



ANNUAL REPORT 2005

EURid



YOUR EUROPEAN IDENTITY

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Comments from the Managing Director

2005 was extraordinary for .eu in many respects, not least of all because it was the year in which .eu first opened for business. As a result, the annual report covering this period will also be somewhat exceptional. Up until the last month, December, EURid only incurred costs and did not generate any income. The first income arrived with the Sunrise applications on December 7 and consequently the annual report for 2005 will be unique and difficult to compare to future reports which should document more normal activity.

Due to the fiscal unconventionalities of the period in question, the financial part of the annual report may also be a bit difficult to interpret. An extensive addendum to the balance sheet and the income statement with relevant comments to explain the figures is therefore presented further on in this report. However, in the first section we will present a brief history of the events leading up to the first launch of .eu in December 2005.

It has indeed been a very hectic and often stressful year while all the necessary preparations were being made to get .eu operational on time. We can conclude that, in extremely limited time, a terrific job has been done. This has been possible thanks to the vision, experience and professional guidance of the members of the board, the competence and dedication of the management team and the enthusiasm and flexibility of the staff members. It has surely been a pleasure to be the Managing Director of such a team of people.

I would also like to thank the EURid members for making available their invaluable know-how and resources. Without that, the launch of .eu would not have been as smooth as it was.



MARC VAN WESEMAEL
Managing Director of EURid

Background on EURid and .eu

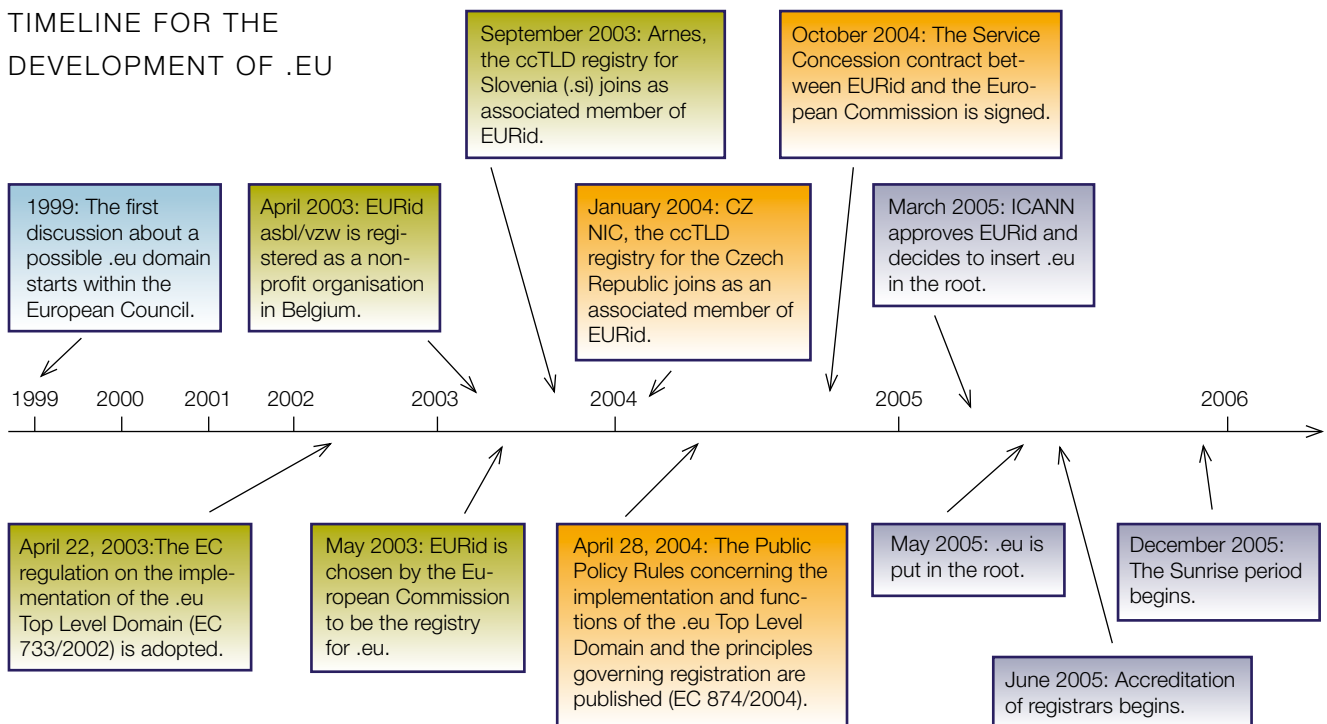
EURid, the registry for .eu, was established as a not-for-profit organisation on April 8, 2003 and two and half years later, in December 2005, .eu officially opened. The commission's call for the expression of Interest to run the planned top level domain .eu served as the catalyst. EURid put together a bid showing how it would operate .eu. This bid was well received by the Commission and as an end result, EURid was appointed to be the registry of .eu in May of 2003. Much preparatory work was done and many discussions and negotiations were held with the European Commission in the time between EURid's inception and the launch of .eu, as all concerned strove to get everything ready on time.

Before EURid had its own staff and office, much of the work was done by the founding members, DNS.BE, NIC-SE and CNR ITT; the organisations running the national top level domains for Belgium, Sweden and Italy.

During 2003 and the first quarter of 2004, EURid advised the European Commission and the Member States in creating the Public Policy Rules, the rules that determine who can have a .eu domain name and under which conditions, and the final version, published as the regulation 874/2004, in the Official Journal on 30th April 2004, is a compromise of the many different views of each Member State.

Following this, EURid negotiated a concession contract with the European Commission for a period of 5 years that can be extended for another 5 years. The contract was signed on October 12, 2004.

TIMELINE FOR THE DEVELOPMENT OF .EU



Important steps during 2005

Given the specific nature of the EURid model, which relies heavily on the models of the founding members as well as limited financial resources, services from the founding members were crucial to the successful launch of the .eu. To that end, outsourcing service contracts were entered into with the members and approved by the European Commission. These member-provided services were not to exceed the budgeted amounts and had to be terminated at the start of the general launch.

In 2005, the members produced 2152 man days of services. Some projects required more time than had been foreseen but in accordance with the budget, EURid was only invoiced for 1961 man days.

The ICANN agreement

A top level domain is useless unless it forms a part of the global domain name system on the Internet, DNS. To insert .eu into the DNS, EURid contacted ICANN, (Internet Corporation for Assigned Names and Numbers,) the global organisation overseeing all of the top level domains in the world. A contract was drafted and subsequently agreed upon. On April 29, 2005, the .eu was put in the zone file on the root servers which, from a strictly technical point of view, marks the birth of .eu. And with that, eurid.eu became the first operational .eu domain name.

Agreement with validation agent

In .eu's infancy a decision was made to have an introductory period of phased registration – a Sunrise – during which only applicants with a prior right to a name could apply for that name as a .eu domain name. To facilitate this introductory period, EURid consulted the Intellectual Property Rights community on how such a process could be orchestrated, in particular the logistical aspects of examining all the applications received. As a result of these discussions tenders from various validation agents were evaluated, PricewaterhouseCoopers was selected and a contract drawn up and concluded. The European Commission was kept apprised during this tendering process.

Establishing an Alternative Dispute Resolution procedure, ADR

From the outset (in accordance with the Public Policy Rules (EC 874/2004) it was decreed that .eu would set up an Alternative Dispute Resolution procedure which would allow complainants to appeal decisions regarding .eu domain names via an independent panel rather than a public court. EURid set about establishing such a procedure by contacting various parties - The World Intellectual Property Organisation (WIPO), The International Chamber of Commerce (ICC) and the Czech Arbitration Court - to see whether any of them would be able to facilitate the procedure in accordance with Public Policy Rules. Only the Czech Arbitration Court was able to provide its services in all official langu-

ages of the European Union and consequently EURid and the Court signed a Memorandum of Understanding on 11 April 2005.

Accrediting registrars

The .eu model, as described in the EC regulations, prevents the registry from accepting direct registrations from the end user but requires it to work with agents or registrars who compete in providing service to the end users or the registrants.

In order to launch the Sunrise phase accredited registrars had to be in place to accept pre registrations. The accreditation process started on June 13, 2005 and after 2 weeks 101 registrars had signed the accreditation agreement. By the time Sunrise began, this number had grown to 1559 accredited registrars who could offer their services in all official languages of the EU.

The final touch to all Sunrise and legal documents

During August and September 2005 EURid prepared all policies and procedures necessary for Sunrise and general registration. Documents that were drafted during this busy time include the Registrant Terms and Conditions, Registration Policy, WHOIS Policy, the Sunrise Rules and the ADR rules. All these documents had to be translated and published in twenty languages which certainly was a complicating factor. All drafts were sent to the EC for comments and approval before being published on the EURid website.

An independent safety back up in place before the launch

EURid also negotiated an escrow agreement along the lines of the concession contract with the European Commission. Consequently, the database are left with an independent body as a safety back up in case something should happen to EURid. The guiding principle behind this is that another party should be able to pick up activities so that the Internet community in general and the .eu registrants in particular should not suffer any harm or inconvenience, should EURid ever face bankruptcy or experience any other serious difficulties fulfilling its commitments.

The EURid software is based on the work of DNS.BE

Registration of domain names, as well as applying for a name during the phased registration period, is a fully automated process and EURid obtained the software enabling these functions from DNS Belgium; one of EURid's founding partners. A royalty free licence was signed and approved by the Commission. This license includes access to the source code and this code may be further modified by EURid for its own use. All modifications to the software are owned by the European Commission.

Informing the outside world

To educate registrars as to the rules and policies surrounding .eu, many different steps were taken, among which a series of workshops. The first of these held on May 27 to explain the procedures and the process of becoming a registrar. This workshop was supported by extensive information on the website and numerous and regular electronic newsletters to potential registrars and other interested parties.

During the fall of 2005 when most processes had been finalised and EURid had a firm grip on how the launch and the procedures would work, a road show was organised during which EURid presented itself and the plans for the .eu launch. The road show took the form of a series of six one day seminars held in various locations throughout Europe. The purpose of these seminars was to further inform the registrars, the press and the public at large of .eu. The first seminar was held in Brussels on October 10, followed by Ljubljana (Oct 17), Pisa (Oct 21), Stockholm (Oct 26), Prague (Nov 8) and Madrid (Oct 10). In total more than 500 people attended the meetings.

From 0 to 15 staff members during 2005

EURid recruited its first official employee in April and thereafter rapidly established a core team which became fully operational in June. By the end of 2005, EURid could boast 15 employees working either on permanent or interim contracts.



The launch of the Sunrise period

All preparations were put to the test on December 7, 2005 at 11:00 Belgian time, when the EURid systems opened and began accepting Sunrise applications from accredited registrars made on behalf of their customers. During the first 2 months of the launch, only Trademarks, Geographical Indications and designations of Origin and Public Bodies were accepted as valid rights.

By 12 noon, only 1 hour after opening, 83.645 successful applications had already been received. That first hour saw an average of 1757 transactions executed per minute, with peaks of over 8200 transactions. By the end of the first day, 104.665 applications had been filed, 8.161 of these by public bodies, 73.581 for national trademarks, 22.244 for international or community trademarks and 679 for geographical indicators or designations of origin and by the end of the year the total number of applications had grown to 149.222.

The systems worked seamlessly and at the end of 2005 the validation agents could commence with validating the first Sunrise applications.



Income Statement

	TOTAL	Q1	Q2	Q3	Q4
Registration rights	734 590	-	-	-	734 590
New names	-	-	-	-	-
renewals	-	-	-	-	-
service fees	-	-	-	-	-
transfer fees	-	-	-	-	-
reactivations	-	-	-	-	-
trades	-	-	-	-	-
transfer from quarantine	-	-	-	-	-
sunrise applications	734 590	-	-	-	734 590
Financial revenues	-15 209	-10 461	-11 150	-11 921	18 323
General costs	506 541	32 454	57 821	123 150	293 116
Services from partners	1 198 072	-	43 933	383 700	770 439
Depreciation cost	46 526	-	2 868	11 002	32 655
From previous investments	-	-	-	-	-
From Y2005 investments	46 526	-	2 868	11 002	32 655
Human Resources	536 175	42 920	107 248	143 091	242 916
Operating Expenses	234 466	1 491	3 905	210 184	18 887
Result	-1 802 399	-87 326	-226 925	-883 049	-605 099

Balance Sheet

	in EUR	in EUR
ASSETS	2005	2004
Assets		
Assets	469 459	0
Receivables		
Customers	2 285 133	114 087
Banks	15 970 003	699 652
Others	401 690	4 108
Expenses paid in advance	54 656	
TOTAL ASSETS	19 180 941	817 847
LIABILITIES	2005	2004
Partners equity		
Profit & Loss Previous year	-740 296	0
Year to Date Profit & Loss	-1 802 399	-740 296
Payable		
Long term Financial debt	952 702	831 000
Short term debt		
Suppliers	11 136 273	709 605
Tax and social security	51 535	0
Registrars advance payments	9 524 300	
Other	58 827	17 538
TOTAL LIABILITIES	19 180 941	817 847

Comments on the financial results, the balance sheet and the income statement

Revenue generating activities only started on the 7th December 2005. Prior to that EURid received financing by requiring registrars to make an advance payment in order to become a “.eu” accredited registrar. No interest is paid to the registrars on these sums.

Advance payments made by the registrars are not recorded as income since they do not yet correspond to a service delivered by EURid. However, advance payments were the third pillar of our financing scheme, next to the partners’ loans and the banks’ loans from ING and Fortis.

Income statement

Revenues: In 2005, EURid’s income came from the fees related to the submission of applications for domain names under the Sunrise phase, which started on 7th December.

The distribution of the fees for applicable rights during the sunrise period covered in 2005 was as follows:

Type of rights Fees (in EUR)	Public Body	National TM	International TM	Geographical indicator or Designation of origin
Administration fee for VA*	30	10	10	10
Validation fee for VA*		30	30	70
Administration fee for EURid	5	5	5	5
Costs for Registrar	35	45	45	85

*VA = Validation Agent

The application fee was due immediately upon applying for a domain name. Unlike the validation fee, which is refundable under specific conditions, the administration fees of both the VA and EURid are not refundable. As a consequence, administration fees for EURid are directly recorded as income. Validation fees are treated as “provisions” within the Balance Sheet.

The following table provides a complete overview of the payments received for Sunrise applications during December 2005, and their breakdown according to the type of rights applied for by registrants. Another breakdown, per type of revenues or provisions, is also presented.

Type of rights	Public Body	National TM	International TM	Geographical indicator or Designation of origin	Total
Revenues (in EUR)					
Total number of applications (December 2005)	12 586	104 007	29 347	978	146 918
Revenues for EURid administration	62 930	520 035	146 735	4 890	734 590
Revenues for VA administration	377 580	1 040 070	293 470	9 780	1 720 900
Provision for VA validation or Registrar reimbursement		3 120 210	880 410	68 460	4 069 080
Provision for VA validation					3 155 000
Provision for Registrar reimbursement					914 080
Total payments received	440 510	4 680 315	1 320 615	83 130	6 524 570

The 146.918 applications for domain names generated EUR 734.590 of revenue for EURid (EUR 5 per application). This sum is EURid's real income in 2005.

Similarly, EUR 1.720.900 of revenue was generated for the VA agent's administration work (EUR 10 per application or EUR 30 for Public Body rights). That revenue is only transiting through EURid's accounts to be directly transferred to the VA's accounts.

The rest of the applicants' payments are recorded as provisions for future payments within EURid's accounts. Among the 146.918 applications received, a number of applications were for the same domain names. As a result, a provision was made for the estimated future payments to the VA (EUR 3.155.000) on the basis of the number of unique domain names applied for. For the remaining applications, that is to say applications for identical names, a provision for reimbursing the registrars was made (EUR 914.080.)

At the end of December, the provision for VA validation decreased by EUR 30 for a corresponding revenue for the VA, as one validation for an applied domain name was executed by the VA¹.

Costs: In the 2005 Income Statement of EURid, provisions made for Registrar reimbursements are recorded as negative income (as refund to registrars is done through credit notes), and the provisions for VA validation is booked as a service cost. Thus, EURid's real revenues in 2005 reached EUR 734.590.

¹ This is why the provision written in the balance sheet for the year 2005 is of EUR 3.154.970 (see p. 14)

Public Body	440.510
National TM	4.680.315
International TM	1.320.615
Geographical indicator or Designation of origin	83.130
Registrar reimbursement	-914.080
Total revenues:	5.610.490
Provision for VA validation	3.155.000
Costs for VA administration	1.720.900
Service costs:	4.875.900
EURid revenues	734.590

Finally, EURid's operational costs amount to EUR 2.536.989, leaving a final deficit for the year 2005 of EUR 1.802.399.

General costs	506.541
Financial costs	15.209
Service from partners	1.198.072
Depreciation	46.526
Human resources	536.175
Operating Expense	234.466
EURid general costs	2.536.989
EURid revenues	734.590
Surplus/Deficit	-1.802.399

General costs (EUR 506.541) are costs related to the administration and management of a company. It should be noted that in 2005 these costs reflected a start-up situation. Most of the costs were only present for a fraction of the year and have been growing gradually over the year. Communications and legal services are relatively high, as in this initial phase roadshows have been run and all legal documents have been created.

Working material	54.246
Office (renting, costs, ...)	18.355
Travel	20.269
Representation	17.987
Accounting	39.116
Board meetings	41.588
Communications	158.267
Legal Services	127.227
Professional services	28.234
Consumables	1.253
Total general costs	506.541

Balance Sheet

The balance total on 31/12/2005 amounted to 19.180.941 €.

The available cash at the end of 2005 was 15.970.003 €. It includes EURid's application fees, the provisions for the VA validation and reimbursement to registrars, as well as the registrars advance payments.

There was a total for receivables of 2.285.133 €. This shows the invoices to the registrars for which no payment was received at the end of 2005.

The item "other receivable" for a total of 401.690 € consists mainly of (recoverable) VAT.

The long term debt amounts to 952.702 € and shows the loans from the partners (3 times 277.000 €) as well as some smaller long term debt of the leasing contracts.

Short term debt from suppliers is 11.136.273 €, composed of the following items:

Suppliers	3.493.830 €
Advances from registrars	2.853.602 €
Provisions for refund to registrars of non validated applications*	914.080 €
Invoices to be received (mainly partners and PWC)	654.838 €
Provision for validation agent **	3.154.970 €
Short term debt for leasing contracts (< 1yr)	64.953 €
TOTAL	11.136.273 €

* See table summary of revenue split

** *idem*

During the start-up phase, the founding members of EURid have provided know how and resources at cost level. To this effect, a contract was concluded and approved by the European Commission. At the end of 2005 the total amount of services rendered by the partners was 1.910.975 €.

One part of that amount can be found under suppliers: 1.431.545 € (incl. VAT), the other part (479.430 €, excl. VAT) under invoices to be received.

Another main supplier is PricewaterhouseCoopers as the validation agent. Outstanding invoices for a total of 1.930.000 € (incl. VAT) are found under the item suppliers while another 125.860 € (excl. VAT) are found under "invoices to be received".

Together, the partners and PWC represent 96% of the accounts payables ("suppliers") and more than 92% of the invoices to be received.

The topic "advances from registrars" for a total of 2.853.602 € shows the amount that (some) registrars paid in excess of the invoices they received. This more than offsets the amount of unpaid invoices under receivables. Additionally, the short-term debt item contains the provisions made for the

payment of future validations of applications by the VA, as well as for the reimbursement of registrars – as explained in details above.

Finally, as a consequence of the pre-paid model, registrars have to provision their accounts at EURid. The amount available for registration on all accounts (and therefore representing a debt for EURid to the registrars) is found under registrars advance payments and totals 9.524.300 €.

Business Plan and Budget

As the launch of the 4 month sunrise period was only at the end of 2005, the major part of 2006 will be dedicated to complete the rest of the sunrise and to prepare for the landrush.

Even after the start of the landrush, validations of the sunrise applications will still go on for probably the better part of 2006 and will require a lot of attention and resources.

2006 will therefore be the year to stabilize the operations and continue to strengthen the organisation.

As the number of domain names grows, more people might be needed in one or the other department. At this stage we need to be very flexible and be able to react as the need arises.

A lot of work needs to be done at the technical level, especially to build a development team that can take over the maintenance of the registration system and the development of new features. The current market situation is very unfavourable to find qualified people for these jobs.

Further development of the technical infrastructure and increasing robustness will be looked at as soon as resources permit.

This year (2006), we will start introducing regional offices, starting with Sweden. If that experience proves to be positive, we will further expand our presence to Italy and the Czech republic, if possible before the end of the year.

