



**ANNUAL REPORT
2004**

1. Opening statement by the Chairman of the Board of Directors

Ladies and Gentlemen,

I would like to begin by mentioning that in 2004 CZ.NIC reached five years of its existence and operation as an administrator of the national domain .CZ.

In the course of its existence, CZ.NIC experienced several important events and steps forward. Those changes have left their marks in many areas. As far as the organizational structure is concerned, new members joined the association, a new chairman and vice-chairman of the Board of Directors were elected, and changes in the executive management of the association occurred as well.

Following the changes in relation to the members of the Board of Directors, reduced fees for registrars were adopted and became effective on 1 May 2005, which indirectly entails reduced fees for end users as well. These changes included the reduction of the annual lump fee imposed on registrars for the maintenance and operation of the communication channel and securing functions of the central registry from CZK 150,000 to CZK 116,700, the reduction of the filing fee from CZK 400 to CZK 300, and the reduction of the annual fee from CZK 600 to CZK 500. I believe that this trend of reducing fees will also continue in the following years.

The number of registered .cz domains increased during the year and the year-to-year increase in their number followed the average in Europe. In 2004 the increase reached a level of approximately 17 %. The number of domains in LRR dropped below 1,000, which shows the uselessness of the operation of LRR for the future and leads to the cancellation of the function of LRR as a registrar leaving only the function of a rescue net.

In the legislative area new rules for the registration of domain names in the cz. domain became effective on 1 August 2004, which included the approval of the current wording of rules and settlement of disputes by the Court of Arbitration at the Economic Chamber of the Czech Republic and the Agrarian Chamber of the Czech Republic.

During the whole year the members of CZ.NIC cooperated with prominent organizations both in the Czech Republic and abroad. Among those in the Czech Republic, I would like to mention in particular the cooperation with the Ministry of Informatics and the Czech Telecommunication Office, and among those abroad negotiations with organizations ICANN and CENTR. In the autumn of 2004 a contract between the European Commission and EURid (administrator of .eu domain), of which CZ.NIC is a member, was signed. This act will accelerate the whole process of launching registrations of .eu domains.

CZ.NIC took part in various projects. In the middle of the year the F-ROOT anycast project was launched, the operation of which contributes to the improvement in the stability of the name service in the Internet. A selection procedure was launched for the ENUM project for which only one applicant registered as a result of which CZ.NIC decided to cancel the selection procedure and postpone the project until 2005. CZ.NIC also initiated the IDN project and a survey was carried out to find out the preliminary interest of the public and organizations in the project. The survey showed that more than 76 % of those asked were not interested in this service. Therefore, the project was suspended while the situation of IDN was to be further monitored with the possibility to reopen the project at any time.

The aforementioned events are the enumeration of those I consider the most significant in 2004. As far as the following period is concerned, important events include changes in the organizational structure of CZ.NIC and the shift of the association structure to a chamber system. Another important task is to carry out and evaluate the analysis of technical operation by way of outsourcing or to make a shift to a system of internal employees and creating know-how that

would be kept within the association. I also intend to keep the trend of lowering prices of domains based on the principle of a non-profit organization.

Ing. Tomáš Maršálek, Chairman of the Board of Directors

2. Basic characteristics of the association

CZ.NIC, z. s. p. o., was established by its recording into the register of associations of legal entities at the Department of Internal Affairs of the Authority for the Metropolitan District of Prague 6 on 27 May 1998 under number ZS/30/3/98. Now it is recorded under the same number at the Department of Civil Affairs of the Metropolitan Authority of the Capital City of Prague.

Seat of the association:	Lužná 591, 160 00 Prague 6
Identification number:	67985726
Tax identification number:	CZ67985726
Phone:	+420 235 355 309
Fax:	+420 220 121 184
E-mail:	kontakt@nic.cz
URL:	http://www.nic.cz

2.1 Changes in the membership in the course of 2004

New members

Name	Identification number	From
Software602 a. s.	63078236	1 April 2004
SkyNet a. s.	25346687	1 April 2004
Internet Info, s. r. o.	25648071	1 April 2004
AUDITEL, s. r. o.	26775034	1 April 2004
CP Online, a. s.	26288311	1 July 2004

2.2. Members as of 31 December 2004

Name	Identification number
Aliatel, a. s.	61058904
AliaWeb, spol. s. r. o.	26117363
AUDITEL, s. r. o.	26775034
BT Limited, organization unit	70802025
CESNET, z. s. p. o.	63839172
CP Online, a. s.	26288311
CZECH ON LINE, a. s.	63080150
ČESKÝ TELECOM, a. s.	60193336
Equant Czech Republic s. r. o.	49620037
EUROWEB Czech Republic, spol. s. r. o.	48591319
EXPLORER a. s.	26726653
GLOBE INTERNET, s. r. o.	25115804
GTS CZECH a. s.	63999501
IBA Chomutov s. r. o.	64051641
IBM Česká republika, spol. s. r. o.	14890992
ICZ a. s.	25145444
IGNUM s. r. o.	26159708
Internet Info, s. r. o.	25648071
InWay, a. s.	25135198
IPEX a. s.	45021295
KPNQWEST CZECHIA s. r. o.	48538701
KRAXNET s. r. o.	26460335
NextiraOne Czech s. r. o.	26175738
NEXTRA Czech Republic, s. r. o.	25683691
Qnet CZ s. r. o.	25518097
SkyNet, a. s.	25346687
Software602 a. s.	63078236
T-Systems PragoNet, a. s.	61059382
Czech Publishers Association	15887081
Web4U s. r. o.	26058774
ZONER Software, s. r. o.	49437381

3. Objectives of the association

3.1. Activities of the association

- The association is an administrator of the top level (ccTLD) of .CZ.
- The activities of the association are carried out by way of business activities of the association.

3.2. Sphere of business of the association

- The association defines rules for the registration of domain names under the top .CZ domain, updates those rules when needed, and creates mechanisms for securing their obeying.
- Secures the registration of domain names of second level under the top .CZ domain.
- Secures the operation of name servers for the .CZ domain.
- Represents the top .CZ domain for the purpose of coordination of national and regional registrars and standardization institutions.
- Supports, in conformity with the adopted policy of the activity of the association, generally beneficial projects and activities relating to the activity of the association on the condition that such projects are open for all who are interested, and that such projects, contributions for them, and their results are made public on a regular basis.

4. Selected financial data

(in thousands of CZK)

YEAR	1999	2000	2001	2002	2003	2004
Revenues	32,396	94,033	117,904	83,359	140,712	137,632
Expenses	29,616	87,248	114,736	85,194	140,288	139,669
Profit/loss after taxation	2,780	6,785	3,168	-1,835	424	-2,037

Note: In 2004 changes were made to the time differentiation of expenses for 2002 and 2003 as a result of which additional tax returns were filed for 2002 and 2003. In 2002 the created time differentiation of expenses amounting to CZK + 48,066,000 was cancelled (expenses increased). In 2003 the created time differentiation of expenses amounting to CZK + 40,970,000 was cancelled and drawing on the time differentiation of expenses created in 2002 amounting to CZK – 48,040,000 was cancelled (therefore, expenses in that year decreased by CZK 7,070,000).

5. Bodies of the association

5.1. Board of Directors – statutory body of the association

Members of the Board of Directors from 9 December 2004 to 31 December 2004.

- Ing. Tomáš Maršálek (*1970)
Chairman of the Board of Directors
- Mgr. Ondřej Filip (*1977)
Vice-chairman of the Board of Directors
- JUDr. Marek Antoš (*1979)
Member of the Board of Directors

- Mgr. Karel Taft (*1971)
Member of the Board of Directors
- Bc. Michal Krsek (*1974)
Member of the Board of Directors

The Board of Directors acts and signs on behalf of the association for which at least two of its members are needed, one of which has to be the chairman or the vice-chairman of the Board of Directors.

Ing. Tomáš Maršálek, JUDr. Marek Antoš and Bc. Michal Krsek were elected at the General Meeting of the association on 9 December 2004.

1 January 2004 – 25 March 2004

- RNDr. Petr Král – Chairman of the Board of Directors
- Ing. Tomáš Maršálek – Vice-chairman of the Board of Directors
- Ing. Jiří Orság, CSc. – Member of the Board of Directors
- Mgr. Ondřej Filip – Member of the Board of Directors

25 March 2004 – 9 December 2004

- RNDr. Petr Král – Chairman of the Board of Directors
- Ing. Tomáš Maršálek – Vice-chairman of the Board of Directors
- Ing. Jiří Orság, CSc. – Member of the Board of Directors
- Mgr. Ondřej Filip – Member of the Board of Directors
- Mgr. Karel Taft – Member of the Board of Directors

Mgr. Karel Taft was elected fifth member of the Board of Directors at the General Meeting of the association on 25 March 2004.

RNDr. Petr Král and Ing. Jiří Orság, CSc. resigned as members of the Board of Directors on 22 November 2004, Ing. Tomáš Maršálek resigned on 9 December 2004.

5.2. Supervisory Board of the association

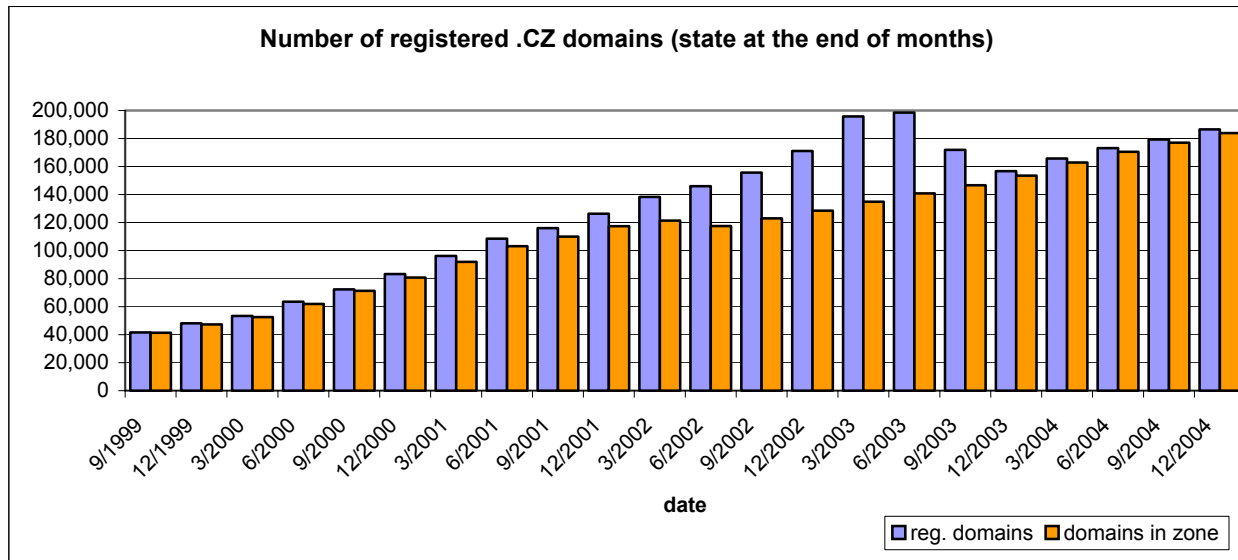
Members from 1 January 2004 to 31 December 2004

- Ing. Michael Macek, Chairman of the Supervisory Board
- Ing. Jiří Kysela, Member of the Supervisory Board
- Mgr. Jan Redl, Member of the Supervisory Board

6. Human resources

At the beginning of 2004 the association had five full-time employees, at the end of 2004 four employees.

7. Number of registered domain names of second level under .cz domain



Number of registered domains: Up to 9/2003 the number also included the applications for registration without paid-up filing fees. After the rules were changed on 15 September 2003, domain names are registered after their filing fees are paid up.

Number of domains in DNS: It is a subset of registered domains which successfully underwent technical tests. On average the central database contains about 3,000 domain names whose holders did not meet the conditions of technical tests, and which, therefore, are not included in DNS.

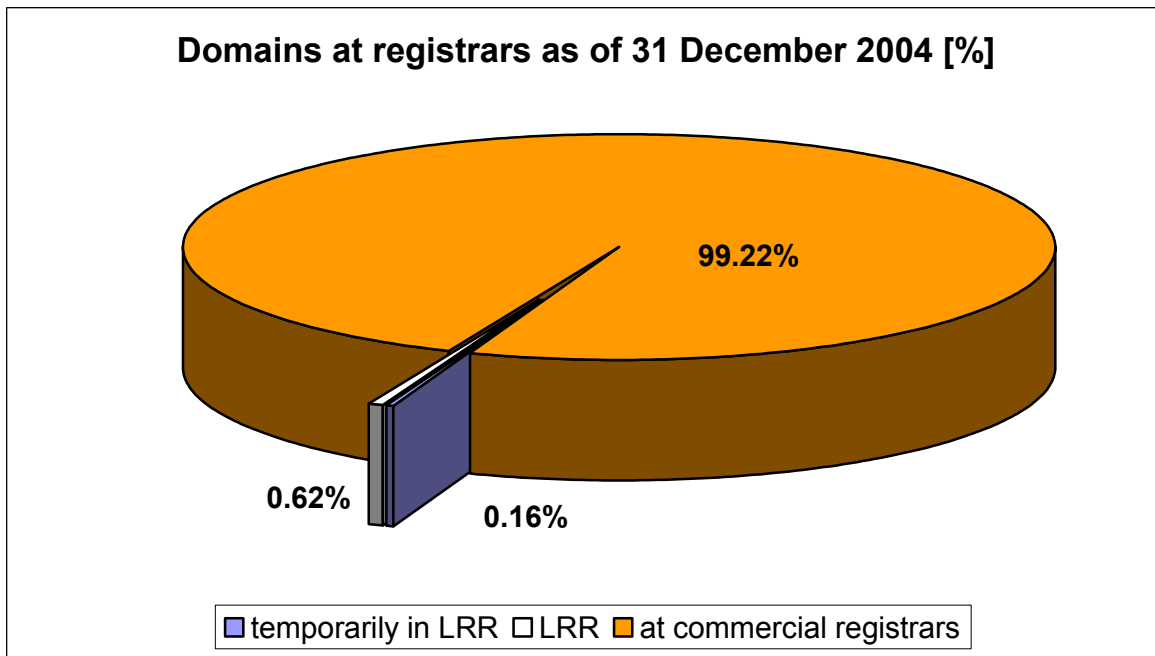
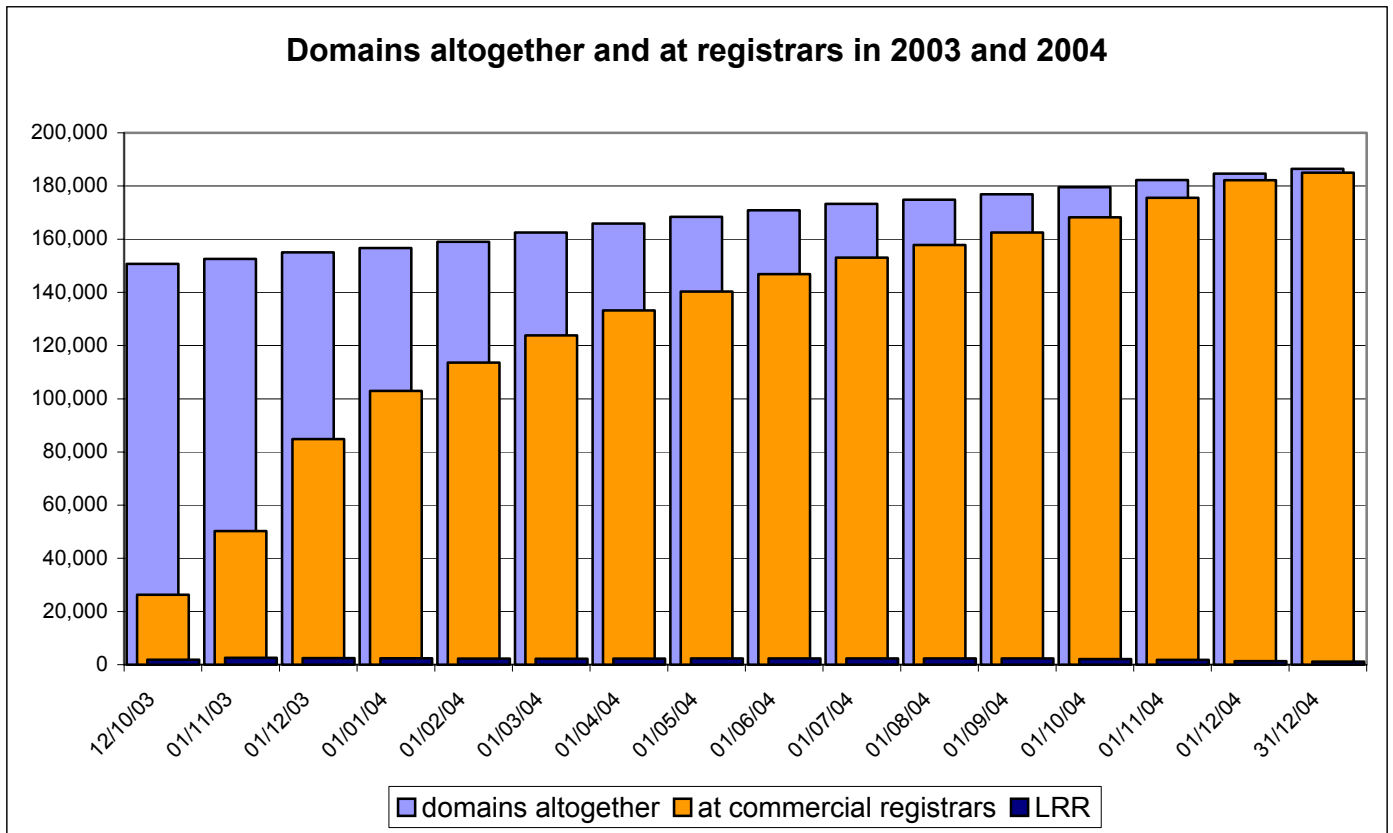
The difference of the two values from 2002 to 9/2003 shows, with a certain degree of inaccuracy, the number of domains which were repeatedly registered by speculators without paying the filing fee. Nevertheless, they did not hold attractive domain names, for no significant increase in registrations occurred at the end of 2003. The number of registered domains grew at a regular pace in 2004.

8. Decentralized administration of .CZ domain

In 2004 the operation of the Decentralized System of the Administration of .CZ Domain worked successfully. The number of registrars was stabilized and most of the domains registered in the past moved to those registrars. Whereas on 1 January 2004 the central registry contained 51,334 domain names without a specified registrar (it was 33 % of the total number of registered domain names), only 307 (0.2 %) of them remained in this category on 31 December 2004.

The following diagram shows the development of the number of domains with specified registrars:

On 31 December 2004 the ratio of domain names at registrars, in LRR and those unclassified was as follows:



In 2004 registrar InWay, a. s. discontinued its activities and the contract with Ha-vel family, s. r. o. was transferred to the association Český registrátor, z. s. p. o.

List of registrars as of 31 December 2004:

Czech On Line, a. s.
Český registrátor, z. s. p. o.
ČESKÝ TELECOM, a. s.

GENERAL REGISTRY, s. r. o.
GLOBE INTERNET, s. r. o.
IGNUM, s. r. o.
INTERNET CZ, a. s.
IPEX a. s.
KRAXNET s. r. o.
LRR (operates CZ.NIC)
Media4web s. r. o.
MIRAMO spol. s r. o.
NEXTRA Czech Republic s. r. o.
ONE.CZ s. r. o.
SkyNet, a. s.
Web4U s. r. o.
ZONER software, s. r. o.

9. Other activities of the association

F-ROOT anycast project

In order to contribute to the improvement in the stability of the name service in the Internet, CZ.NIC, in Prague in November 2004, put into operation, on the basis of a contract with Internet Systems Consortium (a Californian company), the administrator of the Internet root server “F”, a mirror of this server. At the time of putting it into operation it was only the third installation of a mirror of a root server in the countries of the former Eastern Bloc. After configuring peerings with individual providers of connection, associated in NIX.CZ, the local instance of the root server shortened the average time for responses to queries for this server from 100 msec to about 5 msec.

National Programme of Computer Literacy of the Ministry of Informatics of the CR

The objective of the National Programme of Computer Literacy (NPPG) is to make it possible for the general public to learn the basics of working with a computer and the Internet, and to help overcome fear of new technologies.

NPPG is based on practical 2-hour courses during which the participants, step by step, under the leadership of experienced instructors, learn to operate the computer, work and search in the Internet, and use e-mail. As opposed to similar courses provided by commercial entities, NPPG offers courses at reasonable prices for the public at large, and, in particular, for the older generation, for which computers and the Internet are not easily available.

CZ.NIC contributed CZK 2,000,000 for NPPG in 2004.

Registration of IDN (Internationalized Domain Names) – domain names with diacritics

In 2004 CZ.NIC was preparing to introduce IDN into the .cz national domain. As a part of those preparations, the association carried out a survey to find out the interest among companies actively operating in the Czech Republic in the introduction of second level domains with Czech diacritic marks. 313 competent representatives, out of the total number of 432 asked, expressed their opinions. One of the findings of the survey was that 76 % of organizations are not interested in the introduction of diacritic marks into domain names. On the basis of this survey, the association decided, for the time being, not to introduce IDN in the domain. CZ.NIC will continue to monitor the interest in the introduction of diacritic marks in the .cz domain, and also the situation in neighbouring countries and other countries of the EU, and is prepared to reopen the IDN project should the situation change.

10. Partners and cooperation

CZ.NIC, z. s. p. o., is a member of the following organizations:

ICANN/ccNSO	Internet Corporation for Assigned Names and Numbers (www.icann.org).
CENTR	Organization associating administrators of national domain names (www.centri.org).
EURid	Administrator of .eu domain names (www.eurid.eu).
RIPE NCC	One of five regional Internet registries providing allocations of Internet sources, e.g. IP addresses (www.ripe.net).
ITU	International Telecommunication Union (www.itu.int).
ISC	Internet Systems Consortium; organization supporting Internet infrastructure, operator of F-ROOT server (www.isc.org).

CZ.NIC, z. s. p. o., cooperates with these bodies of state administration:

Ministry of Informatics of the Czech Republic (www.micr.cz)

Czech Telecommunication Office (www.ctu.cz)

The association also cooperates and discusses its steps with other concerned bodies of the state administration: the Office for Personal Data Protection, the Court of Arbitration at the Economic Chamber of the Czech Republic and the Agrarian Chamber of the Czech Republic.

11. Auditor's Report

The auditing company NBG, s. r. o., having its seat in Prague 4, Bělehradská 18, identification number 62587358, licence No. 134 of the Chamber of Auditors, carried out the audit of the annual financial statements with this result:

On the basis of the audit of the annual financial statements as of 31 December 2004,
carried out from 26 May 2005 to 3 June 2005,
which presents, in the auditor's opinion,
taking into consideration the procedures and methods used,
a reasonable basis for his statement,

CZ.NIC, z.s.p.o.

received, without any reservations, the following statement:

“The financial statements were compiled on the basis of books kept in conformity with effective legal regulations of the Czech Republic.
In the auditor's opinion,
the financial statements present, in all material respects,
a true and fair view of the assets, liabilities, equity
and financial position of the accounting unit, and its economic results
in 2004.”

Only data contained in the financial statements and ledgers were audited.

Ing. Tomáš Brumovský
Auditor

Prague, 3 June 2005

12. Balance Sheet

(in thousands of CZK)

	2003	2004
Total assets	95,486	100,982
Fixed assets	8,627	6,347
Intangible fixed assets		1,841
Tangible fixed assets	8,627	4,506
Financial investments		
Securities		
Current assets	45,182	94,251
Inventory		
Long-term receivables		
Short-term receivables	390	880
Financial assets	44,792	93,371
Other assets	41,677	384
Total liabilities	95,486	100,982
Equity	8,051	6,014
Registered capital		
Capital contributions		
Funds from profit	7,627	7,627
Retained earnings		424
Profit/loss of the current period		-2,037
Liabilities	17,104	16,786
Provisions		
Long-term liabilities		
Short-term liabilities	17,104	16,786
Bank loans		
Other liabilities	70,331	78,182

13. Profit and Loss Account

(in thousands of CZK)

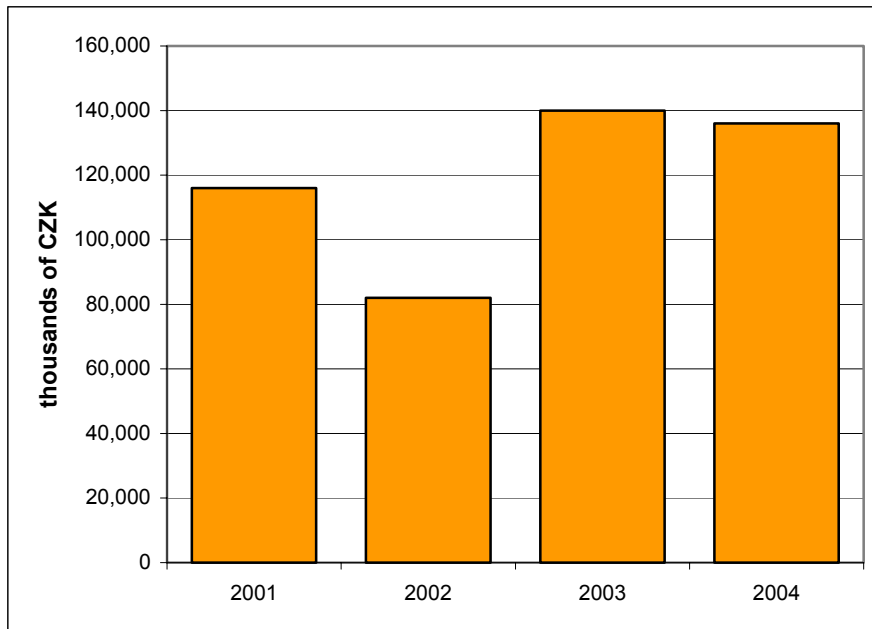
	2003	2004
Production and sales	139,805	136,250
Revenue and sales thereof	139,805	136,250
Own work capitalized		
Cost of sales and expenses	127,252	124,497
Added value	12,553	11,753
Personnel expenses	6,951	5,923
Depreciation of assets	2,440	4,294
Change in provisions		
Other operating revenues	463	421
Other operating expenses	394	598
Operating profit/loss	3,231	1,359
Other financial revenues	443	961
Other financial expenses	685	2,719
Profit/loss from financial operations	-242	-1,758
Profit/loss from ordinary activities	2,989	-399
Extraordinary revenues		
Extraordinary expenses	2,565	1,638
Extraordinary profit/loss	-2,565	-1,638
Profit/loss	424	-2,037

14. Events that occurred between the date of compiling the financial statements and the date of the General Meeting

No events influencing the financial statements for 2004 occurred in the stated period.

15. Development of revenues

The following diagram shows the development of revenues of the association from registrations and extensions of registrations of domain names according to individual years. The value for 2002 was influenced by the introduction of time differentiation of revenues. The decline in revenues in 2004, as opposed to 2003, was caused by launching the decentralized administration of the domain; most of domain names were transferred to commercial registrars, which purchase from the association at wholesale prices.



16. Position on the market

The administrator of a national domain must be, logically, only one; nevertheless, there may be more registrars working alongside each other, and that is why commercial registrars have been included in the administration of the domain since 2003 (for details see chap. 8). We, in cooperation with them, create the conditions in which holders of domain names may fully rely on the functioning of the Czech national Internet domain.