

18th November 2008

Peter Macaulay
President
InternetNZ
PO Box 11 881
Wellington

Dear Peter

Re: 2nd Quarter 2008-2009 Report

We enclose our second quarterly report of the 2008 - 2009 year, the quarter ended 30th September 2008. The report, which I submit on behalf of the Board, consists of the summarised management accounts and a commentary on financial, operational, and strategic issues in relation to the company's performance. There is nothing in the report that we regard as confidential.

This report meets the requirement of the Reporting Policy incorporated in the INZ and NZRS Operating Agreement.

1. Financial

1.1 Results

Enclosed are Statements of:

- Financial performance; and
- Financial position

These statements are based on our management accounts for the quarter.

The net profit after tax of \$627,187 for the quarter was \$59,653 above budget, principally the result of below budget expenditure (e.g. Technical & Business Systems Review expenses and hosting costs) in first half of the financial year.

Despite domain name growth continuing to be below budget for the quarter (actual 7,988 versus budgeted 13,500), actual domain name fee income for the quarter was slightly above budget (\$1,573,295 versus budgeted \$1,562,499), the result of an incorrect assumption in the budget relating to prepaid domain names.

As at 30th September 2008, the company's funds in bank and on deposit totalled \$8,919,529, slightly below the budgeted \$9,114,208. Pre-paid domain name fees (deferred income) were also below budget at the end of the quarter (actual of \$4,433,643 against the budgeted \$4,593,567).

The company's internally-imposed liquidity ratio was still met despite the slightly lower than budgeted cash position.

2. Operational

At the end of the quarter there were 67 authorised registrars in production.

2.1 System Availability

SRS, DNS and Whois availability is noted in the table below.

	<i>SLA %</i>	<i>Sep 08</i>	<i>Aug 08</i>	<i>Jul 08</i>
SRS	99.90%	99.98	99.97	99.99
DNS	100%	100	100	100
Whois	99.90%	100	99.99	100

The total net domain name growth for the year to date is 7,988. This is less than the 13,500 net growth budgeted for the period, making it the second quarter of below budget growth rate.

	30Jun 2008	30Jul 2008	31 Aug 2008	30 Sep 2008
.ac	1582	1605	1603	1614
.co	288994	292048	294557	296142
.cri	16	16	16	16
.geek	853	861	848	848
.gen	1178	1200	1200	1191
.govt	958	961	965	972
.iwi	60	63	62	63
.maori	507	516	512	513
.mil	18	18	18	17
.net	19894	19932	20015	20162
.org	19480	19612	19755	19949
.parliament	5	5	5	5
.school	2760	2775	2789	2801
Total	336305	339612	342345	344293
Growth over previous month	3511	3307	2733	1948

3. Other Key Activities

a) Organisational Capacity and Capability Review

The company has completed the Organisation Capacity and Capability Review, undertaken with the assistance of Doug Martin of Martin, Jenkins & Associates Ltd to ensure the company is appropriately resourced, in terms of capacity and capability, going forward.

As advised to you under separate letter on 7th November, the Board has accepted the recommendations made in the report and has commenced implementing them.

b) Application for Charitable Tax status

NZRS's application for charitable status was acknowledged as received by the Charities Commission on 21 August 2008. Since then, we have not had any advice from the Charities Commission regarding the application, so the timing of any success in achieving charitable status, remains unknown.

3.1 Technical Operations

a) TBSR DNS Road Map Update

The first two phases (base name server cluster & monitoring and data collection) are complete. Phase Three - the replacement of the Grace & Favour name servers is progressing well with the new locations being confirmed and equipment ordered. The phase is on track to be completed prior to Christmas, although the completion dates are dependant upon changes being performed by IANA to update the Root Name Servers. Contingency has been built in to the plan to allow for delays in this process but at this stage no delays are expected.

A review of the Anycast international suppliers was undertaken by NZRS with the assistance of a technical committee of NZ DNS industry specialist. The recommendations from the review will be implemented in the third quarter.

4. Outlook: Strategic Issues and Key Operational Activities

Key activities for the third quarter of the 2008- 2009 financial year include:

a) Liquidity Policy

The Liquidity Policy development is progressing, taking into account the consultation undertaken with key stakeholders.

b) Organisational Capacity and Capability Review

As noted above, implementation of the recommendations of the Organisation Capacity & Capability Review is underway and will be a key focus of the forthcoming two quarters.

As advised in my letter of 7th November advising the Review's recommendations, NZRS's General Manager Nick Griffin has advised the Board that he will be leaving NZRS on 30th January 2009. He has agreed to the Board's request that he continue to be available, if required, to assist in the transition over the months of February and March. This is appreciated by the Board and will contribute to appropriate risk management arrangements as we work through the transition.

The Board has implemented a process for recruiting a Chief Executive, working to a timetable that reflects the need to progress promptly before the inevitable disruption of the forthcoming festive and holiday season. Advertising commenced on Saturday 15th November.

While we will have the opportunity to more formally reflect on Nick's contribution at a suitable farewell function in a few months time, it is appropriate to note that Nick has been with the company for 6 ½ years, leading it from inception through to it becoming

a very stable supplier of critical infrastructure to New Zealand. His focus on continual improvement to the SRS and DNS has resulted in the very impressive systems' stability, availability and response times achieved under his leadership.

c) Domain Name Growth

NZRS is continuing to monitor the impact of the year to date lower than budgeted domain name growth, particularly over the traditionally strong growth months of October and November. October's actual domain name growth was 3,893 (budget 4,500).

d) Annual Domain Name Fee Review

We have commenced the annual Domain Name Fee setting exercise, and over the third quarter will be working with DNCL on the development of a joint NZRS/DNCL recommendation on any changes to the Domain Name Fee.

e) Planning and Budgeting

We have adapted the NZRS planning timetable to meet the new planning and budgeting requirements of InternetNZ, and expect to forward you by 30th November, a Statement of Direction and Goals, incorporating high-level strategy, key performance targets and 3-year budgets.

f) EPP Proxy

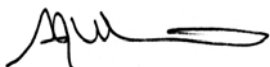
Registrars and other interested parties have been invited to attend an EPP Technical Workshop in November. From this workshop the requirements will be determined with a view to commencing work on the development early in the new year.

5. Board Recommendation

The Board of NZRS recommends that the Council of InternetNZ receives this report.

Please do not hesitate to contact me if you have any queries.

Yours sincerely



Anne Urlwin
Chairman