

27 January 2006

Colin Jackson
President
InternetNZ
PO Box 11 881
Wellington

Dear Colin

3RD Quarter 2005/06: Report from New Zealand Domain Name Registry Ltd

We enclose our report for the company for the third period of the 2005/06 year, the quarter ended 31 December 2005. 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 agreed Reporting Protocol we have with you.

1. Financial

1.1 Results

Enclosed are Statements of:

- Financial performance
- Financial position.

The net profit after tax of \$316,727 for the quarter is \$96,562 ahead of budget for the quarter, with the year to date net profit after tax of \$946,160 ahead of budget by \$291,934. The favourable variance in financial performance is a mix of above budget domain name growth and below budget costs.

Some of the favourable cost variance has been caused by timing differences, and we therefore expect some of this variance to reverse over coming months.

Interest earned for the period was \$83,516 from invested cash balances consisting predominantly of pre-paid domain name fees (deferred income which totalled \$2,809,643 as at 31st December 2005). The Domain Name Commissioner's fee is the largest expense item, at \$226,500 for the quarter.

The better than budgeted financial performance, together with below budget capital expenditure and higher than budgeted deferred income, contributed to the company's above budget cash position at the end of the quarter.

2. Operational

2.1 SRS

The total of Authorised Registrars in production remains at 57, the same as at the end of the last quarter.

On September 26th the .nz domain name register reached the milestone of 200,000 names.

Domain Name Management Systems Ltd, (DNMSL, #148) had its Authorisation Agreement cancelled due to breaches to policy by the Domain Name Commissioner, the result of which was an automatic cancellation of the Connection Agreement with NZRS.

2.2 Other Key Activities

NZRS participated in the first meeting of the ENUM Internet Steering Group.

As part of its annual planning cycle, NZRS held its biannual Strategy Session, part of which was attended by the President and the Executive Director of InternetNZ along with the Chair of the NZOC and the Domain Name Commissioner. Their contribution was appreciated and provided good input to our Strategic planning deliberations.

A test of the IT disaster plan elements of the Business Continuity Plan was successfully undertaken in November with the operational management of the SRS being handed over to OSS in Auckland and then returned to Catalyst in Wellington.

Negotiations with the DNC/NZOC over the Service Level Agreement have continued and the revised Service Level Agreement is expected to be signed within the current quarter.

The annual Domain Name Fee Setting process commenced during the quarter and a joint NZOC-NZRS recommendation will be made to the INZ Council in February.

Work has continued on the NZ IFRS requirements for NZRS with the joint INZ-NZRS NZ IFRS Working Group.

The Board approved NZRS becoming a sponsor of the March 2006 ICANN Conference. It will provide opportunities for NZRS to promote itself and benefit from having contact with an important audience all in one place on matters that directly affect current and future NZRS services.

Initial planning for the SRS/DNS Review commenced during the 3rd quarter.

Dave Baker attended the ICANN Conference in Vancouver, where he gave a joint presentation with the Domain Name Commissioner on Registry Performance. He also attended workshops on DNSSEC and the Internationalised Domain Name (IDN) issue, as well as the ccNSO Members Meeting, the wwTLD meeting, the Public Forums, and the

WHOIS privacy conference. He also took the opportunity to meet with other ccTLD managers and registrars to discuss issues that affecting the Registry industry.

Two major operational reviews were completed during the quarter. Firstly the second part of the annual IT Security Review was undertaken; no major issues were identified and the Review's recommendations made have been incorporated in our Continuous Improvement Programme. The second review, the biennial Business Systems Review, noted good improvement since the last review (undertaken in 2003), and the Review's recommendations have also been incorporated in the NZRS Continuous Improvement Programme.

2.3 System Availability

System availabilities for the period have been above those specified in the SLA.

| | SLA % | Dec 05 | Nov 05 | Oct 05 |
|-----|-------|--------|--------|--------|
| SRS | 99.90 | 99.94 | 99.98 | 99.99 |
| DNS | 100 | 100 | 100 | 100 |

2.4 Domain Name 2ld Summary

| | 1 Oct 2005 | 31 Oct 2005 | 30 Nov 2005 | 31 Dec 2005 |
|-----------------------------------|---------------|----------------|----------------|----------------|
| .ac | 1081 | 1088 | 1099 | 1116 |
| .co | 171174 | 174049 | 177006 | 179262 |
| .cri | 25 | 25 | 25 | 25 |
| .geek | 654 | 667 | 683 | 697 |
| .gen | 930 | 937 | 944 | 943 |
| .govt | 793 | 799 | 810 | 824 |
| .iwi | 54 | 53 | 55 | 54 |
| .maori | 376 | 375 | 385 | 385 |
| .mil | 19 | 19 | 19 | 19 |
| .net | 11409 | 11592 | 11653 | 11900 |
| .org | 11770 | 11971 | 12119 | 12256 |
| .school | 2427 | 2419 | 2430 | 2446 |
| Total | 200712 | 203994 | 207228 | 209927 |
| Growth over previous month | 3599 | 3282 | 3234 | 2699 |

The quarter's net growth of 9,215 names was a continuation of recent growth rates across all non-moderated 2lds.

3. Outlook: Strategic Issues and Key Operational Activities

The company will achieve its 2005/2006 full year budget of \$903,295 net profit after tax.

Key activities for the last quarter of the year include -

- (a) Completion of the annual Domain Name Fee setting process.
- (b) Completion and signing of the updated Service Level Agreement.
- (c) Preparation and completion of the Company Plan and associated budgets for the 2006/2007 year and the subsequent two out-years.
- (d) Continuation of the joint NZ IFRS project with INZ.
- (e) Continuing to work with INZ as a member of the ENUM Internet Steering Group and Internet Taskforce.
- (f) Completion of the planning phase of the SRS/DNS Review.
- (g) Preparation for and participation in the March ICANN Conference. This conference will also provide a unique opportunity for NZRS to obtain input to the SRS/DNS review at many levels.
- (h) Participation, by Dave Baker, in the DNSSEC and IPv6 workshops being held in association with the Apricot Conference.

4. Board Recommendation

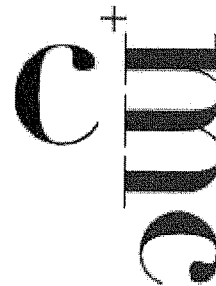
The Board of NZRS **recommends** that the Council of InternetNZ receive this report.

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

Yours sincerely



Anne Urlwin
Chairman

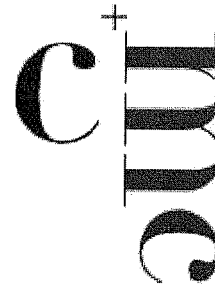


New Zealand Domain Name Registry Limited
Financial Statements
For the Quarter Ended 31st December 2005

Prepared By

Curtis McLean Limited
Chartered Accountants
Wellington NZ





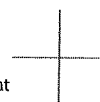
New Zealand Domain Name Registry Limited
Exclusion of Liability Statement
For the Quarter Ended 31st December 2005

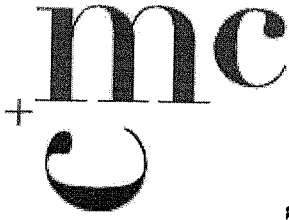
We have compiled the Financial Statements comprising Statement of Financial Performance, Statement of Movements in Equity and Statement of Financial Position of New Zealand Domain Name Registry Limited for the period ended 31st December 2005.

A compilation is limited primarily to the collection, classification and summarisation of financial information supplied by the client. A compilation does not involve the verification of that information.

We have not carried out an audit or review engagement of the Financial Statements and therefore neither we nor any of our employees accept any responsibility for the accuracy of the material from which the Financial Statements have been prepared. Further, the Financial Statements have been prepared at the request of and for the purpose of the client only and neither we nor any of our employees accept any responsibility on any ground whatsoever, including liability in negligence, to any other person.

Curtis McLean Limited
Chartered Accountants
Wellington NZ

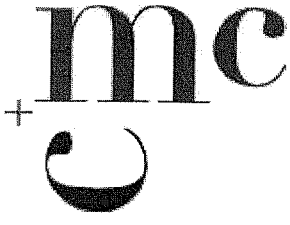




New Zealand Domain Name Registry Limited
Statement of Financial Performance
For the Quarter Ended 31st December 2005

| | This Quarter | | | Year to Date | | Full Year | |
|---|---------------------|-----------|----------|---------------------|-----------|------------------|-----------|
| | Actual | Budget | Variance | Actual | Budget | Budget | Last Year |
| Registry Fees | 1,099,638 | 1,038,706 | 60,932 | 3,164,082 | 3,093,246 | 4,165,535 | 3,851,028 |
| Less Direct Expenses | | | | | | | |
| DNC Management Fee | 226,500 | 226,500 | - | 679,500 | 679,500 | 906,000 | 818,400 |
| DNS Expenses | 63,769 | 82,661 | (18,892) | 184,207 | 228,079 | 304,840 | 190,866 |
| SRS Expenses | 109,551 | 84,171 | 25,380 | 321,621 | 287,713 | 371,884 | 322,667 |
| Other IT | 130,420 | 69,001 | 61,419 | 252,590 | 223,003 | 318,004 | 279,061 |
| DNSSEC | - | 9,999 | (9,999) | - | 29,997 | 40,000 | - |
| Review DNS/SRS | - | 30,000 | (30,000) | - | 30,000 | 30,000 | - |
| Total Direct Expenses | 530,240 | 502,332 | 27,908 | 1,437,918 | 1,478,292 | 1,970,728 | 1,610,994 |
| Gross Profit | 569,398 | 536,374 | 33,024 | 1,726,164 | 1,614,954 | 2,194,807 | 2,240,034 |
| Less Other Expenses | | | | | | | |
| Depreciation & Amortisation | 28,678 | 42,901 | (14,223) | 85,981 | 113,485 | 161,334 | 195,071 |
| Overhead Expenses | 169,351 | 222,719 | (53,368) | 488,412 | 700,158 | 922,122 | 623,609 |
| Total Other Expenses | 198,029 | 265,620 | (67,591) | 574,393 | 813,643 | 1,083,456 | 818,680 |
| Plus: Other Income | | | | | | | |
| Interest | 371,369 | 270,754 | 100,615 | 1,151,771 | 801,311 | 1,111,351 | 1,421,354 |
| Rent Received | 83,516 | 40,693 | 42,823 | 207,871 | 122,281 | 166,362 | 158,081 |
| Tenants Share of Expenses | 14,625 | 14,622 | 3 | 43,874 | 43,866 | 58,488 | 59,344 |
| | 3,218 | 3,000 | 218 | 8,663 | 9,000 | 12,000 | 11,953 |
| Earnings Before Interest and Tax | 472,728 | 329,069 | 143,659 | 1,412,179 | 976,458 | 1,348,201 | 1,650,732 |

These Financial Statements have not been reviewed or audited and should be read in conjunction with the attached Exclusion of Liability Statement

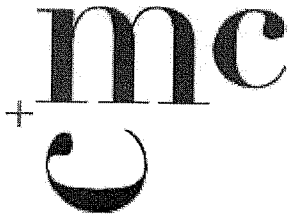


New Zealand Domain Name Registry Limited
Statement of Financial Performance
For the Quarter Ended 31st December 2005

| | This Quarter | | | Year to Date | | | Full Year | |
|---|--------------|---------|----------|--------------|---------|----------|-----------|-----------|
| | Actual | Budget | Variance | Actual | Budget | Variance | Budget | Last Year |
| Earnings Before Interest and Tax | 472,727 | 328,759 | 143,968 | 1,412,179 | 976,458 | 435,721 | 1,348,201 | 1,650,732 |
| Less: Interest Expense | - | - | - | - | - | - | - | 295 |
| Provision For Tax | 472,727 | 328,759 | 143,968 | 1,412,179 | 976,458 | 435,721 | 1,348,201 | 1,650,437 |
| Net Profit (Loss) | 156,000 | 108,594 | 47,406 | 466,019 | 322,232 | 143,787 | 444,906 | 546,985 |
| | 316,727 | 220,165 | 96,562 | 946,160 | 654,226 | 291,934 | 903,295 | 1,103,452 |

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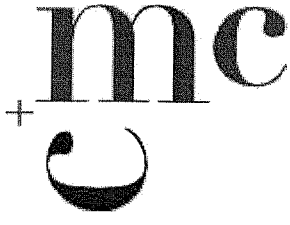


New Zealand Domain Name Registry Limited
Statement of Movements in Equity
For the Quarter Ended 31st December 2005

| | This Year | Last Year |
|---|--------------------|--------------------|
| Share Capital | | |
| Opening Share Capital | 430,000 | 430,000 |
| Share Capital as at 31st December 2005 | 430,000 | 430,000 |
| Retained Earnings | | |
| Opening Retained Earnings | 1,563,399 | 730,976 |
| Plus: | | |
| Net Tax Paid Profit (Loss) for Year | 946,159 | 1,103,452 |
| Prior Year Tax Adjustment | | 128,971 |
| Less: | | |
| Dividend Declared | 167,000 | 400,000 |
| Retained Earnings as at 31st December 2005 | 2,342,558 | 1,563,399 |
| Equity as at 31st December 2005 | \$2,772,558 | \$1,993,399 |

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New Zealand Domain Name Registry Limited
Statement of Financial Position
As At 31st December 2005

| | Actual | End of Quarter | | LY Actual | End of Year | |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | | Budget | Variance | | Budget | LY Actual |
| Equity | | | | | | |
| Share Capital | 430,000 | 430,000 | - | 430,000 | 430,000 | 430,000 |
| Retained Earnings | 2,342,558 | 2,050,625 | 291,933 | 1,527,381 | 1,966,694 | 1,563,399 |
| Total Equity | 2,772,558 | 2,480,625 | 291,933 | 1,957,381 | 2,396,694 | 1,993,399 |
| Liabilities: | | | | | | |
| Creditors & Accruals | 228,100 | 170,357 | 57,743 | 200,826 | 203,847 | 55,424 |
| Deferred Income | 2,809,643 | 2,156,109 | 653,534 | 2,063,098 | 2,212,109 | 2,161,277 |
| Total Liabilities | 3,037,743 | 2,326,466 | 711,277 | 2,263,924 | 2,415,956 | 2,216,701 |
| Funds Employed | 5,810,301 | 4,807,091 | 1,003,210 | 4,221,305 | 4,812,650 | 4,210,100 |
| Represented By: | | | | | | |
| Current Assets | | | | | | |
| Funds Held | 5,029,819 | 3,977,763 | 1,052,056 | 3,447,623 | 3,959,629 | 3,355,900 |
| Debtors & Prepayments | 539,368 | 451,599 | 87,769 | 412,401 | 463,141 | 527,984 |
| | 5,569,187 | 4,429,362 | 1,139,825 | 3,860,024 | 4,422,770 | 3,883,884 |
| Non Current Assets | | | | | | |
| Fixed Assets | 236,725 | 373,333 | (136,608) | 355,653 | 385,792 | 320,897 |
| Intangible Assets | 4,389 | 4,396 | (7) | 5,628 | 4,088 | 5,319 |
| Total Non Current Assets | 241,114 | 377,729 | (136,615) | 361,281 | 389,880 | 326,216 |
| Total Assets | 5,810,301 | 4,807,091 | 1,003,210 | 4,221,305 | 4,812,650 | 4,210,100 |

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