

# Annual Report and Financial Statements

For the year ended 31<sup>st</sup> March 2020



**NOMINET**

Nominet UK Company Limited by Guarantee

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# Officers and professional advisers

<b>Company registration number</b>	03203859
<b>Registered office</b>	Minerva House Edmund Halley Road Oxford Science Park OXFORD OX4 4DQ
<b>Directors</b>	Mark Wood (Chair) Rob Binns James Bladel Eleanor Bradley Russell Haworth Ben Hill Dr. Stephen Page Kelly Salter Anne Taylor David Thornton Jane Tozer MBE OBE
<b>Company Secretary</b>	Rory Kelly
<b>Bankers</b>	National Westminster Bank plc 91 London Road Headington OXFORD OX3 9AF
<b>Solicitors</b>	CMS Cameron McKenna LLP 160 Aldersgate Street LONDON EC1A 4DD
<b>Investment managers</b>	Quilter Cheviot Limited One Kingsway LONDON WC2B 6AN
<b>Independent auditors</b>	Grant Thornton UK LLP Chartered Accountants Statutory Auditor 3140 Rowan Place Oxford Business Park South OXFORD OX4 2WB





# Chair's statement

The past year has been an important one in Nominet's history in more ways than one. Faced with the massive, once in a lifetime disruption of the COVID-19 pandemic, the organisation moved seamlessly to remote working with zero impact on operations, a credit to the prescient planning of the executive team.

While retaining a firm focus on the efficient management of the .UK registry throughout the year, Nominet has also begun to change the shape of its business. It is steadily emerging as a global player in cyber security alongside its role as one of the world's biggest registries, while accelerating the pace of change through its first acquisitions.

The .UK registry is, of course, the heart of the business and continues to provide a trusted home for millions of companies and individuals, maintaining an impressive track record in terms of customer service and reliability. Programmes to keep the .UK namespace safe and secure have developed further, including use of proprietary technology to combat phishing, and cooperation with law enforcement to suspend criminal domains which are an ever-growing menace. After a lengthy lead-in, Nominet also smoothly managed the completion of the 'right of registration' ("RoR") period for .UK domains last June, defying predictions in some quarters of confusion or chaos.

The Board approved a significant investment in a registry development programme which will further enhance all our domain management systems and ensure that world-class security continues to protect Nominet's infrastructure and customers for years to come.





Nominet made enormous progress in building its cyber security business, securing an enhanced role in the UK Government's Active Cyber Defence programme and winning contracts with government bodies in Australia and the Middle East. Nominet's first acquisitions, of US-based CyGlass and of UK-based XQ\_Cyber, added significant new capabilities that enable us to target enterprise markets as well as government. In the coming year, we will continue to explore acquisition opportunities that would accelerate our registry or cyber strategies.

Nominet also took the decision to exit the spectrum management market in order to sharpen the focus on cyber as the key growth area.

We are immensely proud of our public benefit programme and know how important it is to our membership and our own staff. Innovative programmes have helped partners such as the Samaritans, Scouts and Internet Watch Foundation use technology to improve mental health, increase digital skills, and protect the vulnerable. I am pleased to report that our programme helped over 700,000 people last year, a number set to rise in the months ahead and achieve our goal of helping one million people by the end of 2020.

We have constantly sought ways to engage with our members and ran a comprehensive events programme, including a conference and a series of webinars and lunches. These all provided valuable opportunities for key staff from all levels of the organisation to listen to members' suggestions and concerns and thus continue to build on our well-regarded services.

As Nominet enters its 25<sup>th</sup> year, I believe the organisation is in better shape than at any time in its history. It is led by a high-calibre, ambitious leadership team and its staff show through their energy and commitment that they are motivated to make the organisation operate efficiently in the interests of all its customers. A strong and experienced Board sets strategy, oversees progress and ensures the appropriate governance is in place to support a rapidly evolving organisation.

Despite the challenges presented by the COVID-19 pandemic and an uncertain economic environment, we are in very good shape to face the year ahead. For that I would like to extend my thanks to members, the Nominet team and Board colleagues for their ongoing contribution to this unique and dynamic organisation.

**Mark Wood**  
Chair, Nominet

# CEO's statement

The last year has seen us make significant progress delivering on our strategy to defend and extend our registry business, build our cyber expertise, and have a positive impact on society.

As a profit with a purpose company, we are building the foundations for the long-term growth that supports our contribution to increased connectivity, security and inclusivity.

Our total revenue was £45.0m, up 5.4% on FY19 (£42.6m), reflecting a healthy registry solutions performance and significant contract wins for the cyber business unit.


Reflecting our increased investment in the future of our business, our operating profit before public benefit over the last year was 11% (FY19: 17%).

Our investment portfolio and net asset position was impacted towards the end of the financial year due to the reaction of global financial markets to COVID-19. While financial markets remain volatile, our portfolio has subsequently recovered much of its pre-COVID-19 value.

This strong financial performance was built on delivering an excellent service to support registrants, registrars, governments and businesses worldwide whilst making strategic investments across the business to ensure it is positioned for sustained future success.







Our core registry business continues to perform well, retaining its position as the most popular domain for registrants in the UK market. In the first quarter of the financial year, the end of the RoR period for second level domains and the subsequent release of domains was a significant undertaking. Our systems ran smoothly, coping with heightened demand, and I am pleased to report that we did not see a significant increase in abusive registrations in the months that followed.

The level of .UK domains under management stands at 11.9m (FY19: 12.2m) with further fluctuations expected as the promotional RoR domains reach their renewal date. The underlying renewal rate, excluding renewals of free promotional RoR domains, remained steady and in-line with FY19 at c.74%.

Despite increased competition in the market and at point of sale, new registrations reached 2.8m (1.5m excluding free promotional RoR registrations) sustaining momentum against the comparative period (FY19: 1.9m and 1.6m excluding RoR). Working with registrars, promotions helped ensure visibility for .UK amongst potential registrants faced with an increasing choice of domain endings. A cause marketing campaign, over the Christmas period, led to a 5% uplift in registrations for the period of the campaign, and a £150k donation to our charity partner, The Samaritans. Our website [www.theukdomain.uk](http://www.theukdomain.uk) continues to encourage increased adoption of online opportunities, reaching over 1.5m small business owners and potential registrants over the course of the year.

It is a matter of great pride to run .UK, and we deliver to the highest standards. Over the year, we continued to invest in the resilience of our service, and to meet the increasing obligations that come with running part of critical national infrastructure. Working with law enforcement, we suspended over 26k domains linked with criminal activity. Our respected dispute resolution service was able to call upon a group of experienced, independent experts to resolve over 800 cases.

The Board has approved a £4m investment as part of a multi-year registry development programme. This incremental investment will enhance customer-facing registry systems and continue to ensure world-class levels of security across the underlying infrastructure.

Our registry services business has remained solid: Nominet remains firmly established as a top five registry services provider for brands and gTLDs; is an ICANN emergency registry operator; and has developed strategic partnerships that help Nominet capitalise on opportunities presented by the second round of domain extensions.

## CEO's statement (continued)

Our role as part of the British Government's Active Cyber Defence programme has expanded over the year. Working with the NCSC, our Protective Domain Name Service ("DNS") is now helping over 400 public sector organisations secure their networks. During the year, we were delighted to secure a contract, now underway, to deliver an enhanced solution that will ensure the service remains a world leader.

Through referrals, the Nominet team is also working on two significant international government pilots. Capitalising on increased demand and scope from the public sector, Nominet's cyber team are now focused on large scale deployments for governments.


In February 2020, Nominet made two acquisitions that expanded the reach and depth of the Nominet group's cyber portfolio – CyGlass and XQ Cyber. US early-stage cyber security company CyGlass specialises in sophisticated but easy to deploy threat detection capabilities for enterprises. Over the same period, Nominet also acquired the assets of XQ Cyber, a UK company that developed an impressive vulnerability testing capability. CyGlass is now spearheading the Nominet group's effort in the enterprise market, incorporating XQ Cyber technologies into its product roadmap.

Moving forward, our commercial focus remains on registry solutions and cyber security. In order to capitalise on the significant opportunities across the cyber and registry solutions markets, we decided to step back from our activities in spectrum management and autonomous vehicles where the paths to scale were less clear. We have open sourced our IoT tools to ensure that the wider technology community can continue to access and develop our technology.

This underlines our approach as a profit with a purpose company. Our commercial success means we can fund our ambitious public benefit programme to help at least one million young people per annum thrive in a digital world. This year we invested over £1.9m (including £1.7m of grants) and have supported and initiated a variety of projects that are making their mark, from the Samaritans to Micro:bit. The staff at Nominet live this ethos, running a busy programme of fund-raising activities to support the causes they care about.

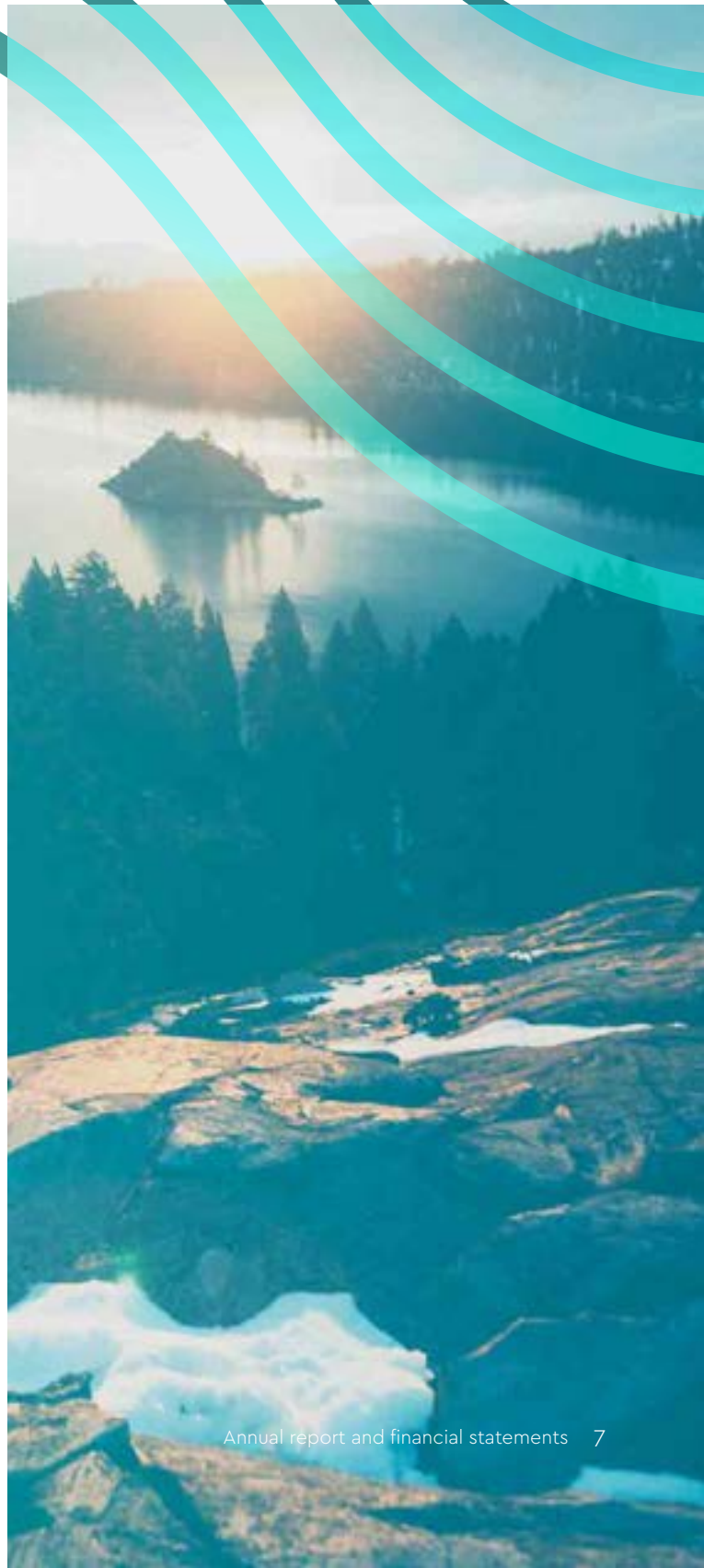
Our longstanding business continuity planning continued throughout the year, and paved the way for a smooth transition to remote working in March. While our offices closed, a programme to ensure our people can continue to operate effectively through a prolonged period of home working was put in place.





The company as a whole has risen to the challenge of COVID-19, from increased vigilance over potentially exploitative domain registrations and setting up a fund to support registrars helping registrants through financial difficulties, to driving forward campaigns that help get devices in the hands of those that might otherwise get left behind. This is all possible because of the part that members, registrars, partners and colleagues continue to play. My thanks to everyone for supporting this unique company.

**Russell Haworth**  
CEO, Nominet



# Public Benefit

With a long-term goal of helping to improve the lives and life chances of one million young people a year through technology, we have made significant progress. Through FY20, we have reached 721,777 young people and have made grants that will enable us to reach our goal beyond calendar year 2020.

The approach we have taken is to direct grants, partnerships and programmes towards social issues that are emerging with technology and the internet at their heart. We focus our work on areas including digital skills and careers, mental health and wellbeing through to internet safety and digital exclusion. All share a common aim of improving the role of technology in young people's lives.

Our approach to Public Benefit remains consistent. We undertake high quality research into the issues, working closely with charities and front-line organisations, before designing approaches that are scalable and sustainable with mission-based organisations. This ensures we are playing an influential role in Tech for Good – and building a UK that is connected, inclusive and secure.



## Highlights

### June

— Nominet and Scouts announce new Digital Citizenship Badge

### July

— Nominet launches 'Keeping Children Safe Online' research report with NPC

### September

— Nominet and Livity win Lord Mayor's Dragon Award for our Nominet Digital Neighbourhood initiative

### November

— Our flagship Nominet #RESET Mental Health Programme launches

— Nominet launches cause-marketing campaign to support Samaritans online chat service



" Working with Nominet to develop our Digital Citizen badge has given us access to invaluable industry expertise and funding to create this exciting programme for

young people. These new materials will support our 474,000 youth members across the UK to learn valuable digital skills, which are essential for them to succeed in our rapidly evolving society. "

**Matt Hyde,**  
Scouts CEO



" This fund is vital to help us build a safer internet for everyone, but especially children. It will help us in ways that we've not been

afforded until now – it's a fantastic initiative and one that could make a vital difference to the lives of many, many children. "

**Susie Hargreaves OBE,**  
IWF CEO

# 721,777

The number of young people reached in FY20.

Which means we have now supported **877,209** towards our Project 2020 goal.



" There are now over a million micro:bits in UK schools and libraries. The help of our founding partner Nominet in developing the new classroom

tool and lessons means we can empower teachers to help children of all backgrounds be better prepared to face, and have a part in shaping, their own digital futures. "

**Gareth Stockdale,**  
micro:bit education Foundation CEO



" Nominet is already supporting us to build essential new digital products that will enable

Samaritans to improve our services and reach more people who need them. We're very grateful that they have chosen to support us even further. The additional contribution will accelerate our ability to bring our webchat pilot to launch. "

**Francis Bacon,**  
Samaritans Assistant Director of Digital Change

## December

— Nominet Countering Online Harm Tech Innovation Fund launched

## January

— Nominet and Scouts launch Safer Internet Day Badge

## February

— Nominet launch This is How, a new podcast and learning platform for digital careers

## March

— Micro:bit classroom launched

— Nominet leads on the zero rating of the NHS digital estate in response to COVID-19

— Nominet supports BITC to build and launch a platform for business response to COVID-19

— Nominet makes grants to Childnet and South West Grid for Learning to develop the internet safety programme

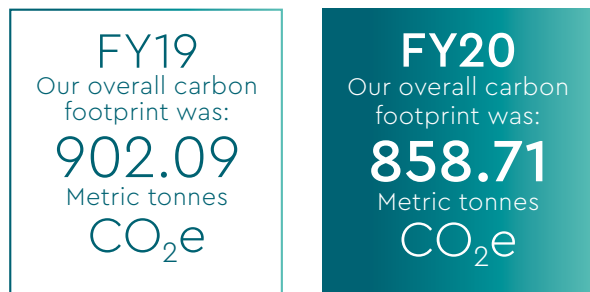




# Environmental overview

Nominet is committed to reducing the impact of its activities on the environment and to reducing carbon emissions.

We continue to do this through a range of methods, from scrutinising our energy consumption and usage patterns with the aim of reduction, encouraging and promoting sustainable travel, recycling food waste, paper, plastics and all electrical goods.



During 2019 Nominet put in place an Environmental policy, objectives, and management framework. We rolled out a green commuter programme which includes a cycle scheme, lift-share app, and EV charging points. We worked with our suppliers to reduce on site single-use plastic and rolled out improved recycling facilities, increasing the recycled waste streams. All purchased gas and electricity are now from renewable sources. We also offset last year's verified carbon footprint from our offices by creating a Nominet Forest, which we intend to support in the long-term. Through our ambitious environmental targets, we have achieved a significant reduction in our total carbon footprint.

## Greenhouse Gas ("GHG") emissions and energy use data for period 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020

SCOPE 1-3 DATA			
2018-2019: FY19		2019-2020: FY20	
kWh/HG/ Litres	Metric tonnes CO <sub>2</sub>	kWh/HG/ Litres	Metric tonnes CO <sub>2</sub>

Total Scope 1			
140,849.9	46.04	150,491.3	38.65
Total Scope 2			
859,273.2	243.23	708,474.4	181.08
Total Scope 3			
not measured	612.82	572,067.07	638.98

INTENSITY METRIC			
Business Metrics	Quantity	Scope 1 & 2 Emissions per unit	Unit
Total Scope 1 & 2			
2018-2019: FY19	42.6	6.8	tCO <sub>2</sub> e/£m
2019-2020: FY20	45.0	4.8	tCO <sub>2</sub> e/£m

## Reasons for change in emissions

Our emissions have fallen significantly this year due to ambitious reduction targets. Our consumption of gas was slightly higher due to a colder winter. We have reduced overall electricity emissions by 18% achieved by modifications to the air conditioning set-up in our server room, a reduction in the volume of servers and the replacement of server equipment with newer more energy efficient equipment.

Clearer travel guidelines, an investment in company-wide remote collaboration technology and in-country resources have led to a reduction in business travel. This has resulted in a 17% reduction in rail emissions and 19% in flight emissions.

# Corporate governance

Nominet UK is a private company limited by guarantee and given its size and structure, is not obliged to adopt and has not adopted the provisions of the UK Corporate Governance Code.

We report on our corporate governance arrangements by drawing upon recognised good practice, including those aspects of the UK Corporate Governance Code we consider to be relevant to the Company.

The Board is responsible for setting the Company's vision and strategic aims, ensuring that the necessary resources are in place and holding the Executive to account for delivering the strategic objectives. The Board usually meets on a bi-monthly basis, and in-line with the provisions for structuring decisions contained in the UK Corporate Governance Code there are several committees that focus on specific areas and report into the main Board.

The Board takes action to identify and manage conflicts of interest, Board members are required to declare their interest in any matter to be discussed at a meeting of the directors. Where appropriate, directors are not party to any discussion or decision where they have a direct conflict of interest.

During the year to 31<sup>st</sup> March 2020, the Board comprised eight non-executive directors (NEDs), including the Chair, and three executive directors, including the CEO. Since February 2019 one of the executive director posts has remained vacant.

At the July 2019 AGM the members elected Anne Taylor to replace Volker Greimann as the fourth elected NED. Eleanor Bradley was re-appointed by the Board during the reporting period. The proportion of women on the Board during the period was between 27% and 36%.

The Board met seven times during the year to 31<sup>st</sup> March 2020 covered by this report. 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. The Board also approved a recommendation to increase .UK prices during the reporting period. The Board examined the M&A landscape to support diversification plans and in February 2020 approved the acquisition of US based cyber security company CyGlass Inc.

The Gender Pay Gap reporting regulations require organisations in the UK with 250 or more employees to publish their results. We did not reach this threshold during the reporting period, and due to COVID-19 the Government has suspended enforcement of the gender pay gap deadlines for the reporting year FY20.

However, we chose to voluntarily publish our information in line with best practice, and as part of our ongoing commitment to take positive action by demonstrating commitment to transparency and equality in the workplace.

The Gender Pay Gap is the difference between the average earnings of men and women, expressed relative to men's earnings as a percentage. The mean Gender Pay Gap is currently 20.46%, while the median gap is 26.82%. The gap in bonus attainment is similar, with the mean at 19.07% and the median at 21.95%. Nominet's results reflect the under-representation of women in roles in the upper middle and upper quartiles, with a current representation of 30%.

A programme to address this is underway, focused on encouraging a greater diversity of applications for senior technical roles. As part of this, Nominet has changed its approach to recruitment to reach a wider audience, adjusting language to appeal to a wider pool of talent and sharing the experiences of key individuals who are already in the team to showcase a positive culture. Training for managers includes a programme tackling unconscious bias.



# Board members



Mark Wood (Chair)



Rob Binns



James Bladel



Eleanor Bradley



Russell Haworth



Ben Hill



Dr. Stephen Page



Kelly Salter



Anne Taylor



David Thornton



Jane Tozer MBE OBE (Senior  
Independent Director)



# Board committees

Nominet has five board committees: Audit and Governance, Investment, Mergers and Acquisitions, Nominations, and Remuneration. The terms of reference for each of these can be found on the Company website and updates on the activities of each during the reporting period are provided below. Membership of and attendance at committees by directors is shown in the table on page 16.

## Audit and Governance Committee

The Audit and Governance Committee met three times during the reporting period and on these occasions:

- Met with the internal and external auditors in the absence of the Executive, in accordance with governance best practice
- Approved the annual report and accounts for the year to 31<sup>st</sup> March 2019 under delegated authority from the Board
- Considered the performance of the external auditors and provided feedback to them
- Reviewed the strategic risk register, and reports from Internal Audit on the internal controls and systems in place to manage and mitigate risk
- Approved the internal audit programme for the three-year period ending March 2022
- Approved an updated health and safety policy
- Received an annual update on IT security
- Approved a new anti-bribery policy
- Conducted a self-evaluation exercise

Standing agenda items at each committee meeting advise of any whistleblowing concerns (none reported during the year with a system test performed during the year) and any payments made between £250k and £500k. Payments above £500k require Board approval.

## Nominations Committee

The Nominations Committee met once during the reporting period and on this occasion:

- Approved the process and documents related to the 2020 Non-Executive Director elections
- Approved the approach for the 2020 Board skills audit process
- Approved the approach for the 2020 Board evaluation exercise

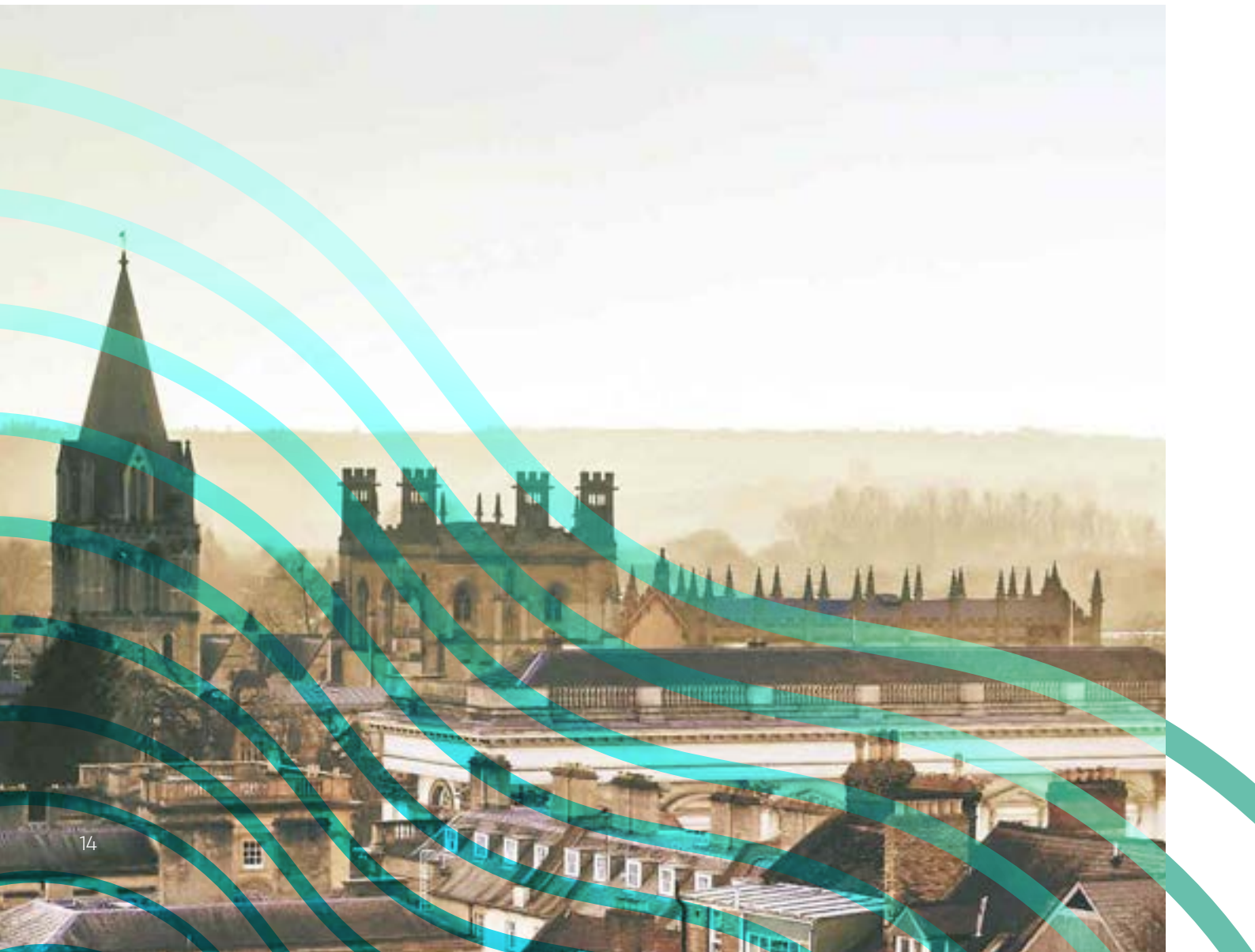


## Board committees (continued)

### Remuneration Committee

The Remuneration Committee met six times during the reporting period and on these occasions:

- Approved the company-wide bonus payments for the year to 31<sup>st</sup> March 2019
- Reviewed and agreed objectives for the executive directors and received progress updates on performance levels. Performance ratings for the executive directors were approved together with the resulting salary and bonus decisions
- Approved a new company wide benefits strategy following a review which included an external benchmarking exercise
- Supported the acquisition activity of the company by reviewing and approving a reward strategy, including a long-term retention scheme, for incoming CyGlass employees
- Reviewed the redundancy and settlement policies
- In line with good practice, reviewed the gender pay position within the company
- Considered a market rate review of remuneration for the whole company
- Conducted a self-evaluation exercise



## Nominet bonus schemes in the year to 31<sup>st</sup> March 2020

Nominet operates three bonus schemes, the Company wide bonus scheme, sales commission schemes for team members in sales or account-based roles, and a long-term incentive scheme.

**The Company bonus scheme** covered all employees except those fully on a commission scheme. The Company bonus scheme was based on a number of threshold measures and financial targets agreed by the Remuneration Committee, including successful operation of .UK. No company bonus would be awarded if any of the threshold measures were not achieved.

The Company threshold measures and financial targets were achieved, and employees received a bonus payment depending on the level of the Company's performance above the financial targets, their individual performance rating, and the on-target bonus level associated with their role.

**The commission schemes** for sales and account management roles applied to staff in Registry Solutions and Cyber Solutions. All employees on commission do not participate in the Company bonus scheme except for two team members in Registry Solutions who participate in both schemes on a 50:50 basis, receiving 50% of what would have been their full award for each of the schemes.

**The long-term incentive scheme** applies to the executive directors and other senior management and is designed to attract and retain talent.

## Investment Committee

The Investment Committee met four times during the reporting period and on these occasions:

- Reviewed the investment strategy and related asset allocations, using reports provided by Quilter Cheviot Limited, the investment portfolio managers, to assess the performance of the various asset classes held within the Nominet portfolio
- Evaluated the long-term performance of Quilter Cheviot Limited as investment portfolio managers
- Reviewed the structure and asset allocation of the investment portfolio to ensure alignment with business requirements
- Commenced the process for conducting a tender for future investment management services
- Conducted a self-evaluation exercise

## Mergers & Acquisition (M&A) Committee

The M&A committee met five times during the reporting period to assess potential acquisition targets. The committee approved the acquisition of US-based cyber security company, CyGlass Inc., which completed in February 2020.

## Cyber Advisory Panel

The Cyber Advisory Panel was formed in November 2018 to provide Nominet's executive team with a forum for impartial advice on its cyber services and go-to-market strategies. Panel members offer external expertise on the global cyber security landscape from both a government and enterprise perspective.



## Board committees (continued)

### Register of attendance at meetings

Member	Board	Audit and Governance Committee	Remuneration Committee	Nominations Committee	Investment Committee	Mergers & Acquisitions
Mark Wood	7 (7)		6 (6)	1 (1)	4 (4)	5 (5)
Russell Haworth	7 (7)			1 (1)		5 (5)
Eleanor Bradley	7 (7)			1 (1)	4 (4)	
Ben Hill	7 (7)				4 (4)	5 (5)
Stephen Page	7 (7)	3 (3)			3 (3)	5 (5)
Kelly Salter	7 (7)	3 (3)				5 (5)
David Thornton	7 (7)		6 (6)	1 (1)		
Jane Tozer	7 (7)	3 (3)	6 (6)	1 (1)	4 (4)	
James Bladel	6 (7)		6 (6)		4 (4)	
Rob Binns	6 (7)	3 (3)			3 (3)	5 (5)
Anne Taylor <sup>1</sup>	5 (5)	2 (2)		1 (1)		

#### Directors leaving the Board in period covered by report

Volker Greimann <sup>2</sup>	2 (2)	1 (1)				
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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.

<sup>1</sup> Joined 18<sup>th</sup> July 2019

<sup>2</sup> Retired 18<sup>th</sup> July 2019

# Internal controls and risk management

The Board sets the Company's strategy, risk attitude and risk appetite to ensure the Company has adequate internal controls in place to operate effectively. Our approach to risk management recognises that a degree of risk is required when pursuing new opportunities and seeks to mitigate risk so far as is possible to protect the Company's interests.

The Executive's risk mitigation activities in the reporting period were guided by the Company's risk appetite which was reviewed during the year and approved by the Board in September 2019:

## Nominet's Risk Appetite Statement:

**■** Risk appetite is an expression of the type and amount of risk the company is prepared to take. It has been agreed by the Nominet Board at their September 2019 meeting that Nominet's risk appetite for its core registry business is low with operations run on a highly prudent basis. In particular, the UK registry operations that are designated as Critical National Infrastructure are run on an extremely risk adverse basis, as are the governance, legal and data protection activities that impact across the whole company.

Nominet has a medium risk appetite for commercial activities outside the UK domain name registry business, providing such activities do not threaten the financial security, operation or quality of the UK registry operations.

Nominet has a medium risk appetite for strategic matters including acquisition and 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. This medium commercial risk appetite does not extend to the risk adverse areas noted above of governance, legal and data protection activities. **■**

The Board is responsible for ensuring that Nominet maintains a sound system of risk management and control. Nominet's risk management strategy is to identify, understand and appropriately treat the risks facing the organisation using the Company's risk assessment process.

Nominet aligns to the ISO 31000:2018 standard for risk management. The Company's risk management system provides a framework within which appropriate levels of tolerable risk can be identified enabling decisions to be made based on sound risk assessment.



# Internal controls and risk management (continued)

During the reporting period, regular reviews of the Strategic Risk Register were led by the Executive. Risk owners are responsible for ensuring that the risks they report on are accurately captured on a regular ongoing basis. The Executive held an annual Leadership Team review exercise in February 2020 to calibrate their individual risk assessments. This enabled the Executive to test the scoring of risks in the different parts of the business to ensure that the application of the Nominet risk assessment methodology was delivered consistently and with minimal bias. The risk register has been consistently maintained throughout the year with new risks added and others updated or removed as the risks facing the Company evolve.

The Audit and Governance Committee reviewed the adequacy of the risk treatment arrangements carried out by the Executive at each of their meetings with an annual in-depth Substantive Risk Review.

The Company's internal audit function continues to report to the Audit and Governance Committee at each meeting on the findings of the cross-company programme of internal audit activity with any significant findings being escalated without delay. The Audit and Governance Committee agreed the areas that should be included in the Internal Audit programme for the three years to FY22.

Nominet maintains and operates a business continuity management system certified to ISO 22301:2012 the ISO standard for Societal Security. Recognising the criticality of our IT security and system stability, we conduct regular security testing and hold ISO certifications for IT Service Management (ISO 20000-1:2011) and Information Security Management (ISO 27001:2013).

Nominet actively participates in business continuity and security forums contributing expertise to the wider community and receiving real-time information about security threats and available mitigations. We maintain strong relationships with governmental and non-governmental groups that focus on security issues. Our engagement with the security community ensures we are well positioned to contribute to national and global internet security discussions.

## Risk Landscape

Over the last 12 months we have continued to identify, record, and assess strategic risks in line with the Company's agreed Risk Management policy. Other than the Company's risk appetite, there have been no significant changes to the Nominet Risk Management policy and procedures.

For the first part of the year the risk landscape was heavily influenced by the Brexit negotiations and the political, economic, and regulatory uncertainty that followed. This culminated with the Brexit Withdrawal Agreement in January 2020. For the last quarter of the year, the COVID-19 pandemic resulted in significant health risks and disruption to business-as-usual practices and created massive volatility in the investment markets with economic uncertainty seen around the world.



The key risks areas for Nominet are identified below together with a description of the steps we are taking to manage those risks.

## Description of risk

## What we are doing to manage the risk

### Brexit

Additional regulatory burden, export tariffs and reduced access to recruitment markets are the most significant short-medium term threats.

Longer term, sterling volatility, economic downturn, and regulatory and data sharing partnership changes are risks.

- Pricing and cost management plans include preparation for economic downturn
- Identify UK and non-EU sources of recruitment that could help to mitigate the impact of loss of EU employment market
- We continue to focus on demonstrating that the industry can effectively self-regulate its activities
- 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

### COVID-19

The COVID-19 pandemic will continue to cause disruption and harm health-care systems and economies worldwide through 2020 and beyond.

Global investment markets will likely experience volatility.

- Existing processes with uplifted monitoring and reporting in COVID-19 environment including early warning of the impact on customers and suppliers
- Established Business Continuity Plan
- Established remote working and social distancing measures in offices
- Key workers for CNI workstreams identified
- Close liaison with professional investment portfolio managers

### Critical infrastructure disruption

Critical to our business is the infrastructure and technology through which our services are provided.

The continued trend of targeted DDoS attacks globally means the threat level for this risk remains high.

- Continued significant investment in the resilience of our DNS and registry infrastructure
- Robust business continuity and disaster recovery plans are in place, tested on a regular basis and reviewed regularly
- Strong and effective IT & Security policies and operational controls are in place and certified to international standards
- Working within industry and community groups to share and receive best practice and information



# Internal controls and risk management (continued)

## Description of risk

## What we are doing to manage the risk

### Critical supplier failure

Our increased dependence on cloud services and third-party suppliers increases the impact if a critical supplier were to suffer a failure.

The degree of exposure to a critical supplier failure depends on the supplier and the service they provide.

- ISO22301 certified Business Continuity Management System
- Critical supplier due diligence during selection with ongoing critical supplier management
- Appropriate redundancy and continuity measures built into critical services

### Cyber Security

Monitoring current threats, targeted attacks, and mitigations. Current climate of targeted global DDoS attacks; threat remains very high.

Although no evidence of State sponsored activities within our infrastructure we are alert to the threat.

We see regular DDoS attempts as a result of us working with the Government providing their filtered DNS service; Protective DNS.

- Managed infrastructure-based security (e.g. Intrusion Detection System) and SIEM in production
- Investment in high quality infrastructure
- Using threat intelligence reports to help us identify advanced persistent threats
- Regular penetration testing, firewall monitoring and application & device security controls e.g. white listing of applications

### Failure to successfully grow

We fail to deliver our plans for the development and growth of our business due to capacity challenges, capability constraints, or disruptive technologies that we do not leverage successfully.

- Established framework for decision making to ensure risk levels and deployment capabilities are understood
- Effective approaches to risk assessment, management and mitigation regarding business development and growth are deployed
- Rigorous project and programme management approach including reviews of controls, check points and each in-flight programme
- The Board ensures due diligence is applied to decisions to explore new business areas

## Description of risk

## What we are doing to manage the risk

### Failure to succeed in cyber market

We are committed to expanding our reach in the cyber market by building on our skills and reputation to deliver our strategic diversification objectives.

- Ongoing investment in our solutions and service capability to deliver technical innovations ready for market
- Developing and growing routes to market through new partnerships
- Focusing on delivering world class service to secure retention of our government Protective DNS contracts

### Market related risks

We are operating in a maturing domain name market and are facing all the associated challenges; highly competitive environment, consumer behaviour changes, consolidation of industry players and emerging technology threats. To remain competitive and relevant we must innovate and adapt.

- Ensuring quality of our core registry business through initiatives to improve industry standards and reputation of the UK namespace
- Developing and maintaining high quality products that meet the needs of our customers and stakeholders with investment in activities that deliver public benefit
- Investing in the continued development of our registry products and seeking out innovative ways to invest in new opportunities for growth

### 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 as a profit with a purpose organisation
- Balancing the needs of our broad and diverse range of stakeholders; focus on business continuity and service resilience, customer service, multi-stakeholder policy work and the development of products and services to enhance trust and confidence in the internet
- Engagement of key stakeholders

# Strategic report

The directors present their annual report and the financial statements of the Group and Company for the year ended 31<sup>st</sup> March 2020.

## Introduction

The principal activity of the Company and Group is the provision of DNS services for internet domains, primarily within the .UK namespace. The principal activities of the subsidiaries are described in note 11.

The Group and parent Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

## Business review and key financial indicators

The trading results for the year and the Group and Company's financial position at 31<sup>st</sup> March 2020 are shown in the financial statements.

### Revenue

Group revenue growth of £2.3m (+5.4%) was broad-based with strong underlying .UK trends, benefiting from increased awareness following various promotional activities. Organic growth in the cyber business also contributed to growth with notable wins and expansion in the government space, securing key contracts with government bodies in Australia and the Middle East. The CyGlass acquisition impact on Group revenue was negligible (see note 10 for full information).

Our core business had a strong year across all key measures with registrations exceeding expectations. The .UK register at 31<sup>st</sup> March 2020 closed at 11.9 million domain names under management ("DUM") (2019 – 12.2 million) with .UK market share at 57%. DUM was buoyed in part by the impact of free domains issued as part of the RoR promotion.

We saw strong growth in our registry services business with the addition of flagship customers resulting in a doubling of the portfolio of TLDs and an increase in DUM of 32% to 2.5m (31<sup>st</sup> March 2019 – 1.9m).

## Expenditure & Operating Profit

Other operating charges of £39.9m represented 88.8% of revenue (2019: £35.3m, 82.8% of revenue). The reduction in overall operating margin is largely attributable to strategic headcount investments in the cyber solutions business, in-line with our Project 2020 strategy, coupled with the dilutive impact of the CyGlass acquisition (see note 10).

Average cost per head has also increased year-on-year reflecting inflationary increases and an increased mix of higher skilled technical talent to deliver against both our growth aspirations and invest behind the .UK infrastructure to drive world class security, stability and user experience.

Whilst operating profit before Public Benefit initiatives has decreased year-on-year reflecting the CyGlass acquisition, diversification and technical capability investments made, management expect these dilutive impacts to be temporary, as the business continues to scale over the next few years in-line with the Group's strategic goals.





## Investments

Investments are included in the consolidated statement of financial position at their fair value. With income, realised gains and market movements, the fair value of the investment portfolio decreased during the year and closed at £92m (2019: £99m) as a result of the impact on capital market valuations linked to the COVID-19 pandemic. Whilst the portfolio valuation has recovered significantly post balance sheet (over £100m net of a £5m transfer out as at the date these financial statements were approved), there may be further volatility. Management continue to undertake regular reviews of the structure of the investment portfolio to ensure the objectives of investment growth is balanced against evolving market risks.

During the period we realised £2.2m of gains on the disposal of investments within the portfolio (2019: £2.7m) and investment income from the portfolio during the year was £2.4m (2019: £2.6m).

## Public Benefit initiatives

With the workstreams of connected, inclusive and secure, the Public Benefit function continues to successfully drive programmatic investments with partners to deliver on the Group's ambition to positively impact the lives of one million young people by 2020. We continue to sustain our investment levels in these important initiatives and to review any additional investment requests with the objective of maximising the positive outcomes on young peoples' lives. Spend in the year was £1.92m, slightly ahead of the comparative period (£1.88m).

## Balance sheet and cash flow

Retained earnings for the Group increased by £7.1m during the period to £81.2m (2019: £74.1m).

Cash generated from operations before tax payments was £7.6m (2019: £6.1m) reflecting a strong operational performance. The other key cash movements included the acquisition of CyGlass (£4.9m), capital expenditure on fixed assets and development costs of £3.1m (2019: £2.2m) and corporation tax payments of £0.3m (2019: £1.4m). Corporation tax payments were lower than the comparative period due to advance payments made in the prior year. Nominet continues to make all tax payments on a timely basis as they fall due. Cash balances held at the period end decreased by £0.7m to £5.9m (2019: £6.6m).



# Strategic Report (continued)

## Research and Development

Spend in the year reflected our final contribution toward the Driven consortium – which sought to address issues around communication and data sharing between connected autonomous vehicles – as well as continued investment in the development of the Domain Watch anti-phishing service and other ongoing new product research and enhancements.

## Events since the balance sheet date

There have been no adjusting events up to the date the financial statements have been formally approved by the directors. Subsequent to the year end, we have seen a recovery in the underlying investment portfolio valuation as the economy starts to emerge from the COVID-19 lockdown, with the investment valuation at the date these financial statements were approved in excess of £100m after a £5m transfer out, although there may be further volatility. Management continues to review any impacts of the COVID-19 pandemic on the Group's performance and ability to sustainably maintain its operations. Early warning metrics are constantly reviewed; no material impacts have been noted as at the date of approval of these financial statements.

## Outlook and future developments

Nominet is committed to running .UK as a safe and trusted namespace and delivering a world-class service for our core business. In a mature market for domains, Nominet will continue to develop innovative analytics and technologies to drive insight and deliver new sales and renewals together with investing in people and infrastructure to provide a trusted and safe .UK namespace, benefiting members as well as the wider digital economy.

As part of its annual budget process Nominet has committed to a significant capital investment in the .UK infrastructure to develop the next generation of Nominet's security and enhance its customer-facing systems. Against a backdrop of increasing security threats, the programme will ensure Nominet systems continue to benefit from world-leading security and resilience. This includes using artificial intelligence to help reduce phishing in the .UK namespace, building on the progress made by the Domain Watch initiative. Customer-facing systems, such as online services and registrar resources, will also be upgraded. Nominet is initiating dialogue with registrars, the users of its systems and services, to help ensure the programme is shaped to address key priorities.

Nominet are also committed to delivering its strategic objectives and Public Benefit aspirations through Project 2020 and beyond and remain focused on driving value from associated investments.

Whilst our people have adapted well to eliminate any operational disruptions caused by COVID-19 and we have suffered no significant adverse financial implications to-date, it is very difficult to judge the full extent of any future impacts. The availability, functionality and security of the online world has never been more important, and whilst there may be an increase in new registrations as a result of increased online activity, we acknowledge some end registrants are likely to be materially impacted. We are working proactively with our channel to provide financial support where possible to assist and management have identified a number of cost-saving actions in order to be able to respond in an agile way to any unforeseen adverse impacts.

With these actions and the significant financial strength of the balance sheet, management remain confident the Group can weather the impacts of the pandemic and continue to deliver a world class registry and security solutions.

## 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 25 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 of our DNS and registry infrastructure to mitigate risk of critical infrastructure 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 services to mitigate dependence on domain revenue.

Further details of the risks impacting the Group are given on pages 19 to 21 as part of the Internal controls and risk management section, which forms part of the strategic report.

### Section 172 statement

We value active engagement with all of our key stakeholders and respond to their priorities on an ongoing basis. The directors have given due consideration to their duties under section 172 of the Companies Act 2006 and summarise below details on how those have been fulfilled.

### Risk management

The Board takes its approach to risk management very seriously. Details as to how the Board has discharged its duties are provided in the Internal controls and risk management section on pages 17 to 21. Long-term impacts of decisions taken are assessed in relation to the Group's risk appetite and in-line with its Risk Management policy, which are kept under regular review.

# Strategic Report (continued)

## Employees

Effective employee engagement is central to our ability to succeed in delivering our strategy and ensuring long-term success. As well as ensuring competitive remuneration policies to attract and retain talent (refer to page 15), we have in place structures and mechanisms to ensure regular and active engagement with our employees, including but not limited to:

- Regular all-employee engagement surveys. Results of the surveys are reviewed, with key improvement actions identified and addressed via working groups.
- Weekly communications from the CEO – covering updates on strategic execution and any other matters relevant to all employees. Feedback is encouraged and dealt with in a timely manner.
- Formal Performance Management framework. Employees' performance is measured relative to specific annual objectives aligned to Nominet's behaviours and strategy with regular performance check-ins and a formal annual appraisal process.
- Social media and internal intranet – regular ad-hoc engagement and communications via online forums and a shared intranet with forums for employee feedback
- Ad-hoc interactions and focus groups seeking employee feedback on key issues

Nominet operates a behaviour framework applicable to all employees, outlining the standards of behaviour expected of them. These form part of the annual performance review process.

## HM Government & regulators

Our policy and public affairs teams engage proactively with HM Government, regulatory authorities and parliamentarians on relevant public policy and .UK domain policy issues. We respond to initiatives and consultations and advocate policies that help create an online world which is more connected, inclusive and secure. The Board is regularly updated on any key updates and activities.

## Business relationships

The opinions and needs of our key stakeholders, including customers and suppliers, are kept under constant review, and incorporated into our strategy and operational planning to ensure the necessary alignment is in place. Detail can be found in the Internal controls & risk management section on pages 17 to 21 regarding our engagement model and ongoing investment in multi-stakeholder relations, product and infrastructure development. Feedback is sought on a regular basis, and is reflected in our investment in customer services, infrastructure and member engagement programmes. Nominet has adopted the expected standard of the Prompt Payment Code to pay 95% of supplier invoices within 60 days.



## Members

Nominet is committed to engaging openly and acting in a fair manner, having regard for the views of all of its members and recognises the importance of a continuing effective dialogue. Nominet constantly seeks ways to engage with its members and maintains a comprehensive events programme, including conferences, webinars and lunches. The annual general meeting and annual conference provide an opportunity for members to engage directly with both the executive and non-executive directors. Periodic consultations are held, allowing membership participation in shaping policies.

Nominet is committed to reducing the impact of its activities on the environment (refer to the Environmental overview on page 10) and engaging in a positive way with the broader community through our continued investment in the safety and security of the .UK namespace as well as proactively seeking to positively improve the lives and life chances of one million young people a year through our Public Benefit agenda (refer to the Public Benefit report on pages 8 & 9).

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

ON BEHALF OF THE BOARD

**Mark Wood**

Chair

22<sup>nd</sup> July 2020





# Report of the Directors

## Information given in the Strategic report

Information on the future developments of the business, financial instrument risk management and research and development activities is given in the Strategic report.

## Directors

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

Mark Wood

Rob Binns

James Bladel

Eleanor Bradley

Volker Greimann  
(resigned 18<sup>th</sup> July 2019)

Russell Haworth

Ben Hill

Stephen Page

Kelly Salter

Anne Taylor  
(appointed 18<sup>th</sup> July 2019)

David Thornton


Jane Tozer MBE OBE  
(Senior Independent Director)

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 (Section 393, Companies Act 2006) requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.



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 as adopted by the European Union 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.

ON BEHALF OF THE BOARD

**Mark Wood**

Chair

22<sup>nd</sup> July 2020



# Independent auditor's report to the members of Nominet UK

## Opinion

We have audited the financial statements of Nominet UK (the 'parent company') and its subsidiaries (the 'group') for the year ended 31<sup>st</sup> March 2020, which comprise the consolidated statement of profit and loss, the consolidated and company statements of financial position, the consolidated and company cash flow statements, the consolidated and company statements of changes in equity and notes to the financial statements, including a summary of significant accounting policies. 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.

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 31<sup>st</sup> March 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRS 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


## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as COVID-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the company's future prospects and performance.

COVID-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown.



We applied a standardised firm-wide approach in response to these uncertainties when assessing the company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue

In our evaluation of the directors' conclusions, we considered the risks associated with the group's business including effects arising from macro-economic uncertainties such as COVID-19 and Brexit, and analysed how those risks might affect the group's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group will continue in operation.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.



# Independent auditor's report to the members of Nominet UK (continued)

## Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements

## Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

## Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which 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

## Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 28 and 29, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.





## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of our report

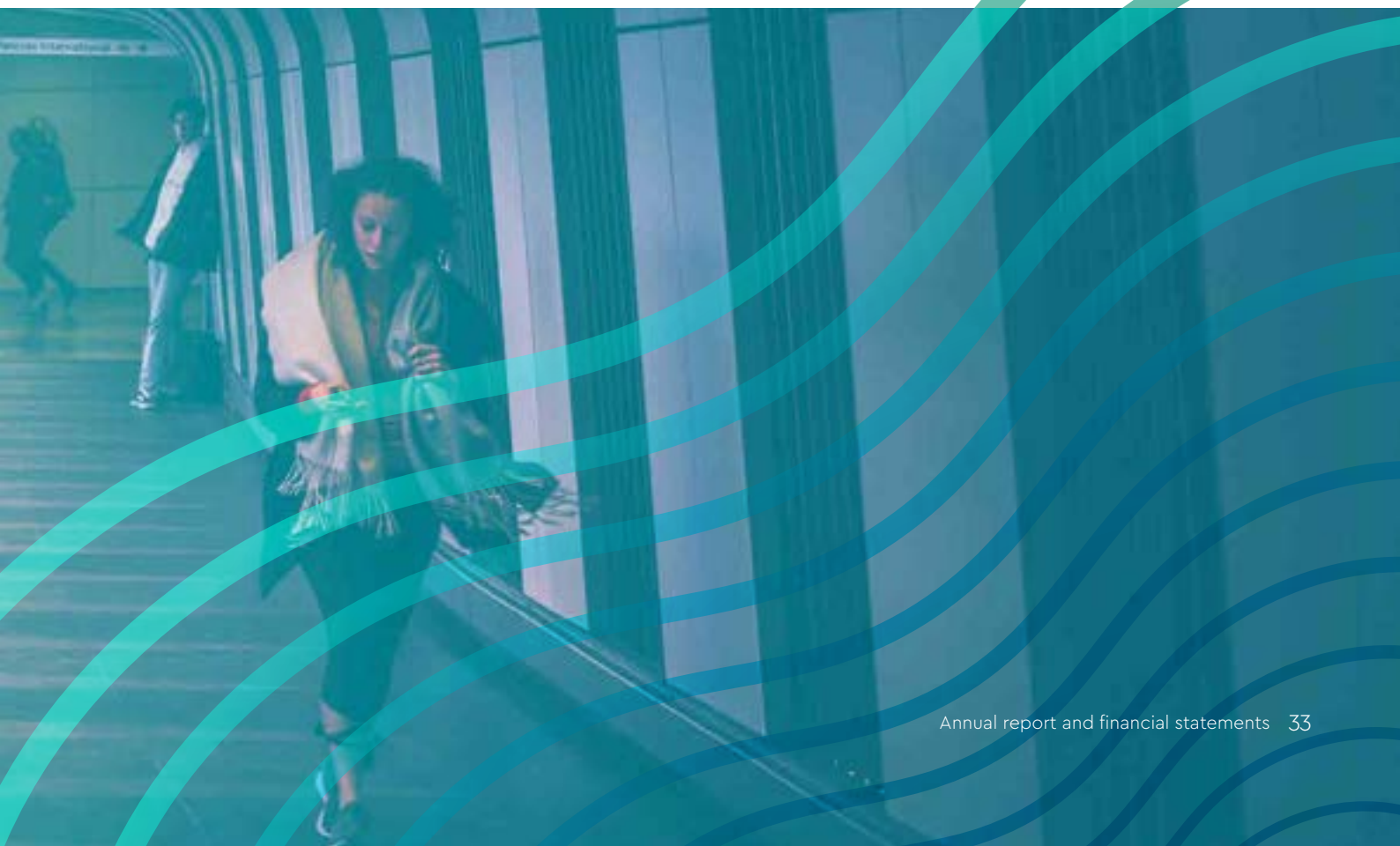
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other 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.

### Mark Bishop FCA

Senior Statutory Auditor for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants  
Oxford

22<sup>nd</sup> July 2020



# 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 (IFRSs) as adopted by the EU and those parts of the Companies Act 2006 that are relevant to companies that report in accordance with IFRS. The Group and parent Company financial statements are presented in UK Pound Sterling.

Nominet UK is a company limited by guarantee and is incorporated in England & Wales. The address of its registered office is given earlier in this document.

## Basis of consolidation

The financial statements consolidate the accounts of Nominet UK and all 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.

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.

## Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The cost of an acquisition is measured as the fair value of the assets transferred and liabilities incurred at the date of exchange. Where there is deferred consideration payable in cash, the amount is discounted to its present value. The fair value of deferred cash consideration is included within the Group's financial statements as a liability. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the acquisition over the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income. Acquisition related costs are expensed as incurred.



## Going concern

As a result of macro-economic uncertainties arising through COVID-19, the directors have undertaken an impact assessment of the pandemic on the business as follows:

- Conducted sensitivity analyses modelling scenarios based on the risk of a material reduction in new business and customer renewal rates and assessed potential consequential impacts on the Group's projected cash flows and financial position
- Conducted a thorough review of the Group's cost base and financial commitments, identifying potential actions that could be taken if significant adverse trading impacts were realised
- Developed an early warning reporting framework to identify if performance or trends across relevant measures are indicative of potential adverse consequences resulting from the pandemic
- Ensured continuity plans are in place and regularly reviewed to enable our employees to continue to operate effectively with health, safety, and welfare top of mind

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of the Group for future periods.

After reviewing the Group forecasts and working capital requirements including the potential impact of COVID-19 pandemic, and following a review of significant downside sensitivity scenarios and potential consequential actions available to it, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, being a period of not less than 12 months from the date of approval of these financial statements. This assessment is further supported by the strong balance sheet of the Group and availability of liquid assets. As a result, the company continues to adopt the going concern basis in preparing its financial statements.

## New standards adopted as at 1<sup>st</sup> April 2019

### IFRS 16 'Leases'

Effective 1<sup>st</sup> January 2019, IFRS 16 has replaced IAS 17 Leases. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained.

The Group adopted IFRS 16 with a transition date of 1<sup>st</sup> April 2019. The Group has chosen not to restate comparatives on the adoption of the standard, which has been applied using the modified retrospective approach, and therefore, the revised requirements are not reflected in the prior year financial statements. Rather, these changes have been processed at the

# Principal accounting policies (continued)

## IFRS 16 'Leases' (continued)

date of initial application (i.e. 1<sup>st</sup> April 2019) and recognised in the opening equity balances.

Details of the impact of this standard are given in note 20. The new accounting policy is disclosed below under 'Leases'.

Other new and amended standards and Interpretations issued by the IASB did not impact the Group as they are either not relevant to the Group's activities or require accounting which is consistent with the Group's current accounting policies.

At the date of approval of these financial statements, several new, but not effective, standards and amendments to existing standards, and interpretations have been published by the IASB. None of these standards or amendments to existing standards have been adopted early by the Group. Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New standards, amendments and interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

### Revenue recognition

Revenue represents fees for .UK domain name registration and renewal, and other registry and cyber security services, excluding value added tax.

To determine whether to recognise revenue, the Group follows a 5-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

Revenue for .UK domain registrations and renewals is recognised over the domain registration or renewal period. For other services, each contract is reviewed for the performance obligations and whether the revenue should be recognised at a point in time or over time.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as deferred income in the statement of financial position (note 18). Similarly, if the Group satisfies performance obligations before it receives the consideration, the Group recognises either a contract asset or receivable in its statement of financial position. The Group takes advantage of the practical expedients afforded by IFRS 15, where appropriate, with regard to timing of payments and incremental costs incurred in obtaining contracts as their effects are not material.

### Operating expenses

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

## Donations

Donations are recognised in the statement of profit or loss once they have been approved by the Board and paid to the receiving party.

## Public Benefit Initiatives

Payments are recognised in the statement of profit or loss on an accruals basis in line with commitments agreed by the Board.

## Employee benefits

The Group has defined contribution plans under which fixed amounts are paid to employees' personal pension schemes. The payments are charged in the statement of profit or loss when they are due.

The expected cost of each Long-term Incentive ("LTI") Scheme award is recognised on a straight-line basis over the qualifying service period of three years. The value of each award is assessed annually, and an accrual is made at the balance sheet date for the portion of the value of each award that relates to qualifying service performed to date. Under the current scheme, any pay-out is due on 1<sup>st</sup> April for qualifying service in the preceding three years.

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

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided at rates calculated to write off the cost of property, plant and equipment, less their estimated residual value, over their expected useful lives on the following bases:

- Leasehold buildings – 2% per annum – straight line
- Computer equipment and software – 33% per annum – straight line
- Fixtures, fittings and other equipment – 20% per annum – straight line
- Fit out costs – 10% per annum – straight line
- Right-of-use assets – Earlier of the useful life and lease term – straight line

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in other operating charges.

## Intangible assets

### Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the excess is recognised immediately in the statement of profit or loss as a bargain purchase gain. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Any impairment is charged to the statement of comprehensive income and is not reversed.



# Principal accounting policies (continued)

## Goodwill (continued)

### Other intangible assets

Other intangible assets are carried at cost less accumulated amortisation and impairment losses.

An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably.

Development expenditure is recognised as an intangible asset only where the Group can demonstrate all of the following:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale
- its intention to complete the intangible asset and use or sell it
- its ability to use or sell the intangible asset
- how the intangible asset will generate probable future economic benefits. Among other things, 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
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- its ability to measure reliably the expenditure attributable to the intangible asset during its development

The types of cost capitalised include employee and subcontractor costs directly associated with the development activity.

The amount initially recognised for internally generated assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally generated asset can be recognised, development expenditure is recognised in the statement of comprehensive income in the period in which it is incurred.

Other intangible assets are tested annually for impairment and carried at cost less accumulated amortisation and impairment losses. Any impairment is charged to the statement of comprehensive income.

Amortisation is charged to profit or loss. Intangible assets with a finite life are amortised on a straight-line basis over their expected useful lives, as follows:

gTLD development costs	–	10 years
Technology asset arising on business combination	–	10 years
Other development costs	–	3 years

### Impairment testing of goodwill and other intangible 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. Goodwill is allocated to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose and represent the lowest level within the Group at which management monitors goodwill.

Cash-generating units to which goodwill has been allocated (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's (or cash-generating unit's) carrying amount exceeds its recoverable amount, which is the higher of fair value less costs of disposal and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

With the exception of goodwill, 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.

## 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.

## Financial instruments Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes party to the contractual provisions of the financial instrument.

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. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

## Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets are classified into the following categories:

- Amortised cost
- Fair value through profit or loss (FVTPL)
- Fair value through other comprehensive income (FVTOCI)

The classification is determined by both:

- The Group's business model for managing the financial asset
- The contractual cash flow characteristics of the financial asset

At initial recognition, Investments are irrevocably designated FVTOCI on the basis that they are not held for trading or as contingent consideration in a business combination.

Trade and other receivables are initially recognised at amortised cost.

## Subsequent measurement of financial assets

Investments are included in the balance sheet at their fair value at each balance sheet date. Any changes in fair value arising during the period are recognised in the consolidated statement of comprehensive income (within other comprehensive income) net of the associated deferred tax liability/asset and are never recycled to profit or loss, even if the investment is sold, impaired or otherwise derecognised.

When investments are disposed of, the cumulative gain or loss recognised in other comprehensive income is reclassified from the investments held at fair value reserve to retained earnings.

# Principal accounting policies (continued)

## Subsequent measurement of financial assets (continued)

Dividends are recognised in the statement of profit or loss within income from investments held FVTOCI.

After initial recognition, trade and other receivables are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial.

IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Management have reviewed the expected credit loss across our trade receivables and have determined the fair value of any expected credit loss to be immaterial.

### Classification and subsequent measurement of financial liabilities

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

### Leases

As described above, the Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means that comparative information is still reported under IAS 17.

### Accounting policy from 1<sup>st</sup> April 2019

For any new contracts entered into on or after 1<sup>st</sup> April 2019, the Group considers whether a contract is, or contains, a lease. A lease is defined as 'a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'.

To apply this definition the Group assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group
- the Group has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Group has the right to direct the use of the identified asset throughout the period of use

The Group assesses whether it has the right to direct 'how and for what purpose' the asset is used.

### Measurement and recognition of leases

At lease commencement date, the Group recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise office equipment.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been disclosed separately.

## Accounting policy applicable before 1<sup>st</sup> April 2019

### Finance leases

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Group obtains ownership of the asset at the end of the lease term.

### Operating leases

All other leases are treated as operating leases. Payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

### Cash and cash equivalents

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

# Principal accounting policies (continued)

## 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 statement of profit or loss except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the period, 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 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.

Deferred tax assets related to carry-forward losses are valued on a discounted basis to reflect the time period over which the losses are expected to be recovered.

## 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 Pound Sterling 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 accounting period, which is affected 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.

## Significant 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

## Principal accounting policies (continued)

### Significant accounting estimates and judgements (continued)

- Impairment of intangible assets – The Group tests annually whether intangible assets have suffered any impairment, in accordance with the stated accounting policy. The recoverable amounts of cash-generating units have been determined based on value-in-use. Management have made significant estimates and judgements when preparing budgets and projections and in determining an appropriate discount rate used in the value-in-use calculations.

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.
- 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

	Note	31 <sup>st</sup> March 2020 £000	31 <sup>st</sup> March 2019 £000
Revenue	1	44,950	42,640
Other operating charges	2	(39,927)	(35,324)
Public Benefit Initiatives		(1,916)	(1,882)
<b>Total operating charges</b>		<b>(41,843)</b>	<b>(37,206)</b>
<b>Operating profit before Public Benefit Initiatives</b>		<b>5,023</b>	<b>7,316</b>
Operating profit		3,107	5,434
Income from investments held at fair value through OCI	12	2,385	2,560
Finance income	4	35	16
<b>Profit before taxation</b>		<b>5,527</b>	<b>8,010</b>
Taxation	5	(671)	(1,075)
<b>Profit for the year</b>		<b>4,856</b>	<b>6,935</b>



## Consolidated statement of comprehensive income

	31 <sup>st</sup> March 2020 £000	31 <sup>st</sup> March 2019 £000
Profit for the year	4,856	6,935
<b>Other comprehensive income (OCI):</b>		
<b>Items that will not be subsequently reclassified to profit or loss</b>		
(Losses)/gains on investments held at fair value through OCI net of associated deferred tax	(7,340)	1,080
<b>Items that will be subsequently reclassified to profit or loss</b>		
Exchange differences on translating foreign operations	15	8
<b>Total comprehensive (loss)/ income for the year</b>	<b>(2,469)</b>	<b>8,023</b>

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 31 <sup>st</sup> March		2020	2019
	Note	£000	£000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant & equipment	8	8,359	7,813
Intangible assets including goodwill	9	7,105	740
Advance land lease payment		1,541	1,552
Investments held at fair value through OCI	12	91,893	98,952
Deferred tax asset	13	1,168	170
		110,066	109,227
<b>Current assets</b>			
Trade and other receivables	14	9,888	10,410
Current income tax asset	17	-	268
Contract asset		4	-
Cash and cash equivalents		5,871	6,573
		15,763	17,251
<b>Total assets</b>		<b>125,829</b>	<b>126,478</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	15	8,383	6,878
Lease Liabilities	16	134	-
Current income tax liability	17	264	-
Deferred income	18	24,971	25,147
		33,752	32,025
<b>Non-current liabilities</b>			
Trade and other payables	19	871	328
Deferred tax liability	13	887	1,197
Deferred income	18	10,430	10,570
		12,188	12,095
Total liabilities		45,940	44,120
<b>Net assets</b>		<b>79,889</b>	<b>82,358</b>

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

## Consolidated statement of financial position

As at 31 <sup>st</sup> March		2020	2019
	Note	£000	£000
<b>Equity and reserves</b>			
Retained earnings		81,225	74,121
Investments held at fair value through OCI		(1,336)	8,237
<b>Total funds</b>		<b>79,889</b>	<b>82,358</b>

These financial statements were approved by the directors and authorised for issue on 22<sup>nd</sup> July 2020, and are signed on their behalf by:

**Mark Wood**

Chair

Company Registration Number: 03203859

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



## Company statement of financial position

As at 31 <sup>st</sup> March		2020	2019
	Note	£000	£000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant & equipment	8	8,324	7,812
Intangible assets	9	1,536	740
Advance land lease payment		1,541	1,552
Investments held at fair value through OCI	12	91,893	98,952
Investment in subsidiaries		1,216	-
Deferred tax asset	13	637	170
Loans to group companies		4,108	-
		109,255	109,226
<b>Current assets</b>			
Trade and other receivables	14	9,793	10,404
Current income tax asset	17	-	275
Contract asset		4	-
Cash and cash equivalents		5,757	6,508
		15,554	17,187
<b>Total assets</b>		124,809	126,413
Trade and other payables	15	7,866	6,873
Lease Liabilities	16	134	-
Current income tax liability	17	261	-
Deferred income	18	24,833	25,147
		33,094	32,020
<b>Non-current liabilities</b>			
Trade and other payables	19	871	328
Deferred tax liability	13	-	1,197
Deferred income	18	10,401	10,570
		11,272	12,095
<b>Total liabilities</b>		44,366	44,115
<b>Net assets</b>		80,443	82,298

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

## Company statement of financial position

As at 31 <sup>st</sup> March		2020	2019
	Note	£000	£000
<b>Equity and reserves</b>			
Retained earnings		<b>81,779</b>	74,061
Investments held at fair value through OCI		<b>(1,336)</b>	8,237
<b>Total funds</b>		<b>80,443</b>	82,298

These financial statements were approved by the directors and authorised for issue on 22<sup>nd</sup> July 2020, and are signed on their behalf by:

**Mark Wood**

Chair

Company Registration Number: 03203859

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



## Consolidated cash flow statement

		31 <sup>st</sup> March 2020	31 <sup>st</sup> March 2019
	Note	£000	£000
<b>Cash flows from operating activities</b>			
Cash generated from operations	22	7,608	6,075
Income taxes paid		(317)	(1,364)
Net cash generated by operating activities		7,291	4,711
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary, net of cash acquired	10	(4,853)	-
Income received from investments held at fair value through OCI	12	2,385	2,560
Interest received on cash balances	4	35	16
Purchase of property, plant and equipment	8	(2,001)	(1,578)
Purchase of intangible assets	9	(1,088)	(662)
Income re-invested in investments held at fair value through OCI		(1,985)	(2,206)
Net cash used in investing activities		(7,507)	(1,870)
<b>Cash flows from financing activities</b>			
Principal elements of lease payments	16	(486)	-
Net cash generated by financing activities		(486)	-
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(702)</b>	<b>2,841</b>
Cash and cash equivalents at start of year		6,573	3,732
Cash and cash equivalents at end of year		5,871	6,573

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



## Company cash flow statement

		31 <sup>st</sup> March 2020	31 <sup>st</sup> March 2019
	Note	£000	£000
<b>Cash flows from operating activities</b>			
Cash generated from operations	22	7,983	6,018
Income taxes paid		(301)	(1,362)
Net cash generated by operating activities		7,682	4,656
<b>Cash flows from investing activities</b>			
Acquisition of subsidiary, net of cash acquired		(1,216)	-
Payments for financial assets at amortised cost		(4,108)	-
Income received from investments held at fair value through OCI	12	2,385	2,560
Interest received	4	66	16
Purchase of property, plant and equipment	8	(2,001)	(1,578)
Purchase of intangible assets	9	(1,088)	(662)
Income re-invested in investments held at fair value through OCI		(1,985)	(2,206)
Net cash used in investing activities		(7,947)	(1,870)
<b>Cash flows from financing activities</b>			
Principal elements of lease payments	16	(486)	-
Net cash generated by financing activities		(486)	-
<b>Net (decrease)/increase in cash and cash equivalents</b>		(751)	2,786
Cash and cash equivalents at start of year		6,508	3,722
Cash and cash equivalents at end of year		5,757	6,508

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



## Consolidated and Company Statements of changes in equity

	Year ended 31 <sup>st</sup> March 2020			Year ended 31 <sup>st</sup> March 2019		
	Investments held at fair value through OCI	Retained earnings	Total £000	Investments held at fair value through OCI	Retained earnings	Total
	£000	£000	£000	£000	£000	£000
<b>Group</b>						
Balance at 1 <sup>st</sup> April	8,237	74,121	82,358	9,906	64,429	74,335
Profit for the period	-	4,856	4,856	-	6,935	6,935
(Losses)/gains on investments held at fair value through OCI net of associated deferred tax	(7,340)	-	(7,340)	1,080	-	1,080
Transfer of realised gains on investments held at fair value through OCI	(2,233)	2,233	-	(2,749)	2,749	-
Exchange differences on translating foreign operations	-	15	15	-	8	8
<b>Balance at 31<sup>st</sup> March</b>	<b>(1,336)</b>	<b>81,225</b>	<b>79,889</b>	<b>8,237</b>	<b>74,121</b>	<b>82,358</b>
<b>Company</b>						
Balance at 1 <sup>st</sup> April	8,237	74,061	82,298	9,906	64,395	74,301
Profit for the period	-	5,485	5,485	-	6,917	6,917
(Losses)/gains on investments held at fair value through OCI net of associated deferred tax	(7,340)	-	(7,340)	1,080	-	1,080
Transfer of realised gains on investments held at fair value through OCI	(2,233)	2,233	-	(2,749)	2,749	-
<b>Balance at 31<sup>st</sup> March</b>	<b>(1,336)</b>	<b>81,779</b>	<b>80,443</b>	<b>8,237</b>	<b>74,061</b>	<b>82,298</b>

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 Public Benefit initiatives.

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

## Notes to the financial statements

### 1. Revenue

The revenue and profit before tax are attributable to .UK domains and other services. An analysis of revenue by these categories and the geographical location of the customers is given below:

	31 <sup>st</sup> March 2020			31 <sup>st</sup> March 2019		
	UK £000	Overseas £000	Total £000	UK £000	Overseas £000	Total £000
.UK domains	21,828	16,029	37,857	20,373	16,536	36,909
Other Services	4,487	2,606	7,093	5,173	558	5,731
<b>Total</b>	<b>26,315</b>	<b>18,635</b>	<b>44,950</b>	<b>25,546</b>	<b>17,094</b>	<b>42,640</b>

Revenue for the year ended 31<sup>st</sup> March 2020 includes a release of £25,147k of prior year deferred revenue.

### 2. Other operating charges

	31 <sup>st</sup> March 2020 £000	31 <sup>st</sup> March 2019 £000
Staff and other personnel costs	21,953	18,358
Technical systems and infrastructure	6,814	5,192
Other administrative	2,629	3,103
Depreciation of owned property, plant & equipment	2,112	1,463
Depreciation of non-current asset	11	12
Amortisation of intangible assets	322	75
Operations	756	746
Facilities	817	1,290
Communications and marketing	4,513	5,085
	<b>39,927</b>	<b>35,324</b>

## Notes to the financial statements

### 3. Operating profit

Operating profit is stated after charging:

	31 <sup>st</sup> March 2020 £000	31 <sup>st</sup> March 2019 £000
Depreciation of owned property, plant & equipment	2,112	1,463
Depreciation of non-current asset	11	12
Amortisation of intangible assets	322	75
Auditor's remuneration:		
Audit fees – Company and Group	54	32
Non-audit fees – taxation services	19	11
Operating lease costs:		
Equipment	-	43
Buildings	-	439

No current year amount is stated within operating leases due to the adoption of IFRS 16, see note 20.

### 4. Finance Income

	31 <sup>st</sup> March 2020 £000	31 <sup>st</sup> March 2019 £000
<b>Group</b>		
Bank interest receivable	35	16
<b>Company</b>		
Bank interest receivable	35	16
Group company loan interest receivable	31	-
	66	16

## Notes to the financial statements

### 5. Income tax 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 19% (2019: 19%) and the reported tax expense in profit or loss are as follows:

	31 <sup>st</sup> March 2020	31 <sup>st</sup> March 2019
	£000	£000
Profit before tax	5,527	8,010
Domestic tax rate for Nominet UK	19%	19%
Expected tax expense	1,050	1,522
Adjustment for:		
Non-deductible expenses	53	6
Chargeable gains	328	339
Tax exempt income	(322)	(378)
Research and development enhancement	(441)	(451)
Other differences	(2)	3
Difference in overseas tax rates	(12)	-
Adjustment to current tax charge in respect of previous periods	74	(2)
Adjustment to deferred tax charge in respect of previous periods	(63)	24
Fixed asset differences	26	26
Adjust opening deferred tax to average rate of 19% (2019: 19%)	(20)	(34)
Adjust closing deferred tax to average rate of 19% (2019: 19%)	-	20
<b>Actual tax expense</b>	<b>671</b>	<b>1,075</b>
Tax expense comprises:		
Current tax expense:	776	935
Adjustment to current tax charge in respect of previous periods	74	(2)
	850	933
Deferred tax (credit)/expense:		
Origination and reversal of temporary differences	(179)	142
<b>Tax expense</b>	<b>671</b>	<b>1,075</b>
Deferred tax (credit)/expense, recognised directly in other comprehensive income	(1,704)	(136)

Note 13 provides information on deferred tax assets and liabilities.





## Notes to the financial statements

### 6. Particulars of employees

The average number of staff employed by the Group during the financial period amounted to:

	31 <sup>st</sup> March 2020	31 <sup>st</sup> March 2019
	No.	No.
Operations	215	187
Management	14	15
	229	202

The aggregate payroll costs of the above were:

	31 <sup>st</sup> March 2020	31 <sup>st</sup> March 2019
	£000	£000
Wages and salaries	17,918	14,360
Social security costs	1,956	1,641
Other pension costs	736	557
	20,610	16,558

### 7. Directors

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

	31 <sup>st</sup> March 2020	31 <sup>st</sup> March 2019
	£000	£000
Emoluments receivable	1,678	1,552
Amounts accrued under LTI Scheme	389	150
Company pension contributions to defined contribution pension schemes	13	21
	2,080	1,723
Emoluments of highest paid director:		
Emoluments receivable	586	447
Company pension contributions to defined contribution pension schemes	7	7
Total for period	593	454
Amounts accrued under LTI Scheme**	179	69
Total for period after amounts accrued under LTI Scheme**	772	523

## Notes to the financial statements

### 7. Directors (continued)

The summary information opposite is expanded in the following table:

	Salary/fees	Bonus	Pension	Other costs and benefits*	31 <sup>st</sup> March 2020	31 <sup>st</sup> March 2019
	£000	£000	£000	£000	£000	£000
Mark Wood	96	-	-	-	96	92
Richard Armour	-	-	-	-	-	19
Rob Binns	44	-	-	-	44	9
James Bladel	37	-	-	-	37	26
Eleanor Bradley	220	103	6	12	341	325
Volker Greimann	11	-	-	-	11	37
Russell Haworth	299	275	7	12	593	454
Ben Hill	215	157	-	11	383	252
Simon McCalla	-	-	-	-	-	194
Stephen Page	40	-	-	-	40	37
Kelly Salter	37	-	-	-	37	37
Anne Taylor	26	-	-	-	26	-
David Thornton	37	-	-	-	37	42
Jane Tozer	46	-	-	-	46	49
<b>Year to 31<sup>st</sup> March 2020</b>	<b>1,108</b>	<b>535</b>	<b>13</b>	<b>35</b>	<b>1,691</b>	<b>1,573</b>
Amounts accrued under LTI Scheme**					389	150
<b>Year to 31<sup>st</sup> March 2019 including amounts accrued under LTI Scheme**</b>					<b>2,080</b>	<b>1,723</b>

\* Other costs and benefits consist of company car allowances and private health insurance.

\*\* The Group has established an LTI scheme for executive directors and senior management. The amount shown above represents the expected value accrued to the executive directors during the year ended 31<sup>st</sup> March 2020.

## Notes to the financial statements

### 8. Property, plant and equipment

#### Group

	Leasehold buildings £000	Computers hardware & software £000	Fixtures, fittings and equipment £000	Total £000
<b>Cost</b>				
At 1 <sup>st</sup> April 2019	6,771	12,208	3,313	22,292
Additions	-	1,984	17	2,001
Recognised on adoption of IFRS16 (see note 20)	562	-	58	620
Arising on acquisition of CyGlass Inc.	-	165	-	165
At 31 <sup>st</sup> March 2020	<b>7,333</b>	<b>14,357</b>	<b>3,388</b>	<b>25,078</b>
<b>Depreciation</b>				
At 1 <sup>st</sup> April 2019	1,573	10,085	2,821	14,479
Charge for the year	585	1,368	159	2,112
Arising on acquisition of CyGlass Inc.	-	128	-	128
	<b>2,158</b>	<b>11,581</b>	<b>2,980</b>	<b>16,719</b>
<b>Net Book Value</b>				
At 31 <sup>st</sup> March 2020*	<b>5,175</b>	<b>2,776</b>	<b>408</b>	<b>8,359</b>
At 31 <sup>st</sup> March 2019	5,198	2,123	492	7,813

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.

\*The net carrying amount of property, plant and equipment includes the following amounts held under leases for the year ended 31<sup>st</sup> March 2020: Leasehold buildings £112k; Fixtures, fittings and equipment £20k. For the year ended 31<sup>st</sup> March 2020, assets arising from leases where the Group is a lessee have been accounted for under IFRS 16. See note 16.

## Notes to the financial statements

### 8. Property, plant and equipment (continued)

#### Company

	Leasehold buildings £000	Computers hardware & software £000	Fixtures, fittings and equipment £000	Total £000
<b>Cost</b>				
At 1 <sup>st</sup> April 2019	6,771	12,203	3,312	22,286
Additions	-	1,984	17	2,001
Recognised on adoption of IFRS16 (see note 20)	562	-	58	620
At 31 <sup>st</sup> March 2020	<b>7,333</b>	<b>14,187</b>	<b>3,387</b>	<b>24,907</b>
<b>Depreciation</b>				
At 1 <sup>st</sup> April 2019	1,573	10,082	2,819	14,474
Charge for the year	585	1,365	159	2,109
At 31 <sup>st</sup> March 2020	<b>2,158</b>	<b>11,447</b>	<b>2,978</b>	<b>16,583</b>
<b>Net Book Value</b>				
At 31 <sup>st</sup> March 2020	<b>5,175</b>	<b>2,740</b>	<b>409</b>	<b>8,324</b>
At 31 <sup>st</sup> March 2019	5,198	2,121	493	7,812

## Notes to the financial statements

### 9. Intangible fixed assets

#### Group

	Goodwill	Development costs	Acquired product intangibles	Total
	£000	£000	£000	£000
<b>Cost</b>				
At 1 <sup>st</sup> April 2019	-	1,394	-	1,394
Arising on acquisition	2,409	-	2,903	5,312
Additions	-	788	300	1,088
Effect of foreign exchange	130	-	157	287
At 31 <sup>st</sup> March 2020	<b>2,539</b>	<b>2,182</b>	<b>3,360</b>	<b>8,081</b>
<b>Amortisation and impairment</b>				
At 1 <sup>st</sup> April 2019	-	654	-	654
Charge for the year	-	292	30	322
At 31 <sup>st</sup> March 2020	-	<b>946</b>	<b>30</b>	<b>976</b>
<b>Net Book Value</b>				
At 31 <sup>st</sup> March 2020	<b>2,539</b>	<b>1,236</b>	<b>3,330</b>	<b>7,105</b>
At 31 <sup>st</sup> March 2019	-	740	-	740

Development costs relate to internally generated assets associated with the development of the NTX product and capital investments into the core and gTLD infrastructure and offerings. Goodwill arose on the acquisition of CyGlass Inc, refer to note 10.

Intangible assets have a remaining amortisation period of between 1 and 10 years.



## Notes to the financial statements

### 9. Intangible fixed assets (continued)

#### Company

	Development costs £000	Acquired product intangibles £000	Total £000
<b>Cost</b>			
At 1 <sup>st</sup> April 2019	1,394	-	1,394
Additions	788	300	1,088
At 31 <sup>st</sup> March 2020	<b>2,182</b>	<b>300</b>	<b>2,482</b>
<b>Amortisation and impairment</b>			
At 1 <sup>st</sup> April 2019	654	-	654
Charge for the year	292	-	292
At 31 <sup>st</sup> March 2020	<b>946</b>	-	<b>946</b>
<b>Net Book Value</b>			
At 31 <sup>st</sup> March 2020	<b>1,236</b>	<b>300</b>	<b>1,536</b>
At 31 <sup>st</sup> March 2019	740	-	740

Development costs relate to internally generated assets associated with the development of the NTX product and capital investments into the core and gTLD infrastructure and offerings.

Intangible assets have a remaining amortisation period of between 1 and 3 years.

## Notes to the financial statements

### 10. Business Combinations

On 14<sup>th</sup> February 2020 the Company purchased the entire share capital of CyGlass Inc. for a total consideration of \$6,004k. CyGlass is a cyber security company offering a SaaS based network security technology solution which simply and effectively identifies, detects, and responds to threats in a network without requiring any additional hardware, software, or people and complements our existing cyber solutions enabling us to extend our cyber security solutions across government, critical national infrastructure as well as the SME market.

Revenue and loss of CyGlass from acquisition to year end	£000
Revenue	26
Trading loss	(346)
One-off post acquisition retention bonus net of deferred tax credit	(258)
<b>Loss</b>	<b>(578)</b>

If the acquisition had occurred on 1<sup>st</sup> April 2019, group revenue would have been £45,035k and group profit for the year would have been £2,214k. The Group incurred £212k of acquisition-related costs. These costs are reported in other operating charges in the statement of profit or loss.

#### Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

	Book value	Fair value
	£000	£000
Property, plant and equipment	37	37
Technology intangible asset	-	3,059
Deferred tax asset	-	312
Current assets	117	118
Current liabilities	(325)	(325)
Deferred tax liability	-	(887)
<b>Total (liabilities)/assets acquired</b>	<b>(171)</b>	<b>2,314</b>

#### Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	£000
Total consideration	4,853
Fair value of identifiable net assets	(2,314)
<b>Goodwill</b>	<b>2,539</b>

## Notes to the financial statements

### 10. Business Combinations (continued)

The main factor leading to the recognition of goodwill is the presence an assembled workforce of highly skilled product, engineering and sales and marketing talent, which do not qualify for separate recognition. Whilst the impact of the COVID-19 pandemic could have some impact on the sales cycle, at this point, management do not have any reason to believe there are any material adverse impacts on CyGlass' ability to deliver against the acquisition projections.

### 11. Subsidiaries of the Group

The subsidiaries of the Group, all of which have been included in these consolidated financial statements, are as follows:

Name	Country of Incorporation	Proportion of ownership interest	Nature of business
Nominet Limited	UK	100%	Dormant
Nominet Registrar Services Limited	UK	100%	ICANN accredited registrar
Nominet US Inc.	US	100%	Employment vehicle for US based staff
Nominet UK Holding Co Limited	UK	100%	Holding Company
Nominet US Holding Co Inc.	US	100%	Holding Company
CyGlass Inc.	US	100%	Provision of network cyber security solutions
Nominet Australia Pty Limited	Australia	100%	Established as a condition of partaking in a public tender process

For the year ended 31<sup>st</sup> March 2020, Nominet Registrar Services Limited (company number 08158704) has taken the entitled exemption from audit under section 479A of the Companies Act 2006. Nominet UK has therefore given a guarantee under section 479C of the Companies Act 2006.

### 12. Investments held at fair value through other comprehensive income

Group and Company	31 <sup>st</sup> March 2020 £000	31 <sup>st</sup> March 2019 £000
At beginning of year	98,952	95,802
Re-invested gains on disposal of investments held at fair value through OCI	2,233	2,749
Re-invested income	2,385	2,560
Management charges and foreign exchange movements	(400)	(354)
Unrealised loss on revaluation	(11,277)	(1,805)
At end of year	91,893	98,952



## Notes to the financial statements

### 13. Deferred tax

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior year:

Group	PPE & Intangible assets £000	Tax losses £000	Unrealised investment (losses) /gains £000	Other temporary differences £000	Total £000
<b>At 1<sup>st</sup> April 2018</b>	<b>308</b>	<b>-</b>	<b>(1,333)</b>	<b>4</b>	<b>(1,021)</b>
Deferred tax (charge)/credit for year in profit or loss	(142)	-	-	-	(142)
Deferred tax (charge)/credit for year in statement of OCI	-	-	136	-	136
<b>At 1<sup>st</sup> April 2019</b>	<b>166</b>	<b>-</b>	<b>(1,197)</b>	<b>4</b>	<b>(1,027)</b>
Deferred tax (charge)/credit for year in profit or loss	(160)	220	-	119	179
Deferred tax (charge)/credit for year in statement of OCI	-	-	1,704	-	1,704
Acquired in the year (under business combination)	(887)	312	-	-	(575)
<b>At 31<sup>st</sup> March 2020</b>	<b>(881)</b>	<b>532</b>	<b>507</b>	<b>123</b>	<b>281</b>

Company	PPE & Intangible assets £000	Tax losses £000	Unrealised investment (losses) /gains £000	Other temporary differences £000	Total £000
<b>At 1<sup>st</sup> April 2018</b>	<b>308</b>	<b>-</b>	<b>(1,333)</b>	<b>4</b>	<b>(1,021)</b>
Deferred tax (charge)/credit for year in profit or loss	(142)	-	-	-	(142)
Deferred tax (charge)/credit for year in statement of OCI	-	-	136	-	136
<b>At 1<sup>st</sup> April 2019</b>	<b>166</b>	<b>-</b>	<b>(1,197)</b>	<b>4</b>	<b>(1,027)</b>
Deferred tax (charge)/credit for year in profit or loss	(160)	-	-	120	(40)
Deferred tax (charge)/credit for year in statement of OCI	-	-	1,704	-	1,704
<b>At 31<sup>st</sup> March 2020</b>	<b>6</b>	<b>-</b>	<b>507</b>	<b>124</b>	<b>637</b>

Deferred income tax assets are recognised against tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

## Notes to the financial statements

### 14. Current trade and other receivables

Group	31 <sup>st</sup> March 2020 £000	31 <sup>st</sup> March 2019 £000
Trade receivables	3,025	3,814
Accrued income	3,980	3,698
Other receivables	138	111
<b>Financial assets</b>	<b>7,143</b>	<b>7,623</b>
Prepayments	2,745	2,787
<b>Non-financial assets</b>	<b>2,745</b>	<b>2,787</b>
<b>Trade and other receivables</b>	<b>9,888</b>	<b>10,410</b>

#### Company

Trade receivables	2,951	3,814
Accrued income	3,980	3,698
Other receivables	136	107
<b>Financial assets</b>	<b>7,067</b>	<b>7,619</b>
Prepayments	2,726	2,785
<b>Non-financial assets</b>	<b>2,726</b>	<b>2,785</b>
<b>Trade and other receivables</b>	<b>9,793</b>	<b>10,404</b>

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

The Group applies the IFRS 9 simplified model of recognising lifetime expected credit losses for all trade receivables as these items do not have a significant financing component. In measuring the expected credit losses, the trade receivables have been assessed on a collective basis as they possess shared risk characteristics. They have been grouped based on the days past due. Trade receivables are written off when there is no reasonable expectation of recovery.

On the above basis, the expected credit loss for trade receivables at 31<sup>st</sup> March 2020 has been determined at £46k. (31<sup>st</sup> March 2019: £20k). The related expense has been recorded in other operating charges.



## Notes to the financial statements

### 15. Current trade and other payables

Group	31 <sup>st</sup> March 2020 £000	31 <sup>st</sup> March 2019 £000
Trade payables	1,306	1,207
Other creditors	717	469
Accruals	5,568	4,475
<b>Financial liabilities</b>	<b>7,591</b>	<b>6,151</b>
Other taxation and social security	792	727
<b>Non-financial liabilities</b>	<b>792</b>	<b>727</b>
<b>Trade and other payables</b>	<b>8,383</b>	<b>6,878</b>

#### Company

Trade payables	1,305	1,204
Other creditors	717	469
Accruals	5,003	4,414
Amounts owed to Group undertakings	49	59
<b>Financial liabilities</b>	<b>7,074</b>	<b>6,146</b>
Other taxation and social security	792	727
<b>Non-financial liabilities</b>	<b>792</b>	<b>727</b>
<b>Trade and other payables</b>	<b>7,866</b>	<b>6,873</b>

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

### 16. Leases

The statement of financial position shows the following amounts relating to leases:

Group and Company	31 <sup>st</sup> March 2020	1 <sup>st</sup> April 2019*
Right-of-use assets**	£000	£000
Leasehold buildings	112	562
Fixtures, fittings and equipment	20	57
	<b>133</b>	<b>620</b>

#### Lease liabilities

Current	134	486
Non-current	-	134
	<b>134</b>	<b>620</b>

\*In the previous year, the group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under IAS17 Leases. For adjustments recognised on adoption of IFRS 16 on 1<sup>st</sup> April 2019, refer to note 20.

\*\*Included within the relevant category within note 8, Property, plant and equipment

The statement of profit or loss shows the following amounts relating to leases:

Group and Company	2020	2019
Depreciation charge of right-of-use assets	£000	£000
Leasehold buildings	(450)	-
Fixtures, fittings and equipment	(37)	-
	<b>(487)</b>	<b>-</b>
Interest expense (included in other operating charges)	(8)	-
Lease payments in respect of leases treated as short-term	(5)	-

At 31<sup>st</sup> March 2019, the Group and Company had outstanding liabilities for future minimum lease payments under non-cancellable operating leases, which fell due as follows:

Group and Company	31 <sup>st</sup> March 2020	31 <sup>st</sup> March 2019
	£000	£000
Within one year	-	499
In the second to fifth years inclusive	-	183
	<b>-</b>	<b>682</b>



## Notes to the financial statements

### 17. Income tax

Group	31 <sup>st</sup> March 2020	31 <sup>st</sup> March 2019
	£000	£000
Income tax asset	-	268
Income tax liability	264	-

#### Company

Income tax asset	-	275
Income tax liability	261	-

### 18. Deferred income

Group	31 <sup>st</sup> March 2020	31 <sup>st</sup> March 2019
	£000	£000
Current deferred income	24,971	25,147
Non-current deferred income	10,430	10,570
	35,401	35,717

#### Company

Current deferred income	24,833	25,147
Non-current deferred income	10,401	10,570
	35,234	35,717

Deferred income represents consideration received in advance of the meeting of performance obligations, primarily domain registration and renewal fees that relate to future accounting periods.

### 19. Non-current trade and other payables

Group and Company	31 <sup>st</sup> March 2020	31 <sup>st</sup> March 2019
	£000	£000
Accruals	871	328

## Notes to the financial statements

### 20. Changes in accounting policies

As indicated in Principal Accounting Policies, the group has adopted IFRS16 Leases retrospectively from 1<sup>st</sup> April 2019, but has not restated comparatives for the year ended 31<sup>st</sup> March 2019, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1<sup>st</sup> April 2019.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1<sup>st</sup> April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1<sup>st</sup> April 2019 was 2.35%.

For leases previously classified as finance leases the group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

#### Measurement of lease liabilities

	£000
<b>Operating lease commitments disclosed at 31<sup>st</sup> March 2019</b>	<b>644</b>
Discounted using the lessee's incremental borrowing rate of 2.35% at the date of initial application	636
Less: low value leases not recognised under IFRS 16	(16)
<b>Lease liability recognised at 1<sup>st</sup> April 2019</b>	<b>620</b>
Of which are :	
Current lease liabilities	486
Non-current lease liabilities	134
	620

#### Adjustments recognised in the statement of financial position on 1<sup>st</sup> April 2019

The change in accounting policy affected the following items in the statement of financial position on 1<sup>st</sup> April 2019.

- Property, plant and equipment – increase by £620k
- Lease liabilities – increase by £620k

There was no impact on retained earnings on 1<sup>st</sup> April 2019.

## Notes to the financial statements

### 21. Related party transactions

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

	Due to/(Owed by) Nominet UK at 31 <sup>st</sup> March 2020 £000	Income to Nominet UK 31 <sup>st</sup> March 2020 £000
David Thornton	(6)	3
Volker Greimann (Key Systems GmbH)	27	375
	21	378

	Due to/(Owed by) Nominet UK at 31 <sup>st</sup> March 2019 £000	Income to Nominet UK 31 <sup>st</sup> March 2019 £000
Richard Armour (Freeparking Domain Registrars Inc)	8	104
David Thornton	(9)	1
Volker Greimann (Key Systems GmbH)	36	383
	35	488

Other than David Thornton, whose purchases are shown in the table above, other directors personally made domain registration and renewal purchases from Nominet in the year. The total amount purchased per director was less than £750 (year to 31<sup>st</sup> March 2019: £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 7. The social security costs payable on their emoluments during the year to 31<sup>st</sup> March 2020 was £266k (2019: £216k).

## Notes to the financial statements

### 22. Notes to the cash flow statement

Group	31 <sup>st</sup> March 2020	31 <sup>st</sup> March 2019
	£000	£000
Operating profit	3,107	5,434
Adjusted for:		
Depreciation of property, plant & equipment	2,112	1,463
Amortisation of intangible assets	322	75
Depreciation of non-current asset	11	12
Decrease/(increase) in trade and other receivables	640	(2,388)
Increase/(decrease) in trade and other payables	1,915	3,305
Increase/(decrease) in deferred income	(510)	(1,834)
(Increase)/decrease in contract asset	(4)	-
Exchange differences on translating foreign operations	15	8
<b>Cash generated from operations</b>	<b>7,608</b>	<b>6,075</b>

Company	31 <sup>st</sup> March 2020	31 <sup>st</sup> March 2019
	£000	£000
Operating profit	3,911	5,407
Adjusted for:		
Depreciation of property, plant & equipment	2,109	1,461
Amortisation of intangible assets	292	75
Depreciation of non-current asset	11	12
Decrease/(increase) in trade and other receivables	611	(2,387)
Increase/(decrease) in trade and other payables	1,536	3,284
Increase/(decrease) in deferred income	(483)	(1,834)
(Increase)/decrease in contract asset	(4)	-
<b>Cash generated from operations</b>	<b>7,983</b>	<b>6,018</b>

## Notes to the financial statements

### 23. Reconciliation of liabilities arising from financing activities

The changes in the Group's liabilities arising from financing activities are classified as follows:

	Lease liabilities
	£000
At 1 <sup>st</sup> April 2019	-
Adoption of IFRS16	620
Revised 1 <sup>st</sup> April 2019	620
Cash-flows: Repayment	(486)
<b>31<sup>st</sup> March 2020</b>	<b>134</b>

### 24. Company limited by guarantee

The Company is limited by guarantee and each member's liability will not exceed £10. The number of members at 31<sup>st</sup> March 2020 was 2,461 (31<sup>st</sup> March 2019: 2,431).

### 25. Financial instruments risk

The Group's policy is to fund its operations from retained earnings and equity and place surplus cash into investments held at fair value through OCI and deposits. Given the level of cash and investments held at fair value through OCI 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 investments held at fair value through OCI, changes in interest rate risk and to credit risk. The policies for managing these risks are kept under review by the Board.

#### Market conditions relating to the investments held at fair value through OCI

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 Investments held at fair value through OCI are quoted in active markets, and are sensitive to fluctuations in market value. If the average value of the investments held at fair value through OCI were to change by 5%, the effect on total comprehensive income would be £4.8m (31<sup>st</sup> March 2019: £4.9m).

#### 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.

#### 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. At 31<sup>st</sup> March 2020, 94% of trade receivables related to current month debt (31<sup>st</sup> March 2019: 86% current month debt).

## Notes to the financial statements

### 25. Financial instruments risk (continued)

#### Financial liabilities

As of 31<sup>st</sup> March 2020 the Group had no financial liabilities other than those of a trading nature.

#### Fair value measurement of financial assets and liabilities

Investments held at fair value through OCI 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.

#### 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 subsidiaries CyGlass Inc., Nominet US Inc. and Nominet US Holding Co Inc. The Group has not taken out hedges as the exposure to foreign currency fluctuations at any one time is not deemed to be material.

### 26. Financial instruments

#### Categories of financial assets and financial liabilities

Principal 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 31 <sup>st</sup> March 2020 £000	Group 31 <sup>st</sup> March 2019 £000	Company 31 <sup>st</sup> March 2020 £000	Company 31 <sup>st</sup> March 2019 £000
<b>Financial assets</b>				
Classified as loans and receivables:				
Loans to group companies	-	-	4,108	-
Trade and other receivables	7,143	7,623	7,067	7,619
Cash and cash equivalents	5,871	6,573	5,757	6,508
Classified as available for sale:				
Investments held at FVTOCI	91,893	98,952	91,893	98,952
	<b>104,907</b>	<b>113,148</b>	<b>108,825</b>	<b>113,079</b>
<b>Financial liabilities</b>				
Classified as financial liabilities held at amortised cost:				
Trade and other payables	7,591	6,151	7,074	6,146



## Notes to the financial statements

### 26. Financial instruments (continued)

#### 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 investments held at FVTOCI fall into the Level 1 category.

### 27. 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 and future investments. The Group has no borrowings.

### 28. Capital commitments

At 31<sup>st</sup> March 2020 the Group and Company had capital commitments of £41,000 (31<sup>st</sup> March 2019: £35,000) relating to capital expenditure contracted but not provided for in the financial statements.

### 29. Contingent liabilities

There were no contingent liabilities at 31<sup>st</sup> March 2020 or at 31<sup>st</sup> March 2019.





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