



The Annual Report
2005

Opening statement by the Chairman of the Board of Directors

Ladies and Gentlemen,

in 2005 several important events occurred in the CZ.NIC association and in the top-level domain of .CZ.

In the organisational sphere I would like to mention first of all the change in the statutes of the association, which brings in particular greater stability from the point of view of any hostile takeover. This change also gave rise to a further body – the collegium – with direct participation of the state. A new director of the association has been selected whose task is to construct his own team of people who will administer the domain of .CZ after the termination of the agreement with the existing outsourcing supplier.

Connected with this is a further important event of 2005 – the decision to take the path in the future of having our own employees who will ensure the operation of the technical part of the top level domain of .CZ, i.e. the in-house.

In the sphere of price policy the acquisition fee for the domain has been abolished. There has also been a considerable reduction in the annual payment to registrars and a new minimum advance payment of 500,000 crowns a year has been introduced, which represents the minimum volume of payments for registrations or for the renewal of the registrations of domain names. We have also ended the possibility of registering new domain names in LRR, with the prospect of complete abolition of LRR as a registrar. Our intention is to leave LRR only the function of a „safety net“ due to its purposelessness so far (at the end of 2005 there were only around 880 domains in LRR).

In the first half of 2005 CZ.NIC recorded the small milestone of 200,000 registered domains in .CZ. In the course of 2005 there were new registrations of a total of 57,369 domain names, which meant a 19% growth in new registrations compared with 2004.

The CZ.NIC association also took further steps supporting its openness towards the professional and lay public. A middle-term strategy has been published and shortened records of the general meetings are also made public.

An important event from the legislative sphere was the preparation of a joint memorandum with the Ministry of Informatics of the Czech Republic concerning mutual cooperation and the respecting of CZ.NIC as the administrator of the national domain .CZ.

CZ.NIC continued further in 2005 with the cooperation with important international organisations, concretely ICANN, CENTR and EURid. Certainly worthy of your attention is the fact that the Arbitration Court attached to the Economic Chamber of the Czech Republic and the Agricultural Chamber of the Czech Republic with headquarters in Prague was selected as the court of arbitration centre for the domain of .EU, the registration of which successfully began with the sunrise phase on 7 December 2005.

The key task for the further period of CZ.NIC will be first and foremost to create a compact working team, which will ensure the reliable technical operation of the .CZ domain even after the termination of the present agreement with the outsource contractor.

Ing. Tomáš Maršálek, Chairman of the Board

2

Basic characteristics of the association

CZ.NIC, z. s. p. o. was established by its registration in the Register of Special-interest Associations of Legal Entities kept by the Department of Internal Affairs of the Authority of the Borough of Prague 6 on 27. 5. 1998 under the number ZS/30/3/98. Now it is listed under the same number in the Civil Law Issues Department of the Municipal Authority of the Capital city of Prague.

Headquarters of the Association: Lužná 591, 160 00 Prague 6

Company ID: 67985726

Tax ID: CZ67985726

Telephone: +420 235 355 309

Fax: +420 220 121 184

E-mail: kontakt@nic.cz

URL: <http://www.nic.cz>

Changes in the membership base in the course of 2005

New members

Name	Company ID	From
Com-Sys TRADE spol. s r. o.	16188781	1. 1. 2005
Unisys s. r. o.	48109291	1. 1. 2005
Internet Mall, a. s.	26204967	1. 9. 2005
Webarium s. r. o.	26089602	1. 9. 2005
SUPPLEJACK s. r. o.	27141659	1. 9. 2005
CASABLANCA INT s. r. o.	25079832	1. 10. 2005
SuperNetwork s. r. o.	25492063	1. 10. 2005
Internet CZ, a. s.	26043319	1. 11. 2005
Trustica s. r. o.	26514362	1. 11. 2005
VIZUS.CZ s. r. o.	27155315	1. 11. 2005

The significant growth in the number of members of the association in 2005 was fundamentally influenced by the change in the Statutes of the Association, which were approved by the General Assembly on 20 June 2005. Through this change there was not only a reduction in the initial membership fee from the original 50,000 CZK to 5,000 CZK, but also and in particular the transition to the chamber system, which gave all members an equal opportunity to promote new proposals at meetings of the association. The members of the association are newly divided into three chambers – the ISP chamber, the registrars' chamber and the chamber of holders of domain names. For membership in the individual chambers it is necessary to fulfil, apart from the general conditions of membership in the association, also special conditions, which may be, for instance, that the applicant for membership is a holder of at least one domain name of the second level below the national domain .cz (chamber of holders of domain names), a contractual relationship with the association (chamber of registrars of domain names) or the existence of authorisation to do business (ISP chamber).

State of membership base as of 31.12.2005

Name	Company ID
Active 24, s. r. o.	25115804
AliaWeb, spol. s r. o.	26117363
AUDITEL, s. r. o.	26775034
BT Česká republika (organisational unit)	70802025
CASABLANCA INT s. r. o.	25079832
CESNET z. s. p. o.	63839172
Com-Sys TRADE spol. s r. o.	16188781
CP Online, a. s.	26288311
CZECH ON LINE, a. s.	63080150
ČESKÝ TELECOM, a. s.	60193336
Dial Telecom, a. s.	25135198
Equant Czech Republic, s. r. o.	49620037
ETEL, s. r. o.	25630636
EXPLORER a. s.	26726653
GTS NOVERA a. s.	61058904
IBA Chomutov s. r. o.	64051641
IBM Česká republika, spol. s r. o.	14890992
ICZ a. s.	25145444
IGNUM s. r. o.	26159708
Internet CZ, a. s.	26043319
Internet Info, s. r. o.	25648071
Internet Mall, a. s.	26204967
IPEX a. s.	45021295
KRAXNET s. r. o.	26460335
NEXTRA Czech Republic, s. r. o.	25683691
NextiraOne Czech s. r. o.	26175738
Qnet CZ s. r. o.	25518097



State of membership base as of 31.12.2005 (continued)

Name	Company ID
SkyNet a. s.	25346687
Software602 a. s.	63078236
SuperNetwork s. r. o.	25492063
SUPPLEJACK s. r. o.	27141659
Trustica s. r. o.	26514362
T-Systems PragoNet, a. s.	61059382
Unie vydavatelů	15887081
Unisys s. r. o.	48109291
VIZUS.CZ s. r. o.	27155315
Web4U s. r. o.	26058774
Webarium s. r. o.	26089602
ZONER Software, s. r. o.	49437381

3

Mission of the Association

3.1

Activity of the Association

- + The Association is the administrator of the top level domain (ccTLD) .CZ.
- + The activity of the Association is realised through the business activity of the Association.

3.2

Subject of Business of the Association

- ✦ The Association defines the rules of registration of domain names under the top level domain .CZ, currently updates these rules and creates mechanisms for ensuring their observance.
- ✦ It ensures the registration of domain names of the second level under the top level domain .CZ.
- ✦ It ensures the operation of nominal servers for the .CZ domain.
- ✦ It represents the top level domain .CZ in the coordination of national and regional registrars and standardisation institutions.

The Association may, on the basis of the decision of the collegium, carry out further activities in the framework of business.

4

Selected Financial Indices [in thousands of CZK]

YEAR	1999	2000	2001	2002	2003	2004	2005
Revenues	32 396	94 033	117 904	83 359	140 712	137 632	139 167
Costs	29 616	87 248	114 736	85 194	140 288	139 669	106 557
Profit/loss after tax	2 780	6 785	3 168	-1 835	424	-2 037	32 610

5

Composition of Bodies of the Association

The highest body of the Association is the General Assembly. On the basis of the change in the Statutes of the Association, which was approved by the General Assembly on 12 December 2005, a further body of the Association became the 21-member collegium – 18 members are elected by the individual chambers and 3 members are nominated by bodies of state administration. The statutory body is the Board of Directors and the control body is the Supervisory Board. The members of these bodies in 2005 were the following persons:

5.1

The Collegium

Composition from
12. 12. 2005 to 31. 12. 2005.

Members of the Collegium for the Chamber of Holders of Domain Names:

JUDr. Marek Antoš

Ing. Jan Hájek

Jan Hřebíček

Ing. Tomáš Maršálek

PhDr. Jan Pochman

Mgr. Markéta Švecová

Members of the Collegium for the ISP Chamber:

Mgr. Ondřej Filip

Ing. Ondřej Fryc

Bc. Michal Krsek

Ing. Michael Macek

Zbyněk Pospíchal

Václav Rattay

Members of the Collegium for the Chamber of Registrars:

Ing. Petr Komárek

Bc. Martin Kukačka

Robert Prokeš

Mgr. Jan Redl

Mgr. Karel Taft

Ing. Karel Umlauf

Members of the Collegium nominated by bodies of state administration:

Ing. Marek Ebert (Czech Telecommunications Office)

Mgr. Tereza Gáliková (Ministry of Informatics of the Czech Republic)

JUDr. Marie Moravcová (Economic Chamber of the Czech Republic)

5.2

The Board of Directors – the statutory body of the Association

Composition of the Board from 20. 6. 2005 to 31. 12. 2005.

Ing. Tomáš Maršálek (*1970), Chairman of the Board

Mgr. Karel Taft (*1971), Vice-chairman of the Board

JUDr. Marek Antoš (*1979), member of the Board

Ing. Jiří Kysela (*1955), member of the Board

Bc. Michal Krsek (*1974), member of the Board

The Board of Directors acts and signs on behalf of the Association, in particular two of its members jointly, in which case one of these members must be the Chairman or the Vice-chairman of the Board.

Composition of the Board from 1. 1. 2005 to 26. 5. 2005.

Ing. Tomáš Maršálek, Chairman of the Board

Mgr. Ondřej Filip, Vice-chairman of the Board

JUDr. Marek Antoš, member of the Board

Bc. Michal Krsek, member of the Board

Mgr. Karel Taft, member of the Board

On 26.5.2005 member of the Board Mgr. Ondřej Filip resigned from his function. On 20.6.2005 Ing. Jiří Kysela was elected as the fifth Board member at the General Assembly.

5.3

The Supervisory Board of the Association:

Composition from 12. 6. 2005 to 31. 12. 2005

Ing. Michael Macek, Chairman of the Supervisory Board

RNDr. Ing. Jiří Peterka, member of the Supervisory Board

Mgr. Jan Redl, member of the Supervisory Board

On 19.6.2005 Ing. Jiří Kysela resigned from the function of member of the Supervisory Board. At the General Assembly on 20.6.2005 RNDr. Ing. Jiří Peterka was elected.

Composition from 1. 1. 2005 to 19. 6. 2005

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

6.1

Management

From 1 January 2005 the leadership of the association was entrusted, on the decision of the Board of Directors, to Mgr. Ondřej Filip. On the basis of the selection proceedings realised and the favourable results for the first half of 2005 he was confirmed in the function of Executive Director. Mgr. Ondřej Filip took up his function on 1 June 2005.

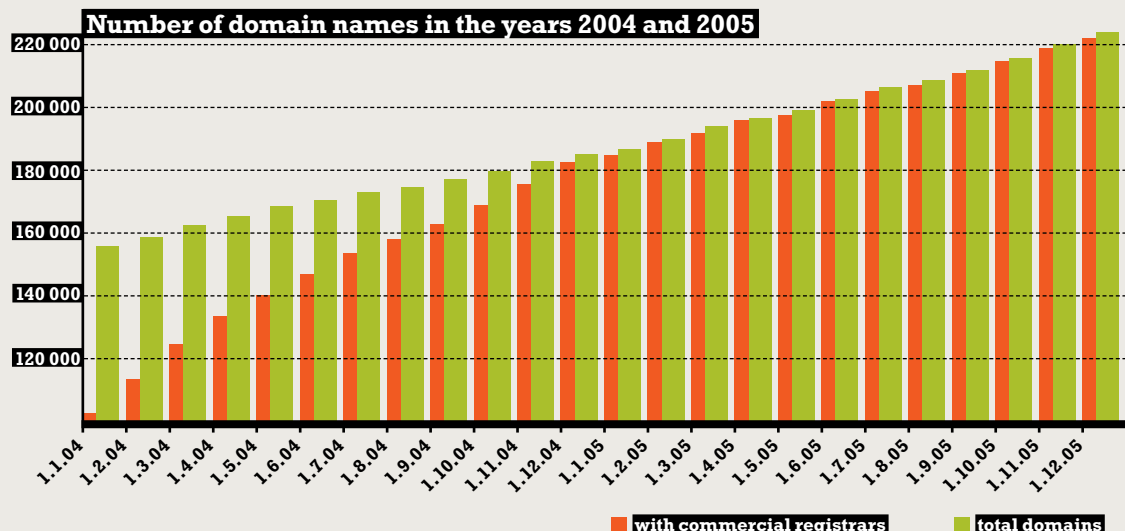
6.2

Employees

At the beginning of 2005 there were 4 employees working fulltime in the association and at the end of 2005 there were 6 employees.

7

Development of number of registered domain names of the second level under the .CZ domain



8

Decentralised administration of the .CZ domain

In the course of 2005 the successful operation of the Decentralised System of administration of the .CZ domain took place.

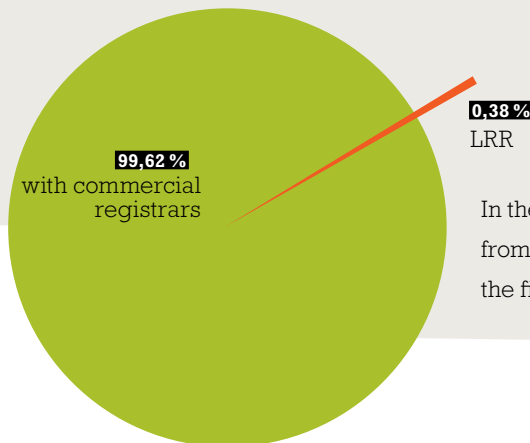
As of 1 January 2005 the price of the registration of a domain name (this means the price accounted to the registrars) was reduced from 400 CZK to 300 CZK and at the same time there was also a reduction in maintenance of the record of one domain name from 600 CZK to 500 CZK a year (again this is the price for registrars).

This reduction in price was also one of the reasons for the continuing increase in the number of domain names – as of 1 January 2005 there were 186,456 registered, whereas by 31. 12. 2005 there were already 226,074 registered domain names. The passing of the limit of 200,000 registered domain names took place on 5 May 2005.

The number of registrars is stabilised – in the course of the year there was no change in their number, only the association of Český registrátor, z. s. p. o. transferred its agreement to the firm of ha-vel internet s.r.o.

In the entire course of 2005 there continued to be a reduction in the number of domain names that had as their designated registrar LRR (a registrar operated directly by the CZ.NIC association), this being from 1,156 in January to 876 in December 2005. At the end of 2005 more than 99.6 % of all registered domain names were placed with commercial registrars.

As of 31 December 2005 the ratio of domain names with registrars and in LRR was as follows:



In the course of 2005 there was a transfer of the contract from the association of Český registrátor, z. s. p. o. to the firm of ha-vel internet s. r. o.

Current List of Registrars as of 31.12.2005

Czech On Line, a. s.

LRR (operated by CZ.NIC)

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.

IGNUM, s. r. o.

ONE.CZ s. r. o.

ha-vel internet s.r.o.

SkyNet, a. s.

INTERNET CZ, a. s.

Web4U s. r. o.

IPEX a. s.

ZONER software, s. r. o.

KRAXNET s. r. o.

9

Medium-term strategy of the Association for the years 2005 – 2009

The General Assembly of the Association, held on 20 June 2005, approved the medium-term strategy for the years 2005 – 2009 submitted by the Board of Directors. In accordance with this strategy and on the basis of professional analysis, which was carried out by the firm of Ernst & Young Česká republika s. r. o., the Board of Directors decided on the launching of the development of their own system for the technical operation of the .cz domain. Their own system and human resources will be used for the administration of the .cz domain after the expiry of the agreement with the present supplier of services, the firm of T Systems PragoNet a. s.

10

Further Activity of the Association

10.1

Settlement of disputes over the domain name .EU

One of the results of the cooperation of the association of CZ.NIC, z. s. p. o. and the organisation EURid vzw/asbl, which acts as the administrator of the .EU domain names and is already an associate member of CZ.NIC, is that the Arbitration Court attached to the Economic Chamber of the Czech Republic and the Agricultural Chamber of the Czech Republic has been entrusted with the settlement of conflicts in the .EU domain.

12

10.2

Beginning of the work on the ENUM project

At the close of 2005 the project was launched for the implementation of the registration system for the Tier1 register TLD 0.2.4.e164.arpa. The system will be used for the registration and administration of the ENUM domain of telephone numbers and the series of numbers from the prefix 420 belonging to the Czech Republic.

11

Partners and Cooperation

The association of CZ.NIC, z. s. p. o., is a member of the following organisations:

ICANN/ccNSO	Internet Corporation for Assigned Names and Numbers (www.icann.org).
CENTR	Organisation 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 registers providing allocation of Internet sources, e.g. IP addresses (www.ripe.net).
ITU	International Telecommunication Union (www.itu.int).
ISC	Internet System Consortium; organisation supporting the Internet infrastructure, operator of the F-ROOT root server (www.isc.org).

The association of CZ.NIC, z. s. p. o., cooperates actively with the following bodies of state administration:

- + Ministry of Informatics of the Czech Republic (www.micr.cz)
- + Czech Telecommunication Office (www.ctu.cz)

The association of CZ.NIC, z. s. p. o. further cooperates and consults its steps with other interested subjects of state administration – the Office for Personal Data Protection, the Arbitration Court attached to the Economic Chamber of the Czech Republic and the Agricultural Chamber of the Czech Republic.

The auditing company of ADU.CZ s.r.o., with headquarters at Malenice 68, Strakonice, Company ID 62522078, Certificate of the Chamber of Auditors No. 368, carried out the auditor's scrutiny of the annual final accounts with the following statement:



Report of the independent auditor for the members of the special-interest association of legal entities CZ.NIC

We verified the attached final accounts of the association of CZ.NIC special-interest association of legal entities as of 31.12.2005. The Board of the Association is responsible for the compiling of these accounts. Our task is to issue a statement on these final accounts on the basis of the audit made.

We carried out the audit in accordance with the Law on Auditors and the International Auditing Standards and the related application clauses of the Chamber of Auditors of the Czech Republic. These standards require that the audit should be planned and executed in such a way that the auditor acquires adequate certainty that the final accounts do not contain significant inaccuracies. The audit includes the check, carried out in a selective manner, of the completeness and demonstrability of amounts and information given in the final accounts. The audit also includes the consideration of the accounting methods used and significant estimates made by the Board and also the evaluation of the evidential ability of the final accounts. We are convinced that the audit made provides an adequate base for the issue of the auditor's statement.

In our opinion the final accounts provide, in all important aspects, a true and fair picture of the assets, liabilities and financial situation of the Association as of 31 December 2005 and of the costs, revenues and result of economic management in 2005 in accordance with the accounting regulations valid in the Czech Republic.

The auditor hereby expresses, on the basis of the audit made of the final accounts of the association of CZ.NIC, z.s.p.o., compiled as of 31 December 2005,

A STATEMENT WITHOUT RESERVATIONS.

Strakonice, 28 April 2006



ADU.CZ s.r.o.
Licence of KA CR No. 368

Ing. Simona Pacáková
KA CR Certificate No. 1825

Headquarters of ADU CZ s.r.o. Malenice 56, Strakonice, Tel./Fax 383 371 000, E-mail: adu@adu.cz

Balance Sheet [in thousands of CZK]

	2003	2004	2005
Total assets	95 486	100 982	147926
Fixed assets	8 627	6 347	3044
Intangible assets		1 841	1179
Tangible assets	8 627	4 506	1865
Financial investments	–	–	–
Securities	–	–	–
Current assets	45 182	94 251	144882
Inventory	–	–	–
Long-term receivables	–	–	–
Short-term receivables	390	880	852
Financial assets	44 792	93 371	144030
Other assets	41 677	384	0
Total liabilities	95 486	100 982	147926
Equity capital	8 051	6 014	38624
Register capital	–	–	–
Capital funds	–	–	–
Funds from profit	7 627	7 627	7627
Profit/loss from previous years	–	424	-1613
Profit/loss of accounting period		-2 037	32610
Liabilities	17 104	16 786	26831
Reserves	–	–	–
Long-term payables	–	–	–
Short-term payables	17 104	16 786	26831
Bank loans	–	–	–
Other liabilities	70 331	78 182	82471

Profit and Loss Statement [in thousands of CZK]

	2003	2004	2005
Production and sales	139 805	136 250	139 020
Of this revenues and sales	139 805	136 250	139 020
Capitalisation	-	-	-
Production consumption and costs	127 252	124 497	82 074
Added value	12 553	11 753	56 946
Personnel costs	6 951	5 923	6 053
Depreciation of assets	2 440	4 294	4 944
Accounting for reserves	-	-	-
Other operating revenues	463	421	-475
Other operating costs	394	598	321
Operating profit/loss	3 231	1 359	45 135
Other financial revenues	443	961	622
Other financial costs	685	2 719	115
Profit/loss from financial operations	-242	-1 758	507
Ordinary income	2 989	-399	45 642
Extraordinary revenues	-	-	-
Extraordinary costs	2 565	1 638	-
Extraordinary income	-2 565	-1 638	-
Profit/loss	424	-2 037	32 610

The reduction of the level of the fees for the registration of domain names and the keeping of a record of the domain with regard to the accredited registrars was positively reflected in the prices for end customers and thus also in the rate of the rise in the number of newly registered domain names. With regard to the development of revenues and thus also the expected level of profit the Board decided in October 2005 on further changes in the price list of services for registrars – the abolition of the single registration fee for registration of a domain name and a number of other charges. These changes come into effect from the beginning of 2006.

The high profit achieved by the Association in spite of the reduction in prices for domain names will be invested first and foremost in the development of its own system for the administration of the national domain .cz in accordance with the approved strategy and for building a financial reserve, which will ensure the sufficient stability of the association in the case of unexpected expenses.

15

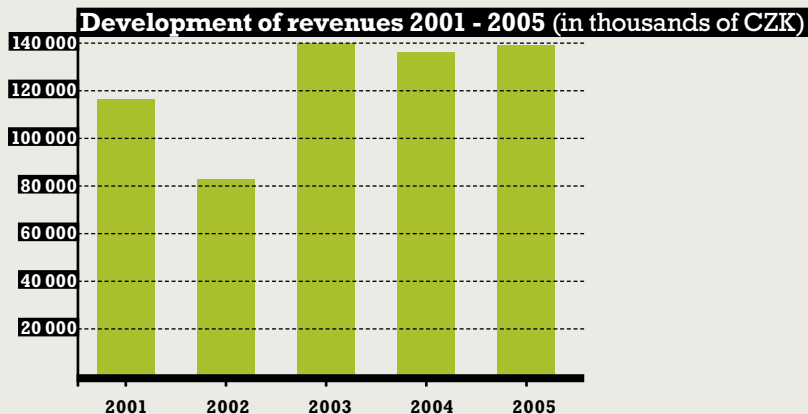
Information on facts between the date of the final accounts and the General Assembly

In the stated period no events occurred that would have an influence on the data presented in the final accounts for 2005.

16

Development of revenues

The following graph shows the development of the revenues of the Association for registration and extending the registration of domain names according to individual years. The value in 2002 was influence by the start of accruals of revenues. The drop in revenues in 2004 compared with 2003 is caused by the starting of the decentralised administration of the domain, when the vast majority of domain names were transferred to commercial registrars who buy from the Association at wholesale prices.



17

Standing on the market

The administrator of the national domain must basically be a single thing – but several registrars can work alongside one another and therefore commercial registrars have been included in the administration of the domain since 2003 (for details see Chapter 8). Together with them we see to it that the holders of domain names can rely to the maximum extent on the functioning of the Czech national Internet domain.



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

CZ.NIC, zájmové sdružení právnických osob
Americká 23, 120 00 Prague 2
tel.: +420 222 745 111, fax: +420 222 745 112
www.nic.cz, kontakt@nic.cz