

11th August 2008

Peter Macaulay
President
InternetNZ
PO Box 11 881
Wellington

Dear Peter

Re: Domain Name Growth

The NZRS Reporting Protocol with InternetNZ as shareholder includes a provision for “no surprises” communications in the event of matters that the NZRS feels should be brought to the shareholder’s attention prior to the submission of the next quarterly report.

Under that protocol the NZRS Board wishes to advise its concerns regarding the financial impacts of a slow-down in domain name growth.

Last Friday NZRS personnel completed the preparation of the usual monthly domain name statistics report incorporating actual figures to the end of July 2008. That report confirms the continuation of below-budget domain name growth.

While we have informally commented previously on the slow-down in domain name growth, we consider it appropriate to report to you on the possible financial impacts in a more formal manner.

Domain Name Statistics

Attached is the monthly domain name statistics report, together with two graphs comparing firstly, monthly net domain name growth over recent years, and secondly, the variance from budgeted net domain name growth.

The net domain name growth is always subject to seasonality throughout the year (e.g. low net growth during months with school holidays and several public holidays). The net domain name growth budget assumes a constant net growth, with the NZRS focus on the overall annual increase in terms of both budget and actual growth.

However, seven months into the 2008 calendar year, it is clear that the unfavourable variance from budget reflects more than just seasonality. In

addition, the net domain name growth for the 2008 calendar year to date is less than that of each of the comparable 2007 and 2006 periods.

The net domain name growth for the January to July period is summarised as follows:

	Jan - Jul 2008	Jan - Dec 2008	Jan - Jul 2007	Jan - Dec 2007	Jan - Jul 2006	Jan - Dec 2006
Net growth : actual	25,559		30,534	52,770	29,537	51,356
Net growth : budget	30,000	52,500	24,250	44,250	18,500	32,250
Net growth : variance	-4,441		6,104	8,020	11,033	19,006
	-14.80%		25.17%	18.12%	59.64%	58.75%

Monitoring of other monthly metrics indicates that:

- The year to date number of Creates, while following seasonal patterns, has been lower than the same period the previous year.
- The number of names being Renewed continues to grow, however in recent months the rate of growth has slowed. As a percentage of names in the register, Renewals have been stable and following normal operating patterns.
- The average Domain Name terms of registration for both Creates and Renewals have followed normal seasonal patterns.
- The number of Names in Pending Release has increased as the registry has grown. The percentage of Names in Pending Release has been within normal operating patterns, albeit at the upper end.
- The number of Released Domain Names has also continued to increase along with the growth of the register. As a percentage of the register the number of Released Names is within normal operating parameters (but also at the upper end).

Based on the 2008 calendar year-to-date unfavourable variance and the current economic conditions, NZRS's view is that the 2008 - 2009 financial year might be the first year in the company's history that domain name growth is below budget.

Indications for August, based on the month to date trend, is that net domain name growth will also be below budget.

Potential Financial Impact - NZRS Profitability and Liquidity

NZRS is well-placed financially to sustain a period of domain name growth less than that budgeted.

NZRS management are currently preparing a re-forecast for the 2008 - 2009 financial year based on net domain name growth for the balance of the financial year of 3,250 per month (28% less than the current 4,500 budgeted).

This re-forecast will be completed next week and will result in a forecasted net profit before tax less than the current budgeted \$2.274 million, given that the majority of the company's cost base is fixed.

This net domain name growth rate is being applied solely for internal NZRS re-forecast purposes, and it will not necessarily become the domain name growth metric that is factored into the annual domain name fee setting process. The net growth rate for fee setting purposes is one that is derived through joint consideration by DNCL and NZRS and forms part of the joint recommendation to Council as part of the annual domain name fee setting process that commences in November each year.

Potential Financial Impact - Dividend for 2008 - 2009

The dividend to InternetNZ is "fixed" for the 2008 - 2009 financial year at \$2.112 million (payable one-third in September 2008 and the remaining two-thirds in March 2009), and at this time the NZRS Board is not aware of any reason (e.g. inability to meet the Companies Act solvency test requirements) that could impact on the payment of those dividends as currently scheduled.

The budgeted dividends for the subsequent two years of the company's business plan cycle are based on the dividend budget policy of a net \$6 per domain name applied to the average number of domain names at the beginning and end of the financial year. Applying a net domain name growth assumption of 3,250 per month for those two years (applying from August 2008 onwards), rather than the currently budgeted 4,500, would result in the following revised dividends :

	As currently budgeted - 4,500 net domain name growth per month	Re-forecast based on 3,250 net domain name growth per month
Financial year ended 31 st March 2010	\$2.436 million	\$2.311 million
Financial year ended 31 st March 2011	\$2.760 million	\$2.545 million

Clearly there is a "lot of water to go under the bridge yet" before these become the re-forecast dividends, including the outcome of NZRS's charitable status

application, the annual domain name fee-setting process (whereby DNCL and NZRS form a shared view on domain name growth for fee-setting budget purposes) and InternetNZ's dividend requirement which gets formally advised to NZRS as a key input to the annual domain name fee setting process in December each year.

The NZRS Board however felt it appropriate to indicate to you the potential impact on the continued application of the dividend budget policy under a scenario of reduced domain name growth.

Going Forward

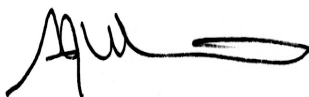
At their 31st July Board meeting, the NZRS directors discussed the lack of information around reasons for domain name growth (or lack thereof), an absence that Frank March also commented on at the AGM. We would welcome the opportunity to discuss this at the forthcoming all-boards strategy session as we consider it important to gather an understanding of this critical key driver of NZRS's financial performance and its ability to deliver a stable, and preferably growing, income stream to its shareholder.

Conclusion

Pete, the NZRS Board will advise you immediately if the financial re-forecast indicates a concern with NZRS's profitability or liquidity, and as part of the shareholder reporting protocol, the Board will also keep you apprised of any significant factors impacting on the company's financial performance.

Please don't hesitate to contact me if you'd like to discuss any aspect of this letter.

Yours sincerely

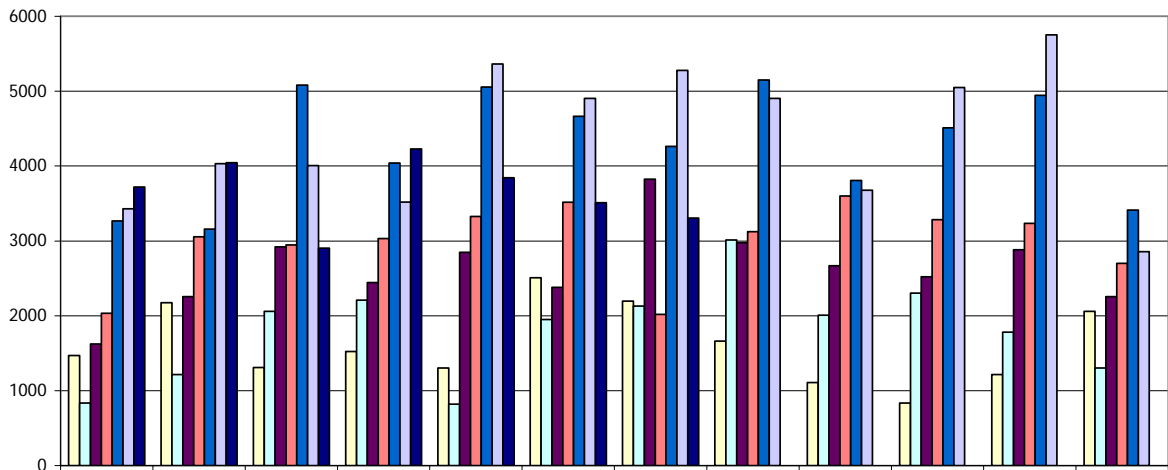
A handwritten signature in black ink, appearing to read 'Anne', with a long horizontal flourish extending to the right.

Anne Urlwin
Chairman

Domain Name Statistics

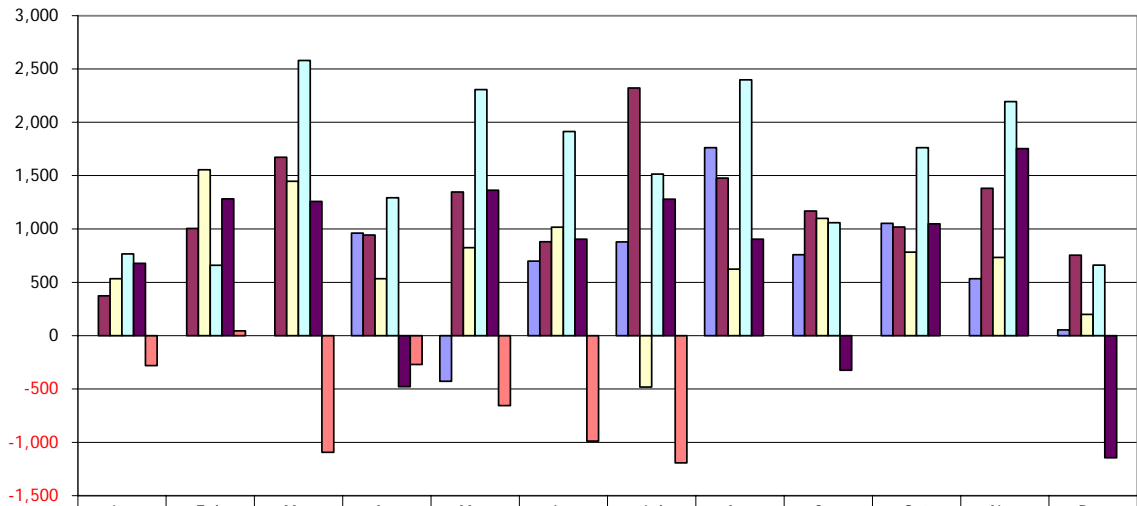
	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08
.ac	1349	1352	1371	1394	1413	1450	1466	1518	1544	1589	1582	1605
.co	254285	257488	261980	267079	269562	272870	276270	278838	282531	285876	288994	292048
.cri	16	16	16	16	16	16	16	16	16	16	16	16
.geek	761	773	773	783	793	801	810	827	848	850	853	861
.gen	1121	1133	1143	1148	1151	1151	1168	1188	1189	1193	1178	1200
.govt	909	913	923	928	931	936	939	944	951	951	958	961
.iwi	59	59	60	60	59	60	60	59	57	60	60	63
.maori	486	468	486	493	483	486	493	504	504	506	507	516
.mil	18	18	18	18	18	18	18	18	18	18	18	18
.net	17813	17994	18243	18551	18715	18900	19217	19313	19537	19709	19894	19932
.org	17245	17519	17767	18051	18218	18393	18652	18765	19012	19267	19480	19612
.parliament	4	5	5	5	5	5	5	5	5	5	5	5
.school	2656	2659	2661	2672	2689	2686	2703	2727	2739	2754	2760	2775
Total	296722	300397	305446	311198	314053	317772	321817	324722	328951	332794	336305	339612
Growth over previous month	4905	3675	5049	5752	2855	3719	4045	2905	4229	3843	3511	3307
Budget growth rate	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,000	4,500	4,500	4,500	4,500
variance against budget	905	-325	1,049	1,752	-1,145	-281	45	-1,095	-271	-657	-989	-1,193

Net growth comparison by month



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2002	1469	2175	1309	1524	1304	2508	2196	1664	1107	835	1217	2060
2003	835	1217	2060	2211	821	1950	2129	3013	2009	2303	1784	1303
2004	1624	2255	2922	2442	2847	2381	3823	2976	2669	2519	2881	2254
2005	2033	3055	2946	3034	3325	3517	2018	3124	3599	3282	3234	2699
2006	3267	3159	5080	4042	5056	4665	4264	5148	3808	4512	4944	3411
2007	3428	4033	4008	3521	5362	4904	5278	4905	3675	5049	5752	2855
2008	3719	4045	2905	4229	3843	3511	3307					

Net growth above/below budget



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2003	1250	0	0	961	-429	700	879	1,763	759	1,053	534	53
2004	1500	374	1,005	1,672	942	1,347	881	2,323	1,476	1,169	1,381	754
2005	2500	533	1,555	1,446	534	825	1,017	-482	624	1,099	782	199
2006	2750	767	659	2,580	1,292	2,306	1,915	1,514	2,398	1,058	1,762	2,194
2007	4000	678	1,283	1,258	-479	1,362	904	1,278	905	-325	1,049	1,752
2008	4500	-281	45	-1,095	-271	-657	-989	-1,193				-1,145