

# Annual Report and Financial Statements

For the year ended 31 March 2019



# Contents

|  |    |
|--|----|
| Officers and professional advisers           | 1  |
| Chair's statement                            | 2  |
| CEO's statement                              | 4  |
| Public benefit                               | 6  |
| Corporate governance                         | 8  |
| Board members                                | 9  |
| Board committees and subsidiaries            | 10 |
| Internal controls and risk management        | 15 |
| Strategic report                             | 18 |
| Report of the directors                      | 22 |
| Independent auditor's report                 | 24 |
| Principal accounting policies                | 27 |
| Consolidated statement of profit or loss     | 36 |
| Consolidated statement of financial position | 38 |
| Company statement of financial position      | 40 |
| Consolidated cash flow statement             | 42 |
| Company cash flow statement                  | 43 |
| Statement of changes in equity               | 44 |
| Notes to the financial statements            | 45 |



# Officers and professional advisers

**Company registration number**  
03203859

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

**Directors**  
Mark Wood – Chair  
Russell Haworth  
Ben Hill  
Eleanor Bradley  
Rob Binns  
Jane Tozer MBE OBE  
Dr. Stephen Page  
James Bladel  
Kelly Salter  
David Thornton  
Volker Greimann

**Company Secretary**  
Rory Kelly

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

**Solicitors**  
CMS Cameron  
McKenna LLP  
160 Aldersgate Street  
LONDON EC1A 4DD

**Investment managers**  
Quilter Cheviot Limited  
2 Snowhill  
BIRMINGHAM B4 6GA

**Independent Auditors**  
Grant Thornton UK LLP  
Chartered Accountants  
Statutory Auditor  
3140 Rowan Place  
Oxford Business Park South  
OXFORD OX4 2WB

# Chair's statement



As Chair of the Nominet Board, it is a pleasure to look back on a year in which we have continued to play a role in the UK's tech economy which far outweighs our size. The .UK registry has maintained an excellent track record in terms of reliability and service, reflected in consistently positive feedback from both members and customers. Meanwhile Nominet's broader operations, from our work tackling cyber-crime to our dispute resolution service, have set standards which are admired worldwide.

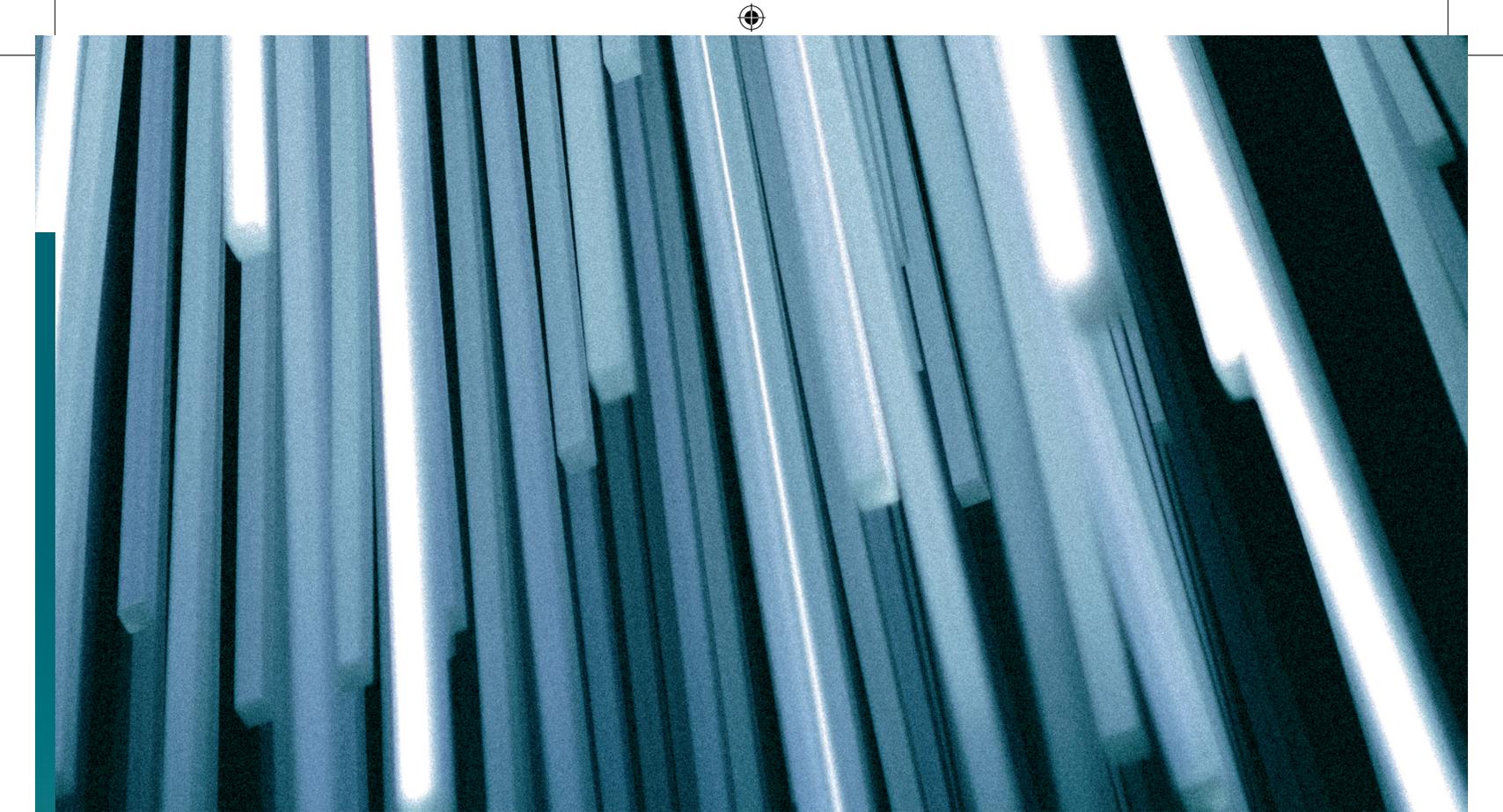
Nominet is certainly not standing still. We have continued to invest in our future this year, bringing in the additional skills and resources we need to deliver on the ambitious 2020 growth and diversification strategy approved by the Board.

Keeping the .UK namespace safe and secure remains paramount, and we have continued to develop and improve our technical infrastructure to meet that challenge. We are, at the same time, leveraging our tech skills to deliver an expanded service to the UK Government as part of its Active Cyber Defence programme.

Further afield, our cyber team is exploring a strong pipeline of opportunities to equip both enterprise and governments around the world with cutting-edge technology to secure their networks. Wireless connectivity is another area of focus and our continued work on dynamic spectrum management has underlined Nominet's reputation as a significant player in this field. Working with local and international partners such as Microsoft, we have supported spectrum regulators to address the digital divide and connect communities in Africa.

Having made the decision in 2017 to manage our public benefit programme in-house, I am pleased to report on significant progress towards our stated goal to improve the lives of one million young people.

In the last year, we have built the foundations of a programme that is finding new and innovative ways to use technology to tackle long-standing problems, from increasing digital skills among disadvantaged people to improving basic access to technology.



With challenging long-term goals across the organisation, it is vital to continue to attract, nurture and retain talent. There is intense competition for the best, but Nominet is seen as a dynamic organisation with highly motivated staff who want to make a positive contribution to society beyond their day-to-day work.

Nominet is led by a high-calibre management team with major ambitions for the company. Their progress is overseen by a strong and experienced Board, which has new non-executive directors adding invaluable expertise.

The year ahead is pivotal. In addition to pursuing organic growth, we have a prudent approach to possible acquisitions and investments that will accelerate our strategy and lay the foundations for future growth.

I would like to extend my thanks to members, Board colleagues and the whole Nominet team for their ongoing contribution to this impressive organisation.

**MARK WOOD**  
Chair, Nominet

# CEO's statement



I am proud to say that the last year has seen us move forward on our Project 2020 strategy. This strategy aims to both protect and grow .UK in the face of increased competition, while pursuing a diversification agenda that lays the foundations of the next phase of Nominet's development.

Over the last five years, we have moved from being a business wholly dependent on .UK revenues, to a business that in the last financial year has income streams from four different services. Our total revenue was £42.6m, up 8% on the 12 month period to 31 March 2018.

Our operating profit before public benefit over the last year was a healthy 17% (18 month period ended 31 March 2018: 29%), reflecting our increased investment in the business. We have focused on maintaining the resilience and reliability of our technical infrastructure, developing and promoting our growing cyber business and continuing to explore the potential of emerging technologies.

Of course, our core business remains our priority, and we have continued to deliver a world class service. In the face of ongoing competition, .UK registrations have

grown to 12.2m, with new registrations at 1.8m and a steady renewal rate of 74%.

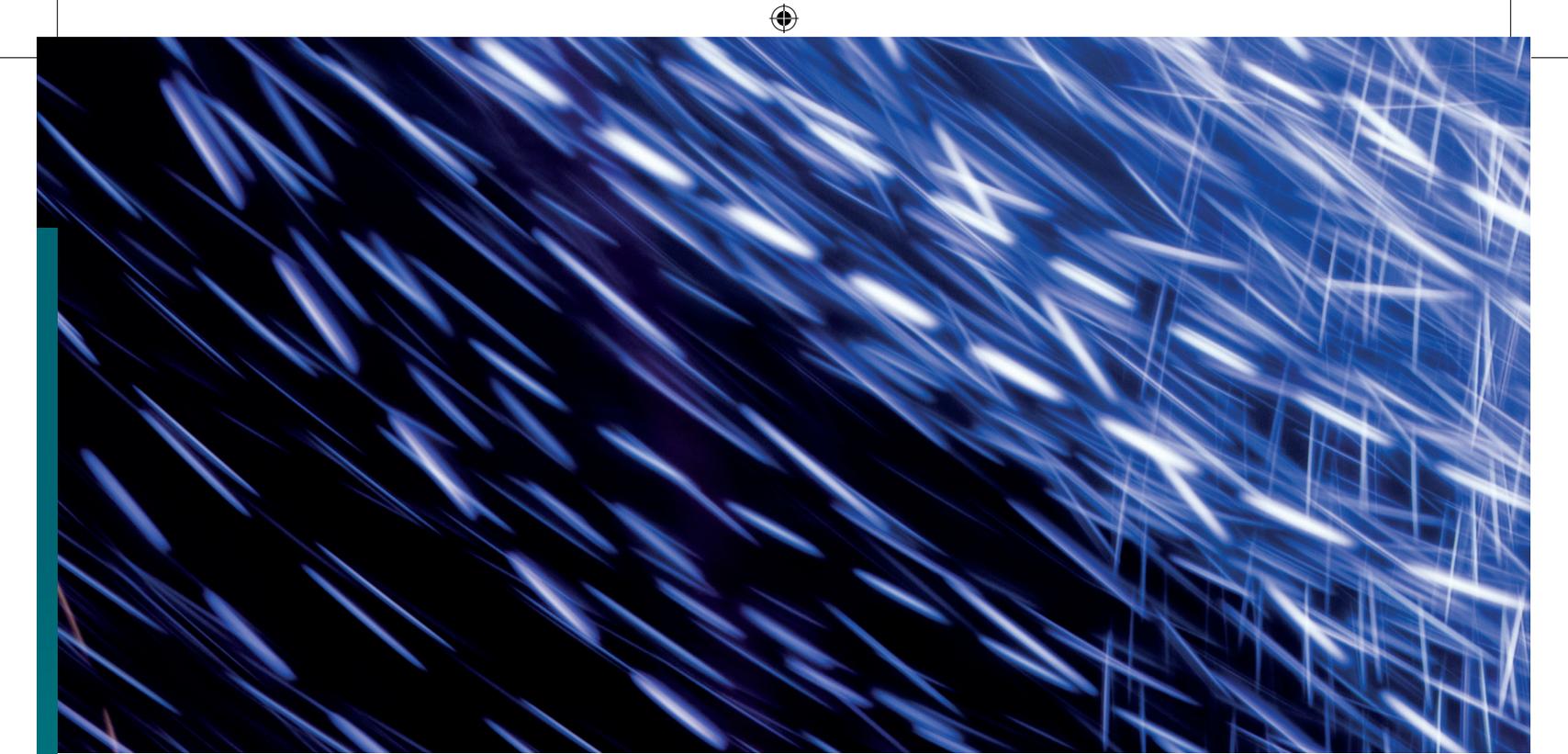
A programme of promotions with registrars contributed to this growth, offering flexibility for registrars and delivering visibility for .UK amongst potential registrants. Our first activity linking registrations to our public benefit work, in aid of BBC Children in Need, took place in October 2018, leading to a 4% uplift in registrations for the period of the campaign, and a £220k donation to the charity.

In 2014, we introduced the .uk domain endings, giving qualifying registrants a five-year window to decide whether to register the shorter .uk alongside, or instead of, their original domain. With that right of registration period ending on 25 June this year, we are in the final stages of a comprehensive programme to ensure an orderly release of rights. Our focus has been

on raising awareness of the June deadline, ensuring rights holders make an informed choice. Alongside working with our channel to inform registrants directly, a national marketing campaign, including broadcast, outdoor, print and online advertising was created.

A dedicated website, [theukdomain.uk](http://theukdomain.uk), has attracted over 500,000 visitors over the year, and we have invested in ensuring this resource continues to provide valuable advice to help small business owners and potential registrants make the most of online opportunities.

Our registry services business has continued to grow. With a second major portfolio of domains – for Amazon – under our management, Nominet is now firmly established as a top five registry services provider. We remain proud of our status as ICANN's EBERO provider – ready to step in should other registries fail.



Our work on the Active Cyber Defence programme for the British Government means we are working at the forefront of sophisticated techniques that use the Domain Name System (DNS) as a vital part of network security. Our protected DNS service is helping over 400 public sector organisations keep their networks free from threats.

We have increased the size of the cyber team, bringing in dedicated resources and expertise to develop our proposition, deliver an ambitious product roadmap and support the international sales effort. In February 2019, we launched in the US and now have an office in Washington DC. Our enterprise client roster now includes companies across a number of sectors, from telecommunications and manufacturing to finance and F1 racing.

The importance of security also underpins our work on the developing wireless infrastructure.

In autonomous vehicles, we are in the closing stages of our project with the Driven Consortium and are now part of an ambitious government-sponsored project focused on the secure transfer of data.

Despite 5G being on the horizon, the challenges of basic rural connectivity remain significant. Wireless technology is a key part of ensuring communities are not left behind, and we are advocates for sharing or repurposing spectrum to allow for a more efficient use of this finite resource. I am pleased to say that support for this idea is gaining momentum. To help make the case, in the year we launched a planning tool that allows ISPs and governments to visualise the positive impact of TV whitespace rollouts. Over 15 organisations are now using our technology.

This underlines our approach as a 'profit with a purpose' company. We are in the business of helping connect people and devices to a secure and reliable digital

infrastructure. Our commercial success means we can fund our ambitious public benefit programme to help one million young people thrive in a digital world. Having created an in-house public benefit team to achieve this goal, I am pleased to report a robust programme has been developed and is underway, with a number of new partnerships forged and more in the pipeline. Over the year, we invested £1.9m and have supported and initiated a variety of projects that are making their mark, from helping the Samaritans reach young people online and supporting the vital work of the Internet Watch Foundation, to the Nominet Digital Neighbourhood programme.

This is all possible because of the part that members, registrars, partners and colleagues continue to play. My thanks to everyone for supporting this exciting and unique company.

**RUSSELL HAWORTH**  
CEO, Nominet

# Public benefit

## Improving the lives of one million young people a year by 2020

Nominet is committed to using our profits for a purpose and being an active participant in the tech for good space. This year, we have implemented a bold, ambitious and holistic approach to ensuring technology empowers the young across the UK. We want to play our part creating a future that is increasingly connected, inclusive and secure.

### 1. Our Goal – improving the lives of one million people

We want to improve the lives of one million young people a year by 2020 by focusing on tackling a range of emerging, critical issues born out of the digital age. These issues will include online safety and resilience, digital skills for the future, access to the internet, and digital services supporting mental health and wellbeing. By targeting a breadth of issues and working with others, we can achieve both the scale and the impact needed to make a meaningful difference in young people's lives.

### 2. Our Philosophy – Tech for Good. For all.

Young people means all young people – no one can be left behind. We are working with some of the most experienced and respected charities and social organisations in the UK on programmes and partnerships to support

young people including disadvantaged and at-risk groups that most need help.

This collective impact is key: through cross-sector partnerships that work towards a common goal we are confident we can achieve meaningful and systemic change.

### 3. Progress in our first year

In the past year we have focused on embedding the new Public Benefit strategy, investing in the necessary preparations to facilitate sustainable programmes and guarantee more impact on the lives of the young in the coming year. That said, we have already reached more than 100,000 young people over the last year, and embarked on a number of powerful partnerships. These partnerships are detailed below and encompass Nominet's three pillars of focus for tech-for-good: connected, inclusive and secure.

Together with our partners, we have committed to measuring the impact of our activities and will be guided in this by our impact framework and expert support from our social impact reporting partner, The Social Investment Consultancy. You can find a more detailed impact summary on our website.



## Connected

**Our two 'Connected' programmes work to ensure young people have access both to the internet and to critical digital services. Alongside our leading role in the Digital Access for All initiative, we have developed a programme supporting mental health services for young people.**

**SAMARITANS** responds to more than five million calls for help a year from those coping with distress and suicidal thoughts. Through interviews with target users, the Samaritans discovered that younger people, those with autism and those with social anxiety can find it more difficult to use the helpline and may prefer to access self-help materials online. It is therefore imperative to make online self-help accessible for them.

Nominet has provided £175,000, in addition to lending our technology expertise, to support the development of the two new digital products for Samaritans.

Nominet partnered with the **Learning Foundation** to create '**DIGITAL ACCESS FOR ALL**' (DAFA), a taskforce committed to designing and delivering solutions to the perennially-stubborn problem of digital exclusion. Over one million young people lack access to an adequate internet connection or device.

DAFA was launched in February 2019 and initial partner organisations span across the private and public sectors, including Intel, Lloyds Bank, Microsoft, Argos, BT, Carnegie UK Trust, Computer Recyclers and the Good Things Foundation. During 2019 DAFA will be working with leading service design partners to shape a series of pilots to test different approaches to delivering the initiative effectively across the UK.



## Inclusive

**Our 'Inclusive' programmes support young people to be part of a digital society by equipping them with the digital skills they need, as well as tackling digital**

**exclusion for young people with disabilities and supporting frontline organisations to transform their services.**

**NOMINET DIGITAL NEIGHBOURHOOD (NDN)**, delivered in partnership with the youth agency Livity, offers young people free training in digital skills before partnering them with local SMEs for paid work experience. In the last year we worked with young people in London, Preston, Exeter and Cardiff, providing over 200 opportunities. The project was recognised as a finalist in the 2018 AbilityNet Tech4Good awards.



## Secure

**Our 'Secure' programmes focus on ensuring that young people are safe online.**

Scouts, the largest youth movement in the UK with over 400,000 young members, to revamp their **DIGITAL CITIZEN BADGE**. This badge will educate young people about issues such as internet safety and digital resilience, and is set to formally launch in September 2019.

In addition to the programmes highlighted above, Nominet continues to support the Internet Watch Foundation (IWF). Over the course of the last year, we have funded an important research project that is using sophisticated techniques to help identify illegal activity.

Nominet's public benefit work is supported by the proceeds of our commercial operations.

Since 2008 we have donated over £47m to tech-for-good initiatives. This past year has seen us start to take significant steps, laying the groundwork and establishing powerful partnerships to deliver on our ambitious but important goal to improve the lives of one million young people through technology by 2020.

# 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 in to the main Board.

Nominet has two wholly-owned subsidiaries; Nominet Registrar Services Limited (NRS) and Nominet US Inc. NRS is a non-trading ICANN accredited registrar formed as a legally distinct company to comply with ICANN rules on the formal separation of registry and registrar and Nominet US Inc. is a corporation formed as an employment vehicle for our US-based staff.

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 31st March 2019, the Board comprised of eight non-executive directors (NEDs), including the Chair, and four executive directors, including the CEO. In February 2019 one of the executive directors relinquished their post which remains vacant.

At the July 2018 AGM the members re-elected David Thornton and elected James Bladel to replace Dickie Armour as the fourth elected NED. Rob Binns joined as an appointed NED in January 2019. Both Mark Wood and Dr Stephen Page were re-appointed by the Board during the reporting period. The proportion of women on the Board during the period was between 25% and 27%.

The Board met six times during the year to 31 March 2019 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 approved the strategy for the public benefit programme and the aim of improving the lives of one million young people by 2020 and one million people per year thereafter. The Board also made a recommendation to hold .UK prices during the reporting period. The Board examined the mergers and acquisition landscape to support diversification plans and the delivery of Project 2020 and also agreed to establish a new Mergers and Acquisitions (MA) committee.

# Board members



Mark Wood (Chair)



Russell Haworth



Ben Hill



Eleanor Bradley



Rob Binns



Jane Tozer MBE OBE



Dr Stephen Page



James Bladel



Kelly Salter



David Thornton



Volker Greimann

# Board committees and subsidiaries

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 14.

## Audit and Governance Committee

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

- |   |  |  |
|---|--|--|
| <ul style="list-style-type: none"><li>• Met with the external and internal auditors in the absence of the executive, in accordance with governance best practice.</li><li>• Received updates from the external auditors on the company's accounts for the 18 month period to 31st March 2018 and draft annual report, and approved the audit plan for 2019.</li></ul> | <ul style="list-style-type: none"><li>• Approved the annual report and accounts for the 18 month period to 31st March 2018 under delegated authority from the Board.</li><li>• Considered the performance of the external auditors and provided feedback to them.</li><li>• Reviewed the risk register, and reports from Internal Audit on the internal controls and systems in place to manage and mitigate risk.</li></ul> | <ul style="list-style-type: none"><li>• Reviewed the risk appetite statement.</li><li>• Reviewed reports on health and safety.</li><li>• Received an annual update on IT security.</li><li>• Conducted a self-evaluation exercise and reviewed the terms of reference.</li></ul> |
|---|--|--|

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

## Nominations Committee

The Nominations Committee met twice during the reporting period and on these occasions:

- Agreed the process and selected the panel for the appointed NED interviews that resulted in Rob Binn's appointment. Russell Reynolds Associates were the recruitment agency who supported this work.
- Received updates and approved documents related to the 2019 NED elections.
- Agreed the approach for the 2019 Board skills audit process.
- Conducted a self-evaluation exercise.

## Remuneration Committee

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

- Following the completion of the CFO recruitment process, approved the level of remuneration for the role.
- Approved the company wide bonus payments for the six months to 31st March 2018.
- 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 remuneration and bonus decisions. The Committee makes a recommendation to the full Board on CEO remuneration.
- Having reviewed the need for market competitive packages to attract and retain talent approved a new long term incentive scheme which was implemented in June 2018 replacing the Executive stretch objectives bonus scheme.
- Reviewed the pension and health care scheme arrangements for employees located in the USA.
- 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 31st March 2019

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 their individual performance rating, the level of the Company's performance above the financial targets, and the on-target bonus level associated with their role.

**The commission schemes** for sales and account management roles applied to staff in the Registry Services Provision and Cyber Security Services. All employees on commission do not participate in the Company bonus scheme except for four team members in the Registry

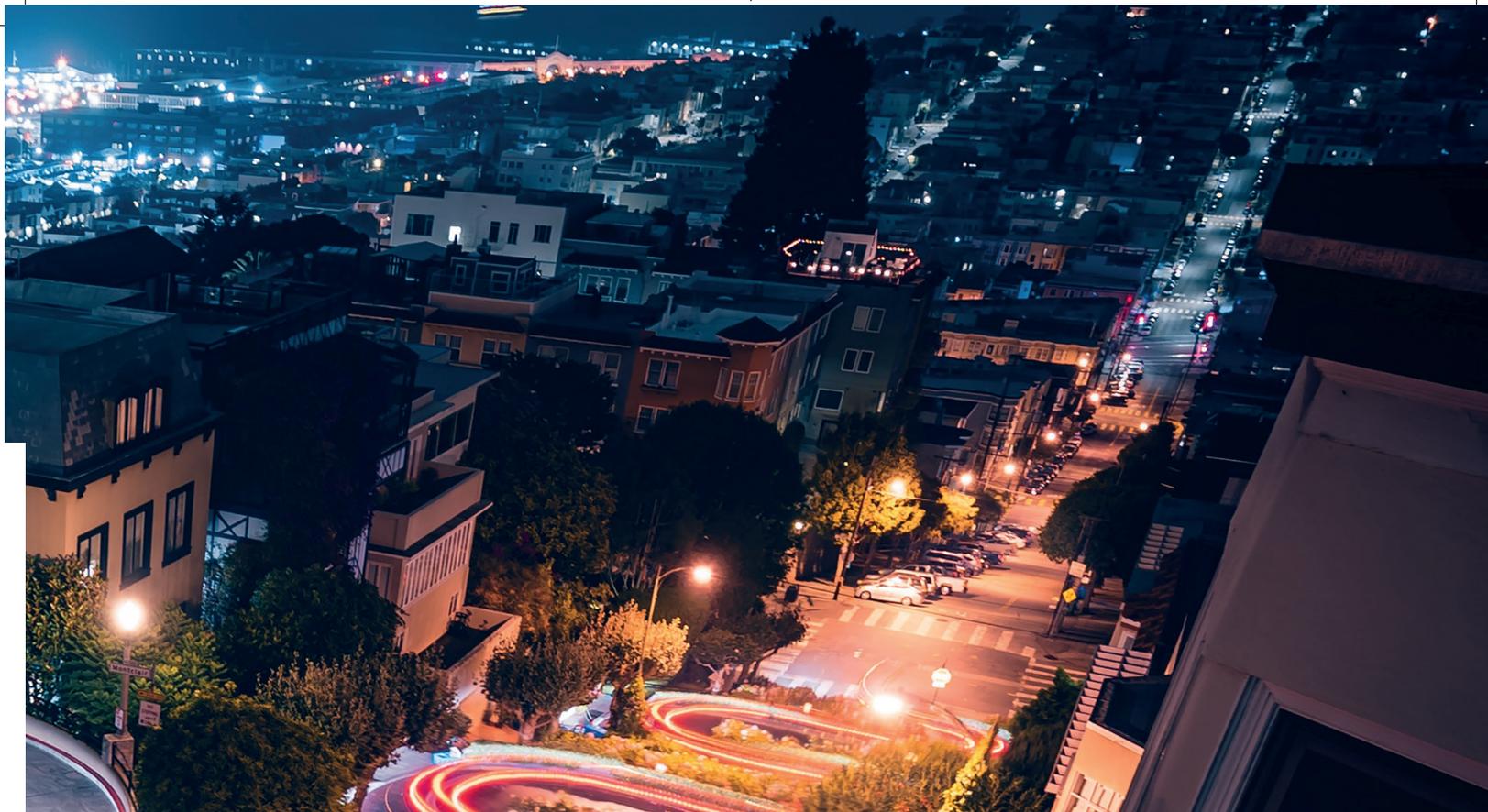
Services Provision who participate in both schemes on a 50:50 basis receiving 50% of the full award for each of the schemes.

**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 three times during the reporting period and on these occasions:

- Reviewed the investment strategy and related asset allocations, using reports provided by Quilter Cheviot, the investment portfolio managers, to assess the performance of the various asset classes held within the Nominet portfolio.
- Conducted a financial and risk profiling information gathering exercise to comply with Financial Conduct Authority (FCA) regulations.
- Approved the timeframes for conducting a tender for investment management services.
- Conducted a self-evaluation exercise.



### Mergers & Acquisition (M&A) Committee

The M&A committee met once during the reporting period to consider the acquisition landscape opportunities for Nominet.

### Cyber Advisory Panel

During the reporting period, the Cyber Advisory Panel was formed 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.

### Nominet Registrar Services Limited

Nominet Registrar Services Limited ("NRS") is a wholly owned subsidiary of Nominet UK originally established and engaged, as an ICANN accredited registrar, in the business of providing generic top level domain names (gTLDs) to the wholesale (reseller) market in respect of .cymru and .wales. A decision was taken in July 2015 to "mothball" the Company but retain the ICANN accreditation.

The NRS Board met once during the reporting period with this meeting focused on the continued mothballed status, risk review, approval of the financial statements and to seek a renewed undertaking from Nominet UK guaranteeing all outstanding liabilities of NRS which exempts NRS from a statutory audit under the Companies Act 2006.

### Nominet US Inc.

Incorporated in July 2015, Nominet US Inc. is a wholly owned subsidiary of Nominet UK established primarily as a vehicle for employing staff based in the United States of America and to support and facilitate expansion of new business in that region. The Nominet US Inc. Board met two times during the reporting period to consider matters related to the governance and share capital, operation and finances of the subsidiary and the development of new business opportunities.

# Register of attendance at meetings

| MEMBER  | BOARD | AUDIT AND GOVERNANCE COMMITTEE | REMUNERATION COMMITTEE | NOMINATIONS COMMITTEE | INVESTMENT COMMITTEE | NOMINET REGISTRAR SERVICES (NRS) LTD | NOMINET US INC. | M&A   |
|---|-------|--------------------------------|------------------------|-----------------------|----------------------|--------------------------------------|-----------------|-------|
| Mark Wood   | 6 (6) | -                              | 3 (3)                  | 2 (2)                 | 3 (3)                | -                                    | -               | 1 (1) |
| Eleanor Bradley   | 6 (6) | -                              | -                      | -                     | 2 (3)                | 1 (1)                                | 2 (2)           | -     |
| Volker Greimann   | 6 (6) | 3 (3)                          | -                      | 2 (2)                 | -                    | -                                    | -               | -     |
| Russell Haworth   | 6 (6) | -                              | -                      | 2 (2)                 | -                    | 1 (1)                                | 2 (2)           | 1 (1) |
| Stephen Page  | 6 (6) | 3 (3)                          | -                      | -                     | -                    | -                                    | -               | 1 (1) |
| Kelly Salter  | 6 (6) | 3 (3)                          | -                      | -                     | -                    | -                                    | -               | 1 (1) |
| David Thornton  | 6 (6) | -                              | 3 (3)                  | 2 (2)                 | -                    | -                                    | -               | -     |
| Jane Tozer  | 6 (6) | 3 (3)                          | 3 (3)                  | 2 (2)                 | 2 (3)                | -                                    | -               | -     |
| James Bladel <sup>1</sup>                               | 4 (4) | -                              | 1 (1)                  | -                     | 1 (1)                | -                                    | -               | -     |
| Ben Hill <sup>2</sup>                                   | 6 (6) | -                              | -                      | -                     | 1 (1)                | -                                    | -               | 1 (1) |
| Rob Binns <sup>3</sup>                                  | 2 (2) | 1 (1)                          | -                      | -                     | -                    | -                                    | -               | 1 (1) |
| Directors leaving the Board in period covered by report |       |                                |                        |                       |                      |                                      |                 |       |
| Simon McCalla <sup>4</sup>                              | 5 (5) | -                              | -                      | 1 (1)                 | -                    | -                                    | 1 (1)           | -     |
| Dickie Armour <sup>5</sup>                              | 2 (2) | -                              | 2 (2)                  | -                     | 1 (1)                | -                                    | -               | -     |

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

<sup>1</sup> Joined 19th July 2018 <sup>2</sup> Appointed 22nd May 2018 <sup>3</sup> Joined 1st January 2019 <sup>4</sup> Resigned 15th February 2019 <sup>5</sup> Retired 18th July 2018

# Internal controls and risk management

The Board is responsible for approving the Company's strategy, risk attitude and risk appetite. Our approach to risk management recognises that it is not always possible to eliminate risk entirely and as such seeks to appropriately balance risk and reward.

The Executive's risk mitigation activities in the reporting period were guided by the Company's risk appetite which was set by the Board in March 2016 and reviewed in the year.

## Nominet's Risk Appetite Statement:

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

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

The Board of Directors holds responsibility 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 that Nominet faces as an organisation.

The Nominet risk management system is aligned to ISO 31000:2018. The system provides a framework within which decisions can be made based on sound risk assessment and appropriate levels of tolerable risk can be identified.

During the reporting period, regular reviews of the Risk Register, which includes strategic risk, were carried out by the Executive to ensure the register accurately captures and describes the risks faced by the business. The Audit and Governance Committee also 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 reports 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 next three financial years to 2021.

Nominet continues to maintain and operate a business continuity management system certified to the ISO standard for Societal Security (ISO 22301:2012). 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 (ISO 27001:2013).

Nominet participates in business continuity and security forums contributing expertise to the community and receiving current information about security threats and available responses. We continue to 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.

# Internal controls and risk management

## Risk Landscape

Over the last twelve months we have continued to identify, assess and record strategic risks in line with our agreed Risk Management policy. The backdrop to the risk landscape has seen ongoing Brexit negotiations and as a result political, economic and regulatory uncertainty has followed.

We recognise that the risks Nominet faces are driven by the evolving internet and technology landscape within which we operate. 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

### Critical infrastructure disruption

Critical to our business is the infrastructure and technology through which we provide our registry services.

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.

### 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.

## Failure to succeed in the cyber market

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

- Ongoing investment in our product 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 renewal of the PDNS contract.

## Market related risks

We are operating in a maturing 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 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 products and brands and seeking out innovative ways to invest in new opportunities for growth.

## Increased regulatory burden

Nominet is subject to strategically damaging or limiting regulation.

- We continue to focus on demonstrating that the industry can effectively self-regulate its activities.
- We ensure the high standards of registrars operating in the .UK namespace.
- 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.
- Investment in GDPR and Brexit preparedness.

## 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 March 2019. It is important to note for comparative purposes that the prior period was the 18 month period ending 31 March 2018.

## 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 activity of the subsidiary, Nominet Registrar Services Limited, is maintaining ICANN accreditation and the principal activity of the subsidiary Nominet US Inc. is to act as an employment vehicle for US based staff and facilitate the expansion of new business development opportunities.

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 March 2019 are shown in the attached financial statements.

### Revenue

Our core business had a strong year across all key measures with registrations exceeding expectations. The .UK register at 31 March 2019 closed at 12.2 million domain names under management (31 March 2018 – 12.0 million) benefiting from strength in renewals and protecting our market share of 58%.

Our registry services portfolio of TLDs has increased in number with domains under management of 1.9m (31 March 2018 – 1.5m).

Revenue increased by £5m on a pro rata basis, with continued benefit from the flow through of the .UK domain price rise implemented on 1 March 2016. This has combined with higher revenues from associated DNS and cyber security services, notably from our contract with the UK Government.

### Expenditure

Other operating charges of £35.3m represented 82.8% of revenue (2018: £40.1m, 71.1% of revenue).

Staff and other personnel costs of £18.3m have increased pro rata by 31.1% reflecting growth in average headcount of 21.7% from 166 to 202 in-line with our Project 2020 diversification strategy, also impacted by a higher average cost per head compared to the prior period, as we recruit a higher mix of skilled technical and sales resources in a competitive recruitment

market. On a pro rata basis, marketing costs to drive demand generation have also increased ahead of revenue returns further diluting operating margin.

### Other costs

Our investment in technical systems and infrastructure has continued to further improve the service and resilience of .UK together with supporting the expanded DNS services provided to the UK Government.

To promote the .UK namespace, engagement and collaboration with the channel and new business activities, our communications and marketing costs have increased over the period.



## Operating profit

Operating profit before Public Benefit Initiatives decreased to £7.3m, representing 17.2% of revenue (2018: £16.3m, 28.9% of revenue). The decrease in profit margin was driven by investment in business diversification.

## 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 increased during the year and closed at £99.0m (2018: £95.8m). There was significant volatility in investment markets during the year influenced by political factors, principally in the US and UK. Considering this volatility, no contributions were made into the portfolio during the year.

During the period we realised £2.7m of gains on the disposal of investments within the portfolio (2018: £3.1m) and investment income from the portfolio during the year was £2.6m (2018: £3.0m).

## Public Benefit initiatives

With the workstreams of connected, inclusive and secure, the public benefit function has been successfully established in the year with a target of improving one million young lives by 2020. Our profitability for the year has enabled us to invest £1.9m (2018: £0.6m).

## Balance sheet and cash flow

Retained earnings for the Group increased by £9.7m during the period to £74.1m (2018: £64.4m).

Cash generated from operations was £6.1m (2018: £20.2m). The other key cash movements included capital expenditure on fixed assets and development costs of £2.2m (2018: £2.7m) and corporation tax payments of £1.4m (2018: £1.7m). Cash balances held at the period end increased by £2.8m to £6.6m (2018: £3.7m).

## Research and Development

We have continued to invest in research and development during the year, with key projects including our participation in the Driven consortium, which seeks to address issues around communication and data sharing between connected autonomous vehicles, the development of the Domain Watch anti-phishing service, and other ongoing new product development.



## Implementation of IFRS 9 'Financial Instruments'

As noted in Principal Accounting Policies, the implementation of IFRS 9 has resulted in all changes in fair value related to investments being recognised through other comprehensive income only. In previous years, gains were recycled from other comprehensive income to the consolidated statement of profit or loss as they became realised. The profit for the 18 month period ended 31 March 2018 has been restated, resulting in a reduction of £3,097k in profit for the period and a corresponding increase to other comprehensive income of the same amount.

## Events since the balance sheet date

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

## Outlook and future developments

Nominet is committed to running .UK as a safe and trusted namespace and delivering a 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.

## 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 22 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 2 to 5 as part of the CEO and Chair's statement, which form part of this Strategic Report.

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

### ON BEHALF OF THE BOARD

**MARK WOOD** | Chair  
18 June 2019

# 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
- Dickie Armour (*Retired 18 July 2018*)
- Rob Binns (*Appointed 1 January 2019*)
- James Bladel (*Appointed 19 July 2018*)
- Eleanor Bradley
- Volker Greimann
- Russell Haworth
- Ben Hill (*Appointed 22 May 2018*)
- Simon McCalla (*Resigned 15 February 2019*)
- Dr. Stephen Page
- Kelly Salter
- David Thornton
- Jane Tozer MBE OBE

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  
18 June 2019

# 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 March 2019, which comprise the consolidated statement of profit or 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 March 2019 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 IFRS 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.

## 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.

## 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 there on.

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.

## 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 22, 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.

### **NICHOLAS WATSON BSC ACA**

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

Statutory Auditor,  
Chartered Accountants  
Oxford  
18 June 2019

# Principal accounting policies

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

## Basis of accounting

The financial statements of the Group and parent Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and those parts of the Companies Act 2006 that are relevant to companies that report in accordance with IFRS. 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 of its subsidiary undertakings ("subsidiaries"). These are adjusted, where appropriate, to conform to Group accounting policies.

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

A separate profit and loss account for the parent Company is omitted from the Group financial statements by virtue of section 408 of the Companies Act 2006.

## Going concern

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

## New standards adopted as at 1 April 2018

### IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (herein after referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts' and several revenue-related interpretations. Management have considered the impact of IFRS 15 on revenue recognition and determined that no changes to revenue recognised were required.

The new standard has therefore been applied retrospectively without restatement, with no adjustment required to the opening balance of retained earnings at 1 April 2018.

## IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 'Financial Instruments: Recognition and Measurement'. It makes major changes to the previous guidance on the classification and measurement of financial assets and introduces an 'expected credit loss' model for the impairment of financial assets.

### The adoption of IFRS9 has impacted the following areas:

- Changes in financial asset classifications, with investments previously classified as Available for Sale now designated as Fair Value through Other Comprehensive Income (FVOCI). This designation has been applied as the investments are not held for trading purposes.
- Changes in fair value related to investments designated as FVOCI are recognised through other comprehensive income, with no reclassification made to the consolidated statement of profit or loss in subsequent periods of realised gains and losses on disposal.

Only qualifying dividends continue to be recognised in the consolidated statement of profit or loss.

- Realised gains and losses are transferred directly from the investments at fair value through OCI reserve to retained earnings. In previous periods, such realised gains were reclassified to the consolidated statement of profit or loss.
- Other financial assets, being trade and other receivables, are classified at amortised cost under IFRS9 and there have been no changes in measurement.
- The impairment of financial assets applying the expected credit loss model. This affects the Group's trade receivables measured at amortised cost. For contract assets arising from IFRS 15 and trade receivables, the Group applies a simplified model of recognising expected credit losses as these items do not have a significant financing component.

Because of these changes, the new standard has been applied by the Group with presentational restatement of the comparative period consolidated statement of profit or loss, the consolidated statement of comprehensive income and the consolidated and company statements of changes in equity. No adjustment was required to the opening balance of retained earnings at 1 April 2018.

The amounts impacted and the change in those amounts in the comparative period are shown in the table below:

| <b>18 month period ended 31 March 2018<br/>(comparative period)</b> | <b>As previously<br/>reported<br/>£000</b> | <b>Effect of<br/>transition to<br/>IFRS9<br/>£000</b> | <b>As restated<br/>£000</b> |
|---|--|---|-----------------------------|
| Profit for the period   | 19,083                                     | (3,097)   | 15,986                      |
| Other comprehensive income  | 2,625                                      | 3,097   | 5,722                       |
| Total comprehensive income for the period                           | <b>21,708</b>                              | <b>-</b>  | <b>21,708</b>               |

The tables below show the reclassification of the movement in retained earnings for the comparative period:

| <b>Group</b>  | <b>As previously<br/>reported<br/>£000</b> | <b>Effect of<br/>transition to<br/>IFRS9<br/>£000</b> | <b>As restated<br/>£000</b> |
|---|--|---|-----------------------------|
| Balance brought forward   | 45,336                                     | -   | 45,336                      |
| Profit for the period   | 19,083                                     | (3,097)   | 15,986                      |
| Release of fair value gains on investments held at fair value through OCI | -  | 3,097   | 3,097                       |
| Exchange differences on translating foreign operations                    | 10   | -   | 10                          |
| Total comprehensive income for the period                                 | <b>64,429</b>                              | <b>-</b>  | <b>64,429</b>               |

| <b>Company</b>  | <b>As previously<br/>reported<br/>£000</b> | <b>Effect of<br/>transition to<br/>IFRS9<br/>£000</b> | <b>As restated<br/>£000</b> |
|---|--|---|-----------------------------|
| Balance brought forward   | 45,320                                     | -   | 45,320                      |
| Profit for the period   | 19,075                                     | (3,097)   | 15,978                      |
| Release of fair value gains on investments held at fair value through OCI | -  | 3,097   | 3,097                       |
| Total comprehensive income for the period                                 | <b>64,395</b>                              | <b>-</b>  | <b>64,395</b>               |

## Revenue recognition

Revenue represents fees for .UK domain name registration and renewal, and other 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 16). 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.

## 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 made 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 payout is due on 1 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

All fixed assets are initially recorded at cost and subsequently adjusted for any provision for impairment or depreciation.

### Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset on a straight line basis as follows:

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

## Intangible assets - Research and development costs

Research expenditure is recognised in the statement of profit or loss as an expense as incurred. Development costs incurred are capitalised where the Group can demonstrate all of the following:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale.
- (b) its intention to complete the intangible asset and use or sell it.
- (c) its ability to use or sell the intangible asset.
- (d) how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- (e) the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Capitalised development expenditure is amortised on a straight line basis over the anticipated life of the benefits arising from the completed product or project. Capitalised development expenditure is reviewed annually, and where future benefits are deemed to be less than the carrying value of the asset, the impaired element of the balance of any related capitalised

development is written off to the income statement. Amortisation is provided at the following rates:

- gTLD development costs - over 10 years
- other development costs – 3 years

## Advance land lease payment

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

## Impairment of non-financial assets

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

## Financial instruments

### 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 (FVOCI)

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 FVOCI on the basis that they are not held for trading or as contingent consideration in a business combination.

Trade and other receivables and 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 statement of other comprehensive income (within other comprehensive income) net of the associated deferred tax liability 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. Dividends are recognised in the statement of profit or loss within income from investments held at fair value through OCI. 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. A provision for impairment of receivables is established when there is objective

evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the assets' carrying amount and the recoverable amount. Provisions for impairment of receivables are included in the income statement.

### 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.

### Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against the statement of profit or loss on a straight line basis over the period of the lease.

### Cash and cash equivalents

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

### Provisions and contingent liabilities

Provisions for legal disputes, onerous contracts or other claims are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic

resources will be required from the Group, and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation.

### Taxation

Income tax on the profit or loss for the periods presented comprise current and deferred tax. Income tax is recognised in the 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 on an undiscounted basis at the tax rates and laws that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### Foreign currency translation

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial

statements, the results and financial position of each group entity are expressed in UK 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 effected by translating each overseas subsidiary's monthly result at exchange rates applicable to each of the respective months. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the foreign exchange rate ruling at that date. Differences on exchange resulting from the translation of overseas

assets and liabilities are recognised in the consolidated statement of comprehensive income.

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

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

IFRS 16 will replace IAS 17 'Leases' and three related Interpretations. It completes the IASB's long-running project to overhaul lease accounting. Leases will be recorded in the statement of financial position in the form of a right-of-use asset and a lease liability. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019.

## Critical accounting estimates and judgements

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

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

- Recognition of contract revenues – recognised amounts of contract revenues and related receivables reflect management's best estimate of each contract's outcome and stage of completion. This includes the assessment of the profitability of on-going contracts. For more complex contracts in particular, costs to complete and contract profitability are subject to significant estimation uncertainty.

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

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

- Distinguishing the research and development phases of a new project and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.
- 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 | 12 months to 31 March 2019<br>£000 | 18 months to 31 March 2018 (as restated)<br>£000 |
|---|------|------------------------------------|--|
| <b>Revenue</b>  | 1    | 42,640                             | 56,410   |
| Other operating charges                                   | 2    | (35,324)                           | (40,091)   |
| Public Benefit Initiatives                                |      | (1,882)                            | (573)  |
| <b>Total operating charges</b>                            |      | (37,206)                           | (40,664)   |
| <b>Operating profit before Public Benefit Initiatives</b> |      | 7,316                              | 16,319   |
| <b>Operating profit</b>                                   |      | 5,434                              | 15,746   |
| Income from investments held at fair value through OCI    | 11   | 2,560                              | 3,019  |
| Finance income  | 4    | 16                                 | 47   |
| <b>Profit before taxation</b>                             |      | 8,010                              | 18,812   |
| Taxation  | 5    | (1,075)                            | (2,826)  |
| <b>Profit for the period</b>                              |      | <b>6,935</b>                       | <b>15,986</b>                                    |

### Consolidated statement of comprehensive income

|   | 12 months to 31<br>March 2019 | 18 months to 31 March<br>2018 (as restated) |
|---|-------------------------------|---|
|   | £000                          | £000  |
| <b>Profit for the period</b>  | <b>6,935</b>                  | 15,986                                      |
| <b>Other comprehensive income (OCI): Items that will not be subsequently reclassified to profit or loss</b> |                               |   |
| Gains/(losses) on investments held at fair value through OCI net of associated deferred tax                 | 1,080                         | 5,712                                       |
| <b>Items that will be subsequently reclassified to profit or loss</b>                                       |                               |   |
| Exchange differences on translating foreign operations  | 8                             | 10  |
| <b>Total comprehensive income for the period</b>  | <b>8,023</b>                  | <b>21,708</b>                               |

All amounts relate to continuing activities.

## Consolidated statement of financial position

|  | Note | 31 March 2019<br>£000 | 31 March 2018<br>£000 |
|--|------|-----------------------|-----------------------|
| <b>Assets</b>                              |      |                       |                       |
| <b>Non current assets</b>                  |      |                       |                       |
| Property, plant & equipment                | 8    | 7,813                 | 7,698                 |
| Intangible assets                          | 9    | 740                   | 153                   |
| Advance land lease payment                 |      | 1,552                 | 1,564                 |
| Investments held at fair value through OCI | 11   | 98,952                | 95,802                |
| Deferred tax asset                         | 12   | 170                   | 312                   |
|  |      | <b>109,227</b>        | 105,529               |
| <b>Current assets</b>                      |      |                       |                       |
| Trade and other receivables                | 13   | 10,410                | 8,022                 |
| Corporation tax asset                      | 15   | 268                   | -                     |
| Cash and cash equivalents                  |      | 6,573                 | 3,732                 |
|  |      | <b>17,251</b>         | 11,754                |
| <b>Total assets</b>                        |      | <b>126,478</b>        | <b>117,283</b>        |
| <b>Liabilities</b>                         |      |                       |                       |
| <b>Current liabilities</b>                 |      |                       |                       |
| Trade and other payables                   | 14   | 6,878                 | 3,901                 |
| Corporation tax liability                  | 15   | -                     | 163                   |
| Deferred income                            | 16   | 25,147                | 26,467                |
|  |      | <b>32,025</b>         | 30,531                |
| <b>Non current liabilities</b>             |      |                       |                       |
| Trade and other payables                   | 17   | 328                   | -                     |
| Deferred tax liability                     | 12   | 1,197                 | 1,333                 |
| Deferred income                            | 16   | 10,570                | 11,084                |
|  |      | <b>12,095</b>         | 12,417                |
| <b>Total liabilities</b>                   |      | <b>44,120</b>         | 42,948                |
| <b>Net assets</b>                          |      | <b>82,358</b>         | 74,335                |

## Consolidated statement of financial position

|   | Note | 31 March 2019<br>£000 | 31 March 2018<br>£000 |
|---|------|-----------------------|-----------------------|
| <b>Equity and reserves</b>                    |      |                       |                       |
| Retained earnings                             |      | 74,121                | 64,429                |
| Investments held at fair value<br>through OCI |      | 8,237                 | 9,906                 |
| Total funds                                   |      | <b>82,358</b>         | 74,335                |

These financial statements were approved by the directors and authorised for issue on 18 June 2019, and are signed on their behalf by:

Mark Wood  
Chair  
Company Registration Number: 03203859

## Company statement of financial position

|  | Note | 31 March 2019<br>£000 | 31 March 2018<br>£000 |
|--|------|-----------------------|-----------------------|
| <b>Assets</b>                              |      |                       |                       |
| <b>Non current assets</b>                  |      |                       |                       |
| Property, plant & equipment                | 8    | 7,812                 | 7,695                 |
| Intangible assets                          | 9    | 740                   | 153                   |
| Advance land lease payment                 |      | 1,552                 | 1,564                 |
| Investments held at fair value through OCI | 11   | 98,952                | 95,802                |
| Deferred tax asset                         | 12   | 170                   | 312                   |
|  |      | <b>109,226</b>        | 105,526               |
| <b>Current assets</b>                      |      |                       |                       |
| Trade and other receivables                | 13   | 10,404                | 8,017                 |
| Corporation tax asset                      | 15   | 275                   | -                     |
| Cash and cash equivalents                  |      | 6,508                 | 3,722                 |
|  |      | <b>17,187</b>         | 11,739                |
| <b>Total assets</b>                        |      | <b>126,413</b>        | 117,265               |
| <b>Liabilities</b>                         |      |                       |                       |
| <b>Current liabilities</b>                 |      |                       |                       |
| Trade and other payables                   | 14   | 6,873                 | 3,917                 |
| Corporation tax liability                  | 15   | -                     | 163                   |
| Deferred income                            | 16   | 25,147                | 26,467                |
|  |      | <b>32,020</b>         | 30,547                |
| <b>Non current liabilities</b>             |      |                       |                       |
| Trade and other payables                   | 17   | 328                   | -                     |
| Deferred tax liability                     | 12   | 1,197                 | 1,333                 |
| Deferred income                            | 16   | 10,570                | 11,084                |
|  |      | <b>12,095</b>         | 12,417                |
| <b>Total liabilities</b>                   |      | <b>44,115</b>         | 42,964                |
| <b>Net assets</b>                          |      | <b>82,298</b>         | 74,301                |

## Company Statement of financial position

|   | Note | 31 March 2019<br>£000 | 31 March 2018<br>£000 |
|---|------|-----------------------|-----------------------|
| <b>Equity and reserves</b>                    |      |                       |                       |
| Retained earnings                             |      | <b>74,061</b>         | 64,395                |
| Investments held at fair value<br>through OCI |      | <b>8,237</b>          | 9,906                 |
| Total funds                                   |      | <b>82,298</b>         | 74,301                |

These financial statements were approved by the directors and authorised for issue on 18 June 2019, and are signed on their behalf by:

Mark Wood  
Chair  
Company Registration Number: 03203859

## Consolidated cash flow statement

|  | Note | 12 months to<br>31 March 2019 | 18 months to<br>31 March 2018 |
|--|------|-------------------------------|-------------------------------|
| <b>Cash flows from operating activities</b>                      |      |                               |                               |
| Cash generated from operations                                   | 20   | 6,075                         | 20,228                        |
| Income taxes paid  |      | (1,364)                       | (1,680)                       |
| Net cash generated by operating activities                       |      | <u>4,711</u>                  | <u>18,548</u>                 |
| <b>Cash flows from investing activities</b>                      |      |                               |                               |
| Income received from investments held at fair value through OCI  |      | 2,560                         | 3,019                         |
| Interest received from cash and cash equivalents                 |      | 16                            | 47                            |
| Purchase of property, plant and equipment                        | 8    | (1,578)                       | (2,590)                       |
| Development costs  | 9    | (662)                         | (153)                         |
| Acquisition of investments held at fair value through OCI        |      | -                             | (22,500)                      |
| Income re-invested in investments held at fair value through OCI |      | (2,206)                       | (2,499)                       |
|  |      | <u>(1,870)</u>                | <u>(24,676)</u>               |
| <b>Net increase/(decrease) in cash and cash equivalents</b>      |      | <b>2,841</b>                  | <b>(6,128)</b>                |
| Cash and cash equivalents at the beginning of the period         |      | 3,732                         | 9,860                         |
| Cash and cash equivalents at the end of the period               |      | <u>6,573</u>                  | <u>3,732</u>                  |

## Company cash flow statement

|  | Note | 12 months to<br>31 March 2019 | 18 months to<br>31 March 2018 |
|--|------|-------------------------------|-------------------------------|
| <b>Cash flows from operating activities</b>                      |      |                               |                               |
| Cash generated from operations                                   | 20   | 6,018                         | 20,226                        |
| Income taxes paid  |      | (1,362)                       | (1,674)                       |
| Net cash generated by operating activities                       |      | <u>4,656</u>                  | <u>18,552</u>                 |
| <b>Cash flows from investing activities</b>                      |      |                               |                               |
| Income received from investments held at fair value through OCI  |      | 2,560                         | 3,019                         |
| Interest received from cash and cash equivalents                 |      | 16                            | 47                            |
| Purchase of property, plant and equipment                        | 8    | (1,578)                       | (2,587)                       |
| Development costs  | 9    | (662)                         | (153)                         |
| Acquisition of investments held at fair value through OCI        |      | -                             | (22,500)                      |
| Income re-invested in investments held at fair value through OCI |      | (2,206)                       | (2,499)                       |
|  |      | <u>(1,870)</u>                | <u>(24,673)</u>               |
| <b>Net increase/(decrease) in cash and cash equivalents</b>      |      | <b>2,786</b>                  | <b>(6,121)</b>                |
| Cash and cash equivalents at the beginning of the period         |      | 3,722                         | 9,843                         |
| Cash and cash equivalents at the end of the period               |      | <u>6,508</u>                  | <u>3,722</u>                  |

## Consolidated and Company Statements of changes in equity

|  | 12 month period to<br>31 March 2019                 |                      |               | 18 month period to<br>31 March 2018 (as restated)   |                      |               |
|--|---|----------------------|---------------|---|----------------------|---------------|
|  | Investments<br>held at<br>fair value<br>through OCI | Retained<br>earnings | Total         | Investments<br>held at<br>fair value<br>through OCI | Retained<br>earnings | Total         |
|  | £000  | £000                 | £000          | £000  | £000                 | £000          |
| <b>Group</b>   |   |                      |               |   |                      |               |
| Balance brought forward  | 9,906   | 64,429               | 74,335        | 7,291   | 45,336               | 52,627        |
| Profit for the period  | -   | 6,935                | 6,935         | -   | 15,986               | 15,986        |
| Gains/(losses) on<br>investments held at fair<br>value through OCI net of<br>associated deferred tax | 1,080   | -                    | 1,080         | 5,712   | -                    | 5,712         |
| Transfer of realised gains on<br>investments held at fair value<br>through OCI                       | (2,749)   | 2,749                | -             | (3,097)   | 3,097                | -             |
| Exchange differences on<br>translating foreign operations  | -   | 8                    | 8             | -   | 10                   | 10            |
| <b>Balance at 31 March</b>   | <b>8,237</b>  | <b>74,121</b>        | <b>82,358</b> | <b>9,906</b>  | <b>64,429</b>        | <b>74,335</b> |
|  | £000  | £000                 | £000          | £000  | £000                 | £000          |
| <b>Company</b>   |   |                      |               |   |                      |               |
| Balance brought forward  | 9,906   | 64,395               | 74,301        | 7,291   | 45,320               | 52,611        |
| Profit for the period  | -   | 6,917                | 6,917         | -   | 15,978               | 15,978        |
| Gains/(losses) on<br>investments held at fair<br>value through OCI net of<br>associated deferred tax | 1,080   | -                    | 1,080         | 5,712   | -                    | 5,712         |
| Transfer of realised gains on<br>investments held at fair value<br>through OCI                       | (2,749)   | 2,749                | -             | (3,097)   | 3,097                | -             |
| <b>Balance at 31 March</b>   | <b>8,237</b>  | <b>74,061</b>        | <b>82,298</b> | <b>9,906</b>  | <b>64,395</b>        | <b>74,301</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.

## 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:

|                | 12 month period to 31 March 2019 |                  |               | 18 month period to 31 March 2018 |                  |               |
|----------------|----------------------------------|------------------|---------------|----------------------------------|------------------|---------------|
|                | UK<br>£000                       | Overseas<br>£000 | Total<br>£000 | UK<br>£000                       | Overseas<br>£000 | Total<br>£000 |
| .UK domains    | 20,373                           | 16,536           | 36,909        | 29,392                           | 22,498           | 51,890        |
| Other Services | 5,173                            | 558              | 5,731         | 3,291                            | 1,229            | 4,520         |
| <b>Total</b>   | <b>25,546</b>                    | <b>17,094</b>    | <b>42,640</b> | <b>32,683</b>                    | <b>23,727</b>    | <b>56,410</b> |

### 2. Other operating charges

|   | 12 months to<br>31 March 2019<br>£000 | 18 months to<br>31 March 2018<br>£000 |
|---|---------------------------------------|---------------------------------------|
| Staff and other personnel costs                       | 18,358                                | 20,500                                |
| Technical systems and infrastructure                  | 5,192                                 | 6,674                                 |
| Other administrative                                  | 3,103                                 | 5,384                                 |
| Depreciation of owned property, plant & equipment     | 1,463                                 | 2,061                                 |
| Depreciation of non-current asset                     | 12                                    | 17                                    |
| Loss on disposal of owned property, plant & equipment | -                                     | 2                                     |
| Amortisation of development costs                     | 75                                    | -                                     |
| Operations  | 746                                   | 1,009                                 |
| Facilities  | 1,290                                 | 1,366                                 |
| Communications and marketing                          | 5,085                                 | 3,078                                 |
|   | <b>35,324</b>                         | <b>40,091</b>                         |

## Notes to the financial statements

### 3. Operating profit

Operating profit is stated after charging:

|   | <b>12 months to<br/>31 March 2019</b> | 18 months to<br>31 March 2018 |
|---|---------------------------------------|-------------------------------|
|   | <b>£000</b>                           | £000                          |
| Depreciation of owned property, plant & equipment     | <b>1,463</b>                          | 2,061                         |
| Depreciation of non-current asset                     | <b>12</b>                             | 17                            |
| Amortisation of development costs                     | <b>75</b>                             | -                             |
| Loss on disposal of owned property, plant & equipment | -                                     | 2                             |
| Auditor's remuneration:                               |                                       |                               |
| Audit fees – Company and Group                        | <b>32</b>                             | 28                            |
| Non-audit fees – taxation services                    | <b>11</b>                             | 11                            |
| Operating lease costs:                                |                                       |                               |
| Equipment   | <b>43</b>                             | 43                            |
| Buildings   | <b>439</b>                            | 168                           |

Non-audit fees include tax compliance.

### 4. Finance Income

|                          | <b>12 months to<br/>31 March 2019</b> | 18 months to<br>31 March 2018 |
|--------------------------|---------------------------------------|-------------------------------|
|                          | <b>£000</b>                           | £000                          |
| Bank interest receivable | <b>16</b>                             | 47                            |

## Notes to the financial statements

### 5. Taxation expense

The major components of tax expense and the reconciliation of the expected tax expense based on the domestic effective tax rate of Nominet UK at 19% (2018: 19.33%) and the reported tax expense in profit or loss are as follows:

|  | <b>12 months to<br/>31 March 2019</b> | 18 months to<br>31 March 2018<br>(as restated) |
|--|---------------------------------------|--|
|  | <b>£000</b>                           | £000   |
| Profit before tax  | <b>8,010</b>                          | 18,812   |
| Domestic tax rate for Nominet UK   | <b>19%</b>                            | 19.33%   |
| Expected tax expense   | <b>1,522</b>                          | 3,637  |
| Adjustment for:  |                                       |  |
| Non-deductible expenses  | <b>6</b>                              | 6  |
| Chargeable gains   | <b>339</b>                            | 1,120  |
| Tax exempt income  | <b>(378)</b>                          | (1,063)  |
| Research and development enhancement   | <b>(451)</b>                          | (747)  |
| Other differences  | <b>3</b>                              | 3  |
| Tax credits  | <b>-</b>                              | 1  |
| Adjustment to tax charge in respect of previous periods                          | <b>(2)</b>                            | (45)   |
| Adjustment to tax charge in respect of previous periods – deferred tax           | <b>24</b>                             | -  |
| Fixed asset differences  | <b>26</b>                             | 39   |
| Adjust opening deferred tax to average rate of 19% (2018: 19.33%)                | <b>(34)</b>                           | -  |
| Adjust closing deferred tax to average rate of 19% (2018: 19.33%)                | <b>20</b>                             | (125)  |
| <b>Actual tax expense</b>  | <b>1,075</b>                          | 2,826  |
| Tax expense comprises:   |                                       |  |
| Current tax expense:   | <b>935</b>                            | 2,842  |
| Adjustment to tax charge in respect of previous periods                          | <b>(2)</b>                            | (45)   |
|  | <b>933</b>                            | 2,797  |
| Deferred tax expense:  |                                       |  |
| Origination and reversal of temporary differences                                | <b>142</b>                            | 29   |
| Tax expense  | <b>1,075</b>                          | 2,826  |
| Deferred tax (credit)/expense, recognised directly in other comprehensive income | <b>(136)</b>                          | 316  |

Note 12 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:

|            | <b>12 months to<br/>31 March 2019</b> | <b>18 months to<br/>31 March 2018</b> |
|------------|---------------------------------------|---------------------------------------|
|            | No.                                   | No.                                   |
| Operations | <b>162</b>                            | 126                                   |
| Office     | <b>25</b>                             | 27                                    |
| Management | <b>15</b>                             | 13                                    |
|            | <b>202</b>                            | 166                                   |

The aggregate payroll costs of the above were:

|                       | <b>£000</b>   | £000   |
|-----------------------|---------------|--------|
| Wages and salaries    | <b>14,360</b> | 15,773 |
| Social security costs | <b>1,641</b>  | 1,844  |
| Other pension costs   | <b>557</b>    | 594    |
|                       | <b>16,558</b> | 18,211 |

### 7. Directors

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

|   | <b>12 months to<br/>31 March 2019</b> | <b>18 months to<br/>31 March 2018</b> |
|---|---------------------------------------|---------------------------------------|
|   | <b>£000</b>                           | £000                                  |
| Emoluments receivable   | <b>1,552</b>                          | 2,105                                 |
| Amounts accrued under LTI Scheme                                      | <b>150</b>                            | -                                     |
| Company pension contributions to defined contribution pension schemes | <b>21</b>                             | 37                                    |
|   | <b>1,723</b>                          | 2,142                                 |

Emoluments of highest paid director:

|   |            |     |
|---|------------|-----|
| Emoluments receivable   | <b>447</b> | 692 |
| Company pension contributions to defined contribution pension schemes | <b>7</b>   | 16  |
| Total for period  | <b>454</b> | 708 |
| Amounts accrued under LTI Scheme**                                    | <b>69</b>  | -   |
| Total for period after amounts accrued under LTI Scheme**             | <b>523</b> | 708 |

## Notes to the financial statements

The above summary information is expanded in the following table:

|   | Salary/fees  | Bonus      | Pension   | Other costs and benefits* | 12 months to 31 March 2019 | 18 months to 31 March 2018 |
|---|--------------|------------|-----------|---------------------------|----------------------------|----------------------------|
|   | £000         | £000       | £000      | £000                      | £000                       | £000                       |
| Mark Wood   | 91           | -          | -         | 1                         | 92                         | 78                         |
| Irene Fritchie  | -            | -          | -         | -                         | -                          | 58                         |
| Richard Armour  | 19           | -          | -         | -                         | 19                         | 53                         |
| Denesh Bhabuta  | -            | -          | -         | -                         | -                          | 18                         |
| Rob Binns   | 9            | -          | -         | -                         | 9                          | -                          |
| James Bladel  | 26           | -          | -         | -                         | 26                         | -                          |
| Eleanor Bradley   | 202          | 99         | 7         | 17                        | 325                        | 491                        |
| Volker Greimann   | 37           | -          | -         | -                         | 37                         | 51                         |
| Russell Haworth   | 270          | 165        | 7         | 12                        | 454                        | 708                        |
| Ben Hill  | 162          | 81         | -         | 9                         | 252                        | -                          |
| Simon McCalla   | 176          | -          | 7         | 11                        | 194                        | 499                        |
| Stephen Page  | 37           | -          | -         | -                         | 37                         | 16                         |
| Andrew Pinder   | -            | -          | -         | -                         | -                          | 21                         |
| Kelly Salter  | 37           | -          | -         | -                         | 37                         | 32                         |
| David Thornton  | 37           | -          | -         | 5                         | 42                         | 51                         |
| Jane Tozer  | 49           | -          | -         | -                         | 49                         | 66                         |
| <b>Year to 31 March 2019</b>  | <b>1,152</b> | <b>345</b> | <b>21</b> | <b>55</b>                 | <b>1,573</b>               | 2,142                      |
| Amounts accrued under LTI Scheme**  |              |            |           |                           | 150                        |                            |
| <b>Year to 31 March 2019 including amounts accrued under LTI Scheme**</b> |              |            |           |                           | <b>1,723</b>               |                            |
| 18 months to 31 March 2018  | 1,372        | 641        | 37        | 92                        |                            | 2,142                      |

\* Other costs and benefits consist of private health insurance, company car allowances, sales commission and taxable travel and subsistence reimbursements.

\*\* 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 as at 31 March 2019.

## Notes to the financial statements

### 8. Property, plant and equipment

#### Group

|                       | Leasehold<br>buildings | Computers     | Fixtures,<br>fittings and<br>equipment | Total         |
|-----------------------|------------------------|---------------|--|---------------|
|                       | £000                   | £000          | £000                                   | £000          |
| <b>Cost</b>           |                        |               |  |               |
| At 1 April 2018       | 6,771                  | 11,708        | 3,159                                  | 21,638        |
| Additions             | -                      | 1,406         | 172                                    | 1,578         |
| Disposals             | -                      | (906)         | (18)                                   | (924)         |
| At 31 March 2019      | <b>6,771</b>           | <b>12,208</b> | <b>3,313</b>                           | <b>22,292</b> |
| <b>Depreciation</b>   |                        |               |  |               |
| At 1 April 2018       | 1,437                  | 9,871         | 2,632                                  | 13,940        |
| Charge for the year   | 136                    | 1,120         | 207                                    | 1,463         |
| Disposals             | -                      | (906)         | (18)                                   | (924)         |
| At 31 March 2019      | <b>1,573</b>           | <b>10,085</b> | <b>2,821</b>                           | <b>14,479</b> |
| <b>Net book value</b> |                        |               |  |               |
| At 31 March 2019      | <b>5,198</b>           | <b>2,123</b>  | <b>492</b>                             | <b>7,813</b>  |
| At 31 March 2018      | 5,334                  | 1,837         | 527                                    | 7,698         |

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.

#### Company

|                       | £000         | £000          | £000         | £000          |
|-----------------------|--------------|---------------|--------------|---------------|
| <b>Cost</b>           |              |               |              |               |
| At 1 April 2018       | 6,771        | 11,703        | 3,158        | 21,632        |
| Additions             | -            | 1,406         | 172          | 1,578         |
| Disposals             | -            | (906)         | (18)         | (924)         |
| At 31 March 2019      | <b>6,771</b> | <b>12,203</b> | <b>3,312</b> | <b>22,286</b> |
| <b>Depreciation</b>   |              |               |              |               |
| At 1 April 2018       | 1,437        | 9,869         | 2,631        | 13,937        |
| Charge for the year   | 136          | 1,119         | 206          | 1,461         |
| Disposals             | -            | (906)         | (18)         | (924)         |
| At 31 March 2019      | <b>1,573</b> | <b>10,082</b> | <b>2,819</b> | <b>14,474</b> |
| <b>Net book value</b> |              |               |              |               |
| At 31 March 2019      | <b>5,198</b> | <b>2,121</b>  | <b>493</b>   | <b>7,812</b>  |
| At 31 March 2018      | 5,334        | 1,834         | 527          | 7,695         |

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

## Notes to the financial statements

### 9. Intangible fixed assets

#### Group and Company

|                                    | Development costs | Total        |
|------------------------------------|-------------------|--------------|
|                                    | £000              | £000         |
| <b>Cost</b>                        |                   |              |
| At 1 April 2018                    | 732               | 732          |
| Additions                          | 662               | 662          |
| At 31 March 2019                   | <b>1,394</b>      | <b>1,394</b> |
| <b>Amortisation and impairment</b> |                   |              |
| At 1 April 2018                    | 579               | 579          |
| Charge for the year                | 75                | 75           |
| At 31 March 2019                   | <b>654</b>        | <b>654</b>   |
| <b>Net book value</b>              |                   |              |
| At 31 March 2019                   | <b>740</b>        | <b>740</b>   |
| At 31 March 2018                   | 153               | 153          |

Intangible assets relate to development costs associated with the generic top level domains project and development costs associated with new business product development.

Each development project is reviewed at the end of each year to ensure criteria for recognition are still met.

## Notes to the financial statements

### 10. Group entities

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

The Company holds 100% of the equity share capital of its subsidiary undertaking, Nominet Registrar Services Limited. Nominet Registrar Services Limited was incorporated in preparation for the new gTLD project on 26 July 2012, when it issued one hundred £1 shares to Nominet UK. For the year ended 31 March 2019, 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.

The Company also holds 100% of the equity share capital of its subsidiary undertaking, Nominet US Inc. Nominet US Inc. was incorporated on 30 July 2015 in order to facilitate the expansion of new product sales. One hundred thousand \$0.001 shares were issued to Nominet UK.

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

### 11. Investments held at fair value through OCI

#### Group and Company

|   | 31 March 2019 | 31 March 2018 |
|---|---------------|---------------|
|   | £000          | £000          |
| At beginning of period  | 95,802        | 64,775        |
| Additions   | -             | 22,500        |
| Re-invested gains on disposal of investments held at fair value through OCI | 2,749         | 3,097         |
| Re-invested income  | 2,560         | 3,019         |
| Management charges and foreign exchange movements                           | (354)         | (520)         |
| Movement in unrealised (loss)/gain  | (1,805)       | 2,931         |
| At end of period  | 98,952        | 95,802        |

## Notes to the financial statements

### 12. Deferred tax asset and liability

#### Group and Company

|                        | 31 March 2019 | 31 March 2018 |
|------------------------|---------------|---------------|
|                        | £000          | £000          |
| Deferred tax asset     | 170           | 312           |
| Deferred tax liability | 1,197         | 1,333         |

#### Deferred tax asset

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

|  |       |      |
|--|-------|------|
| Balance brought forward  | 312   | 341  |
| Profit or loss account movement arising during the period (note 5) | (142) | (29) |
| Balance carried forward  | 170   | 312  |

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

|   |     |     |
|---|-----|-----|
| Excess of depreciation over taxation allowances | 166 | 308 |
| Other short term timing differences             | 4   | 4   |
| Balance carried forward                         | 170 | 312 |

#### Deferred tax liability

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

|  |       |       |
|--|-------|-------|
| Balance brought forward  | 1,333 | 1,020 |
| Statement of comprehensive income movement arising during the period | (136) | 313   |
| Balance carried forward  | 1,197 | 1,333 |

The deferred tax liability is on unrealised gains on investments held at fair value through OCI.

## Notes to the financial statements

### 13. Current trade and other receivables

|                             | 31 March 2019 | 31 March 2018 |
|-----------------------------|---------------|---------------|
| <b>Group</b>                | <b>£000</b>   | £000          |
| Trade receivables           | 3,814         | 2,132         |
| Accrued income              | 3,698         | 3,527         |
| Other receivables           | 111           | 49            |
| Financial assets            | <u>7,623</u>  | <u>5,708</u>  |
| Prepayments                 | <u>2,787</u>  | <u>2,314</u>  |
| Non financial assets        | <u>2,787</u>  | <u>2,314</u>  |
| Trade and other receivables | <b>10,410</b> | <b>8,022</b>  |
| <b>Company</b>              |               |               |
| Trade receivables           | 3,814         | 2,132         |
| Accrued income              | 3,698         | 3,527         |
| Other receivables           | 107           | 48            |
| Financial assets            | <u>7,619</u>  | <u>5,707</u>  |
| Prepayments                 | <u>2,785</u>  | <u>2,310</u>  |
| Non financial assets        | <u>2,785</u>  | <u>2,310</u>  |
| Trade and other receivables | <b>10,404</b> | <b>8,017</b>  |

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

All of the Group's and Company's trade and other receivables have been reviewed for indicators of impairment using the Expected Credit Loss model set out in IFRS 9. An allowance for credit losses of £20k has been recorded within other expenses at 31 March 2019 (31 March 2018: £40k).

## Notes to the financial statements

### 14. Current trade and other payables

|                                    | 31 March 2019 | 31 March 2018 |
|------------------------------------|---------------|---------------|
| <b>Group</b>                       | <b>£000</b>   | £000          |
| Trade payables                     | 1,207         | 528           |
| Other creditors                    | 469           | 342           |
| Accruals                           | 4,475         | 2,534         |
| Financial liabilities              | <u>6,151</u>  | <u>3,404</u>  |
| Other taxation and social security | <u>727</u>    | 497           |
| Non financial liabilities          | <u>727</u>    | 497           |
| Trade and other payables           | <u>6,878</u>  | <u>3,901</u>  |
| <b>Company</b>                     |               |               |
| Trade payables                     | 1,204         | 528           |
| Other creditors                    | 469           | 342           |
| Accruals                           | 4,414         | 2,479         |
| Amounts owed to Group undertakings | <u>59</u>     | 71            |
| Financial liabilities              | <u>6,146</u>  | <u>3,420</u>  |
| Other taxation and social security | <u>727</u>    | 497           |
| Non financial liabilities          | <u>727</u>    | 497           |
| Trade and other payables           | <u>6,873</u>  | <u>3,917</u>  |

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

### 15. Corporation tax

|                           | 31 March 2019 | 31 March 2018 |
|---------------------------|---------------|---------------|
| <b>Group</b>              | <b>£000</b>   | £000          |
| Corporation tax asset     | 268           | -             |
| Corporation tax liability | -             | 163           |
| <b>Company</b>            |               |               |
| Corporation tax asset     | 275           | -             |
| Corporation tax liability | -             | 163           |

### 16. Deferred income

|                             | 31 March 2019 | 31 March 2018 |
|-----------------------------|---------------|---------------|
| <b>Group and Company</b>    | <b>£000</b>   | £000          |
| Current deferred income     | 25,147        | 26,467        |
| Non current deferred income | 10,570        | 11,084        |
|                             | <u>35,717</u> | <u>37,551</u> |

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.

### 17. Non current trade and other payables

|                          | 31 March 2019 | 31 March 2018 |
|--------------------------|---------------|---------------|
| <b>Group and Company</b> | <b>£000</b>   | £000          |
| Accruals                 | 328           | -             |

### 18. Obligations under operating leases

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

|  | 31 March 2019 | 31 March 2018 |
|--|---------------|---------------|
| <b>Group and Company</b>               | <b>£000</b>   | £000          |
| Within one year                        | 499           | 133           |
| In the second to fifth years inclusive | 183           | 74            |
|  | <u>682</u>    | <u>207</u>    |

## Notes to the financial statements

### 19. Related party transactions

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

|  | <b>Due/(Owed)<br/>to Nominet UK<br/>at 31 March 2019</b> | <b>Income to<br/>Nominet UK<br/>12 month period<br/>to 31 March 2019</b> | <b>Purchases by<br/>Nominet UK<br/>12 month period to<br/>31 March 2019</b> |
|--|--|--|---|
|  | <b>£000</b>  | <b>£000</b>  | <b>£000</b>   |
| Richard Armour<br>(Freeparking Domain<br>Registrars Inc) | (8)  | 104  | -   |
| David Thornton   | 9  | 1  | -   |
| Volker Greimann (Key<br>Systems GmbH)                    | (36)   | 383  | -   |
|  | <u>(35)</u>  | <u>488</u>   | <u>-</u>  |

|  | <b>Due/(Owed)<br/>to Nominet UK<br/>at 31 March 2018</b> | <b>Income to<br/>Nominet UK<br/>18 month period<br/>to 31 March 2018</b> | <b>Purchases by<br/>Nominet UK<br/>18 month period to<br/>31 March 2018</b> |
|--|--|--|---|
|  | <b>£000</b>  | <b>£000</b>  | <b>£000</b>   |
| Baroness Irene Fritchie DBE                              | -  | -  | 2   |
| Richard Armour<br>(Freeparking Domain<br>Registrars Inc) | (9)  | 179  | -   |
| David Thornton   | 10   | 13   | -   |
| Volker Greimann (Key<br>Systems GmbH)                    | (32)   | 487  | -   |
|  | <u>(31)</u>  | <u>679</u>   | <u>2</u>  |

Other than David Thornton, whose purchases are shown in the table above, the other directors personally made purchases from Nominet in the year. The total amount invoiced per director was less than £750 (18 month period to 31 March 2018: £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 March 2019 was £216k (18 month period to 31 March 2018: £269k).

## Notes to the financial statements

### 20. Notes to the cash flow statement

| <b>Group</b>   | <b>12 months to<br/>31 March 2019</b> | 18 months to<br>31 March 2018 |
|--|---------------------------------------|-------------------------------|
|  | <b>£000</b>                           | £000                          |
| Operating profit   | <b>5,434</b>                          | 15,746                        |
| Adjusted for:  |                                       |                               |
| Depreciation of property, plant & equipment                | <b>1,463</b>                          | 2,061                         |
| Amortisation of development costs                          | <b>75</b>                             | -                             |
| Depreciation of non-current asset                          | <b>12</b>                             | 17                            |
| (Increase)/decrease in trade and other receivables         | <b>(2,388)</b>                        | 728                           |
| Increase/(decrease) in trade and other payables            | <b>1,471</b>                          | 1,664                         |
| Exchange differences on translating foreign operations     | <b>8</b>                              | 10                            |
| Loss/(profit) on disposal of property, plant and equipment | <b>-</b>                              | 2                             |
| Cash generated from operations                             | <b>6,075</b>                          | 20,228                        |

| <b>Company</b>                                     | <b>12 months to<br/>31 March 2019</b> | 18 months to<br>31 March 2018 |
|--|---------------------------------------|-------------------------------|
|  | <b>£000</b>                           | £000                          |
| Operating profit                                   | <b>5,407</b>                          | 15,732                        |
| Adjusted for:                                      |                                       |                               |
| Depreciation of property, plant & equipment        | <b>1,461</b>                          | 2,058                         |
| Amortisation of development costs                  | <b>75</b>                             | -                             |
| Depreciation of non-current asset                  | <b>12</b>                             | 17                            |
| (Increase)/decrease in trade and other receivables | <b>(2,387)</b>                        | 726                           |
| Increase/(decrease) in trade and other payables    | <b>1,450</b>                          | 1,693                         |
| Cash generated from operations                     | <b>6,018</b>                          | 20,226                        |

## Notes to the financial statements

### 21. Company limited by guarantee

The Company is limited by guarantee and each member's liability will not exceed £10. The number of members at 31 March 2019 was 2,431 (31 March 2018: 2,467).

### 22. Financial instruments risk

The Group's policy is to fund its operations through the use of retained earnings and equity and then place surplus cash into 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.

- a) 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 £4.9m (31 March 2018: £4.8m).

- b) Interest rate profile of financial assets  
The Investment Committee sets and reviews treasury policy, including monitoring the distribution of the Group's cash balances. Deposits are placed only after due consideration of the current credit-worthiness of the counterparty.
- c) Credit risk  
The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and their assessment of the current economic environment. Credit risk of new customers is assessed before entering into contracts. At 31 March 2019, 86% of trade receivables related to current month debt (31 March 2018: 93% current month debt).
- d) Financial liabilities  
As of 31 March 2019 the Group had no financial liabilities other than those of a trading nature.
- e) 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.
- f) Foreign currency risk  
The Group has transactional currency exposures. Such exposures arise from sales or purchases by the Group in currencies other than the companies' operating (or 'functional') currency, and from the conversion into sterling of results of the subsidiary, Nominet US Inc. The Group has not taken out hedges as the exposure to foreign currencies at any one time is not significant.

## Notes to the financial statements

### 23. Financial instruments

#### Categories of financial assets and financial liabilities

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

|   | <b>Group<br/>31 March<br/>2019</b> | Group<br>31 March<br>2018 | <b>Company<br/>31 March<br/>2019</b> | Company<br>31 March<br>2018 |
|---|------------------------------------|---------------------------|--------------------------------------|-----------------------------|
|   | <b>£000</b>                        | £000                      | <b>£000</b>                          | £000                        |
| <b>Financial assets</b>                                     |                                    |                           |                                      |                             |
| Classified as loans and receivables:                        |                                    |                           |                                      |                             |
| Trade and other receivables                                 | <b>7,623</b>                       | 5,708                     | <b>7,619</b>                         | 5,707                       |
| Cash and cash equivalents                                   | <b>6,573</b>                       | 3,732                     | <b>6,508</b>                         | 3,722                       |
| Classified as available for sale:                           |                                    |                           |                                      |                             |
| Investments held at fair value through OCI                  | <b>98,952</b>                      | 95,802                    | <b>98,952</b>                        | 95,802                      |
|   | <b>113,148</b>                     | 105,242                   | <b>113,079</b>                       | 105,231                     |
| <b>Financial liabilities</b>                                |                                    |                           |                                      |                             |
| Classified as financial liabilities held at amortised cost: |                                    |                           |                                      |                             |
| Trade and other payables                                    | <b>6,151</b>                       | 3,404                     | <b>6,146</b>                         | 3,420                       |

#### 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 fair value through OCI fall into the Level 1 category.

## Notes to the financial statements

### 24. 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.

### 25. Capital commitments

At 31 March 2019 the Group and Company had capital commitments of £35,000 (31 March 2018: £49,000) relating to capital expenditure contracted but not provided for in the financial statements.

### 26. Contingent liabilities

There were no contingent liabilities at 31 March 2019 or at 31 March 2018.



**NOMINET**

Minerva House • Edmund Halley Road  
Oxford Science Park • Oxford • OX4 4DQ • UK • [nominet.uk](http://nominet.uk)