

CZ.NIC z.s.p.o.

Lužná 591

160 00 Prague 6

Annual Report 2001

Approved by the General Assembly of the Association on 20 June 2002

Table of Contents

1.	Basic Characteristics of Association	3
1.1	Charter Members	3
1.2	Members, as of 31 December 2001:.....	3
2.	Mission	4
2.1	Activities Pursued by the Association.....	4
2.2	Subject of Enterprise	4
3.	Selected Financial Indices:.....	4
4.	Statutory Bodies in 2001:.....	4
4.1	Board of Directors	4
4.2	Supervisory Board:.....	4
5.	Personnel:.....	5
6.	Number of Registered Domain Names:	5
7.	Registration Process Statistics:.....	5
7.1	Number of entry forms accepted in the domain registration system:	5
7.2	Number of entry forms refused within the domain registration system:.....	6
7.3	Share of refused applications in total accepted applications:.....	6
7.4	Increase in speculative registrations:.....	6
8.	Auditor's Report	7
9.	Balance Sheet	9
10.	Profit and Loss Account	9
11.	Facts reported between the date of the financial statement and the meeting of the General Assembly:	10
12.	Report by Board of Directors	10
12.1	Statement of the Chairman of the Board	10
12.2	Revenues	11
12.3	Position in the Market	12
12.4	Strategic Objectives for the Period 2002-2005:	12

1. Basic Characteristics of Association

CZ.NIC, z.s.p.o. was incorporated on 27 May 1998 in the register of legal entity interest associations kept on file at the Interior Department of the Municipal Authority for Prague 6, under reference number ZS/30/3/98.

Originally, the Association's registered office was at Zikova 4, 160 00 Prague 6; since 15 March 2000, the registered office and the correspondence address are at Lužná 591, 160 00 Prague 6.

İČO organisation identification number: 67985726
DIČ tax registration number: 006-67985726
Telephone: +420 2 3535 0744
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URL: <http://www.nic.cz>

1.1 Charter Members

(in succession according to the Memorandum of Association):

Trade name	İČO	Trade name	İČO
CESNET, z.s.p.o.	63839172	SPT TELECOM, a.s.	60193336
Telenor ČR, s.r.o.	61856991	InWay, a.s.	25135198
Internet CZ	48538701	CZECH ON LINE, a.s.	63080150
GTS Czech Com s.r.o.	61852279	Global One Communications s.r.o.	40620037
PVT, a.s.	00025500	The Terminal Bar s.r.o.	63979721
IBM Česká republika spol. s r.o.	14890992	NetForce	64575951
LUKO CZECH-NET, spol. s r.o.	48591319	OASA COMPUTERS spol. s r.o.	00174939
Datac spol. s r.o.	00550001	INEC s.r.o.	45792844

1.2 Members, as of 31 December 2001:

Trade name	İČO	Trade name	İČO
CESNET, z.s.p.o.	63839172	NEXTRA s.r.o.	25683691
Telenor ČR, s.r.o.	61856991	NetForce	64575951
KPNQWEST Czechia s.r.o.	48538701	GTS CZECH a.s.	45792844
GTS Czech Com s.r.o.	61852279	INTERNET SERVIS	63078694
IBM Česká republika spol. s r.o.	14890992	BT Česká republika	70802025
EUROWEB CR, spol. s r.o.	48591319	AliaWeb spol. s r.o.	26117363
Datac spol. s r.o.	00550001	Pragonet, a.s.	61059382
ČESKÝ TELECOM, a.s.	60193336	Zoner software	49437381
InWay, a.s.	25135198	Aliatel a.s.	61058904
CZECH ON LINE, a.s.	63080150	IGNUM s.r.o.	26159708
Global One Communications s.r.o.	40620037	eTel s.r.o.	25630636

2. Mission

2.1 Activities Pursued by the Association

- The Association defines rules under which domain names are assigned under the domain of the highest level, i.e. CZ, updates these rules and creates mechanisms in order to ensure their fulfilment.
- The Association represents the highest CZ domain with respect to the coordination of national and regional registrars and standardization institutes.
- In line with the approved concept of its activities, the Association supports various generally beneficial projects and projects related to the activities of the Association, providing that they are open to all potential applicants and that the projects, contributions and outputs are regularly published.

2.2 Subject of Enterprise

- The Association ensures registration of domain names of the second level, under the domain of the highest level, i.e. CZ.
- In addition, the Association operates nominal servers for the CZ domain.

3. Selected Financial Indices:

(CZK '000)

Year	1998	1999	2000	2001
Revenues	701	32,396	94,033	117,904
Expenses	119	29,616	87,248	114,736
Profit after tax	582	2,780	6,785	3,168

4. Statutory Bodies in 2001:

4.1 Board of Directors

1 Jan 2001 – 19 June 2001	Ing. Koza Chairman Ing. Dohnal Deputy Chairman Mgr. Calda, ing. Maršálek, Lukeš Members
19 June 2001 – 31 Dec 2001	Ing. Koza Chairman ing. Maršálek Deputy Chairman RNDr. Král, M.Ruda Members

4.2 Supervisory Board:

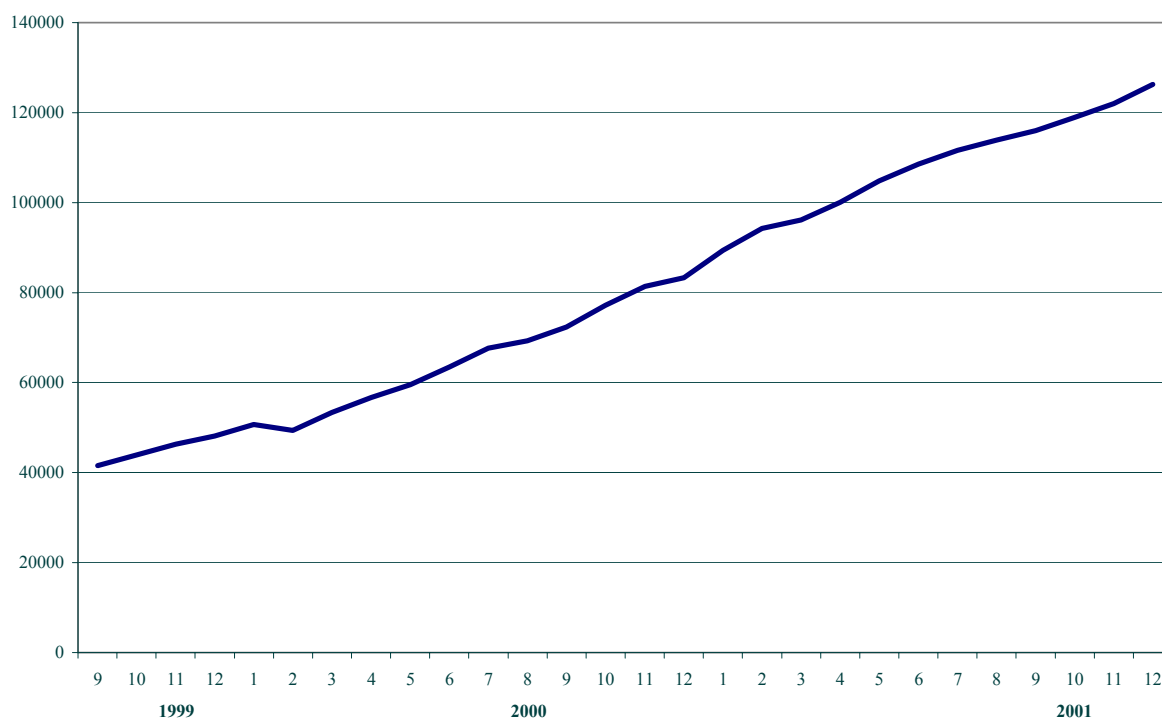
1 Jan 2001 – 31 Dec 2001	Bc. Krsek Chairman Ing. Macek, ing. Ptáčník Members
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5. Personnel:

During the course of the year, there were 2 full time employees working the office. On 1 June 2001, the position of the Managing Director was taken over by ing. Jiří Dohnal.

6. Number of Registered Domain Names:

Number of Registered Domains by the End of Month



7. Registration Process Statistics:

7.1 Number of entry forms accepted in the domain registration system:

Year	Contact person registration	Entity registration	Domain registration	Change in contact person	Change in entity	Technical change in domain	Transfer of domain	Cancellation of domain	Total
1999	10,071	9,943	10,010	1,072	1,980	11,862	2,293	297	47,528
2000	42,207	43,217	69,453	7,176	6,117	41,327	6,772	2,072	218,341
2001	56,859	57,063	141,620	5,233	8,058	48,741	8,799	336	326,709

7.2 Number of entry forms refused within the domain registration system:
(reason for refusal – formal and logical errors)

Year	Type unknown	Contact person registration	Entity registration	Domain registration	Change in contact person	Change in entity	Technical change in domain	Transfer of domain	Cancellation of domain	Total
1999	1,497	1,755	1,121	2,300	153	288	1,256	37	12	8,419
2000	2,846	3,796	3,151	182,747	665	441	5,777	184	28	199,635
2001	8,047	4,072	4,075	799,816	549	606	5,318	184	13	822,680

7.3 Proportion of refused applications from total accepted applications:

Year	Number of accepted applications, total	Number of refused applications, total	Total accepted applications	% of refused applications in total accepted applications
1999	47,528	8,419	55,947	15.05%
2000	218,341	199,635	417,976	47.76%
2001	326,709	822,680	1,149,389	71.58%

It is obvious from the data presented above that the intensity of the registration process witnessed an increasing tendency. This is particularly because of the "prospecting" activities of certain speculators who try to acquire a domain through repeatedly filed applications.

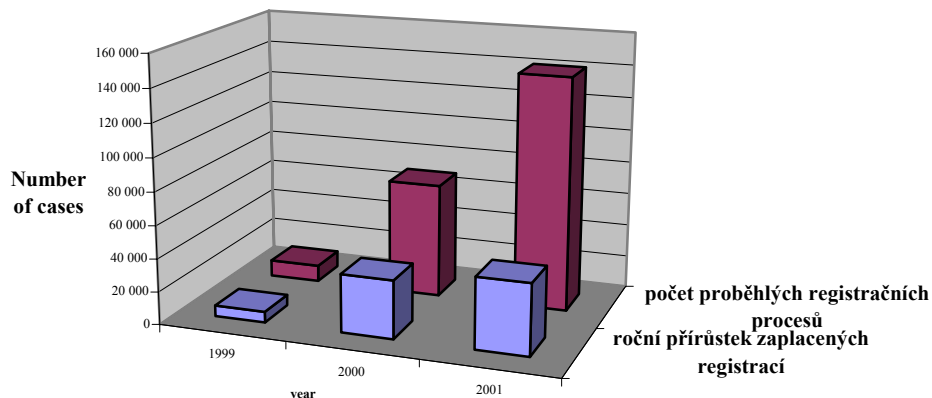
7.4 Increase in speculative registrations:

The number of registrations which were not paid-for further increased in 2001.

Year	Annual increase in registered and paid-for domains	Number of successfully completed registration processes	Ratio of accepted applications to registrations
1999	6,566	10,010	1.52
2000	35,168	69,453	1.97
2001	42,989	141,620	3.29

For illustration, see the diagram below:

Speculative registrations



Popisek:

Počet proběhlých registračních procesů = Number of registration processes

Roční přírůstek zaplacených registrací = Annual increase in paid-for registrations

Since the ratio of the number of accepted applications to the increase in domains shows an increasing tendency, the General Assembly adopted new rules in November 2001, in order to avoid free blocking of domain names.

8. Auditor's Report

The auditing company NBG, s.r.o. Bělehradská 18, 140 00 Prague 4, Chamber of Auditors' Licence No. 134, carried out verification of the annual financial statement and delivered the following statement:

Auditor's Statement

Pursuant to the outcome of the verification of the annual financial statement, as of **31 December 2001**, carried out from 1 February 2002 to 15 March 2002, which – pursuant to the applied procedures and methods and according to the auditor's opinion – provides an adequate background for the following statement, the accounting unit **CZ.NIC, z.s.p.o.** is hereby granted the following statement, without reservations.

“The financial statement was compiled on the basis of accountancy carried out in compliance with the valid legal regulations of the Czech Republic. We believe that the financial statement presents truly and fairly, in all material aspects, the assets, liabilities, equity and financial standing of the accounting unit, and the results of its operation for the accounting year 2001 ended.”

The verification aimed solely at accounting information acquired from the financial statement and accounting books.

signature illegible

Seal:

NBG, s.r.o.

IČO: 62587358

Chamber of Auditors' Licence No. 134

Bělehradská 18, 140 00 Prague 4

Výrok auditora

Na základě výsledku auditorského ověření roční účetní závěrky **k 31.12.2001** provedeného v období od 1.2.2002 do 15.3.2002, který je na základě použitého postupu a použitých metod podle přesvědčení auditora přiměřeným podkladem pro jeho vyjádření, je udělen účetní jednotce **CZ.NIC, z.s.p.o.** následující výrok bez výhrad.

„Účetní závěrka byla sestavena na základě účetnictví vedeného v souladu s platnými právními předpisy České republiky. Podle názoru auditora účetní závěrka ve všech významných ohledech věrně zobrazuje pohled na majetek, závazky, vlastní jmění a finanční situaci účetní jednotky a výsledky jejího hospodaření za účetní období roku 2001.“

Jiné než účetní informace získané z účetní závěrky a účetních knih nebyly ověřovány.



9. Balance Sheet

(CZK '000)

Year:	2001	2000		2001	2000
TOTAL ASSETS	24,705	33,619	TOTAL LIABILITIES	24,705	33,619
Receivables for subscribed equity			Equity	13,315	10,147
Fixed assets	781	159	Common stock		
Intangible assets			Capital contributions		
Tangible assets	781	159	Reserves	1,000	1,000
Long-term investments			Retained earnings	9,147	2,362
Securities			Profit (loss) for the year	3,168	6,785
Current assets	23,406	33,383	Liabilities	9,606	22,192
Inventories			Provisions		
Long-term receivables			Long-term liabilities		
Short-term receivables	1,066	747	Short-term liabilities	9,606	22,192
Financial assets	22,340	32,636	Bank loans		
Other assets	518	77	Other liabilities	1,784	1,280

10. Profit and Loss Account

(CZK '000)

Year	2001	2000
Sale of production	116,517	93,318
of this sales of own products and services	116,517	93,318
Change in stock of finished goods and WIP		
Own work capitalised		
Cost of sale	107,374	81,060
Added value	9,143	12,258
Staff costs	3,097	2,724
Depreciation of fixed assets	641	278
Provisions		
Other operating income		
Other operating charges	3	
Operating result	-3	0
Other financial income	1,387	715
Other financial expense	998	433
Result from financial transactions	389	281
Profit or loss for ordinary activity after taxation	5,791	9,537
Extraordinary income		
Extraordinary charges	2,623	2,752
Extraordinary profit or loss after taxation	-2,623	-2,752
Profit or loss	3,168	6,785

11. Facts reported between the date of the financial statement and the meeting of the General Assembly:

During the period in question, there were no facts reported which may have an impact on the data presented in the financial statement for the year 2001.

12. Report by Board of Directors

12.1 Statement of the Chairman of the Board

Dear Friends,

Members of the Association were entering the year 2001 rather unsatisfied with the status and services provided by CZ.NIC. The registration system had been introduced several months before and yet a number of procedures remained open and the activities pursued by the Association were exposed to a wide range of risks, against which there was no adequate protection. The Association was isolated from the general public as well as from the public administration; the mission and principles of the central TLD .CZ register were not adequately defined. Our Members were unable to come to common terms concerning further strategic policies to be pursued by the Association, and some of them were discontented with the rather poor progress in the process of creating a decentralised model of CZ.NIC with respect to our customers. Foreign experience clearly indicated the tendencies towards the "register-registrars" model, which is in many aspects much more convenient with the current needs, compared to the current model of a singular register and registrar, personified in CZ.NIC.

In response to all these tendencies, the Association's Board of Directors was reconstructed in June 2001: the new Board began to follow a new concept, processed by some active Association members and presented during the meeting of the General Assembly held in June. In addition, the Board decided to modify the Statutes and the electoral regulations in order to accommodate to the current needs and make use of the natural initiative of its active members willing to work and bear responsibility as members of the Association's supreme bodies. Furthermore, the Board concentrated on the declared but never actually realized support to generally beneficial projects related to the Internet in the Czech Republic. The Association reported considerable progress in the transformation to a decentralised model of activity, where some rough outlines of the project had been stipulated by the end of the year.

The year 2001 also witnessed our efforts to protect the good name of the CZ.NIC Association in the eyes of the general public and ensure systematic reporting of the activities pursued by the Association. In addition, the Association began to prepare measures which will eliminate possibilities for abusing some loopholes in the registration process and for unfair speculating, a situation which was often criticised by the public.

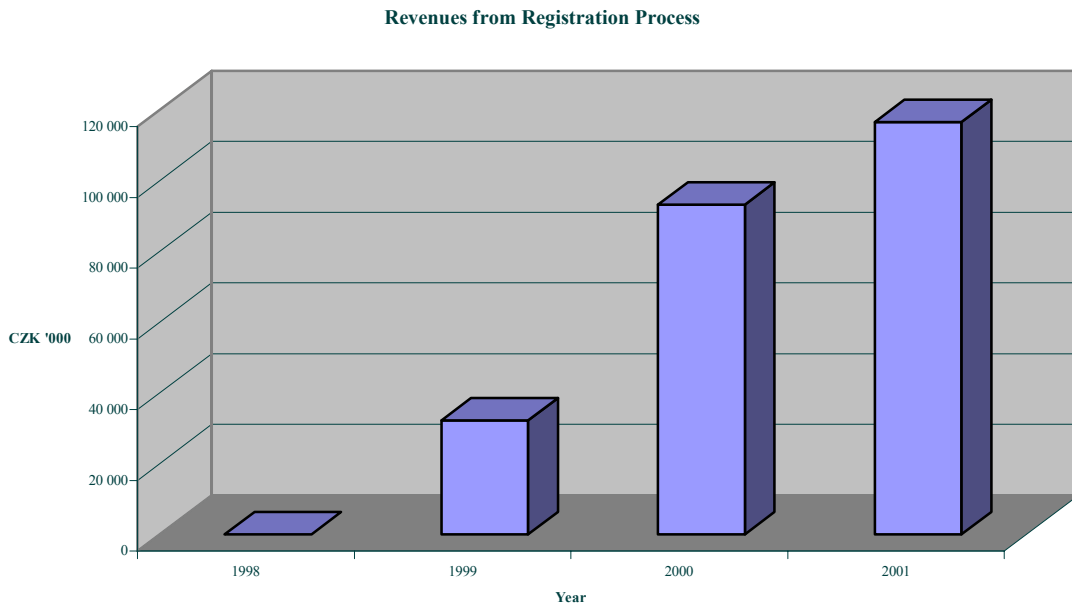
It is obvious that we could not manage to achieve all our objectives in 2001 and that there remains much to be done in the future. It is necessary to finalise our activities for fair support of generally beneficial projects, and it will be necessary to consider again the issue of solving disputes concerning domain names and find the right position for CZ.NIC, so that it would become a generally recognised authority in this area, too. It will be necessary to monitor closely and bring to a successful end the project of transforming the association to a decentralised system of registrations and many more minor but equally important issues.

I am convinced that the year 2001 was a good start towards the reconstruction of CZ.NIC and that – with the help of our employees and active members of the association – the registration of domain names of the second level will become a standard and trouble-free process which will be fully reliable for the general public.

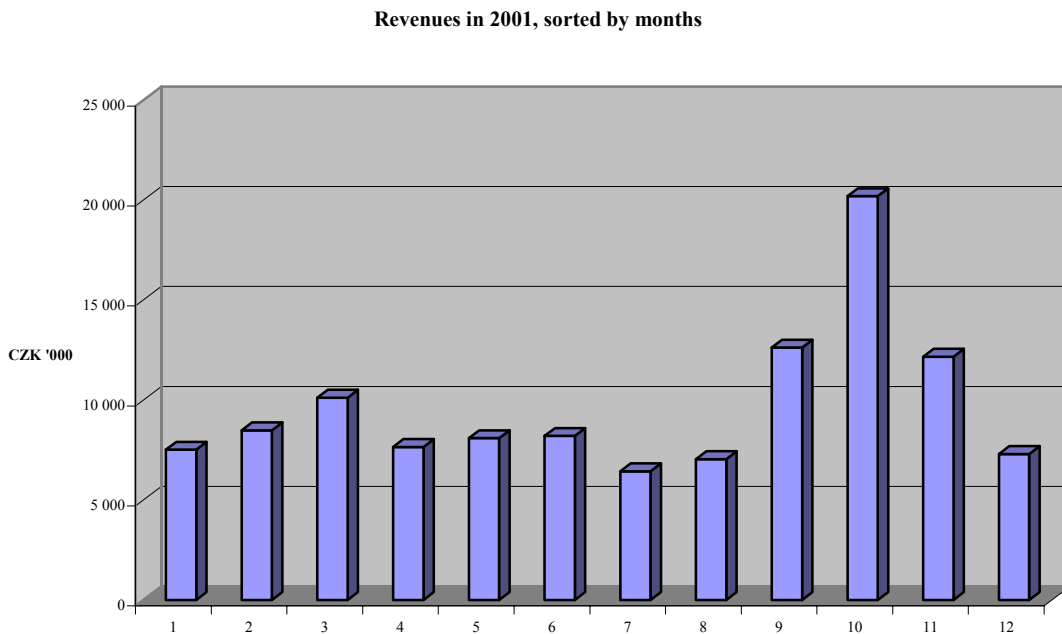
Thank you, Petr Král

12.2 Revenues

Revenues from Registration and Renewal of Registration, sorted by years:



Breakdown of Revenues in 2001:



12.3 Position in the Market

There must always be only a single national domain administrator; however, there may be more than one registrar. This is why the Association – after initiating the registration process, where CZ.NIC introduced rules and acts in the role of a register and the registrar – adopted the concept of introducing more registrars into the system. This project will be the focal point of the Association's activities carried out in the second half of the year 2002 and the first half of 2003.

12.4 Strategic Objectives for the Period 2002-2005:

- CZ.NIC ensures registration and trouble-free operation of ccTLD.cz on a long-term basis
- CZ.NIC will retain the form of an association, where members are not financially involved in the trading income and where profits after tax are primarily used for financing funds, particularly those aimed at generally beneficial projects
- In cooperation with the regulatory authorities of the Czech Republic, CZ.NIC devotes its efforts to the development of rules, and their application, in order to support further expansion of the Internet in the Czech Republic. This concerns particularly the following:
 - Technical issues: transformation of the current "register – registrar" system (i.e. a single entity) to a new "register – registrars" system. CZ.NIC shall retain the function of the register.
 - Business and legal issues: intensifying the involvement of CZ.NIC in the solution of disputes, in order to become an authority for the decision-making process
- CZ.NIC shall improve its image towards the general public. In order to achieve this, it is necessary to carry out the following:
 - Adopt rules for the support of generally beneficial projects.
 - Improve communication with the public, including the release of Statutes and an abbreviated version of the Financial Statement.
 - Suppliers of services will be selected on the basis of public selection procedures (after 1 September 2003).