

CZ.NIC z.s.p.o.
Lužná 591
160 00 Prague 6

Annual Report 2002

Approved by the General Assembly of the Association on 30 June 2003

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1. Basic Characteristics of the 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.

The Association's registered office is at: Lužná 591, 160 00 Prague 6.

IČO organization identification number: 67985726
DIČ tax registration number: 006-67985726
Telephone: +420 235 350 744
Fax: +420 220 121 184
Email: info@nic.cz
URL: <http://www.nic.cz>

1.1 Membership changes during the year 2002

New members

Trade name	IČO	From
GLOBE Internet, s.r.o.	25115804	1 Feb 2002
Qnet CZ s. r. o.	25518097	1 Jul 2002
IBA Chomutov s. r. o.	64051641	1 Sep 2002

Terminated membership

Trade name	IČO	As of
Telenor ČR, s.r.o.	61856991	31 Dec 2001
eTel s.r.o.	25630636	31 Dec 2002

1.2 Members as of 31 Dec 2002

Trade name	IČO	Trade name	IČO
CESNET, z.s.p.o.	63839172	NetForce spol. s r.o.	64575951
KPNQWEST Czechia s.r.o.	48538701	GTS CZECH a.s.	63999501
GTS Czech Com s.r.o.	61852279	ICZ a.s.	25145444
IBM Česká republika spol. s r.o.	14890992	BT (Worldwide) Limited, org. unit	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, s.r.o.	49437381
InWay, a.s.	25135198	Aliatel a.s.	61058904
CZECH ON LINE, a.s.	63080150	IGNUM s.r.o.	26159708
Equant Czech Republic s.r.o.	49620037	GLOBE Internet, s.r.o.	25115804
NEXTRA CR s.r.o.	25683691	Qnet CZ s. r. o.	25518097
		IBA Chomutov s. r. o.	64051641

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 fulfillment.
- 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, provided 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	2002
Revenues	701	32,396	94,033	117,904	83,359
Expenses	119	29,616	87,248	114,736	85,194
After Tax Profit	582	2,780	6,785	3,168	- 1,835

Note: The results for 2002 were affected by a changed accounting method (transfer to deferred revenues and associated expenses)

4. Statutory Bodies in 2002

4.1 Board of Directors

During 2002, two changes took place, caused by terminated mandates of some of the members. The Board of Directors comprised the following members:

1 Jan 2002 – 17 Jan 2002	Ing. R. Koza Ing. T. Maršálek RNDr. P. Král, M. Ruda	Chairman Deputy Chairman Members
17 Jan 2002 – 20 Jun 2002	RNDr. P. Král Ing. P. Rosendorf Ing. P. Hrdlička, Ing. T. Maršálek, M. Ruda	Chairman Deputy Chairman Members
20 Jun 2002 – 31 Dec 2002	RNDr. P. Král Ing. P. Rosendorf Ing. P. Hrdlička, Ing. T. Maršálek, Ing. J. Orság	Chairman Deputy Chairman Members

4.2 Supervisory Board

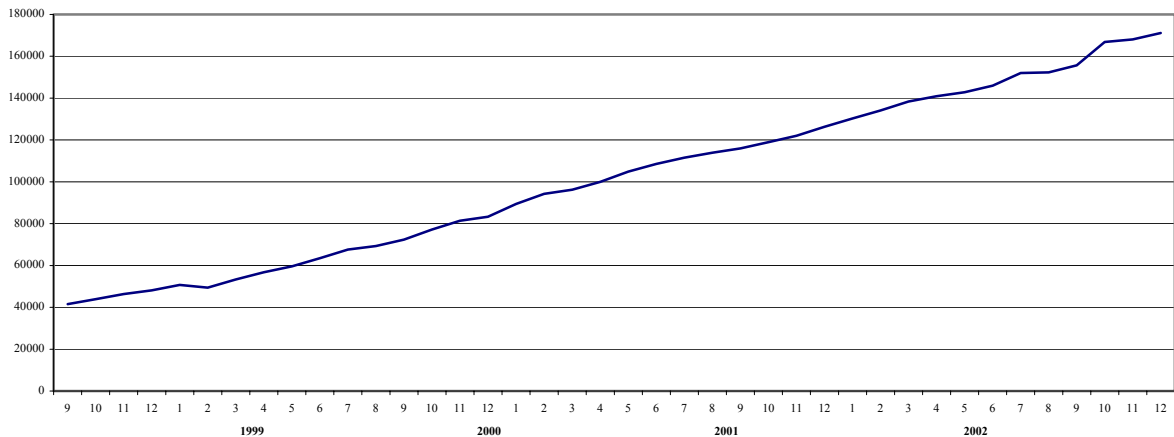
1 Jan 2002 – 20 Jun 2002	Bc. M. Krsek (abdicated on 31 May) Ing. M. Macek, Ing. J. Ptáčník	Chairman Members
20 Jun 2002 – 19 Dec 2002	Ing. M. Macek Ing. J. Kysela, Ing. J. Ptáčník	Chairman Members
19 Dec 2002 – 31 Dec 2002	Ing. M. Macek Bc. M. Krsek, Ing. J. Kysela	Chairman Members

5. Personnel

During the course of the year, the Association employed 3 full-time employees.

6. Number of Registered Domain Names

Number of Registered 2nd Level Domain Names Under .cz
by the End of the 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
2002	55,329	54,659	289,093	6,827	10,819	60,518	8,391	420	486,056

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
2002	20,691	8,253	4,941	903,460	989	580	5,172	277	60	944,423

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%
2002	486,056	944,423	1,430,479	66.02%

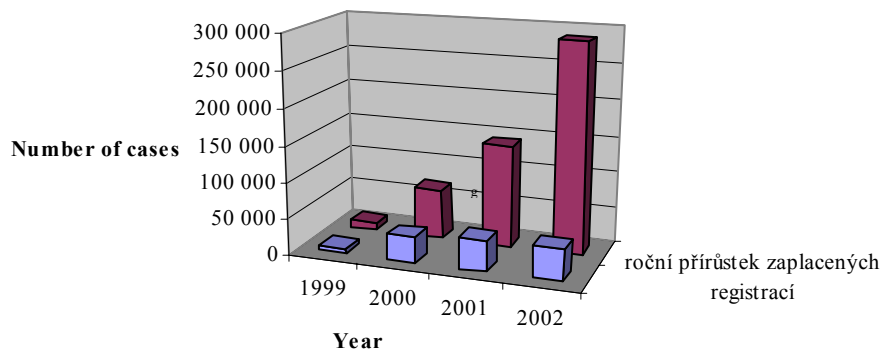
It is obvious from the data presented above that the intensity of the registration process witnessed an increase. This is particularly because of the "prospecting" activities of certain speculators who try to acquire a domain through repeatedly filed applications.

7.4 Increase in speculative registrations

In 2002, the number of applications for registration not paid for continued to grow. The data is depicted both in the table and the following chart.

Year	Annual increase in registered and paid 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
2002	44,807	289,093	6.45

Speculative registrations



red: = number of registration processes
blue: = annual increase in paid registrations

The ratio of the number of accepted applications to the increase in domains showed an increase in 2002 as well and it loaded the registration system. Introduction of special applications (rules changed on 1 March 2002) allowed the actually interested parties to obtain a domain name that was blocked by speculants.

7.5 Success rate of special applications

The following table shows data over the period of 1 March – 31 December 2002

Text	Number
Number of delivered special applications	40,409
Out of that, accepted applications (formally correct applications)	34,502
Number of paid deposits for special applications	3,653
Number of unpaid deposits for special applications	26,844
Number of evaluated special applications	30,312
Number of domains registered through special applications	3,169
Success rate of special applications (%)	86.75
Number of returned deposits	299

During the first 10 months of using the special applications, their success rate was 86.75 %. This newly introduced tool can be evaluated as very good.

8. Auditor's report

NBG, s.r.o., located at Bělehradská 18, 140 00 Prague 4, Chamber of Auditors' License 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 2002**, carried out from 1 April 2003 to 4 April 2003, which, pursuant to the applied procedures and methods and according to the auditor's opinion, provides an adequate basis 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, and in all material aspects, the assets, liabilities, equity and financial standing of the accounting entity, and the results of its operation for the accounting year 2002 ended.”

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

signature illegible

Ing. Tomáš B r u m o v s k ý

Auditor in Charge

Seal:

NBG, s.r.o.

IČO: 62587358

Chamber of Auditors' License No. 134

Bělehradská 18, 140 00 Prague 4

In Prague, on 7 April 2003

Na základě výsledku auditorského ověření roční účetní závěrky k **31.12.2002** provedeného v období od 1.4.2003 do 4.4.2003, 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 zdroje a finanční situaci účetní jednotky a výsledky jejího hospodaření za účetní období roku 2002.“

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



Ing. Tomáš Brumovský
odpovědný auditor

V Praze, dne 7. dubna 2003

9. Balance Sheet

(‘000 CZK)

Year:	2002	2001		2002	2001
TOTAL ASSETS	77,507	24,705	TOTAL LIABILITIES	77,507	24,705
Receivables for subscribed equity			Equity	8,761	13,315
Fixed assets	450	781	Common stock		
Intangible assets			Capital contributions		
Tangible assets	450	781	Reserves	2,132	1,000
Long-term investments			Retained earnings	8,464	9,147
Securities			Profit (loss) for the year	- 1,835	3,168
Current assets	27,976	23,406	Liabilities	11,626	9,606
Inventories			Reserves		
Long-term receivables			Long-term liabilities		
Short-term receivables	- 1,366	1,066	Short-term liabilities	11,626	9,606
Financial assets	29,342	22,340	Bank loans		
Other assets	49,081	518	Other liabilities	57,120	1,784

10. Income Statement

(‘000 CZK)

Year	2002	2001
Sales and services	82,302	116,517
of this, sales of own products and services	82,302	116,517
Change in stock of finished goods and WIP		
Capitalized Assets		
Cost of sales	77,426	107,374
Added value	4,876	9,143
Staff costs	4,371	3,097
Depreciation of fixed assets	578	641
Reserves		
Other operating income	225	
Other operating charges	381	3
Operating income	-156	-3
Other financial income	832	1,387
Other financial expenses	753	998
Income from financing	79	389
Income from ordinary activities after taxation	- 150	5,791
Income from extraordinary events		
Expenses from extraordinary events	1,685	2,623
Net income from extraordinary events after taxation	- 1,685	-2,623
Net Income	- 1,835	3,168

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 2002.

12. Report by Board of Directors

12.1 Statement of the Chairman of the Board

Dear friends,

The year 2002 began with a meeting of the general assembly. During that meeting, the Board, in an effort to provide higher quality information to members, introduced regular statements describing its activities over the past period. A new Board of Directors, whose mandate expired, was elected during that meeting as well. The newly elected Board of Directors follows the trends specified in an internal document that was produced in 2001 and that criticizes some deficiencies and proposes a concept of development for 2001 - 2005.

The intensive work on the movement towards a distributed system of more registrars continued as in the previous year. As a result of addressing the biggest consultancy firms, the reputable firm of Deloitte and Touche was awarded a contract for producing a feasibility study of a system that has a shared register and more registrars under the conditions of the .cz domain. That study not only summarized the basic system requirements and analyzed risks during introduction of the system, but it also contained proposed master documentation for a tender and a sequence of evaluation criteria. Based on that documentation, a public tender for a producer and administrator of the system was announced. A precise time schedule of activities was produced. It was supposed to cover all the activities associated with the new system development as well as to fully respect the conditions of concluded agreements concerning the current operation and safe transition to the new system. During a few meetings with the press, we tried to explain to the public all the aspects of that change, its milestones, and what kind of impacts it will have on the public. Results of the tender were fully sufficient for selecting a convenient candidate. Once an approval was obtained from the Board of Directors, an agreement was signed with the tender winner, Pragonet, a.s., at the end of the year. As a result of that, it was possible to start implementation of the system of more registrars.

In March, the Board of Directors introduced a new measure against speculants. It rested in what are known as special applications. By giving priority to paid applications over applications with overdue payments, it was possible to limit the likelihood of repeated free and very frequently anonymous blocking of domains.

In the spring, an extraordinary event concerning second level domains took place. Those domains were released on the basis of blocking by the previous rules and there was no reason to block them any longer. Revenues from that activity were, after deduction of costs, fully transferred to the Paraple account. Since the current rules do not have any impact on second level domain selection, no similar activity will ever take place again.

During the year, we also solved the long-term debt of CZ.NIC towards the public concerning our support of publicly beneficial activities, as declared in our articles. We produced rules of funds distribution and announced a tender on the support of projects. In

addition to the support of publicly beneficial projects, we quickly provided 500 thousand CZK to help the Štěchovice municipality in its recovery effort after the summer floods. The winning projects are monitored until their final stages and the whole process will then be evaluated and new rules for the next period will be based on its results.

During the course of the year, it also became apparent that it is extremely risky to fully rely on relationships with contractors or outsourcing and that the Association should have a full control over the basic activity instruments crucial for proper operation of the Internet in the Czech Republic. The concept of further operation of the system of domain servers was expanded by a principle of full autonomy and operational independence on the operator of those instruments. That process will be fully completed upon transition to the distributed system of more registrars. In terms of technical arrangements, the system of primary domain servers will be located in its own autonomous system (AS) with its own IP addresses. That autonomous system (AS) will be connected to two mutually independent Internet providers and it will have a local operation exchange with entities associated in NIX.CZ..

As a result of a selection process, the Board of Directors also changed our PR agency in order to make the public presentation of our Association more effective and efficient. ELISA EMC Group s.r.o. became the new PR agency. It took over the regular monitoring of media, started to organize the Association's communication strategy and it issued a publication on the activities and mission of the CZ.NIC. Association at the end of the year.

For the purposes of precisely reflecting the reality in the accounting, a system of accrued receipts and costs was introduced. That system also proved the correctness of the decreased VAT tax rate applied to registration of domain names.

The Board of Directors also systematically perfected the articles in order to increase the quality of members. The goal was not only to make sure the Association is able to fulfill its principle function in the global Internet infrastructure, but also to make sure it is viewed as a sufficiently stable and strong organization and, through this, to justify the principle of autonomy in this key area.

The database of the Central Register was cleaned daily and it turned as a necessary step after the September change of phone numbers organized by Český Telecom. Correct data in the database increases customers' confidence in holding domain names and this principle must also be continuously requested from the public through the media.

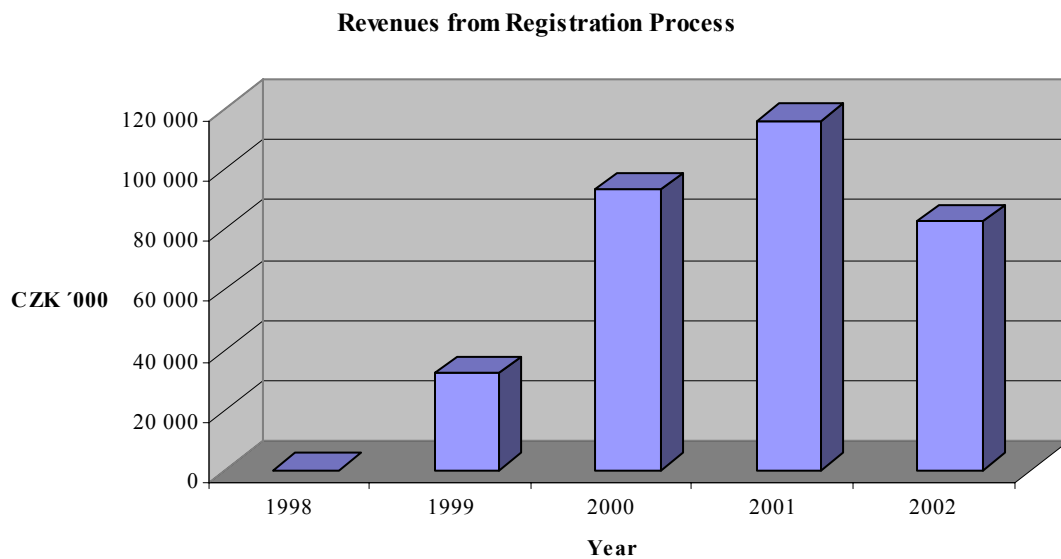
In an effort to contribute to effectively solving disputes, the Board of Directors established contacts with the Czech Union of Judges, who welcomed our initiative. A series of workshops was arranged. Their purpose is to provide more information on domain names and, therefore, higher quality and quicker solutions to disputes. The first workshops will take place next year.

Another important step rested also in the initiation of communication with the government. The Board of Directors took all the necessary steps to familiarize the appropriate ministry with its concept and to seek its support for the primary principles in its activities. It intends to keep on consulting the principle steps and changes in the CZ.NIC Association with the Ministry of Informatics in order to establish consent among the central register, the government, and the local Internet community. 2002 was an "eventful" year in terms of the amount of events and contents of implemented activities. The requirements for the work in the Association were set extremely high for the years to come. Nobody is able to imagine implementation of activities and assistance to the Board of Directors without having a close relationship with the members through workshops on pre-defined topics. I think that nobody needs to be persuaded about the fact that only the proper operation of the Association will guarantee the kind of quality the Internet provides to the society.

Thank you, Petr Král

12.2 Revenues

Revenues from Registrations and Renewals of Registrations, sorted by years:



12.3 Position in the Market

There must always only be a single national domain administrator; however, there may be more than one registrar. This is why the Association adopted the concept of introducing more registrars into the system. In December 2002, the work on that project was concluded by announcing the results of a public tender on delivery of a system for the “Decentralized Administration of the .cz National Domain”.