

11 September 2008

Peter Macaulay  
President  
InternetNZ  
PO Box 11 881  
Wellington

Dear Pete

**Re: Domain Name Growth**

Anne Urlwin wrote to you on 11 August, advising you of a slow-down in domain name growth.

As discussed at the August meeting of InternetNZ, whilst domain name growth has continued to decline in recent months, the rate of growth continues to remain strongly positive.

In her letter, Anne indicated that NZRS were undertaking a budget reforecast for the 3 financial years (2008-9, 2009-10, 2010-11) using a lower domain name growth rate to assist in evaluating the impact of the lower growth rate on NZRS and also the dividend likely to be available to InternetNZ. We have now completed that piece of work and I am writing to outline the key points to you:

1. The assumptions (both opex and capex) from the 2008-9, 2009-10 and 2010-11 approved budgets were used , apart from the following changes:
  - 1.1. The actual financial results at the end of July 2008 were used as the starting point.
  - 1.2. Net Domain Name Growth at a rate of 3,250 per month was used, with effect from 1 August 2008.
  - 1.3. Interest was set at 7%.
  - 1.4. Dividends were adjusted to reflect a growth rate of 3,250 per month with effect from 1 April 2009.
2. A table showing projected key performance indicators is attached below. The key points to note are as follows:
  - 2.1. As you would expect, the lower domain name growth does have a negative impact on revenue, net profit, deferred income, cash in bank and dividend payments.
  - 2.2. Under this growth scenario the liquidity of the company remains within our internally imposed limits.
  - 2.3. The company continues to remain financially strong and stable across the three years to April 2011.

**KEY PERFORMANCE INDICATORS UNDER AN AVERAGE DOMAIN NAME GROWTH RATE OF 3,250 FROM AUGUST 2008**

	2008-09	2009-10	2010-11
<b>Growth rate</b>	<b>Actual to 30 July 08 3,250 from 1 August 08</b>	<b>3,250</b>	<b>3,250</b>
Revenue including interest	6,969,134	7,601,601	8,373,977
NPAT	2,371,581	2,452,854	2,965,203
Dividend	2,112,000	2,310,672	2,544,672
Net retained surplus	259,581	142,182	420,531
Net cash flow	706,123	1,071,935	1,311,937
Closing Bank	7,621,530	8,693,465	10,005,402
Current assets	8,611,655	9,757,868	11,145,148
Deferred income	4,835,907	5,649,847	6,571,048
Equity	3,853,282	3,995,434	4,415,965
Liquidity	112%	107%	114%
Surplus cash over required liquidity ratio	793,563	604,957	1,257,896

**DOMAIN NAME GROWTH JANUARY TO AUGUST 2008**

2008	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG
Net growth rate	3,719	4,045	2,905	4,229	3,843	3,511	3,307	2,733
Budget growth rate	4,000	4,000	4,000	4,500	4,500	4,500	4,500	4,500

As you can see, since undertaking the reforecast, we have received the August results which show a further decline in growth to 2,167. As these results still represent 15% growth we do not consider that they are cause for immediate concern. We believe that the results for September and October will be a more significant indication of future trends and as part of the annual fee setting exercise it is our intention to undertake a further reforecast in the third quarter of 2008/9. We therefore do not feel it is necessary or appropriate to undertake further work on this until that time.

In the meantime, NZRS will continue to monitor domain name growth and I will keep you appraised of any significant factors which are expected to impact on the company's financial performance. Please don't hesitate to contact me if you'd like to discuss further any aspect of this letter.

Yours sincerely

**Donna Hiser**  
Acting Chair