended 30 September 2013

13 Creditors: amounts falling due within one year

	Group		Company	
	2013	2012	2013	2012
	£000	£000	£000	£000
Trade creditors	498	855	498	855
Other taxation and social security	728	383	728	383
Other creditors	351	31	351	31
Accruals	1,301	1,223	1,301	1,223
	2,878	2,492	2,878	2,492

14 Deferred income

Amounts to be recognised within one year	19,336	19,486	19,336	19,486
Amounts to be recognised after more than one year	7,957	6,834	7,957	6,834
	27,293	26,320	27,293	26,320

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

15 Commitments under operating leases

At 30 September 2013 the company had annual commitments under non-cancellable operating leases as set out below.

	Assets other than land and buildings	
	2013	2012
	£000	£000
Operating leases which expire:		
Within 1 year	15	6
Within 2 to 5 years	17	19
	32	25

Notes to the financial statements

For the year ended 30 September 2013

16 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 Sept	Income to Nominet UK	Purchases by Nominet UK
	2013 £000	2013 £000	2013 £000
Baroness I Fritchie DBE	-	-	3
S Lahtinen (NetConnex Ltd)	-	2	-
S Lahtinen (LONAP Ltd)	-	-	2
T Vollrath (Heart Internet Ltd)	(117)	1,098	-
T Vollrath (Webfusion Ltd)	(611)	6,050	30
T Vollrath (Mesh Digital Ltd)	(29)	315	14
	(757)	7,465	49
	2012 £000	2012 £000	2012 £000
Baroness I Fritchie DBE	-	-	4
S Lahtinen (NetConnex Ltd)	-	2	-
S Lahtinen (LONAP Ltd)	-	-	2
T Vollrath (Heart Internet Ltd)	(95)	1,007	-
T Vollrath (Webfusion Ltd)	(536)	5,423	-
T Vollrath (Mesh Digital Ltd)	(26)	88	-
	(657)	6,520	6

The directors personally purchased domain names from Nominet in the year.
The total amount invoiced per director was less than £750 (2012: less than £750).

All these transactions were on an arms length basis, on normal business terms.

Notes to the financial statements

For the year ended 30 September 2013

17 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 2013 was 2,841 (2012: 2,860).

18 Profit and loss account

Group

	2013 £000	2012 £000
Balance brought forward	28,907	25,309
Profit for the financial year	2,688	3,598
Balance carried forward	31,595	28,907

Company

Balance brought forward	28,907	25,309
Profit for the financial year	2,756	3,598
Balance carried forward	31,663	28,907

The Articles of Association of the company prohibit all distributions to the members. These funds are retained for the continuation of the ongoing operations and for contingencies.

Notes to the financial statements

For the year ended 30 September 2013

19 Notes to the cash flow statement

Reconciliation of operating profit to net cash inflow from operating activities

	2013	2012
	£000	£000
Operating profit	1,287	2,718
Depreciation	2,126	1,553
Amounts provided against investments	(267)	(373)
Increase in debtors	(448)	(906)
Increase in creditors	1,358	1,093
Net cash inflow from operating activities	4,056	4,085

The operating profit for the year ended 30 September 2013 is stated after a donation to the Nominet Trust of £6m (2012: £6m) and a decrease in provisions against investments of £267,000 (2012: £373,000).

Returns on investments and servicing of finance

Income from other fixed asset investments	854	826
Interest received	90	138
Net cash inflow from returns on investments and servicing of finance	944	964

Taxation

Taxation	(550)	(1,509)
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Notes to the financial statements

For the year ended 30 September 2013

19 Notes to the cash flow statement (continued)

Capital expenditure and financial investment

	2013 £000	2012 £000
Payments to acquire tangible fixed assets	(1,155)	(3,901)
Acquisition of fixed asset investments	(1,000)	(2,500)
Purchase of intangible fixed assets	(252)	(327)
Income re-invested in fixed asset investments, net of management charges and foreign exchange	(644)	(648)
Net cash outflow for capital expenditure and financial investment	(3,051)	(7,376)

Reconciliation of net cash flow to movement in net cash

(Decrease)/increase in cash in the period	1,399	(3,836)
Net cash at the beginning of the year	7,908	11,744
Net cash at the end of the year	9,307	7,908

Analysis of changes in net cash

	At 1 Oct	Cash flow	At 30 Sept
	2012 £000	£000	2013 £000
Cash at bank	7,908	(1,399)	9,307
Net cash	7,908	(1,399)	9,307

Notes to the financial statements

For the year ended 30 September 2013

20 Contingent liabilities

There were no contingent liabilities at 30 September 2013 or at 30 September 2012.

21 Capital commitments

There were no capital commitments at 30 September 2013 or at 30 September 2012.

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 response from DNS servers and aim to prevent DNS spoofing, which is a common technique used by hackers.

gTLD

A generic Top Level Domain (gTLD) is a top level domain that is open to registrants worldwide in contrast to country code top level domains that are often restricted to registrants located in a particular country or region. The most popular gTLDs are .com, .org and .net.

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. 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 customers' behalf rather than our behalf.

Registry

An internet domain name registry receives Domain Name System (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.

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