NOMINET

Annual Report & Financial Statements 2016

Annual Report

Financial Statements

Chair's statement

BARONESS RENNIE FRITCHIE REFLECTS ON THE LAST YEAR AS SHE CONCLUDES HER TERM AS CHAIR.

The completion of this financial year presents me with an opportunity to reflect on the progress of the past twelve months in two important areas – membership engagement and public benefit. As I conclude my term as Chair, it is timely to also reflect on both the changes, and the constants, that have helped shape our path forward.

As a membership organisation, we have worked hard over the last year to open up greater dialogue with more of our 2,500+ members. It was important to us that this tackled aspects of the broader membership relationship, not simply the business they do with us. Following the review by Sir Michael Lyons, we have put in place dedicated resource, and have re-invigorated efforts to share both our plans for our core .UK business and the steps we are taking to find new areas in which we can deploy our knowledge and skills. Updates from the CEO have explained our strategy, and the priorities driving our organisation forward and a newsletter aims to give members some useful domain industry insight.

After a successful registrar meeting in January 2016, over the course of the year we hosted a series of webinars that were well attended, prompted lively discussion and generated some suggestions that we have acted upon.

During this past year we began a pilot of our data analytics tool *turing*Essentials, as well as making the individual domain zone files available for the first time. A survey of members' views provided important insight as we continue our work in this area.

Public benefit remains at the heart of Nominet and in this area we have made significant progress over the last year. As Nominet evolves, we have sought to ensure our public benefit contribution keeps pace. Accordingly, the Board agreed three priorities that support and build on our core commitment to running a resilient and trusted .UK. Those are; to promote digital engagement, to play our part to ensure the internet is safe and trusted and to support the application of technology to tackle long-standing challenges in our wider society.

Those priorities are shared by both Nominet and Nominet Trust as we seek to work more closely together to build a vibrant digital future and help the internet benefit more people, in more ways, more of the time. Our success as a business has enabled us once again to make a significant donation to Nominet Trust of £5.4 million for a 17-month work programme that includes a focus on helping charities reap the benefits of a more sophisticated digital presence and to support their outreach to the most vulnerable.

Over FY16, Nominet has also invested directly in partnerships that will help young people from all backgrounds benefit from access to digital skills. Nominet became a founding partner of the Micro:bit Educational Foundation and will work with partners including the BBC, to help educate, equip and empower young people worldwide to meet the challenges of the next technological age. A partnership with the Prince's Trust is helping put the internet at the centre of their offer to disadvantaged youths. Towards the end of the year, a small but innovative Nominet-funded trial got underway – matching digitally-savvy young people with small businesses struggling to make headway with their online presence. Against a backdrop of increasing concern about cyber-security, we have also supported Shadowserver.org, to enable the organisation, staffed by volunteer security professionals, continue its work to help understand and tackle cyber-crime.

This complements the public benefit contribution we make every day by running a safe, trusted and resilient .UK for the millions of people who depend on it. Being selected to help protect Government and public sector networks from malware was a fitting end to a year where our efforts to protect .UK remained a constant feature.

I hope that members share my sense of pride in the difference we are able to make to the world around us.

In seven years as Chair, our progress has been guided by a proactive approach to our operating environment and a changing market. We have taken time to identify and analyse challenges and opportunities ahead of time, reviewed our strategy and made considered decisions in anticipation of, rather than only in response to, events. In this way, we were able to meet the arrival of new gTLDs with confidence. We have taken the opportunity to invest in, support and grow our .UK portfolio, build our registry services business and create an online home for the people and businesses of Wales.

On the international stage, Nominet has welcomed the important change in the governance of the DNS with the completion of the transition of IANA to ICANN. This represented the final step of a policy initiative supported by successive US administrations.

Closer to home, Nominet does not consider the Brexit vote to be an immediate or major threat, but we maintain a watching brief in order to be able to make any adjustments required as the full challenges and opportunities become clearer.

What underpins our ability to adapt and grow is our commitment to delivering excellent technical operations and customer service, from running .UK as a flagship registry to our new business in the field of network analytics. These strong foundations have not only proved valuable in the year, and over the past two decades, but will ensure Nominet continues to be successful in the future.

I am due to conclude my tenure as Chair at this year's AGM, but I shall maintain a personal interest in Nominet's development as it continues to be a provider, supporter and funder of services and initiatives that contribute to a vibrant internet.

'I HOPE THAT MEMBERS SHARE MY SENSE OF PRIDE IN THE DIFFERENCE WE ARE ABLE TO MAKE TO THE WORLD AROUND US.'

BARONESS RENNIE FRITCHIE DBE CHAIR

CEO's statement

RUSSELL HAWORTH, CEO

Today, when millions of businesses and consumers use the internet, they may not know what is happening behind the scenes to reach a website or email. As well as the physical infrastructure, from racks of servers, to cables and towers, there is also the domain name system – the DNS. Many registrants might not know Nominet, but they rely on us every day, and, along with our registrars, they can depend on us to offer customer service of the highest quality.

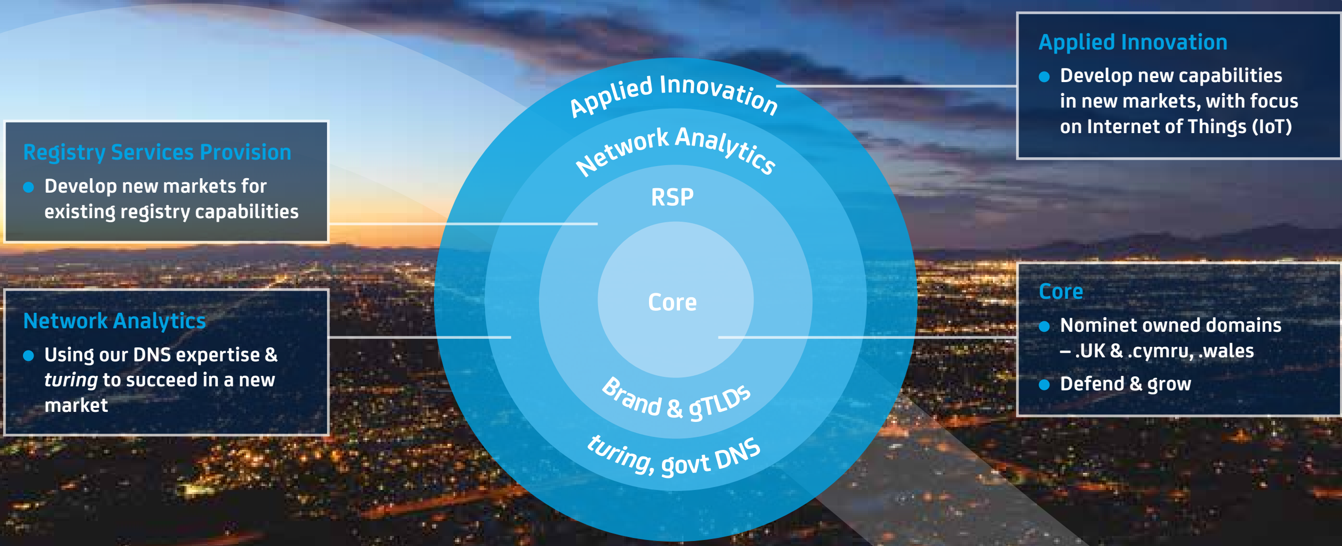
Over the last year, we handled over 6bn DNS queries, managed over 10.6m domains, sold 1.7m new domains through our channel, and our customer support team dealt with over 36,000 calls.

In 2016, we set an ambitious strategy that ensures .UK remains a flagship registry, while pursuing additional business opportunities in new markets. The past financial year has delivered significant progress for Nominet as we have invested in our core .UK business while also delivering early successes in new areas of our strategy.

The year's changes and developments have been underpinned by our ongoing focus on delivering an excellent service as the .UK registry, with 100% uptime and levels of customer satisfaction remaining high at 89.6%. This should serve as reassurance to our stakeholders that Nominet is evolving with stability and continuing to operate as a reliable, efficient and effective organisation.

What binds all of our work is an overarching commitment to create a vibrant digital future. After two decades as guardians of the .UK namespace, we have challenged ourselves with running a successful, flagship registry operation, while looking ahead to find new ways for Nominet to connect both people and devices, to help networks stay secure and people stay safe, and to support the next generation of ideas and talent that will ensure the future of the internet is a positive one.

Our core business of running .UK, .cymru and .wales domains requires an increasingly outward looking commercial approach. Over the financial year, our domains under management have remained broadly steady with .UK at 10.6m and renewals running at 73%. Against a backdrop of heightened competition from both long-standing competitors and new gTLDS, it was important to deliver a programme that maintained the visibility and attractiveness of the .UK proposition.



The wholesale pricing review and subsequent price rise in March 2016 set .UK domains at a level that supports significant ongoing investment in our core business, while still representing tremendous value in the market. We delivered on our promise to increase the level and flexibility of our promotions, supported by marketing campaigns targeting key segments, such as tradespeople, that made the case for having a dedicated online presence. During FY16, those promotions helped deliver increased visibility for .UK, and contributed directly to over 100,000 new registrations. Relatively flat overall .UK domain new registrations year on year is continuing evidence of a maturing market.

Stronger relationships with our channel remain key, and we have invested in improvements to both online services and business intelligence. We have also recognised the benefits of using more sophisticated data, to help identify trends and opportunities that can lead to an uplift in new registrations or renewals. The first phase of a major initiative to categorise .UK domains was completed in FY16, and ultimately aims to provide registrars with actionable data.

‘IN 2016, WE SET AN AMBITIOUS STRATEGY THAT ENSURES .UK REMAINS A FLAGSHIP REGISTRY.’

RUSSELL HAWORTH, CEO

Our Registry services business has become firmly established over the course of the year. The TLDs in the Minds+Machines portfolio (including .london) all successfully transitioned, and Automattic chose Nominet as its partner for .blog. These contracts have seen Nominet move into the top 10 of registry service providers and marks us out as a serious contender for new business in this area moving forward.

Building on our DNS expertise, we have continued to develop the market proposition for our industry-leading *turing* service. In the tough enterprise sales market, its potential to detect threats and optimise networks attracted interest and a major new corporate customer, as well as Akamai as a re-seller, in 2016. *turing*Essentials, developed for our members, will be available free in FY17.

While it continues to help us monitor patterns in .UK DNS traffic, the capabilities of *turing* were an important component of the DNS resolver service that is being implemented to help protect government and public sector networks from malware. Winning this contract, working with the Government Digital Service (GDS) and National Cyber Security Centre (NCSC), represents a major milestone for the business and we have invested in dedicated infrastructure to support its delivery. It is also evidence of our commitment to finding new ways to contribute to a safe and secure internet.

Our R&D team has embarked on some innovative partnerships that are helping us put into practice our infrastructure tools supporting both ‘internet of things’ and TV white space. Capitalising on being the first OFCOM-licensed TV white space database operator, we are exploring commercial opportunities in this area, and in the wider market of dynamic spectrum management. A successful trial in Arran with Broadway Partners led to a commercial rollout of TV white space to bring greater connectivity to the island. Our work on the infrastructure required to support this technology created an opportunity to work with Microsoft to support their Affordable Access initiative in Africa.

With greater contributions from across the business, our revenue for the year was £30m – up from FY15 by £1.2m. Included in this is an uplift from new domains at the higher wholesale price following the price rise although the revenue impact is largely deferred into future years given this is spread over the life of the domain transactions.

Our operating costs also increased by £0.8m over the year due to planned spend to support our business strategy and our commitment to public benefit. A higher operating profit in FY16 allowed us to invest both in our core business, and in initiatives, both by Nominet and through Nominet Trust, to help promote the health of the internet and to support those who need it most. Our public benefit contribution, from running .UK to supporting development of the Micro:bit, also plays an important role helping staff feel proud of the work Nominet does. Cementing our reputation as an innovative, exciting company to work for is key to ensuing we continue to attract and retain talent.

The achievements across every area of our business would not have been possible without the support of members, customers, stakeholders and staff. I thank you all for another 12 months of hard work and commitment, and look forward to another exciting year ahead.

Creating a vibrant digital future with **Nominet Trust**

THE UK'S LEADING SOCIAL TECH FUNDER. IT BRINGS TOGETHER, INVESTS IN AND SUPPORTS PEOPLE MAKING IMAGINATIVE USE OF TECHNOLOGY TO ADDRESS COMPLEX SOCIAL CHALLENGES

Nominet is an internet company delivering public benefit and has been guardian of the UK namespace for 20 years. We are committed to helping build a vibrant digital future – finding new ways to ensure the internet benefits more of us, in more ways, more of the time – connecting devices as well as people, helping people be safe and networks stay secure, and supporting the next generation of ideas and talent. Part of that vision is delivered though Nominet's charitable foundation, Nominet Trust.

Set up in 2008, Nominet Trust is the UK's leading social tech funder. It brings together, invests in and supports people making imaginative use of technology to address complex social challenges, including digital engagement.

From October 2015 to September 2016 Nominet Trust granted almost £2 million to 23 initiatives which are each having a positive impact on the way companies and projects in their early stages can invest in technological innovation for broader social good.

WE ARE COMMITTED TO HELPING BUILD A VIBRANT DIGITAL FUTURE.

Through funds donated by Nominet, Nominet Trust has continued to engage in innovative projects and to develop campaigns, including:

iDEA – co-founded by Nominet Trust and The Duke of York in 2014, Nominet Trust remains the lead funder of this national initiative which supports young people from disadvantaged backgrounds to 'badge their brilliance'. Badges are split into four main categories – citizen, worker, maker and entrepreneur. The programme challenges young people to discover new skills, ultimately enhancing their career opportunities.

BAFTA's Young Game Designers (YGD) Competition – for the second year, Nominet Trust has been the lead partner of this competition which is part of a year-round programme of activity working with young people and educators. It helps young people make the transition from game consumers to game makers, with a particular focus of encouraging young women to get into game making to address the under-representation of women in the games workforce.

Social Tech Seed – in 2016 Nominet Trust awarded almost £800,000 investment to 17 social tech ventures through the Social Tech Seed funding programme. The funding will enable the ventures to demonstrate the potential of their online and digital products and services to help groups facing specific challenges in accessing much needed support. Teenagers struggling with mental and physical health problems, children living with cystic fibrosis, isolated older people, children in need of prosthetics and those with learning disabilities are

just some of the groups benefitting from the funding.

Baring Foundation – Nominet Trust and The Baring Foundation – which is dedicated to improving the quality of life for people experiencing disadvantage and discrimination – have launched a two-year programme with a £500,000 fund for digital tech solutions to engage older people in the creative arts. The work supports significant evidence that indicates that providing access to digital arts has positive benefits to the general health and wellbeing of older people.

iAMDigital – Creative England and Nominet Trust launched the £1million iAMDigital Fund, which will support new and established SMEs working to close the digital skills gap for young people currently excluded from our digital-by-default society. The project will identify and invest in scalable small and medium sized businesses, with investments ranging from £50,000 to £200,000, and measure the social impact of their ventures and identify learning to inform future strategies for increasing digital engagement amongst marginalised groups.

Shift Mental Health Innovation Programme – Nominet Trust has worked closely with Shift over a number of years and is currently funding its Mental Health Innovation Programme. The initiative aims to deliver a multi-year R&D programme showing measurable, sustainable benefits for the mental health of families living in poverty through the development of effective policy and interventions.

Stoke Wavemaker – Nominet Trust is working in partnership with Comic Relief, who are supporting a legacy project to mark the end of the 'Give it Sum' programme to tackle poverty, promote social justice and help local people find solutions to local problems across North Staffordshire. With a grant from Comic Relief and match grant funding from Nominet Trust, Stoke Wavemaker have set up a ground-breaking digital innovation centre for young people.

NT100 – This campaign celebrates the people and organisations who are using digital technology to change the world for the better. Now in its fourth year, it brings together 100 of the world's most inspiring examples of digital technologies helping tackle significant challenges including conservation, the environment, humanitarian response, health, education, safety, civic empowerment, digital inclusion and more. The projects are selected for the NT100 based upon inspiration, innovation and impact, but are not necessarily projects funded by Nominet Trust.

Corporate **governance**

The Board is responsible for setting the company's vision and strategic aims, ensuring that the necessary financial and other resources are in place and holding the Executive to account for delivering the strategy.

Nominet is a private company limited by guarantee and therefore is not obliged to adopt and has not complied with the provisions of the UK Corporate Governance Code. However, we have reported on our Corporate Governance arrangements by drawing upon best practice available, including those aspects of the UK Corporate Governance Code we consider to be relevant to the company.

Nominet's Board usually meets on a bi-monthly basis. In line with best practice guidance for structuring decisions, Nominet has a number of Board committees that focus on specific areas and then report in to the main Board. It has two wholly-owned subsidiaries; Nominet Registrar Services Limited (NRS) and Nominet US Inc.

NRS is a non-trading ICANN accredited registrar formed as a legally distinct company to comply with ICANN rules on the formal separation of registry and registrar operations and Nominet US Inc. is a corporation formed as employment vehicle for our US-based staff.

Nominet is also the sole member of the Nominet Charitable Foundation ("Nominet Trust"), a separate independent charity.

Board members are required to declare their interest in any matter to be discussed at a meeting of the directors and where appropriate, directors are not party to any discussion or decision where they have an interest.

During FY16, our Board comprised of seven non-executive directors, including the Chair, and three executive directors. The proportion of women on the Board during the year was 30%. Four of the non-executives are elected by the membership and Volker Greimann became the newest of these following his success in the 2016 election. Piers White stood down as an appointed non-executive director after AGM 2016 in April and Jane Tozer was confirmed as an appointed non-executive director by member resolution at the AGM.

The Board met seven times during the year. Standing agenda items include updates from the Chair, CEO and committee chairs, updates on strategy implementation and key projects alongside regular reviews of company performance and financial information.

In addition to these, during FY16, the Board received and responded to the Lyons' Review report, expanded the scope of our public benefit agenda, approved changes to the pricing model for .UK, oversaw diversification plans related to registry services provision (Minds+Machines and .blog) and the new contract with the UK government to provide services to the public service network and approved the budget for the financial year starting on 1st October 2016.

The Board approved changes to the Nominet Trust's articles of association following collaborative work in FY15 and the appointment of a new Nominet Trust Chair from 1st November 2016. The Board agreed to make a charitable donation of £5.4m to the Nominet Trust for the period from 1st May 2016 up to 30th September 2017 as well funding a number of other new public benefit initiatives.

Board members

Baroness Rennie Fritchie, DBE
Chair

Baroness Fritchie DBE joined as Chair of Nominet in 2010, and was reappointed in 2013 and 2015.

She is an Independent Crossbench Peer, a consultant on strategy and leadership working out of Mainstream Development, Chair of Lloyds Bank Foundation England and Wales, and Chancellor for the University of Gloucestershire.

She holds seven Honorary Degrees from British universities and is a Fellow of City & Guilds London and The Chartered Institute for Public Finance. She was appointed a Dame Commander of the Order of the British Empire in 1996 and a life peer in 2005.

In addition to chairing the Board, she also chairs the Nominations Committee and is a member of the Remuneration Committee.

Russell Haworth
Chief Executive Officer

Russell joined Nominet as CEO in January 2015. He leads the organisation as it develops its core registry business, explores the potential of new technologies in the global internet sector, and delivers on its commitment to ensuring the internet is a force for good.

He has extensive experience in the digital information, content and software services sectors and has held senior roles across four continents, covering both established and emerging markets for Thomson Reuters. Prior to this, Russell worked in corporate finance and strategy consulting at Deloitte and PA Consulting Group.

Russell holds an MBA from the Kellogg School of Management and is a chartered member of the Institute of Marketing.

He is a member of the Nominations Committee.

Eleanor Bradley
Chief Operating Officer

Eleanor joined the Board as an executive director in December 2012. She leads the teams responsible for service delivery, finance, policy, corporate services and commercial activity related to our registry business.

Eleanor also heads up Nominet's business continuity and risk management work, 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.

In 2016, Eleanor was named as a role model in the category of Board Level & Senior Executive of the Year at the Women in Business awards.

She is a member of the Investment Committee.

Simon McCalla
Chief Technology Officer

Simon joined the Board as an executive director in November 2012. He 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.

Simon is a fellow of the British Computer Society, and has over 20 years' experience overseeing information technology for global enterprises including The White Company and Cap Gemini.

He is a member of the Nominations Committee.

Andrew Pinder, CBE
Non-Executive Director

Andrew was first appointed to the Board in July 2015 and reappointed in 2016. He is the Chairman of Digital Mobile Spectrum Limited (DMSL), Market Operator Services Limited and Finnergy Limited.

After 18 years in the Inland Revenue, where he became Director of IT, Andrew moved to the private sector, becoming Director of Operations and Technology at Prudential Corporation before joining Citibank Investment Bank as Head of European Operations and Technology. In 2000 Andrew was appointed as e-Envoy by the then Prime Minister, Tony Blair and was awarded a CBE in 2004. Since 2004 Andrew has been on the Board of a number of organisations and companies, either as a Chairman, or NED.

He is Chair of the Remuneration Committee, Senior Independent Director and a member of the Audit and Governance Committee.

Jane Tozer, OBE, MBE
Non-Executive Director

Jane was appointed to the Board in August 2015 and reappointed in 2016 by member vote. She is an experienced non-executive with a current portfolio including StatPro plc, F&C Global Smallers plc, JPMorgan Income & Growth plc, Asthma UK, Three Rivers' Citizen's Advice Bureau and Warwick Business School Advisory Board.

Jane has a strong technology background: she started her career at IBM, became CEO of a software house and has served as a director of a variety of quoted, private, and public sector businesses. She was awarded an MBE for services to the IT sector in 1991 and an OBE for services to the public sector and charity in 2009.

She is Chair of the Audit and Governance Committee and a member of both the Nominations Committee and Investment Committee.

Dickie Armour
Non-Executive Director

Dickie was elected to the Board in May 2011 and re-elected in 2013 and 2015. An internet entrepreneur, author and speaker, Dickie has extensive experience of the internet services and domain name market, having set up, run and sold two successful hosting businesses.

He is currently General Manager of Fibranet Services Ltd, a domain name registrar and software development company, and MyBrandEmail, a software service that helps brands offer personalised email addresses. Dickie is a regular participant at ICANN meetings around the world and in 2011 wrote and published *31 Mistakes Every Online Business Makes*.

He is Chair of the Investment Committee and a member of the Remuneration Committee.

Denesh Bhabuta
Non-Executive Director

Denesh was elected to the Board in May 2014. He has extensive experience of the Internet Industry and is currently a Director and Principal Consultant at Meidan Ventures Limited, Executive Director and Event Manager for the UK Network Operators Forum (UKNOF), and External Relations and Event Director for the DNS Operations, Analysis, and Research Center (DNS-OARC).

He has a degree in Biotechnology with Business Studies from the University of London and a PGDip in Cognitive Science and Intelligent Computing from the University of Westminster.

Denesh is also Chairman of Usurp, a not-for-profit art collective which develops opportunities for communities to work with artists and activists from diverse backgrounds.

He is a member of the Audit and Governance Committee.

Volker Greimann
Non-Executive Director

Volker was elected as a Non-Executive Director in April 2016. He is the Chief Legal Officer and General Counsel at Key-Systems GmbH (a member of KeyDrive SA Group), an ICANN accredited registrar managing domain name registrations worldwide for wholesale, retail and corporate customers.

He is responsible for registry policy management, contractual and legal compliance, contractual work, litigation management and providing legal and policy advice to the company. He also has extensive experience and knowledge of the internet industry and is involved at ICANN in the RrSG and the GNSO Council where he served as Vice-Chair.

Volker studied Law and Japanese studies at the University of Trier and has lived in various countries besides his home of Germany.

He is a member of the Nominations Committee and the Audit and Governance Committee.

David Thornton
Non-Executive Director

David was elected to the Board in June 2015. He registered his first domain name in April 1997 and began working in the internet industry in 2002.

As a Director of the domain name investment company Name Account Inc, David has a significant interest in domain name policy as well as brand identity.

David has enjoyed contributing to several online domain name communities, responding to past policy consultations and meeting Nominet members and domain name enthusiasts at a range of industry events.

He is a member of the Nominations Committee and the Remuneration Committee.

NOMINET HAS A NUMBER OF COMMITTEES TO FOCUS ON SPECIFIC AREAS.

YOU CAN FIND MORE INFORMATION ON THESE SPECIAL COMMITTEES ON THE FOLLOWING PAGES.

Board **committees**

AUDIT & GOVERNANCE COMMITTEE

PURPOSE

The Audit and Governance Committee comprises of at least 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, on the Board's behalf 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 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, value for money and safeguarding of assets. The committee also assesses the effectiveness of the internal audit function, reviews internal audit reports, and checks on compliance with policy, statutory requirements, professional standards and the operation of internal controls.

REPORT FROM THE CHAIR

The Audit and Governance Committee met five times over the last financial year; December, February, March, June and September. On these occasions we:

- Met with the external auditors in the absence of the executive in accordance with governance best practice, received updates from the external auditors on the draft annual report and company's accounts for FY15 and received updates on the audit planning timetable for FY16.
- Considered the implications of the transition to International Financial Reporting Standards (IFRS).
- Recommended that Nominet UK provide an ongoing guarantee to Nominet Registrar Services (NRS) Limited to remove the need for an annual audit opinion.
- Reviewed the risk register and reports from Internal Audit on internal controls and systems in place to manage and mitigate risk.
- Reviewed reports on health and safety.
- Reviewed and provided feedback on the draft budget for FY17.
- Monitored the arrangements to ensure insurance cover is in place.
- Approved changes to bank mandate signatories.
- Conducted the annual self-review exercise and reviewed the terms of reference.

There are standing agenda items at each meeting to notify the committee of any whistleblowing concerns (none reported during the year) and to advise the committee of any payments made between £250k and £500k.

INVESTMENT COMMITTEE

PURPOSE

The Investment Committee monitor the development and application of Nominet's investment strategy to ensure investments are made in accordance with the strategy and related asset allocation limits and assess 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. 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 with an additional teleconference ahead of the EU referendum in June 2016. On these occasions we:

- Reviewed the investment strategy and related asset allocations, using reports provided by Quilter Cheviot to assess the performance of the various asset classes held within the Nominet portfolio.
- Considered investment manager recommendations related to the impact of the EU referendum outcome on the portfolio.
- Reviewed the company's cash-flow forecasts at each meeting and recommended a reduction in the amount of cash held to the Board.
- Reviewed the panel of banks used by the company, particularly related to creditworthiness.
- Undertook a self-review exercise and reviewed the terms of reference.

The Company contributed an additional sum of £7.2m to the portfolio during the financial year and including these contributions, the market value of the portfolio increased from £52.7m (1st October 2015) to £64.8m (30th September 2016).

The investment portfolio is now reported at fair value as part the transition to International Financial Reporting Standards (IFRS) as adopted by the EU.

REMUNERATION COMMITTEE

PURPOSE

The Remuneration Committee determines and reviews the application of the company's remuneration strategy and advises on the specific remuneration packages of the executive directors, including the CEO. This is to ensure that executive directors 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 executive pay 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 provides a medium of public accountability, which is not controlled by the company's Management, and upholds 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.

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 utilises external market related data and takes advice from the Director of HR. The full terms of reference can be found on Nominet's website.

REPORT FROM THE CHAIR

The Remuneration Committee met four times over the last financial year; November, March, July and September with a further meeting in October 2016 to finalise FY16 bonus arrangements.

On these occasions we:

- Confirmed the company level bonus at 115.7% (from a maximum 125%) for FY16.
- Approved the company bonus scheme for FY17.
- Approved a new executive director bonus scheme from FY17 and wound up the previous executive bonus scheme.
- Reviewed and agreed objectives for the executive directors.
- Introduced and monitored variable pay schemes across the company in line with strategy.
- Considered a market rate review of remuneration and approved a pay review budget of 2% for FY17 with a further 0.5% for promotions and ad hoc increases.
- Reviewed pay decisions and awards for staff and executive directors. The Committee makes a recommendation to the full Board on CEO remuneration.
- Approved a new performance review ratings scale for all staff.
- Received an update on the implementation of the flexible benefits programme in November 2015.
- Reviewed staff contracts and agreed changes.
- Reviewed arrangements related to pensions tapered annual allowance.
- Undertook a self-review and evaluation exercise and reviewed the terms of reference.

For FY16 company-wide performance was assessed as having met 115.7% of the key performance targets (from a maximum of 125%). The bonus was distributed in line with individual employee performance. In total, £969k (11% of total annual salaries) was distributed to employees below the executive level.

For the Executive team the total bonus declared of £339k (note 8) related to the FY16 bonus scheme, but also included an uplift of £15k relating to the deferred element of the previously declared bonus scheme for FY14.

As a result of the completion of the FY14 and wind up of the FY15 Executive bonus schemes the Executive team also received payment of the previously declared deferred elements relating to these schemes of £88k.

Included in other benefits of note 8 the Remuneration Committee approved a commission scheme for the Chief Technology Officer based on new business billings.

Pay rises during the year amounted to 2%. In line with our remuneration principles to differentiate strongly between different levels of achievement, staff who achieved high levels of performance were rewarded with increases of up to 6.5% while 25 staff received no increase in pay.

NOMINATIONS COMMITTEE

NOMINET BONUS SCHEMES

Nominet has two bonus schemes in operation. The first covers the majority of employees and the second applies only to the Executive directors. The company scheme is based on a number of threshold measures agreed by the Remuneration Committee (including the operation of .uk). No bonus will be awarded if the threshold measures are not achieved but an opportunity for a bonus pot of up to 125% is available for exceptional performance. The apportionment of the pot is then determined by the performance of individual members of staff and the target bonus amount (either 10 or 20%) of salary that applies to their post.

The Executive bonus scheme, like the bonus scheme for other employees, is about both company performance and their individual performance against objectives agreed by the Remuneration Committee. The Remuneration Committee approved to wind up the FY15 executive bonus scheme whereby one third of bonus was deferred for a period of three years and replaced it with a new scheme for FY17 based on stretch objectives. As a result the previously deferred elements relating to financial years ending 30 September 2014 and 2015 have been paid. There was no uplift for the 2015 scheme. The uplift relating to the 2014 deferred bonus scheme is included in note 8.

PURPOSE

The role of the Nominations Committee is to evaluate the balance of skills, knowledge, experience, diversity and general capability on the Board and oversee the 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 and their work is regularly reported to the Board. The full terms of reference are available on the Nominet website.

REPORT FROM THE CHAIR

The Nominations Committee met four times over the last financial year, in November, January, May and September. In these meetings the committee:

- Received updates from the Election 2016 sub-committee and their report and recommendations to the Board following the election. The committee also approved the candidate pack for the election 2016 and appointed the Election 2017 sub-committee.
- Discussed the appointment of a new independent director post-AGM 2016 and recommended the appointment of Jane Tozer by resolution of the members which was subsequently approved.
- Agreed the timetable for recruitment of a new Nominet Chair from AGM 2017 and appointed Jane Tozer to lead this process and provide updates to the Board.
- Oversaw the appointment of the new Nominet Trust Chair, agreeing the process and appointing the panel for this work.
- Received an update on the appointment of new trustees to the Nominet Trust which the Nominet Board had been invited to support.
- Conducted the annual self-review exercise and reviewed the terms of reference.

Subsidiaries

NOMINET REGISTRAR SERVICES LIMITED

PURPOSE

Incorporated in July 2012, Nominet Registrar Services Limited ("NRS") is a wholly owned subsidiary of Nominet UK originally established and engaged, as an ICANN accredited registrar, in the business of providing generic top level domain names (gTLDs) to the wholesale (reseller) market in respect of .cymru and .wales. Given distribution services for .cymru and .wales domain names to businesses and the general public are being performed by other independent registrars a decision was taken in July 2015 to "mothball" the company but retain the ICANN accreditation.

REPORT OF THE CHAIR

The NRS Board met once in January 2016. The business of the meeting focused on a review of performance and the risk register, an update of work to "mothball" the company, approval of the financial statements and changes to the bank signatories. The Nominet UK Board approved a resolution in September 2016 to guarantee the liabilities of NRS for this financial year and all subsequent years unless revoked, which provides exemption from an external audit.

NOMINET US

PURPOSE

Incorporated in July 2015, Nominet US Inc. is a wholly owned subsidiary of Nominet UK established as a vehicle for employing staff based in the United States of America to support and facilitate expansion of new business in that region.

REPORT OF THE CHAIR

The Nominet US Inc. Board met twice during the year in February and June. The business conducted related to governance and operation of the company, financial updates and the work of the US team in progressing new business opportunities.

REGISTER OF ATTENDANCE AT MEETINGS

Member	Board	Audit and Governance Committee	Remuneration Committee	Nominations Committee	Investment Committee	Nominet Registrar Services (NRS) Ltd	Nominet US. Inc
Rennie Fritchie	7 (7)		4 (4)	4 (4)			
Dickie Armour	7 (7)	2 (3)	3 (3)		3 (3)		
Denesh Bhabuta	6 (7)	3 (4)		3 (3)		1 (1)	
Eleanor Bradley	6 (7)	5 (5)*	4 (4)*		3 (3)	1 (1)	2 (2)
Volker Greimann[1]	2 (3)			1 (2)			
Russell Haworth	7 (7)	3 (5)*	4 (4)*	4 (4)		0 (1)	2 (2)
Simon McCalla	7 (7)		3 (3)*	4 (4)			2 (2)
Andrew Pinder	6 (7)	4 (5)	3 (4)				
David Thornton	7 (7)		3 (3)	4 (4)			
Jane Tozer	7 (7)	5 (5)	1 (2)	3 (3)	1 (2)		
Piers White[2]	4 (4)	3 (3)	2 (2)		2 (2)	1 (1)	

Figures in the table denotes the meetings attended with the figure in brackets being the number of meetings available for that member to attend i.e. 9 (10) is nine of a possible ten meetings attended.

*denotes in attendance at meeting.

1 Appointed 28th April 2016
2 Retired on 28th April 2016

Internal controls and risk management

During the reporting year, the Board reviewed the company's risk appetite statement. Changes were agreed at the March 2016 Board meeting, on the recommendation of the Audit & Governance Committee, to clarify where the company's appetite was low risk and where it was higher.

Nominet's risk appetite for its core registry business is low in relation to its technical operations which are run on a highly prudent basis. However, reflecting the changing market and the need for Nominet to respond, it recognises the need to accept a greater degree of commercial risk outside of its technical operations and has a medium risk appetite for risk in the commercial activities relating to the core domain name registry business.

Nominet has a medium risk appetite for strategic matters including diversification activity in adjacent and new markets, and is willing to accept higher losses in the pursuit of higher returns in these diversified market areas.

Nominet's risk management strategy is to identify, understand and appropriately treat the risks that Nominet faces as an organisation. The Board of Directors holds responsibility for ensuring that Nominet maintains a sound system of risk management and control. The Board's Audit and Governance Committee has been tasked with regularly assessing that adequate controls are in place to mitigate risk where possible. Responsibility for identifying day-to-day company risks and deploying risk treatments lies with management and is led by the Executive Team.

As risk can seldom be eliminated entirely, the risk management system is designed to enable the business to understand, manage and reduce risk rather than eliminate business risk completely. The system provides a framework within which decisions can be made based on sound risk assessment and appropriate levels of tolerable risk can be identified. We continue to align our risk management process with the best practice guidance set out in the ISO 31000:2009 risk management framework.

During the year regular reviews of the Risk Register were delivered by the Executive to ensure that it fully and accurately captures and describes the risks faced by the business. The Audit and Governance Committee review the Risk Register and the risk treatment arrangements being progressed at each of their meetings. An annual full review of the Risk Register also takes place and the Board consider strategic risk items at their meetings.

The company's internal audit function reports regularly to the Audit and Governance Committee on the findings of the cross-company programme of internal audit activity.

Nominet maintains and operates a business continuity management system certified to the ISO standard for Societal Security (ISO 22301:2012), to ensure disaster recovery and emergency response plans are fit for purpose and well tested. In addition to this, and recognising our dependence on IT security and system stability, we maintain a regular schedule of security testing using external experts and hold ISO certifications for IT Service Management (ISO 20000:2011) and Information Security (ISO 27001:2013) which are externally assessed on a six monthly basis.

To ensure we are well informed about security threats and available responses, Nominet participates in business continuity and security forums and has strong relationships with governmental and non-governmental groups that focus on these concerns. Through these we continue to work to ensure that we are at the centre of security discussions about the UK internet.

MANAGING OUR RISKS

Like all businesses, Nominet faces potential threats and opportunities and seeks to manage and respond to risks in a manner that contributes positively to the long term success of the company. A successful risk management approach balances risk and return, enabling the business to clearly identify their risk attitude and risk appetite. This relies on a sound judgement of risk likelihood and impact, and a willingness to potentially accept higher losses in the pursuit of higher gains.

The Board is responsible for approving the company's strategy, risk attitude and risk appetite. Our risk management approach enables informed decision-making based on an understanding of the contributing factors that make up each risk. We seek to balance risk and reward rather than eliminate risk entirely.

Risks are consolidated from across the business into a Risk Register which is considered by the Audit and Governance Committee at each of its meetings. Responsibility for managing each risk, and the associated controls and mitigations, is allocated to individual business leads within the organisation with oversight from the Executive Team.

Description of risk	What we are doing to manage the risk
Business disruption Critical to our business is the infrastructure and technology through which we provide our core services.	• Robust business continuity and disaster recovery plans are in place, tested on a regular basis and reviewed regularly. • Strong externally validated IT policies and operational controls are in place. • Investment in the resilience of our DNS infrastructure. • Appropriate levels of security are in place and both carefully monitored and externally assessed.
Market risk We now operate in an increasingly competitive environment as a result of the launch and establishment of new Top Level Domains and shifting consumer behaviours to non-domain services. We must ensure we innovate and adapt to remain competitive and relevant.	• Continuing to focus on the quality of our core business through initiatives to improve industry standards and reputation of the UK namespace. • Maintaining the high quality of our products and investing in new products to deliver public benefit and meet the needs of our customers and potential customers. • Investing in the continued development of our products and brands.
Reputation and brand Our reputation is damaged by a significant adverse event leading to a loss of trust and confidence amongst our stakeholders.	• 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. • Engagement of key stakeholders.
Regulation Nominet is subject to changes in regulations requiring significant alterations to its business plan or operations.	• We continue to focus on demonstrating that the industry can effectively self-regulate its activities. • In relation to our core business we continue to carry out a programme of registrar reviews to ensure high standards across the industry. • We maintain strong relationships with key Government stakeholders and a commitment to the multi-stakeholder model for developing policy in relation to the broader governance of the internet.
Failure to diversify We are committed to diversifying our products and services building on our skills and reputation to deliver our strategic objectives.	• Ongoing investment in our Research & Development capability to deliver technical innovations and commercially successful new products. • Strengthened Business Development capability to seek out new opportunities for Nominet through which we can deliver continued public benefit.

Having a positive impact on the environment

Nominet continues to be committed to reducing the impact of its work on the environment and to reducing carbon emissions. In support of this we encourage and promote sustainable travel, scrutinise our energy consumption, energy usage patterns and energy consumption reduction options, provide recycling facilities for our waste; food, paper, packaging, plastics and electrical goods.

We ask potential suppliers to include details of their environmental credentials and solutions when they submit tenders for business to us.

Officers & professional advisers

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Richard Armour
Denesh Bhabuta
Eleanor Bradley
Volker Greimann
Russell Haworth
Simon McCalla
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WE ENCOURAGE & PROMOTE SUSTAINABLE TRAVEL, SCRUTINISE OUR ENERGY CONSUMPTION & PROVIDE RECYCLING FACILITIES FOR OUR WASTE.

Strategic report

THE DIRECTORS PRESENT THEIR ANNUAL REPORT AND THE FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 30 SEPTEMBER 2016.

INTRODUCTION

The principal activity of the Company and Group is the registration and maintenance of internet domain names, primarily within the .UK namespace. The principal activity of the subsidiary, Nominet Registrar Services Limited, is maintaining ICANN accreditation and the subsidiary Nominet US Inc. is to facilitate the expansion of new business development opportunities.

For the first time the Group and parent Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. This change from UK GAAP has been done to improve the comparability of the accounts to other international businesses. The prior year figures have been restated accordingly and reconciliations of the key changes are highlighted in note 28. The key change for the Group and parent Company relates to the inclusion of its investments held for resale at their fair values at the balance sheet date.

BUSINESS REVIEW AND KEY FINANCIAL INDICATORS

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

Income and Registry performance

In a maturing domain market and increasing competition from newly launched domains, the register closed the year at 10.6 million domain names under management (2015 – 10.6 million), marginally up from the end of last year. Both new registrations and renewal rates for domains remained relatively consistent year on year.

Revenues grew by 4% to £30.1m (2015: £28.9m) despite the flat register, due to the continuing trend towards single year registrations and the price rise implemented from 1 March 2016. Because income is recognised by spreading the sale value of domains over the new registration or renewal period, the impact of the price rise on the results for this year are muted. The operating profit before the donation to Nominet Trust increased to £8.0m, representing 26% of revenue (2015: £7.6m, 26% of revenue). The increase in profitability was driven by the increased revenue, ongoing tight control over operating expenditure and reduced depreciation cost. This was offset by additional charitable donations made directly by the Group and further investments in the business in such areas as network analytics and cyber security. The material movements are detailed below.

Expenditure

Operating charges increased by £0.8m to £22.1m (2015: £21.3m). Operating costs represent 73.5% as a proportion of revenue (2015: 73.9%).

Staff and other personnel costs of £12.0m have increased year on year by £1.0m, largely attributable to the full year impact of strengthening of the management team, uplift in staff resources developing our capabilities in network analytics and cyber security together with underlying wage inflation, offset by the business's continued emphasis on cost control.

Average staff numbers decreased to 152 (2015: 155) and permanent staff payroll cost increased by £0.8m. This increase reflects the above staff cost factors and redundancy payments in the year with the business continuing to refine its structure to focus on the challenges of delivering growth.

Other costs

Depreciation decreased by £0.6m to £1.2m (2015: £1.8m) due to the timing of the historic infrastructure refreshes and the trend of more information technology requirements being sourced as a service, hence operating expense rather than from capital investment.

Investments

2016 was a volatile year for investors with markets impacted by ongoing concerns over Chinese economic growth, the United Kingdom's unexpected BREXIT referendum result and uncertainties over the US elections. Under the circumstances and despite the volatility of the markets, the investment portfolio has performed well.

A further £7.2m (2015: £3.0m) of contributions were made into the portfolio. In line with the adoption

NOMINET WILL CONTINUE TO INVEST IN PEOPLE, TECHNOLOGY & SERVICES TO ENSURE THAT OUR BUSINESS IS RECOGNISED AS ONE OF THE MOST DESIRABLE & TRUSTED DOMAINS IN THE WORLD

of IFRS, investments are included in the consolidated statement of financial position at their fair value. With additional contributions, realisations made, income and market movements, the fair value of the investment portfolio increased during the year and closed at £64.8m (2015: £52.7m).

During the year we realised £0.5m of gains on the disposal of investments within the portfolio (2015: £2.6m) and investment income from the portfolio during the year was £1.3m (2015:£1.1m).

With the continuing low interest rate environment, interest earned on cash resources remained at a similar level to 2015 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 £5.4m to Nominet Trust (2015: £4.0m) reflecting funding for a 17 month programme (2015: 12 month programme). The Nominet Trust was incorporated in 2008 and is a charity administered separately from Nominet UK with independent trustees and regulated by the Charity Commission. The Nominet Trust has the objectives of funding internet education, inclusion and safety initiatives and since it was founded Nominet UK has contributed £44.4m.

In addition to the above, during the year the Company contributed £350,287 (2015: £8,563) to charities. As noted in the Chair's statement, the increase for the current year reflects direct donations made by Nominet UK. The Group also matched donations made by Nominet staff to various fundraising activities organised by a staff volunteer led "Charity Action Group".

Balance Sheet

Retained earnings for the Group increased by £4.4m during the financial year to £45.3m (2015 as reported under IFRS: £40.9m)

Cash generated from operations was £8.2m (2015: £5.3m) after donations to Nominet Trust of £5.4m (2015: £4.0m).

The other key cash movements included capital expenditure on fixed assets £0.6m (2015: £1.0m) and £7.2m contribution to the investment portfolio (2015: £3.0m). As a net impact of the above, the cash balances marginally reduced by £0.6m to £9.9m (2015: £10.5m).

Events since the balance sheet date

There have been no material adjusting events up to the date the financial statements have been formally approved by the directors.

OUTLOOK AND FUTURE DEVELOPMENTS

Nominet is committed to running .UK as a safe and trusted namespace and delivering a word-class service for our core business, built on a reputation of quality. Whilst responding to the need for diversification of our business, Nominet remains committed to delivering public benefit and to operating in the interests of our broad range of stakeholders.

Nominet will continue to invest in people, technology and services to ensure that our registry business .UK is recognised as one of the most desirable and trusted domains in the world, benefiting members and their customers, as well as the digital economy at large. With a particular emphasis on the use of data and predictive analytics we aim to deliver insights to drive new sales and renewals. We will also continue to develop wider commercial promotional activities, increased partnerships and collaboration with the channel.

Given the UK market for domains is relatively mature, our strategy is to diversify into adjacent and new markets.

With the catalyst of the Minds+Machines services contract Nominet is now a top ten global player

for back-end registry services and we plan to leverage this to pursue other opportunities for both brands and generic TLDs.

Nominet continues to identify ways to diversify so as to create a wider portfolio of technology driven solutions and services to lead and shape the internet of tomorrow.

Nominet's work in new products and services is focused on network analytics and security. Originally developed to keep .UK safe, (which it continues to do on a daily basis), the '*turing*' product already has great potential to help other businesses running large DNS networks. We are investing in driving on-going technical improvements and the commercial development of *turing*.

Nominet continues to invest in our R&D team who are exploring new technologies and opportunities. Our focus in this applied innovation arena is on internet infrastructure, within the context of the internet of things with our IoT toolkit and dynamic spectrum management. We are involved with innovative projects from the Micro:bit Educational Foundation to utilising TV whitespace, projects which are under-pinned by a clear logic – finding solutions to the infrastructure problems posed by gathering, securing, accessing and processing information from a large number of devices.

PRINCIPAL RISKS AND UNCERTAINTIES

Financial instrument investment risk

The Group uses various financial instruments. These include cash and equity investments. The main purpose of these financial instruments is to manage the finances for the Company's operations, ensuring capital protection, long term capital growth and income. 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. Further details of the risks related to financial instruments and the Group's policies and procedures for managing these are given in note 23 to the financial statements.

External risks

The Group acknowledges the infrastructure and technology that we use to deliver our core services may be targeted by third parties with malevolent intent. Accordingly a strong emphasis is placed on investing in the security and resilience of our DNS infrastructure to mitigate risk of business disruption.

The Group operates in a self-regulating industry, however the government retains reserved powers to intervene in the unlikely event it became necessary. Therefore the Group continues to maintain strong relationships with key government stakeholders and makes every effort to demonstrate the efficacy of self-regulation.

The Group acknowledges the impact that external risks could have on Nominet's reputation and brand.

Market risks

The Group is operating in a more competitive environment and as a result is investing both in its core .UK proposition and in delivering a diversified portfolio of products and services to mitigate dependence on a single income stream.

Further details of the risks impacting the Group are given on pages 2 to 5 as part of the CEO and Chair's report, which form part of this Strategic Report.

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

ON BEHALF OF THE BOARD
Baroness I Fritchie DBE
Chair
20 December 2016

Report of the directors

INFORMATION GIVEN IN THE STRATEGIC REPORT – INFORMATION ON THE FUTURE DEVELOPMENTS OF THE BUSINESS, FINANCIAL INSTRUMENT RISK MANAGEMENT & RESEARCH & DEVELOPMENT ACTIVITIES IS GIVEN IN THE STRATEGIC REPORT.

Directors

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

Baroness Irene Fritchie DBE | **Richard Armour** | **Denesh Bhabuta** | **Eleanor Bradley** | **Volker Greimann** (Appointed 28 April 2016) | **Russell Haworth** | **Simon McCalla** | **Andrew Pinder** CBE | **David Thornton** | **Jane Tozer** MBE OBE | **Piers White** MBE (Resigned 28 April 2016)

The Board has maintained 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 financial statements.

Directors' responsibilities

The directors are responsible for preparing the Strategic report, 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 International Financial Reporting Standards (IFRSs) as adopted by the EU. The parent company financial statements have also been prepared under IFRS as adopted by the EU.

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 IFRSs 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 and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company 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.

ON BEHALF OF THE BOARD
Baroness I Fritchie DBE
Chair
20 December 2016

Independent 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 2016 which comprise the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated and company statements of financial position, the consolidated and company statements of cash flow, the consolidated and company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 26, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 September 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and Report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

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.

Nicholas Watson
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Oxford
20 December 2016

Principal accounting policies

The Group has adopted the accounting policies set out below in the preparation of these financial statements. All of these policies have been applied consistently throughout the period unless otherwise stated.

Basis of accounting

The financial statements of the Group and parent Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and those parts of the Companies Act 2006 that are relevant to companies that report in accordance with IFRS. These are the Group's and parent Company's first financial statements prepared in accordance with IFRS (see note 28 for an explanation of the transition to IFRS).

UK GAAP differs in some areas from IFRS. In preparing these financial statements the directors have amended certain accounting and valuation methods applied in earlier UK GAAP financial statements in order to comply with IFRS. The comparative figures have also been restated to reflect these adjustments and the effects of this are detailed in note 28.

The Group and parent Company financial statements are presented in sterling (£).

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. All transactions and balances between group companies are eliminated on consolidation.

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.

Going concern

The directors have reviewed the Group's business plan and forecasts for a period at least 12 months from the signing of these financial statements and believe that the Group has adequate resources to continue operations for the foreseeable future, being at least 12 months from the signing of these financial statements, and accordingly continue to adopt the going concern basis in preparing these financial statements.

Revenue recognition

Revenue represents fees for domain name registration, 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 and released over the life of the subscription on a straight line basis.

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

Revenue from fixed price contracts is recognised as contract activity progresses so that for incomplete contracts it reflects the partial performance of the contractual obligations. For such contracts the amount of revenue reflects the accrual of the right to consideration by reference to the value of the work performed. Revenue not billed to customers is included in debtors as accrued income. Revenue which is only earned upon the completion of contractual milestones is recognised once those milestones have been completed in full.

Operating expenses

Operating expenses are recognised in profit or loss upon utilisation of the service or as incurred.

Donations

Donations are recognised in profit and loss once they have been approved by the board and paid to the receiving party.

Employee benefits

The Group has defined contribution plans under which fixed amounts are made to employees' personal pension schemes. The payments are charged to the income statement when they are due.

Accrual is made for holiday pay, based on a calculation of the number of days holiday earned during the year, but not yet taken.

Property, plant and equipment

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 on a straight line basis as follows:

Leasehold buildings	2%
Computers	33.33%

Other assets:

Fixtures and fittings	20%
Fit out costs	10%
Other equipment	20%

Intangible assets – Research and development

Research expenditure is recognised in the income statement as an expense as incurred.

Development costs incurred are capitalised where the Group can demonstrate all of the following:

(a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.

(b) its intention to complete the intangible asset and use or sell it.

(c) its ability to use or sell the intangible asset.

(d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.

(e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

(f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalised development expenditure is amortised on a straight line basis over the anticipated life of the benefits arising from the completed product or project.

Capitalised development expenditure is reviewed annually, and where future benefits are deemed to be less than the carrying value of the asset, the impaired element of the balance of any related capitalised development is written off to the income statement.

Amortisation is provided at the following rates:

gTLD development costs	*over 10 years*
other development costs	*over the life of the asset*

Advance land lease payment

Advance land lease payments, representing payments to secure long leasehold land, are reflected in the financial statements as non current assets.

Impairment of non financial assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss that are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities is described below.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Classification and subsequent measurement of financial assets

For the purpose of subsequent measurement, financial assets are classified into the following categories upon initial recognition:

Loans and receivables:
Loans and receivables comprise trade and other receivables and are initially recognised at fair value less provision for impairment. After initial recognition, these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the assets' carrying amount and the recoverable amount. Provisions for impairment of receivables are included in the income statement.

Available for sale investments:
Available for sale investments are included in the balance sheet at their fair value as at each balance sheet date. Any unrealised fair value gains or losses on available for sale investments arising during the year are recorded in the statement of comprehensive income (within other comprehensive income) net of the associated deferred tax liability. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognised in other comprehensive income is reclassified from the equity reserve to profit or loss. Interest calculated using the effective interest method and dividends are recognised in profit or loss within finance income.

Classification and subsequent measurement of financial liabilities

The Group's financial liabilities include trade and other payables. Financial liabilities are recognised initially at fair value, and subsequently measured at amortised cost using the effective interest method.

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 the income statement on a straight line basis over the period of the lease.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and term deposits with an original maturity of no more than 3 months.

Provisions and contingent liabilities

Provisions for legal disputes, onerous contracts or other claims are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group, and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

Taxation

Income tax on the profit or loss for the periods presented comprise current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured on an undiscounted basis at the tax rates and laws that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currency translation

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in UK £ which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Results of the overseas subsidiaries are translated into sterling at the weighted average rates for the year, which is effected by translating each overseas subsidiary's monthly result at exchange rates applicable to each of the respective months. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the foreign exchange rate ruling at that date. Differences on exchange resulting from the translation of overseas assets and liabilities are recognised in the consolidated statement of comprehensive income within other comprehensive income.

As permitted by IFRS 1, translation differences arising prior to 1 October 2014 are deemed to be zero at the IFRS transition date, and any amounts recognised in accordance with UK GAAP at that date have been included in retained earnings.

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted by the Group

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published by the IASB but are not yet effective, and have not been adopted early by the Group. Information on those expected to be relevant to the Group's financial statements is provided below. Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement. New standards, interpretations and amendments not either adopted or listed below are not expected to have a material impact on the Group's financial statements.

IFRS 9 "Financial Instruments" – This introduces changes to IAS 39's guidance on the classification and measurement of financial assets and introduces a new "expected credit loss" model for the impairment of financial assets. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018.

IFRS 15 "Revenue from Contracts with Customer" – This presents new requirements for the recognition of revenue, replacing IAS 18 "Revenue", IAS 11 "Construction Contracts", and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides guidance on how to account for arrangements with multiple performance obligations and other complexities. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018.

Critical accounting estimates and judgements

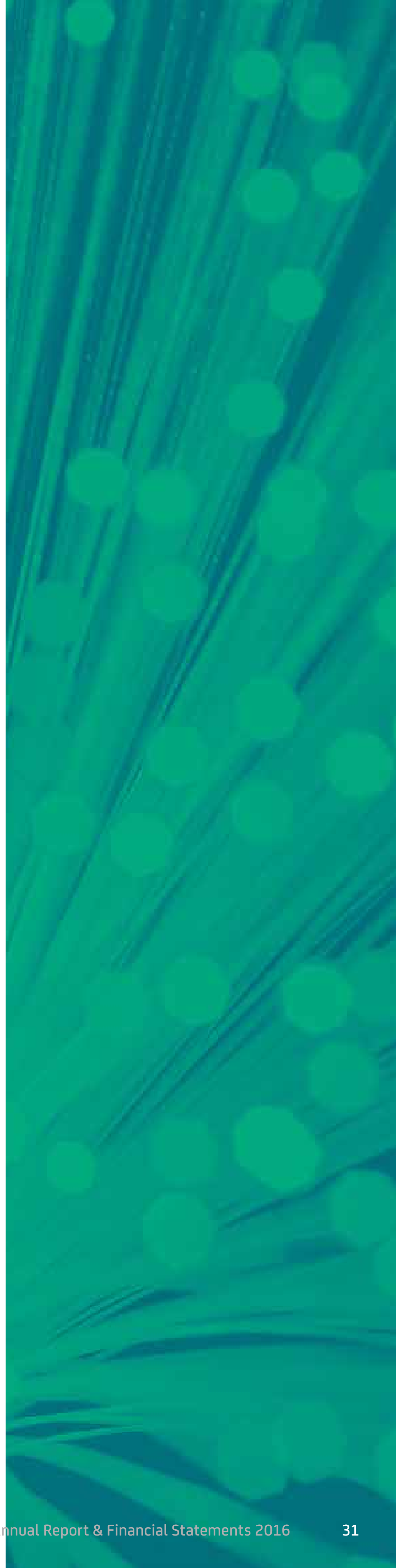
When applying the Group's accounting policies, management must make assumptions and estimates concerning the future that affect the carrying amounts of assets and liabilities at the balance sheet date and the amounts of revenue and expenses recognised during the accounting period. Assumptions and estimates are based upon factors including historical experience, the observance of trends in the industries in which the Group operates, and information available from the Group's customers and other outside sources.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

- Recognition of contract revenues – recognised amounts of contract revenues and related receivables reflect management's best estimate of each contract's outcome and stage of completion. This includes the assessment of the profitability of on-going contracts. For more complex contracts in particular, costs to complete and contract profitability are subject to significant estimation uncertainty.
- Useful lives of depreciable assets – Management reviews its estimate of the useful lives of depreciable assets at each reporting date, based on the expected future use of the assets. Uncertainties in these estimates relate to technical obsolescence that may change the future use of certain IT equipment and software.
- Estimation uncertainty – estimates and assumptions are used in the measurement of assets, liabilities, income and expenses. Actual results may be significantly different.
- Fair value measurement – Management uses valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible but this is not always available. In that case management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The following are significant management judgements in applying the accounting policies of the Company that have the most significant effect on the financial statements.

- Distinguishing the research and development phases of a new project and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired. No costs have been capitalised in the current financial period.
- Assessing the recoverability of the deferred tax asset requires judgement as to when the temporary differences will reverse and the impact of this on future taxable profits. Management have considered this with reference to forecast future profit levels and the nature of the temporary differences.



Consolidated statement of **profit or loss**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Note	**2016** £000	2015 £000
Revenue	*2*	**30,057**	28,882
Other operating charges	*3*	**(22,081)**	(21,330)
Donation to Nominet Trust		**(5,400)**	(4,000)
Total operating charges		**(27,481)**	(25,330)
Operating profit before donation to Nominet Trust		**7,976**	7,552
Operating profit		**2,576**	3,552
Income from available for sale investments	*12*	**1,317**	1,138
Finance income	*5*	**96**	90
Profit on disposal of available for sale investments	*12*	**499**	2,608
Profit before taxation		**4,488**	7,388
Taxation	*6*	**(43)**	(1,116)
Profit for the year		**4,445**	6,272

Consolidated statement of comprehensive income

Profit for the year		**4,445**	6,272
Other comprehensive income **Items that may subsequently be reclassified to income statement**			
Fair value gains (losses) on available for sale investments net of associated deferred tax		**4,365**	519
Release of fair value gains on available for sale investments net of associated deferred tax following disposal during the year		**(1,313)**	(1,790)
Exchange differences on retranslation of net assets of foreign currency operations		**(58)**	0
Total comprehensive income for the year		**7,439**	5,001

All amounts relate to continuing activities.

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

Consolidated statement of **financial position**

AS AT 30 SEPTEMBER

	Note	2016 £000	2015 £000	2014 £000
Assets				
Non current assets				
Property, plant & equipment	*9*	**7,171**	7,790	8,591
Intangible assets	*10*	**–**	–	–
Advance land lease payment		**1,581**	1,581	1,581
Available for sale investments	*12*	**64,775**	52,653	47,649
Deferred tax asset	*13*	**341**	408	346
		73,868	62,432	58,167
Current assets				
Trade and other receivables	*14*	**8,750**	6,293	5,670
Corporation tax asset	*16*	**954**	–	–
Cash and cash equivalents		**9,860**	10,508	9,695
		19,564	16,801	15,365
Total assets		**93,432**	79,233	73,532
Liabilities				
Current liabilities				
Trade and other payables	*15*	**4,801**	3,720	3,421
Corporation tax liability	*16*	**–**	494	104
Deferred income	*17*	**24,269**	19,707	20,032
		29,070	23,921	23,557
Non current liabilities				
Trade and other payables	*18*	**27**	101	61
Deferred tax liability	*13*	**1,020**	743	981
Deferred income	*17*	**10,688**	9,280	8,746
		11,735	10,124	9,788
Total liabilities		**40,805**	34,045	33,345
Net assets		**52,627**	45,188	40,187
Equity and reserves				
Retained earnings		**45,336**	40,949	34,677
Available for sale investments		**7,291**	4,239	5,510
Total funds		**52,627**	45,188	40,187

These financial statements were approved by the directors and authorised for issue on 20 December 2016, 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 statement of **financial position**

AS AT 30 SEPTEMBER

	Note	2016 £000	2015 £000	2014 £000
Assets				
Non current assets				
Property, plant & equipment	*9*	**7,166**	7,790	8,591
Intangible assets	*10*	**–**	–	–
Advance land lease payment		**1,581**	1,581	1,581
Available for sale investments	*12*	**64,775**	52,653	47,649
Deferred tax asset	*13*	**341**	408	346
		73,863	62,432	58,167
Current assets				
Trade and other receivables	*14*	**8,743**	6,328	5,908
Corporation tax asset	*16*	**954**	–	–
Cash and cash equivalents		**9,843**	10,475	9,595
		19,540	16,803	15,503
Total assets		**93,403**	79,235	73,670
Liabilities				
Current liabilities				
Trade and other payables	*15*	**4,788**	3,699	3,407
Corporation tax liability	*16*	**–**	494	104
Deferred income	*17*	**24,269**	19,707	20,032
		29,057	23,900	23,543
Non current liabilities				
Trade and other payables	*18*	**27**	101	61
Deferred tax liability	*13*	**1,020**	743	981
Deferred income	*17*	**10,688**	9,280	8,746
		11,735	10,124	9,788
Total liabilities		**40,792**	34,024	33,331
Net assets		**52,611**	45,211	40,339
Equity and reserves				
Retained earnings		**45,320**	40,972	34,829
Available for sale investments		**7,291**	4,239	5,510
Total funds		**52,611**	45,211	40,339

These financial statements were approved by the directors and authorised for issue on 20 December 2016, 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 2016

	Note	2016 £000	2015 £000
Cash flows from operating activities			
Cash generated from operations	22	**8,215**	5,313
Income taxes paid		**(1,419)**	(787)
Net cash generated by operating activities		**6,796**	4,526
Cash flows from investing activities			
Income received from available for sale investments		**1,317**	1,138
Interest received from cash and cash equivalents		**96**	90
Purchase of property, plant and equipment		**(561)**	(1,048)
Acquisition of available for sale investments		**(7,200)**	(3,000)
Income re-invested in available for resale investments		**(1,096)**	(893)
Net cash used in investing activities		**(7,444)**	(3,713)
Cash flows from financing activities			
Net cash used in financing activities		**–**	–
Net increase/(decrease) in cash and cash equivalents		**(648)**	813
Cash and cash equivalents at the beginning of the year		**10,508**	9,695
Cash and cash equivalents at the end of the year		**9,860**	10,508

The sequence of the comparative year cash flow has been adjusted from that previously reported in order to match the IFRS presentation of the current year.

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

Company **cash flow statement**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

	Note	2016 £000	2015 £000
Cash flows from operating activities			
Cash generated from operations	*22*	**8,225**	5,380
Income taxes paid		**(1,419)**	(787)
Net cash generated by operating activities		**6,806**	4,593
Cash flows from investing activities			
Income received from available for sale investments		**1,317**	1,138
Interest received from cash and cash equivalents		**96**	90
Purchase of property, plant and equipment		**(555)**	(1,048)
Acquisition of available for sale investments		**(7,200)**	(3,000)
Income re-invested in available for resale investments		**(1,096)**	(893)
Net cash used in investing activities		**(7,438)**	(3,713)
Cash flows from financing activities			
Net cash used in financing activities		**–**	–
Net increase/(decrease) in cash and cash equivalents		**(632)**	880
Cash and cash equivalents at the beginning of the year		**10,475**	9,595
Cash and cash equivalents at the end of the year		**9,843**	10,475

The sequence of the comparative year cash flow has been adjusted from that previously reported in order to match the IFRS presentation of the current year.

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

Consolidated and Company Statements of **changes in equity**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

	2016			2015		
	Available for sale investments	Retained earnings	Total	Available for sale investments	Retained earnings	Total
	£000	£000	£000	£000	£000	£000
Group						
Balance brought forward	**4,239**	**40,949**	**45,188**	5,510	34,677	40,187
Profit for year	**–**	**4,445**	**4,445**	–	6,272	6,272
Fair value gains (losses) on available for sale investments net of associated deferred tax	**4,365**	**–**	**4,365**	519	–	519
Release of fair value gains on available for sale investments net of associated deferred tax following disposal during the year	**(1,313)**	**–**	**(1,313)**	(1,790)	–	(1,790)
Exchange differences on retranslation of net assets of foreign currency operations	**–**	**(58)**	**(58)**	–	–	–
	7,291	**45,336**	**52,627**	4,239	40,949	45,188
Company						
Balance brought forward	**4,239**	**40,972**	**45,211**	5,510	34,829	40,339
Profit for year	**–**	**4,406**	**4,406**	–	6,143	6,143
Fair value gains (losses) on available for sale investments net of associated deferred tax	**4,365**	**–**	**4,365**	519	–	519
Release of fair value gains on available for sale investments net of associated deferred tax following disposal during the year	**(1,313)**	**–**	**(1,313)**	(1,790)	–	(1,790)
Exchange differences on retranslation of net assets of foreign currency operations	**–**	**(58)**	**(58)**	–	–	–
	7,291	**45,320**	**52,611**	4,239	40,972	45,211

Nominet UK's constitution does not allow any profit to be distributed to members. Instead, funds are retained to develop on-going operations, future investments, and to support the corporate charitable foundation, Nominet Trust.

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

Notes **to the financial statements**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

1 Adoption of international financial reporting standards

The Group's financial statements for the year ended 30 September 2016 and for the comparative year ended 30 September 2015 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and IFRIC (International Financial Reporting Interpretations Committee) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

This is the first year in which the Group has prepared its financial statements under IFRS. The comparatives have been restated from UK Generally Accepted Accounting Practice (UK GAAP) to comply with IFRS. A reconciliation to IFRS from previously published UK GAAP financial statements is summarised in note 28.

2 Revenue

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

	2016 £000	2015 £000
United Kingdom	**18,018**	17,579
Overseas	**12,039**	11,303
	30,057	28,882

3 Other operating charges

	2016 £000	2015 £000
Staff and other personnel costs	**11,953**	10,979
Technical systems and infrastructure	**3,141**	2,916
Other including public benefits payments	**3,051**	3,106
Depreciation	**1,180**	1,848
Operations	**448**	285
Facilities	**838**	930
Communications and marketing	**1,470**	1,266
	22,081	21,330

Notes **to the financial statements**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

4 Operating profit

	2016 £000	2015 £000
Operating profit is stated after charging:		
Depreciation of owned property, plant & equipment	**1,180**	1,848
Auditor's remuneration:		
Audit fees – Company and Group	**26**	25
Non-audit fees – taxation services	**15**	13
Operating lease costs:		
Equipment	**24**	28

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

5 Finance Income

	2016 £000	2015 £000
Bank interest receivable	**96**	90

Notes **to the financial statements**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

6 Taxation expense

The major components of tax expense and the reconciliation of the expected tax expense based on the domestic effective tax rate of Nominet UK at 20% (2015: 20.5%) and the reported tax expense in profit or loss are as follows:

	2016 £000	2015 £000
Profit before tax	**4,488**	7,388
Domestic tax rate for Nominet UK	**20%**	20.5%
Expected tax expense	**898**	1,515
Adjustment for:		
Non-deductible expenses	**9**	172
Chargeable gains	**555**	297
Tax exempt income	**(674)**	(689)
Research and development enhancement	**(407)**	(174)
Other differences	**(8)**	39
Adjustment to tax charge in respect of previous periods	**(413)**	(72)
Fixed asset differences	**23**	28
Adjust closing deferred tax to average rate of 17%	**60**	–
Actual tax expense	**43**	1,116
Tax expense comprises:		
Current tax expense	**389**	1,250
Adjustment to tax charge in respect of previous periods	**(413)**	(72)
	(24)	1,178
Deferred tax expense:		
Origination and reversal of temporary differences	**67**	(62)
Tax expense	**43**	1,116
Deferred tax expense (income), recognised directly in other comprehensive income	**277**	(238)

Note 13 provides information on deferred tax assets and liabilities.

Notes **to the financial statements**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

7 Particulars of employees

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

	2016 No	2015 No
Operations	**106**	106
Office	**34**	39
Management	**12**	10
	152	155

The aggregate payroll costs of the above were:

	2016 £000	2015 £000
Wages and salaries	**9,460**	8,723
Social security costs	**1,094**	998
Other pension costs	**378**	399
	10,932	10,120

8 Directors

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

	2016 £000	2015 £000
Emoluments receivable	**1,264**	1,055
Pension contributions to defined contribution pension schemes	**56**	54
	1,320	1,109
Emoluments of highest paid director:		
Emoluments receivable excluding pension contributions	**389**	265
Company pension contributions to defined contribution pension schemes	**20**	20

8 Directors (continued)

The above summary information is expanded in the following table:

	Salary / fees £000	Bonus* £000	Pension £000	Other costs and benefits** £000	2016 £000	2015 £000
Russell Haworth	215	155	20	19	**409**	285
Irene Fritchie	100	–	–	–	**100**	125
Richard Armour	31	–	–	–	**31**	31
Clive Grace	–	–	–	–	**–**	25
Andrew Pinder	33	–	–	–	**33**	8
Oliver Hope	–	–	–	–	**–**	23
Nora Nanayakkara	–	–	–	–	**–**	22
Jane Tozer	34	–	–	–	**34**	5
Piers White	21	–	–	–	**21**	36
Eleanor Bradley	170	93	18	12	**293**	255
Simon McCalla	165	91	18	50	**324**	253
Denesh Bhabuta	31	–	–	–	**31**	31
David Thornton	31	–	–	–	**31**	10
Volker Greimann	13	–	–	–	**13**	–
Year ended 30 September 2016	**844**	**339**	**56**	**81**	**1,320**	
Year ended 30 September 2015	782	196	54	77		1,109

*Of the bonus amount of £339k disclosed above, £15k relates to the uplift of the deferred element of bonus for financial year ended 30 September 2014 (2015: £23k uplift for financial year ended 30 September 2013). All other deferred elements for subsequent years will no longer be subject to increase due to company performance against medium term objectives, and instead have been paid without deferral.

**Other costs and benefits consist of private health insurance, company car allowances, sales commission payments and other one off payments.

Notes **to the financial statements**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

9 Property, plant and equipment

Group

	Leasehold buildings £000	Computers £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 October 2014	6,771	10,337	2,728	19,836
Additions	–	958	90	1,048
Disposals	–	(399)	–	(399)
At 30 September 2015	6,771	10,896	2,818	20,485
Additions	–	528	33	561
Disposals	–	–	–	–
At 30 September 2016	**6,771**	**11,424**	**2,851**	**21,046**
Depreciation				
At 1 October 2014	964	8,764	1,517	11,245
Charge for the year	135	1,379	334	1,848
On disposals	–	(398)	–	(398)
At 30 September 2015	1,099	9,745	1,851	12,695
Charge for the year	135	692	353	1,180
On disposals	–	–	–	–
At 30 September 2016	**1,234**	**10,437**	**2,204**	**13,875**
Net book value				
At 30 September 2016	**5,537**	**987**	**647**	**7,171**
At 30 September 2015	5,672	1,151	967	7,790
At 30 September 2014	5,807	1,573	1,211	8,591

The Oxford office is built on land owned by Magdalen College and leased by the Company over 150 years. The advance land lease payment is reflected as a non current asset.

Notes **to the financial statements**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

9 Property, plant and equipment (continued)

Company

	Leasehold buildings £000	Computers £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 October 2014	6,771	10,337	2,728	19,836
Additions	–	958	90	1,048
Disposals	–	(399)	–	(399)
At 30 September 2015	6,771	10,896	2,818	20,485
Additions	–	523	32	555
Disposals	–	–	–	–
At 30 September 2016	**6,771**	**11,419**	**2,850**	**21,040**
Depreciation				
At 1 October 2014	964	8,764	1,517	11,245
Charge for the year	135	1,379	334	1,848
On disposals	–	(398)	–	(398)
At 30 September 2015	1,099	9,745	1,851	12,695
Charge for the year	135	691	353	1,179
On disposals	–	–	–	–
At 30 September 2016	**1,234**	**10,436**	**2,204**	**13,874**
Net book value				
At 30 September 2016	**5,537**	**983**	**646**	**7,166**
At 30 September 2015	5,672	1,151	967	7,790
At 30 September 2014	5,807	1,573	1,211	8,591

The Oxford office is built on land owned by Magdalen College and leased by the Company over 150 years. The advance land lease payment is reflected as a non current asset.

Notes **to the financial statements**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

10 Intangible fixed assets

Group and Company

	Development work £000	Total £000
Cost		
At 1 October 2014	579	579
Additions	–	–
Disposals	–	–
At 30 September 2015	579	579
Additions	–	–
Disposals	–	–
At 30 September 2016	**579**	**579**
Amortisation and impairment		
At 1 October 2014	579	579
Charge for the year	–	–
Impairment	–	–
At 30 September 2015	579	579
Charge for the year	–	–
Impairment	–	–
At 30 September 2016	**579**	**579**
Net book value		
At 30 September 2016	–	–
At 30 September 2015	–	–
At 30 September 2014	–	–

Intangible assets relate to development costs associated with the generic top level domains project. The carrying value of the development costs has been reviewed by the directors and due to the lower than expected take up of generic top level domains to date, an impairment has been made against the full value of the intangible asset.

Notes **to the financial statements**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

11 Group entities

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 thousand £1 shares to Nominet UK. Nominet Limited has been dormant since its incorporation.

The Company 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 hundred £1 shares to Nominet UK. Nominet UK has issued a parent undertaking under s479C of the Companies Act 2006 guaranteeing all outstanding liabilities of Nominet Registrar Services Limited (company number 08158704) as at the end of the financial year until they are satisfied in full. As a consequence Nominet Registrar Services Limited is exempt from the requirements of the Companies Act 2006 relating to the audit of a subsidiary's individual accounts.

The Company also holds 100% of the equity share capital of its subsidiary undertaking, Nominet US Inc. Nominet US Inc. was incorporated on 30 July 2015 in order to facilitate the expansion of new product sales. One hundred $1 shares were issued to Nominet UK.

Nominet Limited and Nominet Registrar Services Limited are incorporated in the UK. Nominet US Inc is incorporated in the USA.

12 Available for sale investments

Group and Company	2016 £000	2015 £000
At 1 October	**52,653**	47,649
Additions	**7,200**	3,000
Re-invested gains on disposal of available for sale investments	**499**	2,608
Re-invested income	**1,317**	1,138
Management charges and foreign exchange movements	**(221)**	(233)
Movement in unrealised gain/(loss)	**3,327**	(1,509)
At 30 September	**64,775**	52,653

13 Deferred tax asset and liability

Group and Company	2016 £000	2015 £000	2014 £000
Deferred tax asset	**341**	408	346
Deferred tax liability	**1,020**	743	981

Deferred tax asset

The movement in the deferred tax asset balance during the year was:

Balance brought forward	**408**	346	
Profit or loss account movement arising during the year (note 6)	**(67)**	62	
Balance carried forward	**341**	408	

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

Excess of taxation allowances over depreciation	**299**	369	
Other short term timing differences	**42**	39	
Balance carried forward	**341**	408	

Deferred tax liability

The movement in the deferred tax liability balance during the year was:

Balance brought forward	**743**	981	
Statement of comprehensive income movement arising during the year	**277**	(238)	
Balance carried forward	**1,020**	743	

The deferred tax liability is on unrealised gains on available for sale investments.

Notes **to the financial statements**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

14 Current trade and other receivables

Group	2016 £000	2015 £000	2014 £000
Trade receivables	**4,204**	1,848	2,339
Accrued income	**2,919**	2,479	2,269
Other receivables	**8**	19	6
Financial assets	**7,131**	4,346	4,614
Prepayments	**1,619**	1,947	1,056
Non financial assets	**1,619**	1,947	1,056
Trade and other receivables	**8,750**	6,293	5,670
Company			
Trade receivables	**4,204**	1,848	2,339
Accrued income	**2,919**	2,479	2,269
Other receivables	**1**	19	6
Amounts owed by Group undertakings	**–**	35	238
Financial assets	**7,124**	4,381	4,852
Prepayments	**1,619**	1,947	1,056
Non financial assets	**1,619**	1,947	1,056
Trade and other receivables	**8,743**	6,328	5,908

All amounts are short term. The net carrying value of trade and other receivables is considered a reasonable approximation of fair value.

All of the Group's and Company's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and an allowance for credit losses has been recorded within other expenses of £20k (2015: £nil).

15 Current trade and other payables

Group	2016 £000	2015 £000	2014 £000
Trade payables	**427**	391	616
Other creditors	**417**	783	328
Accruals	**2,739**	1,662	1,737
Financial liabilities	**3,583**	2,836	2,681
Other taxation and social security	**1,218**	884	740
Non financial liabilities	**1,218**	884	740
Trade and other payables	**4,801**	3,720	3,421
Company			
Trade payables	**426**	391	616
Other creditors	**416**	783	328
Accruals	**2,687**	1,641	1,723
Amounts owed to Group undertakings	**41**	–	–
Financial liabilities	**3,570**	2,815	2,667
Other taxation and social security	**1,218**	884	740
Non financial liabilities	**1,218**	884	740
Trade and other payables	**4,788**	3,699	3,407

All amounts are short term. The net carrying value of trade and other payables is considered a reasonable approximation of fair value.

Notes **to the financial statements**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

16 Corporation tax

Group and Company	2016 £000	2015 £000	2014 £000
Corporation tax asset	**954**	–	–
Corporation tax liability	**–**	494	104

17 Deferred income

Group and Company	2016 £000	2015 £000	2014 £000
Current deferred income	**24,269**	19,707	20,032
Non current deferred income	**10,688**	9,280	8,746
	34,957	28,987	28,778

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

18 Non current trade and other payables

Group and Company	2016 £000	2015 £000	2014 £000
Accruals	**27**	101	61

19 Obligations under operating leases

At the balance sheet date, the Group and Company had outstanding liabilities for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

Group and Company	2016 £000	2015 £000
Within one year	**15**	14
In the second to fifth years inclusive	**–**	2
	15	16

Notes **to the financial statements**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

20 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:

	Due/(Owed) to Nominet UK at 30 Sept 16 £000	Income to Nominet UK 2016 £000	Purchases by Nominet UK 2016 £000
Baroness Irene Fritchie DBE	–	–	**4**
Danesh Bhabuta (Meidan Ventures Ltd)	–	**1**	–
Richard Armour (Fibranet Services Ltd)	–	**38**	–
Richard Armour (Freeparking Domain Registrars Inc)	**(10)**	**73**	–
David Thornton	–	**2**	–
Volker Greimann (Key Systems GmbH)	**(21)**	**332**	–
	(31)	**446**	**4**

	Due/(Owed) to Nominet UK at 30 Sept 15 £000	Income to Nominet UK 2015 £000	Purchases by Nominet UK 2015 £000
Baroness Irene Fritchie DBE	–	–	6
Oliver Hope (Heart Internet Ltd)	(115)	1,023	–
Oliver Hope (123-Reg)	(570)	5,029	–
Oliver Hope (Mesh Digital Ltd)	17	387	20
Richard Armour (Fibranet Services Ltd)	(8)	75	–
David Thornton	–	1	–
	(676)	6,515	26

Other than David Thornton whose purchases are shown in the table above, the other directors personally purchased domain names from Nominet in the year. The total amount invoiced per director was less than £750 (2015: less than £750).

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

Key Management Personnel

In our opinion, the key management personnel are the same as the directors whose emoluments are listed in note 8. The social security costs payable on their emoluments during the year was £174k (2015: £146k).

Notes **to the financial statements**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

21 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 2016 was 2,515 (2015: 2,626).

22 Notes to the cash flow statement

Group	2016 £000	2015 £000
Operating profit	**2,576**	3,552
Adjusted for:		
Depreciation	**1,180**	1,848
(Increase)/decrease in trade and other receivables	**(2,457)**	(623)
Increase/(decrease) in trade and other payables	**6,977**	549
(Gain)/loss on foreign exchange	**(61)**	(13)
Cash generated from operations	**8,215**	5,313

The operating profit for the year ended 30 September 2016 is stated after a donation to the Nominet Trust of £5.4m (2015: £4.0m)

Company	2016 £000	2015 £000
Operating profit	**2,478**	3,422
Adjusted for:		
Depreciation	**1,179**	1,848
(Increase)/decrease in trade and other receivables	**(1,966)**	(481)
Increase/(decrease) in trade and other payables	**6,651**	609
(Gain)/loss on foreign exchange	**(117)**	(18)
Cash generated from operations	**8,225**	5,380

The operating profit for the year ended 30 September 2016 is stated after a donation to the Nominet Trust of £5.4m (2015: £4.0m)

23 Financial instruments risk

The Group's policy is to fund its operations through the use of retained earnings and equity, and then place surplus cash into available for sale investments and deposits. Given the level of cash and available for sale investments the Group does not bear any significant liquidity risk.

The main risks associated with the Group's financial instruments relate to changes in market conditions for available for sale investments, changes in interest rate risk and to credit risk. The policies for managing these risks are kept under review by the Board.

a) Market conditions relating to the available for sale investments
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 Limited, in matters of compliance with the strategy, service provision and value for money.

Sensitivity Analysis – All the available for sale investments are quoted in active markets, and are sensitive to fluctuations in market value. If the average value of the available for sale investments were to change by 5%, the effect on total comprehensive income would be £3.2m (2015: £2.6m).

b) Interest rate profile of financial assets
The Investment Committee sets and reviews treasury policy, including monitoring the distribution of the Group's cash balances. Deposits are placed only after due consideration of the current credit-worthiness of the counterparty.

c) Credit risk
The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. Credit risk of new customers is assessed before entering into contracts. Over 98% of trade receivables related to current month debt (2015: 98% current month debt).

d) Financial liabilities
As of 30 September 2016 the Group had no financial liabilities other than those of a trading nature.

e) Fair value measurement of financial assets and liabilities
Available for sale investments are recorded at each balance sheet date at market value, with the value for each individual holding obtained from quoted prices in active markets for identical assets. A provision is made for the associated deferred tax liability on any unrealised gains.

f) Foreign currency risk
The Group has transactional currency exposures. Such exposures arise from sales or purchases by the Group in currencies other than the companies' operating (or 'functional') currency, and from the conversion into sterling of results of the subsidiary, Nominet US Inc. The Group has not taken out hedges as the exposure to foreign currencies at any one time is not significant.

24 Financial instruments

Categories of financial assets and financial liabilities

The accounting policies provide a description of each category of financial asset and financial liability and the related accounting policies. The carrying amounts of financial assets and financial liabilities in each category are as follows:

	Group 2016 £000	Group 2015 £000	Company 2016 £000	Company 2015 £000
Financial assets				
Classified as loans and receivables:				
Trade and other receivables	**7,131**	4,346	**7,124**	4,381
Cash and cash equivalents	**9,860**	10,508	**9,843**	10,475
Classified as available for sale:				
Available for sale investments	**64,775**	52,653	**64,775**	52,653
	81,766	67,507	**81,742**	67,509
Financial liabilities				
Classified as financial liabilities held at amortised cost				
Trade and other payables	**3,583**	2,836	**3,570**	2,815

Fair value measurement

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three specific levels of a fair value hierarchy which are defined based on the observability of significant inputs to the fair value measurements undertaken, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

All of the available for sale investments fall into the level 1 category.

Notes **to the financial statements**

25 Capital management policies and procedures

Nominet UK's constitution does not allow any profit to be distributed to members. The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to retain sufficient funds to ensure the continuation of the on-going operations, future investments, and to support the corporate charitable foundation, the Nominet Trust. The Group has no borrowings.

26 Capital commitments

At the year end the Group and Company had capital commitments of £103,000 (2015: £115,000) relating to capital expenditure contracted but not provided for in the financial statements.

27 Contingent liabilities

There were no contingent liabilities at 30 September 2016 or at 30 September 2015.

28 Transition from UK GAAP to IFRS

The following tables show the effect that the transition from UK GAAP to IFRS had on the profit or loss statement for the year ended 30 September 2015, the balance sheets as at 1 October 2014 (the date of transition) and 30 September 2015 and the cash flow statement for the year ended 30 September 2015.

The changes on the transition to IFRS arise from the following principal factors:

- The presentation has been changed in order to comply with IAS 1 "Presentation of Financial Statements" and terminology has also been changed to reflect headings used in IFRS.
- Under IAS 39 "Financial Instruments: Recognition and Measurement" the investments have been classified as "Available for Sale" financial assets and are valued at each balance sheet date at the market value as of that date. Previously investments were valued at purchase price less a provision on any individual holdings where the market value of those holdings were less than the purchase price.
- IFRS 1 "First-time Adoption of International Financial reporting Standards" allows Companies who are adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS during the transition period.

Notes **to the financial statements**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

28 Transition from UK GAAP to IFRS (continued)

Consolidated statement of profit or loss for the year ended 30 September 2015 (comparative year)

	UK GAAP as previously reported £000	Effect of transition to IFRS* £000	**IFRS £000**
Revenue	28,882	–	**28,882**
Other operating charges	(21,330)	–	**(21,330)**
Movement in provision against purchase value of investments	(1,267)	1,267	**–**
Donation to Nominet Trust	(4,000)	–	**(4,000)**
Total operating charges	(26,597)	1,267	**(25,330)**
Operating profit before donation to Nominet Trust and movement in provision against purchase value of investments	7,552	–	**7,552**
Operating profit	2,285	1,267	**3,552**
Income from available for sale investments	1,138	–	**1,138**
Finance income	90	–	**90**
Profit on disposal of available for sale investments	2,608	–	**2,608**
Profit before taxation	6,121	1,267	**7,388**
Taxation	(1,116)	–	**(1,116)**
Profit for the year	5,005	1,267	**6,272**
Consolidated statement of comprehensive income			
Profit for the year	5,005	1,267	**6,272**
Other comprehensive income **Items that may subsequently be reclassified to income statement**			
Fair value gains (losses) on available for sale investments net of associated deferred tax	–	519	**519**
Release of fair value gains on available for sale invetments net of associated deferred tax following disposal during the year	–	(1,790)	**(1,790)**
Total comprehensive income for the year	5,005	(4)	**5,001**

*The IFRS adjustments relate to the inclusion of available for sale investments at their fair value in the statement of financial position, resulting in changes to the previous profit and loss reported amounts. These include:
- The elimination of the movement in provision against purchase value of available for sale investments
- The movement of the unrealised fair value on available for sale investments within other comprehensive income

28 Transition from UK GAAP to IFRS (continued)

Balance Sheets at 01 October 2014 (date of transition) and 30 September 2015 (comparative year)

Group	Balance Sheet as at 01 October 2014 (date of transition)			Balance Sheet as at 30 September 2015 (comparative year)		
	UK GAAP as previously reported	Effect of transition to IFRS*	IFRS	UK GAAP as previously reported	Effect of transition to IFRS*	IFRS
	£000	£000	**£000**	£000	£000	**£000**
Assets						
Non current assets						
Property, plant & equipment	10,172	(1,581)	**8,591**	9,371	(1,581)	**7,790**
Advance land lease payment	–	1,581	**1,581**	–	1,581	**1,581**
Available for sale investments	40,660	6,989	**47,649**	45,906	6,747	**52,653**
Deferred tax asset	–	346	**346**	–	408	**408**
	50,832	7,335	**58,167**	55,277	7,155	**62,432**
Current assets						
Trade and other receivables	6,016	(346)	**5,670**	6,701	(408)	**6,293**
Cash and cash equivalents	9,695	–	**9,695**	10,508	–	**10,508**
	15,711	(346)	**15,365**	17,209	(408)	**16,801**
Total assets	66,543	6,989	**73,532**	72,486	6,747	**79,233**
Liabilities						
Current liabilities						
Trade and other payables	3,586	(165)	**3,421**	4,315	(595)	**3,720**
Corporation tax liability	–	104	**104**	–	494	**494**
Deferred income	–	20,032	**20,032**	–	19,707	**19,707**
	3,586	19,971	**23,557**	4,315	19,606	**23,921**
Non current liabilities						
Trade and other payables	–	61	**61**	–	101	**101**
Deferred tax liability	–	981	**981**	–	743	**743**
Deferred income	–	8,746	**8,746**	–	9,280	**9,280**
	–	9,788	**9,788**	–	10,124	**10,124**
Deferred income	28,778	(28,778)	**–**	28,987	(28,987)	**–**
Total liabilities	32,364	981	**33,345**	33,302	743	**34,045**
Net assets	34,179	6,008	**40,187**	39,184	6,004	**45,188**

Notes **to the financial statements**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

28 Transition from UK GAAP to IFRS (continued)

	Balance Sheet as at 01 October 2014 (date of transition)			Balance Sheet as at 30 September 2015 (comparative year)		
	UK GAAP as previously reported	Effect of transition to IFRS*	**IFRS**	UK GAAP as previously reported	Effect of transition to IFRS*	**IFRS**
	£000	£000	**£000**	£000	£000	**£000**
Equity and reserves						
Retained earnings	34,179	498	**34,677**	39,184	1,765	**40,949**
Available for sale investments	–	5,510	**5,510**	–	4,239	**4,239**
Total funds	34,179	6,008	**40,187**	39,184	6,004	**45,188**

The IFRS adjustments relate to:

- Disclosure of advance land lease payment as a separate non current asset instead of being included in property, plant and equipment
- Recognition of available for sale investments at fair value with the associated deferred tax liability disclosed as a non current liability
- Disclosure of the deferred tax asset as a separate non current asset
- The split of deferred income into current and non current liabilities
- Disclosure of the corporation tax liability as a separate non current liability
- Disclosure of non current trade and other payables separately

Notes **to the financial statements**

FOR THE YEAR ENDED 30 SEPTEMBER 2016

28 Transition from UK GAAP to IFRS (continued)

Balance Sheets at 01 October 2014 (date of transition) and 30 September 2015 (comparative year)

Company	**Balance Sheet as at 01 October 2014 (date of transition)**			**Balance Sheet as at 30 September 2015 (comparative year)**		
	UK GAAP as previously reported	Effect of transition to IFRS*	**IFRS**	UK GAAP as previously reported	Effect of transition to IFRS*	**IFRS**
	£000	**£000**	**£000**	£000	£000	**£000**
Assets						
Non current assets						
Property, plant & equipment	10,172	(1581)	**8,591**	9,371	(1,581)	**7,790**
Advance land lease payment	–	1,581	**1,581**	–	1,581	**1,581**
Available for sale investments	40,660	6,989	**47,649**	45,906	6,747	**52,653**
Deferred tax asset	–	346	**346**	–	408	**408**
	50,832	7,335	**58,167**	55,277	7,155	**62,432**
Current assets						
Trade and other receivables	6,254	(346)	**5,908**	6,736	(408)	**6,328**
Cash and cash equivalents	9,595	–	**9,595**	10,475	–	**10,475**
	15,849	(346)	**15,503**	17,211	(408)	**16,803**
Total assets	66,681	6,989	**73,670**	72,488	6,747	**79,235**
Liabilities						
Current liabilities						
Trade and other payables	3,572	(165)	**3,407**	4,294	(595)	**3,699**
Corporation tax liability	–	104	**104**	–	494	**494**
Deferred income	–	20,032	**20,032**	–	19,707	**19,707**
	3,572	19,971	**23,543**	4,294	19,606	**23,900**
Non current liabilities						
Trade and other payables	–	61	**61**	–	101	**101**
Deferred tax liability	–	981	**981**	–	743	**743**
Deferred income	–	8,746	**8,746**	–	9,280	**9,280**
	–	9,788	**9,788**	–	10,124	**10,124**
Deferred income	28,778	(28,778)	**–**	28,987	(28,987)	**–**
Total liabilities	32,350	981	**33,331**	33,281	743	**34,024**
Net assets	34,331	6,008	**40,339**	39,207	6,004	**45,211**

28 Transition from UK GAAP to IFRS (continued)

	Balance Sheet as at 01 October 2014 (date of transition)			Balance Sheet as at 30 September 2015 (comparative year)		
	UK GAAP as previously reported	Effect of transition to IFRS*	**IFRS**	UK GAAP as previously reported	Effect of transition to IFRS*	**IFRS**
	£000	£000	**£000**	£000	£000	**£000**
Equity and reserves						
Retained earnings	34,331	498	**34,829**	39,207	1,765	**40,972**
Available for sale investments	–	5,510	**5,510**	–	4,239	**4,239**
Total funds	34,331	6,008	**40,339**	39,207	6,004	**45,211**

The IFRS adjustments relate to:

- Disclosure of advance land lease payment as a separate non current asset instead of being included in property, plant and equipment
- Recognition of available for sale investments at fair value with the associated deferred tax liability disclosed as a non current liability
- Disclosure of the deferred tax asset as a separate non current asset
- The split of deferred income into current and non current liabilities
- Disclosure of the corporation tax liability as a separate non current liability
- Disclosure of non current trade and other payables separately

28 Transition from UK GAAP to IFRS (continued)

Note to the consolidated cash flow statement for the year ended 30 September 2015

Group

	UK GAAP as previously reported £000	Effect of transition to IFRS* £000	IFRS £000
Operating profit	2,285	1,267	**3,552**
Adjusted for:			
Depreciation	1,848	–	**1,848**
(Increase)/decrease in trade and other receivables	(623)	–	**(623)**
Increase/(decrease) in trade and other payables	536	13	**549**
(Gain)/loss on foreign exchange	–	(13)	**(13)**
Amounts provided against investments	1,267	(1,267)	**–**
Cash generated from operations	5,313	–	**5,313**

The IFRS adjustments relate to:

- The available for sale investments are included at fair value in the statement of financial position, resulting in the elimination of the amounts provided against investments
- (Gain)/loss on foreign exchange is shown separately under IFRS

A restatement of the Company cash flow is not included because it has not been previously reported.

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