

CZ.NIC z.s.p.o.
(Special-interest Association of Legal Entities)
Lužná 591
160 00 Prague 6

Annual Report 2003

Material approved at the General Meeting of the Association on 24 June 2004

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1. Basic characteristics of the Association

CZ.NIC, z.s.p.o. was established by registration in the Register of Special-interest Associations of Legal Entities in the Department of Internal Affairs of the Authority of the Borough of Prague 6 on 27 May 1998 under Ref. No. ZS/30/3/98. Now it is registered under the same number in the Department of Civic-legal Agendas of the Magistrát (Town Hall) of the capital city of Prague.

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1.1 Changes in the membership base in the course of 2003

New members

Name	ID No.	Since
Unie vydavatelů	15887081	1.3.2003
KRAXNET s.r.o. (Ltd.)	26460335	1.3.2003
IPEX a.s. (Joint-stock Company)	45021295	1.10.2003
Web4U s.r.o.	26058774	1.10.2003
EXPLORER a.s.	26726653	1.12.2003
NextiraOne Czech s.r.o.	26175738	1.12.2003

Terminated membership

Name	ID No.	As of
DATAČ spol. s r.o. (Ltd.)	00550001	31.12.2003
GTS Czech Com s.r.o.	61852279	31.12.2003
NetForce spol. s r.o.	64575951	31.12.2003

1.2 State of the membership base as of 31 December 2003

Name	ID No.	Name	ID No.
CESNET, z.s.p.o.	63839172	Pragonet, a.s.	61059382
KPNQWEST Czechia s.r.o.	48538701	Zoner software, s.r.o.	49437381
IBM Česká republika spol. s r.o.	14890992	Aliatel a.s.	61058904
EUROWEB CR, spol. s r.o.	48591319	IGNUM s.r.o.	26159708
ČESKÝ TELECOM, a.s.	60193336	GLOBE INTERNET, s.r.o.	25115804
InWay, a.s.	25135198	Qnet CZ s. r. o.	25518097
CZECH ON LINE, a.s.	63080150	IBA Chomutov s. r. o.	64051641
Equant Czech Republic s.r.o.	49620037	Unie vydavatelů	15887081
GTS CZECH a.s.	63999501	KRAXNET s.r.o.	26460335
NEXTRA CR s.r.o.	25683691	IPEX a.s.	45021295
ICZ a.s.	25145444	Web4U s.r.o.	26058774
BT (Worldwide) Limited, org.unit	70802025	EXPLORER a.s.	26726653
AliaWeb spol. s r.o.	26117363	NextiraOne Czech s.r.o.	26175738

2. Mission of the Association

2.1 Activity of the Association

- The Association defines the regulations for the allocation of domain names under the top-level domain of CZ, updates these regulations currently and creates mechanisms to ensure that they are adhered to.
- The Association represents the highest domain CZ in the co-ordination of national and regional registrars and standardisation institutions.
- The Association supports, in accordance with the approved concept of the activity of the Association, generally beneficial projects and activities relating to the activity of the Association under the condition that the projects concerned are open to all those interested and that the projects, contributions to them and their results are made public regularly.

2.2 Subject of Business of the Association

- The Association ensures the registration of domain names on the second level beneath the top-level domain of CZ
- The Association further ensures the operation of nominal servers for the domain of CZ.

3. Selected financial indices

(Thousands of CZK)

Year	1999	2000	2001	2002	2003
Revenues	32 396	94 033	117 904	83 359	140 712
Expenditure	29 616	87 248	114 736	85 194	140 288
Profit/loss after tax	2 780	6 785	3 168	- 1 835	424

Note: The results for 2002 are influenced by the change in the accounting methods (transition to accruals and deferrals of revenues and the costs relating to these)

4. Statutory bodies in 2003

4.1 The Board

The Board had the following composition:

1.1.2003 – 25.11.2003	RNDr. Petr Král	Chairman
	Ing. Pavel Rosendorf	Vice-chairman
	Ing. Pavel Hrdlička, Ing. Tomáš Maršálek, Ing. Jiří Orság	Members
25.11.2003– 31.12.2003	RNDr. Petr Král	Chairman
	Ing. Tomáš Maršálek	Vice-chairman
	Mgr. Ondřej Filip, Ing. Jiří Orság	Members

4.2 The Supervisory Council

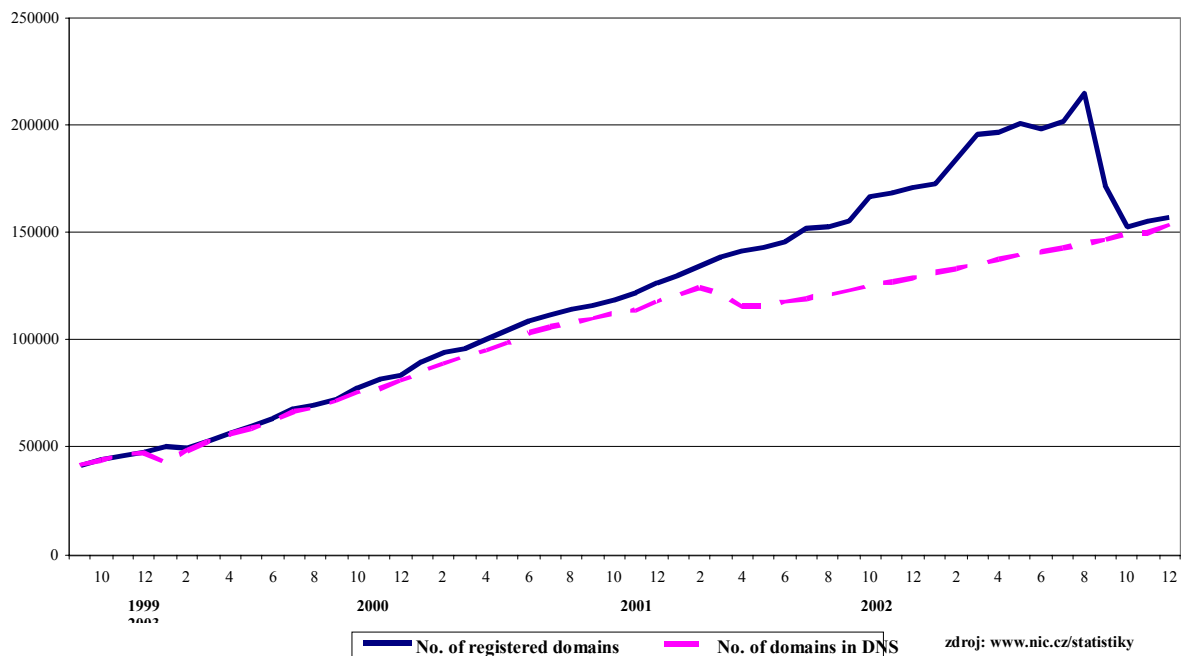
1.1.2003 – 7.11.2003	Ing.Michael Macek Bc.Michal Krsek, Ing.Jiří Kysela	Chairman Members
7.11.2003– 25.11.2003	Ing.Michael Macek Ing.Jiří Kysela	Chairman Member
25.11.2003–31.12.2003	Ing.Michael Macek Ing.Jiří Kysela, Mgr.Jan Redl	Chairman Members

5. Employees

At the beginning of 2003 there were 3 employees working in the Association on a full-time basis, at the end of the year 5 employees.

6. Development of the number of registered domain names of the second level under the domain of .cz

Numbers of domain names of the 2nd level under .cz (state at end of month)



Commentary on graph:

Number of registered domain names – up to 15 September 2003 this data also included successful applications for registration awaiting payment of the registration fee. After the change in the rules as of 15 September 2003 a domain name is registered only after payment of the registration fee. The difference in the values of the two curves in the period of 01/2002 – 09/2003 depicts, with a certain degree of inaccuracy,

the numbers of domains, which were repeatedly occupied by speculators without paying the registration fee. They did, however, hold domain names in which there was not much interest, because towards the end of 2003 there was not an enormous increase in the number of new registrations. In addition there were active at this time so-called special requests, thanks to which applicants could acquire the occupied domain names.

Number of domains in the DNS – this is a sub-group of registered domains in which successful technical tests have been carried out. From 1 February 2002 an additional condition is the payment of the registration fee. This explains the drop in values in March and April 2002. In the central database there are on average about 2,500 registered domain names where the holder has not met the conditions of the technical tests and these are not, therefore, in the DNS.

7. Decentralised Administration of the Domain .cz (DSD)

7.1 Supplier of the DSD service

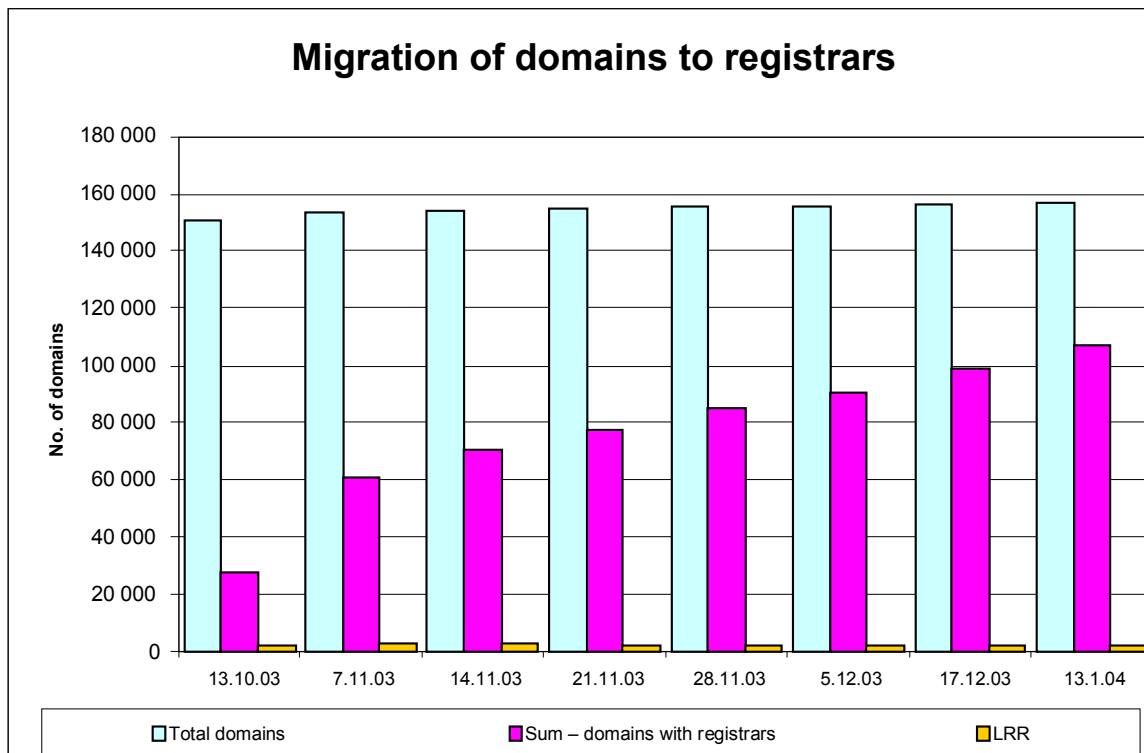
On the basis of public selection proceedings the supplier selected (and also approved by the General Meeting on 19 December 2002) was Pragonet a.s.

7.2 Start of the DSD system

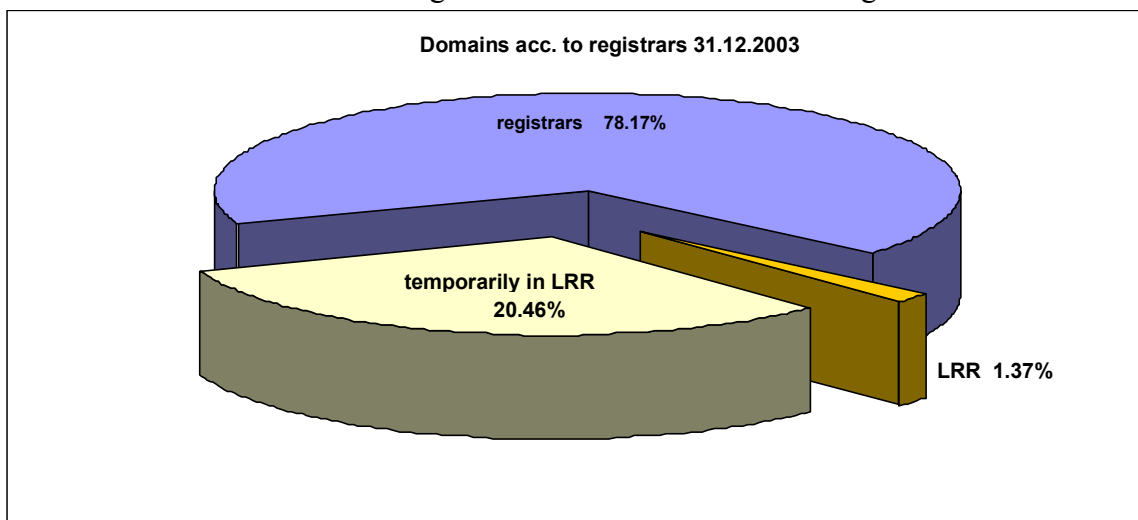
The start of the system was divided into two parts for operational reasons.

On 15 September 2003 new programme equipment was installed and all the domain names were transferred to the state of "temporarily in LRR". This concerned 219,679 registered domains. Also transferred was related data on the subjects and contact persons.

On 13 October 2003 the registrars were included in the DSD process. As of this date 8 registrars signed an agreement with the CZ.NIC association. On the basis of the provisions of the rules for registration concerning the start of DSD 26,291 domain names were transferred automatically to the registrars as of the date of the start of DSD. The development of the number of domain names transferred to the registrars is shown by the following graph, entitled "Migration of domains to registrars".



At the end of 2003 the state of migration of domain names to the registrars was:



7.3 List of registrars as of 31 December 2003

Czech On Line, a.s.	KRAXNET s.r.o.
ČESKÝ TELECOM, a.s.	Media4web s.r.o.
GENERAL REGISTRY, s.r.o.	MIRAMO spol. s r.o.
GLOBE INTERNET, s. r. o.	NEXTRA Czech Republic s.r.o.
ha-vel family s.r.o.	ONE.CZ s.r.o.
IGNUM, s.r.o.	SkyNet, a.s.
INTERNET CZ, a.s.	Web4U s.r.o.
Inway, a.s.	ZONER software, s.r.o.
IPEX a.s.	LRR (operated by CZ.NIC)

8. Auditor's Report

The company of auditors NBG, s.r.o. (Ltd.) Bělehradská 18, 140 00 Prague 4, Certificate of the Chamber of Auditors No. 134 carried out the auditor's verification of the annual final accounts with the following verdict:

"3. Auditor's verdict

On the basis of the auditor's verification of the annual final accounts as of 31.12.2003, carried out in the period from 29.3.2004 to 2.4.2004, which is, on the basis of the procedure used and the methods used, in the conviction of the auditor an adequate basis for his statement, there is issued to the accounting unit of

**CZ.NIC,
Special-interest Association of Legal Entities**

the following verdict without reservations.

"The final accounts were compiled on the basis of bookkeeping managed in accordance with the valid regulations of the Czech Republic. In the opinion of the auditor the final accounts in all significant respects faithfully depict the view of the assets, liabilities, own resources and financial situation of the accounting unit and the results of its economy in the accounting period of 2003."

Nothing other than accounting information obtained from the final accounts and the accounts books was verified.

*Stamp: NBG s.r.o.
ID No. 62587358
NBG
Licence from Chamber
of Auditors of the Czech
Republic No. 134
Bělehradská 18, 140 00 Prague 4*

Ing. Tomáš Brumovský
Auditor responsible

Prague, 2 April 2004"

9. Balance Sheet

(Thousands of CZK)

Year:	2003	2002		2003	2002
Total assets	95 486	77 507	Total liabilities	95 486	77 507
Receivables for capital subscription			Equity	8 051	8 761
Fixed assets	8 627	450	Registered capital		
Intangible assets			Capital funds		
Tangible assets	8 627	450	Funds created from net profit	7 627	2 132
Financial investments			Profit/loss of previous years		8 464
Securities			Profit/loss of accounting period		- 1 835
Current assets	45 182	27 976	Liabilities	17 104	11 626
Inventory			Reserves		
Long-term receivables			Long-term payables		
Short-term receivables	390	- 1 366	Short-term payables	17 104	11 626
Financial assets	44 792	29 342	Bank loans		
Other assets	41 677	49 081	Other liabilities	70 331	57 120

10. Profit and Loss Account

(Thousands of CZK)

Year	2003	2002
Production and sales	139 805	82 302
Of this revenues from sales	139 805	82 302
Change in state of own prod.??		
Capitalisation		
Production consumption and costs	127 252	77 426
Added value	12 553	4 876
Personnel expenses	6 951	4371
Depreciation of assets	2 440	578
Accounting for reserves		
Other operating revenues	463	225
Other operating expenses	394	381
Operating profit/loss	69	-156
Other financial revenues	443	832
Other financial expenses	685	753
Profit/loss from financial operations	- 242	79
Ordinary income	2 989	- 150
Extraordinary revenues		
Extraordinary expenses	2 565	1 685
Extraordinary income	2 565	- 1 685
Profit / loss	424	- 1 835

11. Information on facts occurring between the date of the final accounts and the General Meeting

In the period in question no events occurred, which have any influence on the data presented in the final accounts for the year 2003.

12. Report of the Board

12.1 Address of the Chairman of the Board

Dear friends,

The year 2003 was influenced by a considerable change in operation – the realisation of the project of "Decentralised Administration of the top level Domain of .cz" (hereinafter only the DSD project). This project came into being in response to the requirement of members and users that market relations should also be introduced in this activity. In this way CZ.NIC caught up with the advanced countries where similar projects were introduced some two or three years ago. Part of our solution, which stems from our own and foreign experience, is the creation of the special registrar LRR, realising the functioning, independent of the other registrars, of a protective period before the termination of a domain and the service of a sheet-anchor network in the case of the termination of the activity of a registrar. At the end of 2002, after approval by the General Meeting, an agreement was signed with the realiser and operator of the DSD project, the firm of Pragonet, a.s. A control committee was established of board members and responsible workers of the supplier and a precise work schedule was stipulated so that the deadline would be met for starting up the operating regime of the project on 15 October 2003. The control committee met at intervals determined by the stages on the schedule, usually once a month. The main task of the control committee was the control of and commenting on the material of the project, the defining of requirements for operating standards and mechanisms, and the protection of the interests of the beneficiary in the development of the project.

A further essential part of the project was the creation of contractual documents and operating rules. On the basis of the new economic model trade conditions were created for the registrars, new rules of registration and communication for the domain of .cz and for LRR. Agreements with the registrars were prepared and prices were proposed with regard to the analysis of the economic model and the scoring of the future registrars between CZ.NIC and the registrars and between the association of CZ.NIC and the customers of LRR. All these documents were consulted with the appropriate government institutions so that the start of the system should bring the holders of domains as few problems as possible and so that no distrust in the usefulness of this change should arise right from the beginning. Also included in the documents were principles for working with personal data on the basis of a consultation with the Office for the Protection of Personal Data. The Ministry of Information was also currently acquainted with the state of the project at the level of the Deputy Minister.

According to the concept approved in previous periods communication took place with the President of the Czech Telecommunications Institute concerning further plans of the association, especially the offer of co-operation in the ENUM project. This

project is under way in a number of advanced countries. In 2003 the delegation took place of the national domain of ENUM to the servers of CZ.NIC.

During the installation of the new hardware for the DSD project operating independence of the providers of services and connectivity for DNS servers was realised as proposed and planned last year.

In the middle of the year the selection of registrars began. With regard to the open nature of the economic competition and with the use of carefully compiled criteria thirteen registrars were accredited at the start of trial operation.

The actual start of the system was marked by the maximum efforts of all those participating, which led to insufficiently effective and comprehensible information for the public. The consequence was the surprise of customers at the extent of the changes and a feeling of uncertainty with regard to the holding of domains already registered. The problem was further aggravated by the decision of members of the association to restrict the means expended on informing the public about imminent changes in the form of PR. At the General Meeting on 16 September 2003 the concept of informing the public through a TV spot was rejected as financially demanding. Unfortunately this stoppage was not sufficiently compensated for by the PR activity of the newly established registrars themselves. It must be stated, however, that in spite of these problems no-one suffered any damage to their rights to hold domains. Some members of the association reacted to the situation concerning the informing of the public with a proposal to recall the Board and therefore at the General Meeting on 25 November 2003 they proposed including in the agenda the point of the recalling and subsequent election of a new Board. The result of this was a new Board made up of three original members, one new member and one place remained unoccupied.

In spite of this unpleasant situation it must be admitted that the project was highly demanding on the managerial and organisational abilities of those in charge of the project. In the evaluation of the project as a whole on the operating and functional side it must be said with the passing of time that no really serious problems arose. Some of the qualitative and quantitative estimates of the behaviour of the system turned out to be correct, for instance in the quantity of registrars and the number of users intentionally remaining in LRR. The course of the transition to the decentralised system of administration of the .cz domain was also accompanied only by small problems, apart from the information for the public. The occurrence of some problems is, however, probable considering the complexity and extent of the whole system.

Understandably the year 2003 was not only the realisation of the DSD project and the association experienced a number of other problems. An alternative solution to conflicts concerning domain names was allocated to the well-known firm of CEAG and on the basis of its work the concept of ADR arose, which will be realised in 2004. CZ.NIC thus participated actively in educational activity and acquainted the audience at several seminars with the problems of domain names. Worthy of notice was the seminar organised jointly with the Software periodical "One world of domains". In co-operation with the Judges' Union a seminar was organised for judges on the problems connected with domains, registration procedures, records of holders of domains and the technical impact of requirements for the protection of rights in relation to a domain name. CZ.NIC also participated actively in seminars organised in regional towns on the

problems of e-government. CZ.NIC co-operated in the organisation of the competition "IT Project of the Year" in the position of a partner of the competition. CZ.NIC also organised several press conferences to clarify the preparations for the DSD system and its impact on the public.

The association also worked on the expansion and improvement of the quality of its membership base so that it should be a trustworthy partner for all those interested in the state of the Internet in the Czech Republic. The association is obliged first and foremost to ensure the stability of the specific services, which are a key part of the national infrastructure and the verifiability and reliability of the records of relations to domain names. Regardless of our opinion, today the domain names are an important and naturally functioning base for business, exceeding many times over in extent the total turnover of the registration services. Many working meetings have taken place with members on the subject of membership, experts on corporate organisation were engaged and, last but not least, the Board spent many hours discussing this problem. The result does not unfortunately correspond to the efforts exerted and we shall have to continue to deal with this matter in the future.

Six new members entered the association in 2003 and GTS Czech, a.s. gave up membership on the basis of an appeal from the board by two votes with effect from 2004.

In the course of the autumn the association was called upon by the Office for the Protection of Economic Competition, on the basis of an initiative proposal, to reply in writing and latterly also verbally to questions on the standing of the registrars and their conditions in relation to CZ.NIC. Administrative proceedings were not, however, commenced.

In 2003 the association also worked in accordance with its conception on new projects. Mention must be made of the ENUM project, where the introductory and overview studies on the state of the ENUM project in surrounding countries was commissioned. CZ.NIC played an active part in the EURID project on an agreement about the administration of the domain of .eu, where CZ.NIC will participate as an associate member. The IDN project was postponed until next year for reasons of capacity.

In conclusion I would like to state courageously that 2003 will be one of the few years in the life of the association signifying a strong move not only in the sphere of services, but also from the aspect of the opinion of CZ.NIC from the viewpoint of the public and the self-reflection of members on the role and inclusion of the association within the framework of our Internet society.

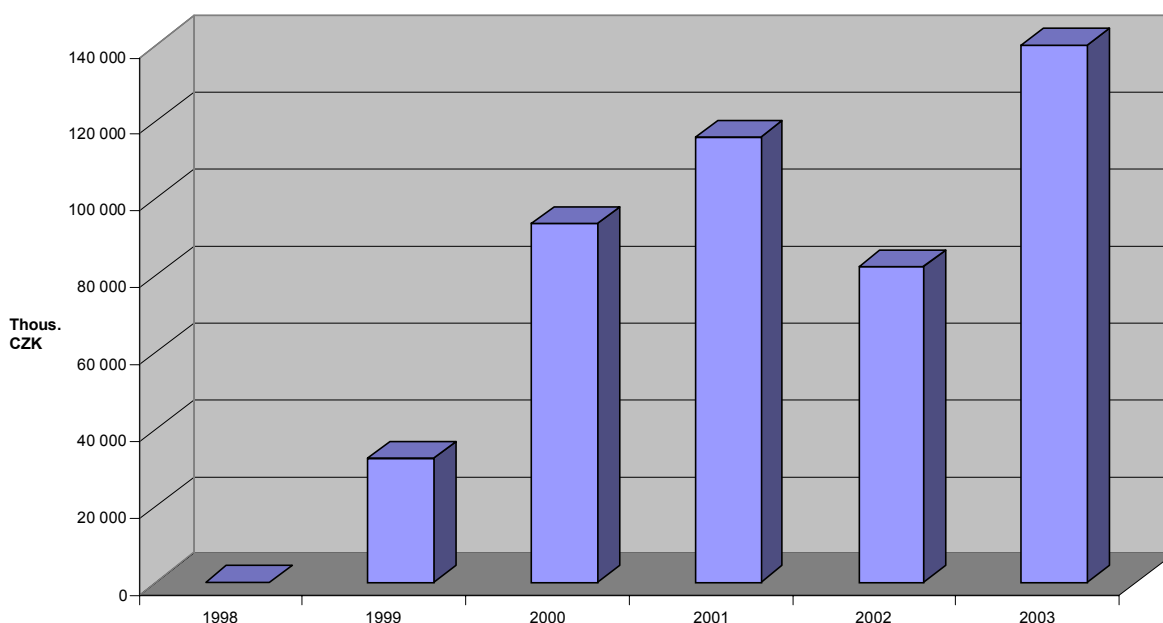
Thank you for your attention.
Petr Král

12.2 Development of Revenues

Development of revenues from registration and the renewal of registration according to individual years:

The following graph expresses the growth of the revenues of the association from registration and the extension of registration according to individual years. The value in 2002 was influenced by the beginning of the accruals and deferrals of revenues and the expenses corresponding to these. The data for 2003 is already influenced by the reduction in the income of the association in the case where a domain name is transferred to a commercial registrar.

Revenues from registration and extension of registration



Revenues from registration and renewal of registration

12.3 Standing on the Market

The administrator of the national domain must, from the very nature of this, be a single one. There may, however, be several registrars working alongside one another. For this reason the association included commercial registrars in the administration of the national domain .cz in the course of 2003 (for details see Chapter 7.3). In co-operation with them it ensures that the holders of domain names can rely one hundred percent on the functioning of the Czech national Internet domain.