



InternetNZ Annual Report 2010-2011



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InternetNZ (Internet New Zealand Inc) is the open membership incorporated society, established to promote and protect the Internet in New Zealand.

InternetNZ has overall responsibility for the .nz domain name space, and is an advocate for the interests of Internet users and domain name registrants in New Zealand and overseas.

InternetNZ Overview

InternetNZ (Internet New Zealand Inc) is New Zealand's Internet advocacy organisation. The growing importance of the Internet in peoples' everyday lives is reflected in our mission – *'to protect and promote the Internet for New Zealand'*. We envisage an open and uncaptureable Internet that drives New Zealand's social and economic development and benefits the wider community.

InternetNZ is the delegated manager for the .nz Internet country code and represents New Zealand at a global level through that role. This delegation is from the international organisation that administers the Internet naming system – ICANN.

InternetNZ is a non-profit open membership incorporated society, overseen by a Council elected by Members. We have two wholly-owned subsidiaries who ensure that .nz is run effectively and fairly – the Domain Name Commission (DNC) develops and enforces policies for the .nz domain name, and .nz Registry Services (NZRS) maintains and publishes the register of .nz names, and operates the Domain Name System for .nz.



President's Report

The past twelve months have been highly successful for InternetNZ. We have continued to develop our public profile and have made numerous significant contributions to ongoing public policy debates and formal submissions to the legislative process. In terms of influencing policy outcomes, it has been a banner year for the organisation.

At the same time, InternetNZ has continued its business-as-usual stewardship of the .nz domain name space. Management of .nz is never static. To maintain the 'best global practice' standard, continuing systems development and policy evolution is essential.

Our latest innovation in this space is the move towards implementing DNSSEC, ably overseen by NZRS.

We continually look to improve our planning and governance systems and to find better ways of consulting and communicating with our Members. I am conscious that this is an area that, while becoming more effective, still has plenty of room for improvement. An innovation this year has been to make public the results of the Council's own self assessment. We are pledging that this will not be a 'one-off' exercise. Expect to see the results of this exercise published regularly.

One major step over the past year is the medium-term strategic direction set by Council and the Boards of our subsidiaries for InternetNZ, NZRS and DNCL. Alignment across a small number of strategic areas for all three organisations has been very positive. We now have a framework by which to prioritise, make trade-offs, and understand what success looks like.

The four strategic priorities are leadership, stable financials, accurate external perceptions, and strong relationships. It was also re-confirmed that InternetNZ's primary motivation is to do 'good' work, i.e. in our mission of protecting and promoting the Internet for New Zealand, we are guided by a desire to benefit the wider community. As a part of that, our activities are not limited to only the technical aspects of the Internet. We also address the social and economic opportunities and challenges that the Internet provides for New Zealand in a multi-stakeholder ecosystem.

Our international work and influence continues at a high level. Keith Davidson and Don Hollander successfully organised the inaugural Pacific Islands International Governance Forum. And Keith has further enhanced his international standing and reputation by being elected to the Council of the Country Code Names Supporting Organisation (CCNSO) of ICANN.

As you may recall, in the 2008-09 financial year InternetNZ had provided Hector's World a \$200,000 interest-free loan, repayable in 2013. A review of their financial statements has led us to consider the loan as fully impaired. We have therefore written off the book value of the loan in the current year for the purposes of our financial reports. We continue to work with Hector's World to look at options in relation to the loan.

The end of June sees the inaugural NetHui event held. This is the first of what will be annual events bringing New Zealand's various Internet stakeholders together to discuss important issues affecting Internet users and to influence the future direction of the Internet. One of the highlights of NetHui is the announcement of another innovation, the winner of the inaugural InternetNZ Lifetime Achievement Award.

I thank Vikram and his team for the great work they have done over the past twelve months. Under Vikram's leadership, InternetNZ has become a high-functioning thoroughly professional organisation. I extend a note of thanks also to all of InternetNZ's Council and the DNC and NZRS Board Members for their work over the year.

Finally I would like to take this opportunity to thank the InternetNZ membership, for their support and commitment to InternetNZ during a busy year.

InternetNZ is first and foremost a membership organisation and, as well as working hard to maintain our excellent policy focus, we fully intend improving communication with Members and Members' engagement in policy development.

With the continued support of Members, a professional and committed staff and Council I am certain that next year will be as satisfying as this one has been.

Frank March

A handwritten signature in black ink, appearing to read 'Frank March', is centered on the page. The signature is fluid and cursive.

President
InternetNZ



Chief Executive's Report

As Frank has noted, the last twelve months have been highly successful for InternetNZ. It hasn't, however, been without its challenges.

One of these challenges has been the Christchurch earthquakes. Following the February 2011 earthquake we donated \$50,000 to the NZ Red Cross as it was clear the immediate need was cash. The earthquakes have continued, underlining the long and painful road to recovery of our second largest city. InternetNZ is therefore exploring further options to invest a more substantial sum to help the region recover.

A second challenge was the complete restructuring of the telecommunications market by the Government's broadband initiatives, both urban (UFB) and rural (RBI). There were consequent legal changes via the Telecommunications Amendment Bill. Both of these required everyone in the industry to commit a huge amount of time and effort.

We continue to be very supportive of the Government's broadband initiatives. While not perfect, they are bold moves to catalyse a step change in New Zealand's economic and social landscape. In particular, we believe that initial prices are set at an attractive level. Given the amount of money the Government is investing, there is undoubtedly an element of "legislative subsidy". The worst of these, a regulatory holiday shutting out Commerce Commission oversight, was overturned in a political deal. While the outcome is still a poor one, we need to move on and focus on maximising the benefits. Nothing succeeds like success.

The IPv4 address pool is running dry. The challenge before us is to support the roll out of IPv6 and we continue to be a major supporter of the New Zealand IPv6 Task Force. The focus is to support those interested in developing and implementing their roadmaps while urging others, such as Government, to adopt a leadership role.

The final challenge I want to mention is the rather disturbing trend of Government increasingly interested in regulating the Internet. The Copyright (Infringing File Sharing) Amendment Act, while better than the old section 92A, still represents legislating penalties without a discussion of the core issue - the right balance of copyright in an Internet age. There are other examples of this trend, such as a proposed new criminal provision for ISPs for breaching a name suppression order by their customers.

All of these challenges tested us. We can be proud of the way InternetNZ responded. Our strength of principled views, backed by in-depth analysis, and an unswerving commitment to the New Zealand Internet community is a solid foundation. This is enhanced by the excellent relationship and role clarity between Council and staff.

We can't meet our goals and Members' expectations by reacting to external challenges alone. We have consciously stepped up our efforts to be proactive, to take on a leadership role. That's why we invested significant time and resources in organising NetHui and other such initiatives.

With investment in strategic partnerships and community projects now almost half a million dollars through the grants process, it requires us to ensure we get the best outcomes in the most efficient way possible. These investments allow us to leverage the community's ideas, energy, and great intentions to achieve the Society's objects.

Finally, the one thing that gives me greatest confidence looking forward is our staff. Great people aren't by accident or empty slogans. It remains an area of personal focus for me. The team and I are committed, passionate, and confident to deliver on the expectations of Members and Council in the year ahead.

Vikram Kumar

A handwritten signature in black ink, appearing to read 'Vikram Kumar', with a horizontal line underneath.

Chief Executive
InternetNZ

Work Highlights 2010-2011

Unconstrained broadband & telco regulation:



New Zealand's telecommunications landscape underwent a series of once-in-a-generation shifts in 2010-2011, with the government's urban and rural fibre-to-the-premises initiatives starting to move from the policy detail to standards, pilot and roll-out phases. Telecom's role in this ultrafast broadband future has been a focus for InternetNZ, along with its impending structural separation. On top of all of this the government's recently-announced Telecommunications Amendment Bill, which sets out a reform of the TSO and affects the provision of rural broadband, has seen InternetNZ working hard on monitoring developments and calling for outcomes in the best interests of everyday Internet users.

Digital copyright:



As in previous years the digital copyright battleground occupied much of InternetNZ's time in 2010-2011. This issue has reached a conclusion of sorts with the government finalising its Copyright (Infringing File Sharing) Amendment Bill. The Bill comes into effect later this year and introduces a notice regime for digital copyright infringement and financial penalties available via a Copyright Tribunal. While court-ordered disconnection of Internet accounts is retained as a final sanction, the Bill is a vast improvement on its predecessor – the much-maligned Section 92a. In mid-2010 InternetNZ hosted copyright seminars to assist the public in making submissions, filed its own thorough submission and appeared before the Commerce Select Committee, proposing a slate of improvements to the legislation. Throughout, InternetNZ has consistently stressed the efficacy of notice-and-notice regimes and remained strenuously opposed to disconnection of Internet accounts.

ACTA (Anti-Counterfeiting Trade Agreement) & Trans-Pacific Partnership:

Following a global outcry in early-2010 a draft ACTA text was publicly released. InternetNZ helped to focus that desire for transparency through the highly-successful PublicACTA event, also held in 2010. As a result of the efforts of InternetNZ and other concerned parties the original intellectual property chapter in ACTA was significantly watered down. The agreement is likely to begin progressing its way through the New Zealand Parliament



later this year, with InternetNZ maintaining a watching brief. Negotiations for an expanded Trans-Pacific Partnership continued throughout 2010 and 2011. This agreement also contains IP provisions

that have the potential to significantly threaten digital freedoms, and InternetNZ is keeping an eagle eye as the talks intensify.

Submissions to Government:

InternetNZ dedicated a significant amount of time in 2010-2011 working reactively on submissions to government. A battery of submissions were filed over the course of the year, including lengthy responses on Internet filtering, the Copyright Amendment Bill, Telecom Operational/Structural Separation, software patents, the Telecommunications Amendment Bill and rural broadband. A permanent record of all InternetNZ submissions is available at <http://internetnz.net.nz/our-work/submissions>.

IPv6 (Internet Protocol version 6):

The new Internet addressing protocol – IPv6 – is critical to the future growth of the Internet in New Zealand, and globally. Recognising this vital fact, in 2010-2011 InternetNZ stepped up its annual funding of the New Zealand IPv6 Task Force by 30 percent. The Task Force continues to make fantastic in-roads in promoting local adoption of IPv6, with an array of marketing, training and sector benchmarking work underway. Find out more about the Task Force's activities at www.ipv6.org.nz.

Earthquake assistance:



In the wake of the devastating Christchurch earthquakes InternetNZ donated \$50,000 to the New Zealand Red Cross. Individual InternetNZ Members and the wider ICT community were also heavily involved in supporting initiatives and activities using the Web, social media and information technology. InternetNZ is actively progressing a further, more substantial contribution.

Partners & grants:

In 2010-2011 InternetNZ continued its close association with long-term partners – the New Zealand IPv6 Task Force, Victoria University (Cyberlaw), NetSafe, Hector’s World and the 2020 Communications Trust. In addition, 2010/2011 saw grants funding provided for a range of ICT initiatives, including:

- eLearning in Medicine project, Otago University
- World Internet Project survey, Auckland University of Technology
- Improvements to AMP broadband measurement interface, Waikato University
- The New Zealand Olympiad in Informatics
- Pacific Internet Partners travel fellowships
- NZ Computer Crime & Security Survey, Otago University
- Event sponsorship, including NZNOG, Kiwi Foo Camp & Internet Research Group of Otago UnConference



netsafe



TVNZ7 Internet Debate:



In August 2010, InternetNZ worked with Television New Zealand putting together the TVNZ7 Internet Debate. The debate was broadcast live and streamed online. It narrowed a lens on issues of child safety online, government filtering intervention, online privacy and security of data. A 50-strong audience attended on the night, and streaming from TVNZ servers peaked at 75 simultaneous participants. An online IRC chat peaked at 80 simultaneous participants, with dozens of people also participating on Twitter.

.nz names with macrons:

July 2010 marked an exciting new phase for the .nz domain name space, with people being able to register .nz domain names using macronised vowels. The change is significant because New Zealand’s indigenous language – Te Reo Maori – can now be correctly represented online. Registering a .nz name with macrons takes place in exactly the same way as registering any other .nz domain name – through a registrar – and registrations accepted on a first-come first-served basis.

Workshops:

Member and public participation is a vital input into InternetNZ's policy and advocacy work, and a series of public workshops and roundtables were held in 2010-2011 to garner views and opinion. A diverse range of people came together throughout the year at InternetNZ - organised workshops to mull issues as varied as privacy, human rights and the Internet, digital copyright and name suppression.

NetHui 2011:



The genesis of InternetNZ's NetHui event was roughly formed in mid-2010, with planning intensifying as the financial year progressed. NetHui 2011 is a true multi-stakeholder discussion conference attracting participants from a broad base of sectors and communities and with significant involvement from voluntary organisations, business and government. It is intended that NetHui be an annual event.

International activity:

InternetNZ continued its proud tradition of engaging at the highest levels of global Internet governance throughout 2010-2011. InternetNZ contractor and former Executive Director Keith Davidson was appointed to a key position on ICANN's ccNSO Council (the Country Code Names Supporting Organisation) and was elected Chair of the Asia Pacific Top Level Domain Association (APTLD). Appointments such as these underscore InternetNZ's sphere of influence globally and continues the trend of New Zealanders succeeding in international Internet governance roles.

InternetNZ Directory 2010-2011



1. Frank March
President 2009 – 2012
Vice President 2007 – 2009
Secretary 1997 – 2001
Council 1994 – 1997, 2006 – 2007
InternetNZ Fellow – awarded 2001



2. Jamie Baddeley
Vice President 2009 – 2012
Council 2006 – 2009



3. Don Christie
Council 2010 – 2013



4. Donald Clark
Council 2008 – 2011



5. Michael Foley
Council 2007 – 2012



6. Neil James
Council 2008 – 2013
InternetNZ Fellow – awarded 2001

7. Hamish MacEwan
Council 2007 – 2012

8. Jonny Martin
Council 2006 – 2013

9. Dave Moskovitz
Council 2010 – 2011

10. Nathan Torkington
Council 2009 – 2011

11. Michael Wallmannsberger
Council 2002 – 2003, 2008 – 2011
Treasurer 2006 – 2008
Secretary 2003 – 2006

12. Lance Wiggs
Council 2010 – 2013

Independent Auditor's Report

Audit**Grant Thornton New Zealand Audit**

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To the Members and Stakeholders of Internet New Zealand Incorporated and Group**Report on the Financial Statements**

We have audited the financial statements of Internet New Zealand Incorporated and Group on pages 2 to 19, which comprise the statement of financial position as at 31 March 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Council Members' Responsibilities

The council members are responsible for the preparation of financial statements in accordance with generally accepted accounting practice in New Zealand and for such internal control as the committee members determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other than in our capacity as auditor we have no relationship with, or interests in Internet New Zealand Incorporated and Group.

Opinion

In our opinion, the financial statements on pages 2 to 19 present fairly, in all material respects, the financial position of Internet New Zealand Incorporated and Group as at 31 March 2011, and its financial performance and its cash flows, for the year then ended in accordance with generally accepted accounting practice in New Zealand.



Grant Thornton New Zealand Audit Partnership
Wellington, New Zealand
10 June 2011

Internet New Zealand Incorporated
Annual Report
For the Year Ended 31st March 2011

Prepared By

Curtis McLean Limited
Chartered Accountants
Wellington NZ

Annual Report
For the Year Ended 31st March 2011

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Annual Report
For the Year Ended 31st March 2011

Financial Result

The Group Net Profit for the year, after taxation, was \$1,110,675 (2010 \$1,043,715).

	2011		2010	
	Group	Parent	Group	Parent
Retained Earnings as at 1 April	7,754,981	2,333,288	6,711,266	2,166,712
Net Profit (Loss) After Taxation	<u>1,110,675</u>	<u>2,306,627</u>	<u>1,043,715</u>	<u>166,576</u>
Retained Earnings as at 31st March	<u>\$8,865,656</u>	<u>\$4,639,915</u>	<u>\$7,754,981</u>	<u>\$2,333,288</u>

Dividend

Dividends of \$5,010,000 were received from New Zealand Domain Name Registry Limited, a wholly owned company, for the year ended 31st March 2011 (2010 \$2,490,000).

Remuneration of Council

During the year Council received the following remuneration:

Fees Paid

Frank March - President	21,000
Jamie Baddeley - Vice President	11,250
Don Christie	4,500
Donald Clark	nil
Michael Foley	9,000
Neil James	9,000
Hamish MacEwan	9,000
Jonny Martin	9,000
Dave Moskovitz	4,500
Judy Speight	2,250
Chris Streatfield	5,310
Nat Torkington	9,000
Michael Wallmannsberger	9,000
Lance Wiggs	4,500

\$107,310

For and on Behalf of the Council

President

Vice President

10 June 11

Date

Internet New Zealand Incorporated
Statement of Comprehensive Income
For the Year Ended 31st March 2011

	Note	2011		2010	
		Group	Parent	Group	Parent
Operating Income					
Registry Fees		7,151,664	-	6,840,284	-
Other Income		74,254	217,829	139,888	231,029
		<u>7,225,918</u>	<u>217,829</u>	<u>6,980,172</u>	<u>231,029</u>
Less Operating Expenses					
Registry Services		1,591,097	-	1,751,221	-
Domain Name Commission		563,926	-	650,430	-
Public Policy Society		492,828	492,828	628,283	628,283
Technical Leadership		1,065,256	1,065,256	1,040,261	1,040,260
Audit Fees		258,500	258,500	191,263	191,263
Employee Remuneration		27,599	9,499	27,376	9,504
Finance Cost		1,864,211	782,599	1,603,189	593,756
Depreciation & Amortisation		-	-	6,596	6,596
Rent	3,4	434,379	77,789	237,751	32,771
Loss on Disposal of Fixed Assets		121,084	121,084	211,263	92,909
		<u>-</u>	<u>-</u>	<u>56,533</u>	<u>-</u>
Total Operating Expenses		<u>6,418,880</u>	<u>2,807,555</u>	<u>6,404,166</u>	<u>2,595,342</u>
Surplus/(Deficit) from Operations		807,038	(2,589,726)	576,006	(2,364,313)
Plus Other Income/(Expenses)					
Dividend Income		-	5,010,000	-	2,490,000
Finance Income		13,914	13,914	-	-
Interest		497,733	84,683	467,709	16,294
Sundry Income		4,234	-	-	24,595
Impairment of Loan & Receivable		-	-	-	-
Donations	13	(162,244)	(162,244)	-	-
		<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>	<u>-</u>
Surplus/(Deficit) for the Year		1,110,675	2,306,627	1,043,715	166,576
Other Comprehensive Income		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Comprehensive Income for the Year		<u>\$1,110,675</u>	<u>\$2,306,627</u>	<u>\$1,043,715</u>	<u>\$166,576</u>

Total Comprehensive Income is attributable to the Shareholders of the Company.



Internet New Zealand Incorporated
Statement of Changes in Equity
For the Year Ended 31st March 2011

	Note	Group	2011 Parent	Group	2010 Parent
Retained Earnings					
Opening Retained Earnings		7,754,981	2,333,288	6,711,266	2,166,712
Total Comprehensive Income for the Year					
Surplus/(Deficit) for the Year		1,110,675	2,306,627	1,043,715	166,576
Other Comprehensive Income		-	-	-	-
Retained Earnings as at 31st March		<u>\$8,865,656</u>	<u>\$4,639,915</u>	<u>\$7,754,981</u>	<u>\$2,333,288</u>



Internet New Zealand Incorporated
Statement of Financial Position
As At 31st March 2011

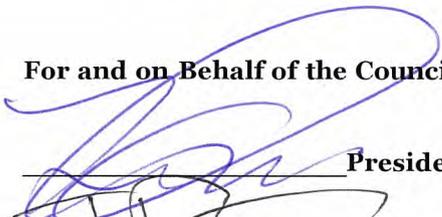
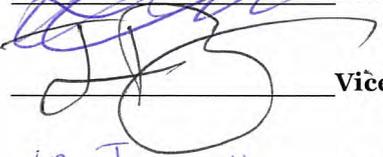
	Note	2011		2010	
		Group	Parent	Group	Parent
Current Assets					
Cash and Cash Equivalents	1	1,591,935	506,662	2,093,698	1,011,337
Other Financial Assets	1a	7,869,252	360,993	9,265,178	205,675
Trade Debtors and Other Receivables	2	1,140,511	120,953	1,066,763	102,420
Total Current Assets		10,601,698	988,608	12,425,639	1,319,432
Non Current Assets					
Other Financial Assets - Non Current	1a	3,087,397	3,087,397	164,839	164,839
Total Non Current Assets		3,087,397	3,087,397	164,839	164,839
Property, Plant & Equipment	3	637,060	310,359	649,295	375,538
Investments					
Shares in Subsidiaries	8	-	610,000	-	610,000
Hector's World Limited Loan	7,13	-	-	148,330	148,330
Total Investments		-	610,000	148,330	758,330
Intangible Assets	4	530,308	4,338	189,559	8,295
Total Assets		14,856,463	5,000,702	13,577,662	2,626,434
Less Liabilities:					
Current Liabilities					
Deferred Income- Current	10	3,523,768	-	3,524,629	-
Trade Creditors and Other Payables	5	843,880	360,787	743,155	293,146
Total Current Liabilities		4,367,648	360,787	4,267,784	293,146
Term Liabilities					
Deferred Income- Non Current	10	1,623,159	-	1,554,897	-
Total Liabilities		5,990,807	360,787	5,822,681	293,146
Net Assets		\$8,865,656	\$4,639,915	\$7,754,981	\$2,333,288



Internet New Zealand Incorporated
Statement of Financial Position
As At 31st March 2011

	2011		2010	
	Group	Parent	Group	Parent
Represented by:				
Total Equity	<u>\$8,865,656</u>	<u>\$4,639,915</u>	<u>\$7,754,981</u>	<u>\$2,333,288</u>

For and on Behalf of the Council


 _____ **President**

 _____ **Vice President**
 10 June 11 _____ **Date**



Internet New Zealand Incorporated
Statement of Cash Flows
For the Year Ended 31st March 2011

	Note	2011		2010	
	Group	Parent	Group	Parent	Parent
Cash Flows From Operating Activities					
Cash was Provided From					
Net Receipts from Customers		7,046,110	253,948	7,420,211	298,788
Receipt of Taxation		533	-	382,188	-
Dividend Received		-	5,010,000	-	2,490,000
Interest Received		445,118	37,645	465,896	15,081
		<u>7,491,761</u>	<u>5,301,593</u>	<u>8,268,295</u>	<u>2,803,869</u>
Cash was Distributed To:					
Payments to Suppliers and Employees		5,681,957	2,709,937	5,870,814	2,517,479
Payment of Taxation		3,208	3,208	-	2,087
Interest Expense		-	-	521	-
Net GST Paid		18,836	6,594	25,178	16,068
		<u>5,704,001</u>	<u>2,719,739</u>	<u>5,896,513</u>	<u>2,535,634</u>
Net Flows Operating Activities		1,787,760	2,581,854	2,371,782	268,235
Cash Flows From Investing					
Cash was Distributed To:					
Net Investment in Term Deposits		1,526,632	3,077,876	1,315,220	214,000
Loan to Hector's World		-	-	60,000	60,000
Purchase of Fixed Assets & Intangibles		762,891	8,653	771,068	345,070
		<u>2,289,523</u>	<u>3,086,529</u>	<u>2,146,288</u>	<u>619,070</u>
Net Cash Flows From Investing Activities		(2,289,523)	(3,086,529)	(2,146,288)	(619,070)
Net Increase (Decrease) In Cash and Cash Equivalents		(501,763)	(504,675)	225,494	(350,835)
Add: Opening Cash and Cash Equivalents		<u>2,093,698</u>	<u>1,011,337</u>	<u>1,868,204</u>	<u>1,362,172</u>
Closing Cash and Cash Equivalents	1	<u>\$1,591,935</u>	<u>\$506,662</u>	<u>\$2,093,698</u>	<u>\$1,011,337</u>



Internet New Zealand Incorporated
Statement of Cash Flows (Continued)
For the Year Ended 31st March 2011

Operating Activity Cash Flow Reconciliation

	2011		2010	
	Group	Parent	Group	Parent
Surplus/(Deficit) for the Year	1,110,675	2,306,627	1,043,715	166,576
Add/(deduct) Non - cash items				
Finance Cost	(13,914)	(13,914)	6,596	6,596
Depreciation	210,629	72,829	210,330	29,289
Impairment of Hectors World Loan	162,244	162,244	-	-
Amortisation	223,750	4,960	27,421	3,482
	582,709	226,119	244,347	39,367
Movement in working capital				
(increase)/decrease in receivables	(7,125)	22,205	(29,460)	43,164
(increase)/decrease in GST receivable	(14,922)	(6,594)	(24,190)	(16,068)
increase/(decrease) accounts payable	65,090	67,641	175,139	60,276
(increase)/decrease interest receivable	(52,615)	(47,038)	(1,813)	(1,213)
(increase)/decrease tax receivable	(2,675)	(3,208)	382,188	(2,087)
(increase)/decrease prepayments	39,222	16,102	(82,155)	(21,780)
Loss on Disposal of Fixed Assets	-	-	56,533	-
increase/(decrease) deferred income	67,401	-	607,478	-
	94,376	49,108	1,083,720	62,292
Net Cash Flow from Operating Activities	\$1,787,760	\$2,581,854	\$2,371,782	\$268,235



Accounting Policies **For the Year Ended 31st March 2011**

Significant Accounting Policies

These financial statements comprise the consolidated financial statements of Internet New Zealand Incorporated ("INZ") for the year ended 31 March 2011. INZ is an incorporated society registered under the Incorporated Societies Act 1908 and domiciled in New Zealand.

The consolidated financial statements of INZ 31st March 2011 comprise INZ and its subsidiaries (together referred to as the "Group"). The financial statements were authorised for issue by the Councillors on 10 June 2011.

The principal activity of INZ is to keep the Internet open and uncaptureable, protecting and promoting the Internet for New Zealand.

INZ is a Public Benefit Entity as the primary objective is to provide goods or services for the community rather than for a financial return.

(a) Statement of compliance

These financial statements are prepared in compliance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) complying with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for Public Benefit reporting entities applying differential reporting exemptions.

The Group qualifies for Differential Reporting because it is not publicly accountable and does not qualify as a large entity as defined in the framework for Differential Reporting by the New Zealand Institute of Chartered Accountants. The Group has taken advantage of all Differential Reporting Exemptions, except NZ IAS 7 Statement of Cash Flows.

(b) Basis of preparation

Presentation Currency

The financial statements are presented in New Zealand dollars. They are prepared on a historical cost basis except for investments which are stated at their fair value.

Use of estimates and judgements

The preparation of financial statements in conformity with NZ IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Changes to Accounting Policies

There has been no significant change in accounting policies in the current reporting period.

Accounting Policies
For the Year Ended 31st March 2011

Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The accounting policies have been consistently applied by Group entities.

(c) Basis of Consolidation

The Group financial statements consolidate the financial statements of the Parent and all entities over which the Parent has power to control the financial reporting and operating policies so as to obtain benefits from its activities (defined as "subsidiaries"). The financial statements of subsidiaries are included in the consolidated Financial Statements from the date that control commences until the date that control ceases.

In preparing the consolidated financial statements, all interentity balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(d) Employee entitlements

The provisions for employee entitlements to wages, salaries, annual leave and long service leave payments represent the amount for which there is a present obligation to pay resulting from employees' services provided up to balance date.

(e) Financial assets

Financial assets consist of cash, deposits and receivables. Upon recognition financial assets are recognised at fair value. Subsequent to initial recognition financial assets are classified as loans and receivables. Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market and are restated at amortised cost using the effective interest rate method.

(f) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Accounting Policies
For the Year Ended 31st March 2011

(g) Foreign currency

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise.

(h) Goods and Services Tax

All amounts are shown exclusive of Goods and Services Tax (GST) except for trade debtors, receivables and payables that are stated inclusive of GST.

(i) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of the value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the Statement of Comprehensive Income immediately, unless the relevant asset is carried at a fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognised in the Statement of Comprehensive Income immediately, unless the relevant asset is carried at a fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) Income Tax

The Group was registered as a charity under the Charities Act 2005 and therefore exempt from income tax under Section CW41 & CW42 of the Income Tax Act 2007 effective from when it was granted charitable status.

Internet New Zealand Inc is registered as a charity in terms of the Charities Act 2005 with effect from 30 June 2008. The wholly owned subsidiaries, New Zealand Domain Name Registry Limited and Domain Name Commission Limited were registered as charities in terms of the Charities Act 2005 with effect from 19 August 2008 and 10 October 2008 respectively.

Accounting Policies
For the Year Ended 31st March 2011

(k) Intangible assets**Trademarks**

Trademarks are finite life tangibles and are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives of 7 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Software

Software is a finite life intangible asset and is recorded at cost less accumulated amortisation. Amortisation is charged on a diminishing value basis over the estimated useful life. Amortisation is charged to the Statement of Comprehensive Income. The principal rates used to calculate amortisation are -

Software 48.0 - 60.0% DV

(l) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the consolidated entity's general policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(m) Payables

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(n) Property, plant and equipment**(i) Owned assets**

Items of property, plant and equipment are stated at cost as deemed cost less accumulated depreciation and impairment losses, see accounting policy (i).

Accounting Policies
For the Year Ended 31st March 2011

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses, see accounting policy (n). Lease payments are accounted for as described in accounting policy (l).

(iii) Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the Statement of Comprehensive Income an expense as incurred.

(iv) Depreciation

Depreciation is charged on a diminishing value or straight line basis on all property, plant and equipment over the estimated useful life. Depreciation is charged to the Statement of Comprehensive Income. The principal rates used to calculate depreciation are -

Furniture & Fittings	10.0 - 48.0% DV
Office Equipment	15.6 - 80.4% DV
Computer Hardware	31.2 - 80.4% DV

(o) Provisions

Provisions are recognised when the consolidated entity has a present obligation as a result of a past event, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(p) Revenue recognition**Rendering of services**

Revenue from a contract to provide services is recognised when the services are performed.

Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholders' rights to receive payment have been established. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(q) Capital Management

The Group's capital is accumulated surpluses from trading. The Group manages its revenue, expenses, assets and liabilities prudently in order that the objectives of the ultimate charitable group are met. The Group has no external third party imposed capital management requirements.

Notes To The Financial Statements (Continued)
For the Year Ended 31st March 2011

	2011		2010	
	Group	Parent	Group	Parent
1. Cash and Cash Equivalents				
Cash on Hand	400	400	400	400
Cash at Banks	<u>1,591,535</u>	<u>506,262</u>	<u>2,093,298</u>	<u>1,010,937</u>
Total Cash and Equivalents	1,591,935	506,662	2,093,698	1,011,337

1a. Other Financial Assets

The parent and the group have funds invested in Term Deposits classified as:

Other Financial Assets	7,869,252	360,993	9,265,178	205,675
Other Financial Assets - Non Current	<u>3,087,397</u>	<u>3,087,397</u>	<u>164,839</u>	<u>164,839</u>
Total Other Financial Assets	10,956,649	3,448,390	9,430,017	370,514

2. Trade Debtors and Other Receivables

Trade receivables	800,043	1,403	793,451	23,609
Interest Receivable	223,869	50,268	171,255	3,230
GST Receivable	50,555	50,555	-	43,961
Tax Receivable	11,872	7,627	8,664	4,419
Pre-payments	54,172	11,100	93,393	27,201
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	1,140,511	120,953	1,066,763	102,420

Notes To The Financial Statements (Continued)
For the Year Ended 31st March 2011

3. Property, Plant & Equipment

Parent

The following gives details of the cost or valuation of assets and depreciation written off to date:

<u>This Year</u>	<u>Cost or Valuation</u>	<u>Depreciation For Year</u>	<u>Accumulated Depreciation</u>	<u>Book Value This Year</u>
Furniture & Fittings	353,554	39,521	81,777	271,777
Computer Hardware	208,750	31,218	175,538	33,212
Office Equipment	14,832	2,090	9,461	5,370
	<u>\$577,136</u>	<u>\$72,829</u>	<u>\$266,776</u>	<u>\$310,359</u>
<u>Last Year</u>	<u>Cost or Valuation</u>	<u>Depreciation For Year</u>	<u>Accumulated Depreciation</u>	<u>Book Value Last Year</u>
Furniture & Fittings	351,643	11,953	42,256	309,387
Computer Hardware	205,389	14,707	144,320	61,068
Office Equipment	12,454	2,629	7,371	5,082
	<u>\$569,486</u>	<u>\$29,289</u>	<u>\$193,947</u>	<u>\$375,537</u>

During the year there were fixed asset additions as follows:

Furniture & Fittings	\$1,910	(2010	\$286,926)
Computer Hardware	\$3,361	(2010	\$47,448)
Office Equipment	\$2,378	(2010	\$2,874)

Notes To The Financial Statements (Continued)
For the Year Ended 31st March 2011

Group

<u>This Year</u>	<u>Cost or Valuation</u>	<u>Depreciation For Year</u>	<u>Accumulated Depreciation</u>	<u>Book Value This Year</u>
Furniture & Fittings	353,553	39,521	81,777	271,776
Office Equipment	131,007	11,770	62,176	68,831
Computer Hardware	1,111,925	159,338	815,472	296,453
	<u>\$1,596,485</u>	<u>\$210,629</u>	<u>\$959,425</u>	<u>\$637,060</u>
<u>Last Year</u>	<u>Cost or Valuation</u>	<u>Depreciation For Year</u>	<u>Accumulated Depreciation</u>	<u>Book Value Last Year</u>
Leasehold Improvements	-	3,912	-	-
Furniture & Fittings	351,643	11,953	42,256	309,387
Office Equipment	102,197	18,006	53,212	48,985
Computer Hardware	947,057	176,459	656,134	290,923
	<u>\$1,400,897</u>	<u>\$210,330</u>	<u>\$751,602</u>	<u>\$649,295</u>

During the year there were fixed asset additions as follows:

Furniture & Fittings	\$1,910	(2010	\$286,926)
Computer Hardware	\$164,876	(2010	\$272,145)
Office Equipment	\$33,194	(2010	\$17,464)



Notes To The Financial Statements (Continued)
For the Year Ended 31st March 2011

4. Intangible Assets

Parent

The following gives details of the cost or valuation of assets and amortisation written off to date:

<u>This Year</u>	<u>Cost or Valuation</u>	<u>Amortisation For Year</u>	<u>Accumulated Amortisation</u>	<u>Book Value This Year</u>
Software	56,300	4,960	51,961	4,338
	<u>56,300</u>	<u>4,960</u>	<u>51,961</u>	<u>4,338</u>
<u>Last Year</u>	<u>Cost or Valuation</u>	<u>Amortisation For Year</u>	<u>Accumulated Amortisation</u>	<u>Book Value Last Year</u>
Software	55,296	3,482	47,002	8,295
	<u>55,296</u>	<u>3,482</u>	<u>47,002</u>	<u>8,295</u>

During the year there were additions of \$1,003 (2010 \$7,822).

Group

<u>This Year</u>	<u>Cost or Valuation</u>	<u>Amortisation For Year</u>	<u>Accumulated Amortisation</u>	<u>Book Value This Year</u>
Software	1,455,843	222,541	925,535	530,308
Trademark	10,698	1,209	10,698	-
	<u>\$1,466,541</u>	<u>\$223,750</u>	<u>\$936,233</u>	<u>\$530,308</u>
<u>Last Year</u>	<u>Cost or Valuation</u>	<u>Amortisation For Year</u>	<u>Accumulated Amortisation</u>	<u>Book Value Last Year</u>
Software	891,597	26,183	702,995	188,602
Trademark	10,446	1,238	9,489	957
	<u>\$902,043</u>	<u>\$27,421</u>	<u>\$712,484</u>	<u>\$189,559</u>

During the year there were additions of \$560,280 (2010 \$192,706).



Notes To The Financial Statements (Continued)
For the Year Ended 31st March 2011

	2011		2010	
	Group	Parent	Group	Parent
5. Trade Creditors and other Payables				
Trade Payables	586,899	250,045	618,270	210,356
GST Payable	62,556	-	26,923	-
Employee Benefits	107,151	45,286	97,962	33,599
Lease Incentives	89,274	65,456	-	49,191
Other	-	-	-	-
	843,880	360,787	743,155	293,146

The above balance includes \$4,136 payable to Domain Name Commission Limited, a related party.

6. Financial Instruments

Credit Risk

Financial instruments which potentially subject the parent and group to credit risk consist principally of bank balances and accounts receivable.

The parent and group has a credit policy which is used to manage this exposure to credit risk. As part of this policy limits on exposures with counter parties have been set and are monitored on a regular basis.

The parent and group performs credit evaluations on all customers requiring credit and does not require collateral. The parent and group further minimises its credit exposure by limiting the amount of surplus funds placed with any one financial institution at any one time.

7. Related Party Disclosures

Transactions between Subsidiaries

Internet New Zealand Incorporated (INZ) owns 100% of New Zealand Domain Name Registry Limited (NZDNRL) and Domain Name Commission Limited (DNCL).

INZ receives dividends declared and paid by NZDNRL during the year totalling \$5,010,000 (2010 \$2,490,000).

NZDRL paid occupancy costs of \$85,000 (2010 rent received of \$185,212) and DNCL paid occupancy costs of \$115,000 (2010 rent of \$129,273) to the Company during the year. The occupancy costs include a rent component.

A balance of \$4,136 was payable to Domain Name Commission Limited at 31 March 2011.

Key Management Personnel

The Company has a related party relationship with its directors and executive officers.

A loan of \$200,000 was advanced to Hector's World Limited in prior reporting year 2010 while Liz Butterfield was a Councillor and the managing director of Hector's World Limited. She no longer holds either role so is no longer a related party.

Except as stated above there are no other related party transactions.



Notes To The Financial Statements (Continued)
For the Year Ended 31st March 2011

8. Subsidiaries

Name of Entity	Country of Incorporation	2011	2010
Parent Entity			
Internet New Zealand Incorporated	New Zealand		
Subsidiaries			
New Zealand Domain Name Registry Limited	New Zealand	100%	100%
Domain Name Commission Limited	New Zealand	100%	100%

9. Operating Leases

	2011		2010	
	Group	Parent	Group	Parent
Less than one year	137,100	137,100	79,975	79,975
Between one and two years	137,100	137,100	137,100	137,100
Between three and five years	354,175	354,175	274,200	274,200
More than five years	-	-	217,075	217,075
Total	628,375	628,375	708,350	708,350

10. Deferred Income

The group through subsidiary NZDNRL has invoiced clients for \$5,146,927 (2010 \$5,079,526) in advance. \$3,523,768 of this is current and \$1,623,159 is non-current.

11. Contingent Liabilities and Commitments

At 31 March 2011 the Group had no contingent liabilities or commitments (2010 \$Nil).

12. Events Subsequent to Balance Date

No events occurred subsequent to balance date that would have had a material effect on the financial statements. (2010 Nil).

Notes To The Financial Statements (Continued)
For the Year Ended 31st March 2011

13. Hector's World Limited Loan

	2011		2010	
	Group	Parent	Group	Parent
Carrying Amount - 1 April	148,330	148,330	94,926	94,926
Principal advance	<u>-</u>	<u>-</u>	<u>60,000</u>	<u>60,000</u>
	148,330	148,330	154,926	154,926
Financial income/ (cost) to Statement of Comprehensive Income	13,914	13,914	(6,596)	(6,596)
Impairment of financial assets	<u>(162,244)</u>	<u>(162,244)</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>148,330</u>	<u>148,330</u>

A gross undiscounted loan of \$200,000 has been advanced to Hector's World Limited repayable to Internet New Zealand Incorporated ("INZ") upon demand by INZ but not prior to 31 July 2013.

The loan is interest free unless demanded by INZ. The loan agreement provides an interest rate not exceeding 5% above the 90 day Bank Bill Buy Rate.

The loan advance has been fully impaired at 31 March 2011 as the financial position of Hector's World Limited indicates the company is insolvent and therefore does not have the financial resources to meet its financial obligations. If future evidence becomes available that the financial position has improved an adjustment to impairment will be made to reverse this loss in a subsequent reporting period.