

3rd August 2006

Colin Jackson
President
InternetNZ
PO Box 11 881
Wellington

Dear Colin

1st Quarter 2006 - 2007 : Report from New Zealand Domain Name Registry Ltd

We enclose our report for the company for the first period of the 2006 - 2007 year, the quarter ended 30 June 2006. 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.

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

The net profit after tax of \$427,996 for the quarter was \$121,412 above budget, with the favourable variance in expenditure resulting principally from timing variances related to the SRS-DNS Review and overhead expenses being below budget.

Interest earned for the period was \$85,259 from invested cash balances consisting predominantly of pre-paid domain name fees (deferred income totalled \$3,317,314 as at 30th June 2006).

The company ended the quarter with funds held of \$5,505,581. This was higher than budgeted (\$5,041,070), and was primarily the result of deferred income continuing to run ahead of budget combined with below budget capital expenditure..

The Registry Fee income recognised for the quarter of \$1,221,957, was \$43,771 less than budgeted, despite domain name growth being above budget. Investigation into this variance identified a budgeting anomaly associated with the assumptions regarding the recognition of deferred income for budgeting purposes. A similar situation arose in the

previous year but was not material. However given the level of growth in domain names and deferred income since then, the impact in this current year's budget is more significant, and we have therefore reviewed this key budget assumption. In summary, the deferred income recognition budget assumption is calculated around a three year formula, which has had the effect of front-loading the budgeted domain name revenue recognition in the early part of the cycle. While this balances out across the three years, the high level of deferred income means that the impact of this budget assumption is now quite marked in the first year of a three year budget cycle. With the assistance of our accountants we have developed a revised method of recognising the portion of deferred income to be treated as income for budgeting purposes. The practical impact of all of this is that the budgeted domain name fee income for the 2006 – 2007 is too high, based on the domain name growth budgeted for that year. At this early stage of the financial year, we are reasonably optimistic that continuation of the above budget domain name growth being experienced will still enable the original budgeted financial performance to be achieved. We will however review our assumption regarding this when we undertake a formal re-forecasting of the current year's financial performance after the second quarter as part of our normal preparation for the domain name fee-setting process. The change in this key budgeting assumption does not impact at all on our actual reported results – just the budget.

2. Operational

2.1 SRS

The total of Authorised Registrars in production increased to 60 at the end of the quarter.

There continues to be a higher level of interest from foreign registrars in the .nz space since the ICANN Conference.

2.2 Other Key Activities

NZRS continues to support InternetNZ in the area of ENUM, and attended a meeting of the InternetNZ ENUM working group to consider and prepare a response to the TCF report and letter to the Communications Minister.

In early May the Service Level Agreement was approved and signed by NZRS and the Domain Name Commissioner on behalf of InternetNZ.

The Terms of Reference for the Technical and Business Systems Review were approved and the interviewing of stakeholders and Registrars started.

The replacement and upgrade programme of the hardware and operating systems for the production SRS environment started in May and is being progressively rolled out.

Planning regarding the implementation of the international financial reporting requirements (NZ IFRS) continued across the quarter with NZRS working as part of an InternetNZ group-wide working group on this project. Based on advice received from the company's accountants and the InternetNZ and NZRS auditor, the NZRS Board determined that the current method of recognising registry fee income will be continued under NZ IFRS. The

NZIFRS working group met in June and have set a timetable where by they are expecting to reach agreement and to make a recommendation to the respective governance groups that NZ IFRS should be adopted in the 2007/8 financial year.

2.3 System Availability

System availabilities for the period were above those specified in the SLA for the quarter –

	SLA %	Apr 06	May-06	Jun-06
SRS	99.90	99.98	99.98	99.98
DNS	100	100	100	100
Whois	99.90%	n/a	99.98	99.98

2.4 Domain Name 2ld Summary

	31 Mar 2006	30 Apr 2006	31 May 2006	30 Jun 2006
.ac	1153	1168	1183	1201
.co	189123	192663	196953	200923
.cri	25	18	18	18
.geek	832	843	858	869
.gen	960	965	1003	1018
.govt	827	834	843	852
.iwi	56	55	57	57
.maori	404	412	413	421
.mil	22	22	21	21
.net	12719	12986	13342	13633
.org	12829	13018	13321	13651
.parliament			1	1
.school	2483	2491	2518	2531
Total	221433	225475	230531	235196
Growth over previous month		4042	5056	4665

The quarter's net growth of 13,763 names was the highest growth rate for a quarter. The May 2006 growth rate of 5,056 names was the second largest monthly net growth rate in the .nz history.

3. Outlook: Strategic Issues and Key Operational Activities

Key activities for the second quarter of the 2006 - 2007 financial year include -

(a) The Technical and Business Systems Review:

- Complete the consultation phase of the review

- Document the findings of the review and make recommendations for discussion with key stakeholders.
- (b) Continuation of the joint NZ IFRS project with InternetNZ.
- (c) Continuing to work with InternetNZ as a member of the ENUM Internet Steering Group and Internet Taskforce.
- (d) Complete the implementation of hardware and operating systems commenced in the June quarter.
- (e) Preparation for the implementation of IPv6 in the NZRS network.
- (f) Continue the investigation into DNSSEC.
- (g) Development of a Benchmarking strategy with other ccTLD registries.

4. Board Recommendation

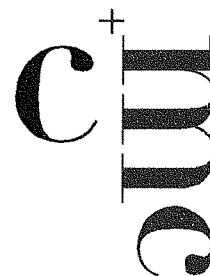
The Board of NZRS **recommends** that the Council of InternetNZ receive this report.

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

Yours sincerely

(Original Signed)

Anne Urlwin
Chairman



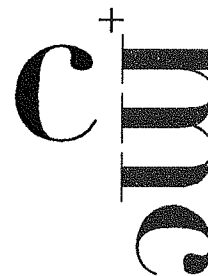
New Zealand Domain Name Registry Limited
Financial Statements
For the Quarter Ended 30th June 2006

Prepared By

Curtis McLean Limited
Chartered Accountants
Wellington NZ

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
Exclusion of Liability Statement
For the Quarter Ended 30th June 2006

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 30th June 2006.

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 30th June 2006

	This Quarter			Year to Date			Full Year	
	Actual	Budget	Variance	Actual	Budget	Variance	Budget	Last Year
Registry Fees	1,221,957	1,265,728	(43,771)	1,221,957	1,265,728	(43,771)	5,270,559	4,314,039
Less Direct Expenses								
DNC Management Fee	239,250	239,250	-	239,250	239,250	-	957,000	906,000
DNS Expenses	68,804	78,678	(9,874)	68,804	78,678	(9,874)	374,315	247,801
SRS Expenses	99,086	99,399	(313)	99,086	99,399	(313)	382,934	429,087
Other IT	74,950	88,362	(13,411)	74,950	88,362	(13,411)	361,946	313,640
DNSSEC	-	9,999	(9,999)	-	9,999	(9,999)	40,000	-
Review DNS/SRS	24,624	105,000	(80,376)	24,624	105,000	(80,376)	300,000	14,640
Total Direct Expenses	506,714	620,688	(113,973)	506,714	620,688	(113,973)	2,416,195	1,911,168
Gross Profit	715,243	645,040	70,202	715,243	645,040	70,202	2,854,364	2,402,871
Less Other Expenses								
Depreciation & Amortisation	21,173	37,327	(16,154)	21,173	37,327	(16,154)	187,217	116,143
Overhead Expenses	182,415	265,503	(83,088)	182,415	265,503	(83,088)	1,066,666	673,760
ICANN Sponsorship	-	-	-	-	-	-	-	300,000
Total Other Expenses	203,588	302,830	(99,242)	203,588	302,830	(99,242)	1,253,883	1,089,903
Plus: Other Income								
Interest	511,655	342,210	169,444	511,655	342,210	169,444	1,600,481	1,312,968
Rent Received	85,259	72,467	12,792	85,259	72,467	12,792	300,296	288,839
Tenants Share of Expenses	32,821	32,781	40	32,821	32,781	40	131,930	79,182
	9,065	10,128	(1,063)	9,065	10,128	(1,063)	40,512	13,309
Earnings Before Interest and Tax	638,800	457,586	181,213	638,800	457,586	181,213	2,073,219	1,694,298

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New Zealand Domain Name Registry Limited
Statement of Financial Performance
For the Quarter Ended 30th June 2006

	This Quarter			Year to Date		Full Year	
	Actual	Budget	Variance	Actual	Budget	Budget	Last Year
Earnings Before Interest and Tax	638,800	457,587	181,213	638,800	457,587	2,028,219	1,694,299
Provision For Tax	210,804	151,003	59,801	210,804	151,003	669,312	559,630
Net Profit (Loss)	<u>427,996</u>	<u>306,584</u>	<u>121,412</u>	<u>427,996</u>	<u>306,584</u>	<u>1,358,907</u>	<u>1,134,669</u>

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New Zealand Domain Name Registry Limited
Statement of Movements in Equity
For the Quarter Ended 30th June 2006

	This Year	Last Year
Share Capital		
Opening Share Capital	430,000	430,000
Share Capital as at 30th June 2006	430,000	430,000
Retained Earnings		
Opening Retained Earnings	2,198,068	1,563,399
Plus: Net Tax Paid Profit (Loss) for Year	427,995	1,134,669
Less: Dividend Declared	-	500,000
Retained Earnings as at 30th June 2006	2,626,063	2,198,068
Equity as at 30th June 2006	\$3,056,063	\$2,628,068





New Zealand Domain Name Registry Limited
Statement of Financial Position
As At 30th June 2006

	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	2,626,063	2,410,814	215,249	1,878,077	2,063,137	2,198,068
Total Equity	3,056,063	2,840,814	215,249	2,308,077	2,493,137	2,628,068
Liabilities:						
Creditors & Accruals	112,510	427,387	(314,877)	89,166	326,673	171,302
Deferred Income	3,317,134	2,735,726	581,408	2,428,331	2,922,640	3,031,366
Total Liabilities	3,429,644	3,163,113	266,531	2,517,497	3,249,313	3,202,668
Funds Employed	6,485,707	6,003,927	481,780	4,825,574	5,742,450	5,830,736
Represented By:						
Current Assets						
Funds Held	5,505,581	5,041,070	464,511	3,939,753	4,565,921	4,852,017
Debtors & Prepayments	699,543	572,170	127,373	588,252	635,732	699,309
	6,205,124	5,613,240	591,884	4,528,005	5,201,653	5,551,326
Non Current Assets						
Fixed Assets	276,813	386,910	(110,097)	292,560	537,943	275,330
Intangible Assets	3,770	3,777	(7)	5,009	2,854	4,080
Total Non Current Assets	280,583	390,687	(110,104)	297,569	540,797	279,410
Total Assets	6,485,707	6,003,927	481,780	4,825,574	5,742,450	5,830,736

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New Zealand Domain Name Registry Limited
Statement of Cash Flows
For the Quarter Ended 30 June 2006

	This Quarter		Year to Date		Last Year (YTD)	Full Year	
	Actual	Budget	Actual	Budget		Budget	LY Actual
Cash Flows From Operating Activities							
Cash Was Provided From:							
Registry Fees Received	1,736,810	1,382,699	1,736,810	1,382,699	1,386,699	6,035,757	5,663,005
Other Receipts	94,690	114,870	94,691	114,870	58,418	487,518	251,795
	1,831,500	1,497,569	1,831,501	1,497,569	1,439,117	6,523,275	5,914,800
Cash Was Distributed To:							
Payments to Suppliers and Employees	798,891	929,936	798,891	929,936	705,718	3,883,630	3,204,339
Net Taxation Paid	190,000	0	190,000	0	42,634	669,285	374,803
Net Dividend Paid	0	0	0	0	0	1,400,000	500,000
Net GST Paid	94,839	34,233	94,206	34,233	106,914	225,233	338,551
	1,083,730	964,169	1,083,097	964,169	855,266	6,178,148	4,417,694
Net Cashflows from Operating	747,769	533,400	748,403	533,400	583,852	345,127	1,497,107
Cash Flows from Financing Activities							
Cash was Provided From:							
	0	0	0	0	0	0	0
	0	0	0	0	0	0	0
	0	0	0	0	0	0	0
	0	0	0	0	0	0	0
Net Cash flows from Financing	0	0	0	0	0	0	0
Cash Flows from Investing Activities							
Cash was Provided From:							
Fitout Contribution	0	0	0	0	0	0	0
Cash was Distributed To:							
Purchase of Fixed Assets & Formation Expenses	94,839	75,002	94,839	75,002	0	361,878	991
	(94,839)	(75,002)	(94,839)	(75,002)	0	(361,878)	(991)
	652,930	458,398	653,564	458,398	583,852	(16,751)	1,496,116
Plus Opening Cash Balance	5,029,818	4,582,672	4,852,017	4,582,672	3,355,901	4,582,672	2,170,899
Closing Cash Carried Forward	5,682,748	5,041,070	5,505,581	5,041,070	3,939,753	4,565,921	3,667,015
Closing Cash Comprises							
ASB Bank Cheque Account	429,360	5,041,070	429,360	5,041,070	272,422	4,565,921	238,981
ASB Bank Call Account	219,033	0	219,033	0	42,206	0	216,943
Term Deposits	4,857,188	0	4,857,188	0	3,625,125	0	4,396,093
Total Cash Held	5,505,581	5,041,070	5,505,581	5,041,070	3,939,753	4,565,921	4,852,017