ANNUAL REPORT 2015-16

NZRS LIMITED

Annual Report
For the Year Ended 31st March 2016

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THE YEAR IN REVIEW

Statistics

This year saw 24,339 new domains being added, above the budgeted 11,269.

There was a drop-off of names following the 12 month anniversary of the second level launch in September, but growth was still positive. Overall there has been a flattening of domain name growth compared to previous years.

The 12-month rolling average was 2,028 per month. This was well above the forecast figure of 939 average growth per month set in April to September 2015 but within range of average growth per month reforecast set in October to March 2016. Our analysis shows that the reason for this higher than expected growth rate was that more registrants who bought a .nz name to match their existing co.nz name, held on to their co.nz names than forecast.

The growth rate for 2015–2016 was 3.85%, below the 15% growth in 2014–2015 and well below the average 20% growth seen in the eight years leading up to the global financial crisis.

	31 March 2016	31 March 2015	31 March 2014
Registrars connected to production (including DNCL)	88	85	83
Domain names	656,607	632,268	549,781
Net growth	24,339	82,487	23,580
Percentage increase	3.85%	15.00%	4.48%

Financial Performance

Profit was above budget with a net surplus of $3.874 million versus $3.401 million forecast (2014–15 $2.724 million).

Dividends totalling $4.170 million (2014-15 $2.755 million) were paid to the shareholder InternetNZ across the 2015 – 2016 year.

The domain name fee charged to Registrars remained at $1.25 per month.

The company's balance sheet remained strong, with significant funds invested. The funds, derived predominantly from prepaid domain name fees, are conservatively invested under a low-risk investment strategy of rolling fixed-interest deposits spread across a number of registered banks, with the company's reserves therefore relatively well protected from the global financial crisis. Yields have remained modest to match the interest rates on offer and there has been no loss of capital.

Charitable Status

The company continues to meet the requirements for charitable status and incurred no liability for income tax on its earnings during 2015 – 2016.

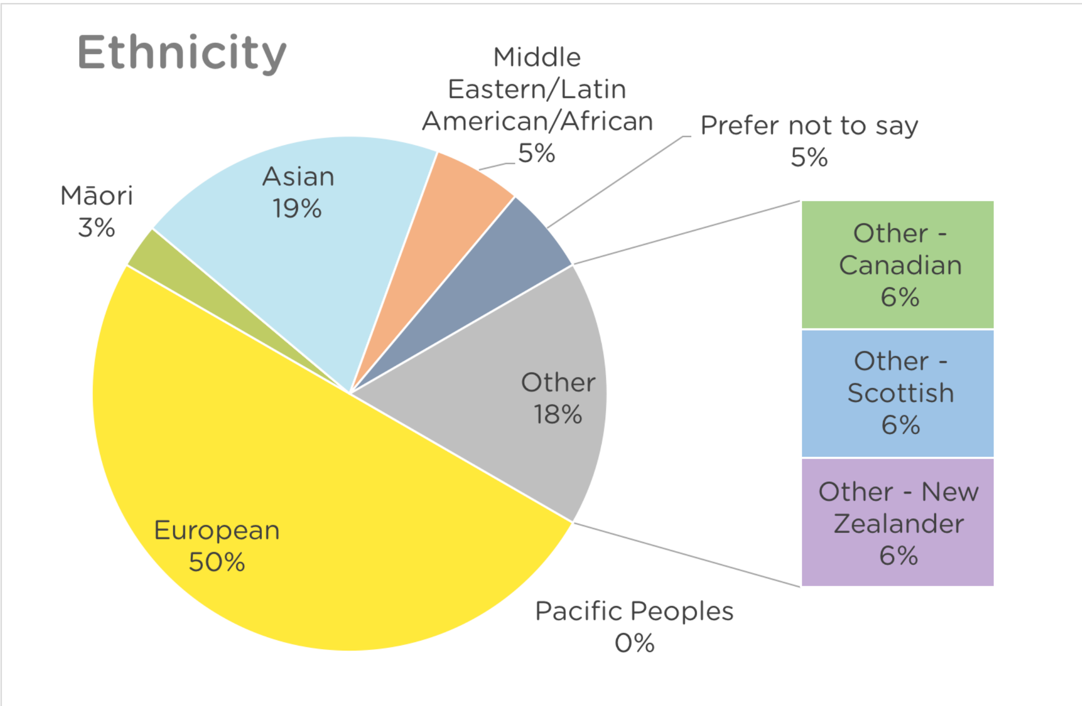
Income recognition policy

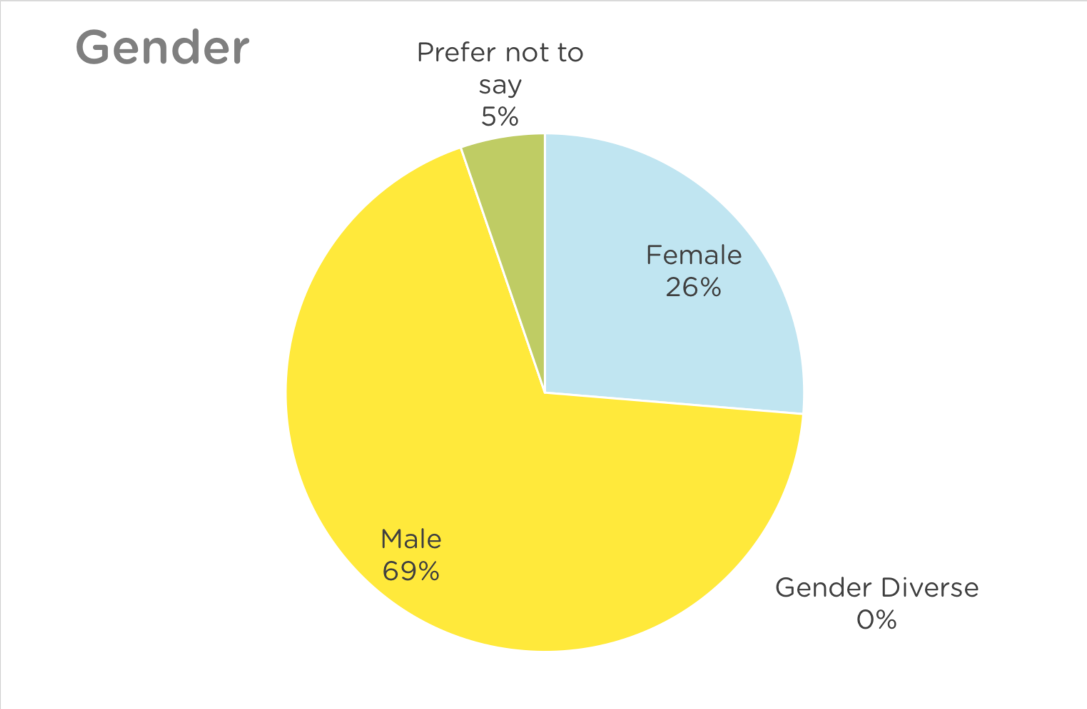
At the end of the 2012-2013 financial year we changed our income recognition policy slightly to calculate on a daily rather than monthly basis. For management accounting purposes we use monthly income recognition throughout the year and apply a correction at the end of the year in agreement with the auditors. This correction is budgeted for and so has no adverse effect on forecast profit. This year the correction was $24,480.21.

Diversity

At the end of the year we carried out our first staff diversity survey enabling us to report on staff diversity. We intend to carry out this same survey at the end of each financial year. In addition to being published here this report is available on our web site (https://nzrs.net.nz/diversity).

This report includes all staff that were employed on the last day of the financial year. Staff who left during the year are not included. The data is collected using standards from Statistics NZ to enable industry and national comparisons.





Progress towards the achievement of our Strategic Goals

The company's vision is:

A world class Internet in NZ.

This vision and the five strategic goals that follow from it provide the all-important focus for the company. Significant progress was made on delivering the key work items that support these goals.

There were a number of major developments over the year:

- The launch and subsequent commercialisation of the National Broadband Map (https://broadbandmap.nz).
- The launch of our Internet Data Portal (https://idp.nz)
- Complete redesign and rebuild of our infrastructure platform on which we run all our production .nz services.
- Major new functionality added to the Registrar Portal

Strategic Goal 1

Deliver a world-class domain name service to registrars, their customers and all Internet users.

This is our key strategic goal and we consider it a goal that cannot be compromised by any future developments. It is this imperative that has led to our strong focus on best practice processes, best practice controls and best practice technology.

The company's core operational systems performed well during the year, enabling achievement of the key metrics under the Service Level Agreement (SLA) with Domain Name Commission Limited (DNCL) in accordance with the relevant Operating Agreements (OA) between NZRS/INZ and DNCL/INZ, for all months.

Availability	SLA requirement	Number of months SLA requirement met
DNS	100	12

This year we began a multi-year review of our DNS. Our DNS has grown organically over the years as new functionality has been added both by our own team and previous contractors. This review looks at the end to end process of generation of DNS data to delivery of that data by our production DNS servers. It is anticipated that the review will take 2-3 years to complete.

<u>Strategic Goal 2</u>

Deliver world-class registry services that continually improve.

The company's core registration system performed well again enabling achievement of the key metrics required by the SLA.

Availability	SLA requirement	Number of months SLA requirement met
SRS	**99.90**	**11**
WHOIS	**99.90**	**11**

We had two key areas of focus on the registry side last year. The first was a full redesign and rebuild of the infrastructure platform on which we run our production .nz services. This included a switch of the core operating system (from Debian to Ubuntu), a replacement of the application deployment and configuration management systems and an overhaul of our automated job processing system.

The second area of focus was on the registrar portal and the accompanying business intelligence data. Now that we have a fully featured registry with low friction processes our push for greater registrar engagement (which is the most effective way to drive .nz sales) focuses on the provision of actionable data for registrars. The registrar portal is our tool to achieve this and feedback from global registrars is that it is world leading.

Towards the end of the year we began a full review of our marketing activities looking at performance to date and re-examining the evidential basis for our marketing activities. To provide the space for this review, all advertising work was suspended. The first stage concluded that a number of key elements of research needed to be carried out to assess the effectiveness of content marketing and advertising, work which will continue until the next year. Advertising remains suspended while this research is carried out.

Strategic Goal 3

Support InternetNZ through tangible contributions of income, governance and management resources, and expert knowledge.

Our key contribution over this year was financial through dividend payments and the support of key group initiatives in developing its future strategy, communicating the work of the group and building stronger relationships with key stakeholders.

Strategic Goal 4

Develop our services and technology within a long term evolutionary framework to meet the future needs of Internet users.

This year we launched two new services. The first was the National Broadband Map, officially launched by Minister Adams and seeing sustained usage of 8,000 queries per month after an opening 130,000 in the first week. Later in the year we made our first sale of access to the commercial API taking us closer to the goal of a financially self-sustaining and ultimately modestly profitable service.

The second was our Internet Data Portal, another first for a TLD registry. To this site we publish daily registration data, summary data from our zonescans and other useful data on the NZ Internet. As a data portal it provides an easy interface for anyone to find, explore, manipulate, visualise and share data.

Strategic Goal 5

Deliver, in partnership with DNCL, a successful long-term strategy for .nz.

Our main focus over the last year was on the MoU with Government, establishing a lasting agreement on the principles and practises that underpin the group's management and operation of .nz.

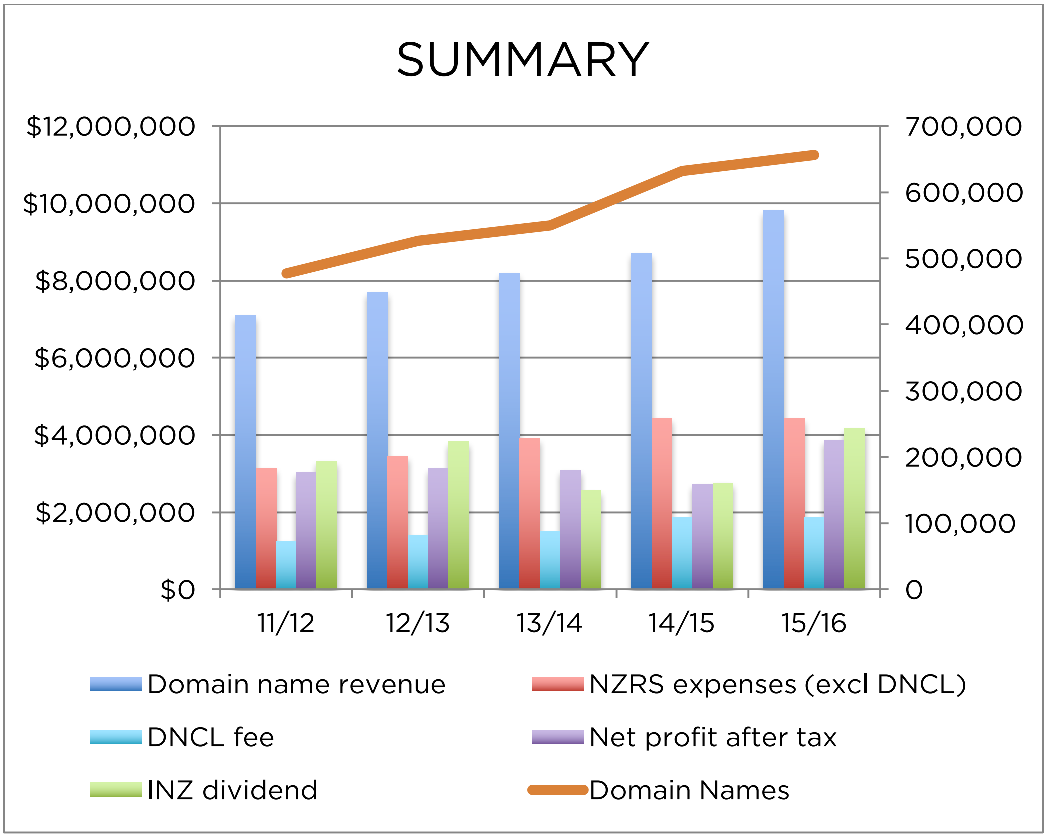
People and relationships

NZRS has enjoyed good working relationships with both InternetNZ and DNCL, at both governance and operational levels.

There was one change at Board level during the year. At the 2015 AGM Doug Mercer retired by rotation and Linda Robertson was appointed.

History and trends

NZRS commenced managing the domain name registry for .nz in October 2002. Over that time the size of the register has grown, the number of authorised registrars increased, many new features have been added and the wholesale fee has been reduced several times.

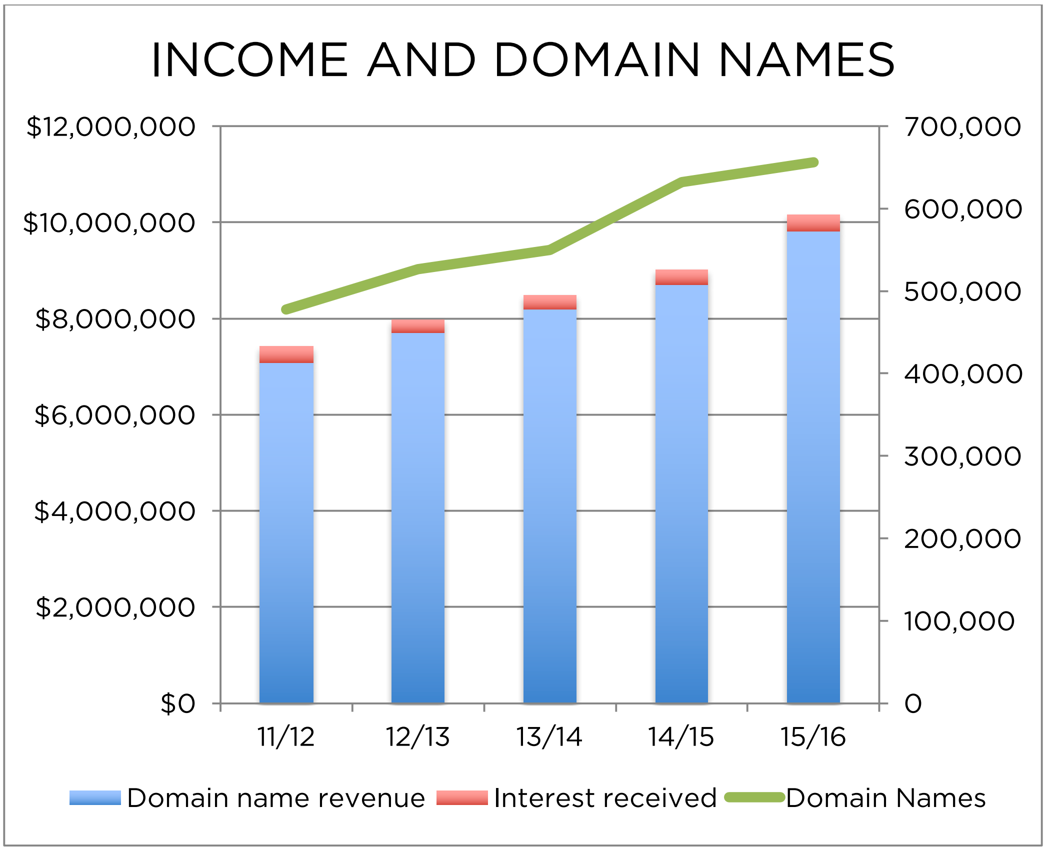


	11/12	12/13	13/14	14/15	15/16
Domain name revenue	$7,086	$7,703	$8,195	$8,712	$9,810
Expenses	$4,413	$4,869	$5,396	$6,307	$6,296
Net profit after tax	$3,031	$3,121	$3,101	$2,724	$3,874
Dividend	$3,325	$3,829	$2,560	$2,756	$4,171
DNCL fee	$1,260	$1,411	$1,496	$1,870	$1,870
Domain names	477	526	549	632	656

All figures are in 000s

After a number of years of investment to provide new features and expand the service provision of NZRS into marketing and technical research, expenditure has stabilised and indeed saw a modest fall this year.

NZRS receives interest income on funds invested, with the majority of these funds representing prepaid domain name fees. .nz policy provides for registrants to register domain names for terms ranging from one month to 120 months. The average term as at 31st March 2016 was 14.5 months for new domain names, and 6.2 months for renewals. The increasing number of domain names results in the amount of prepaid domain name fees increasing each year.

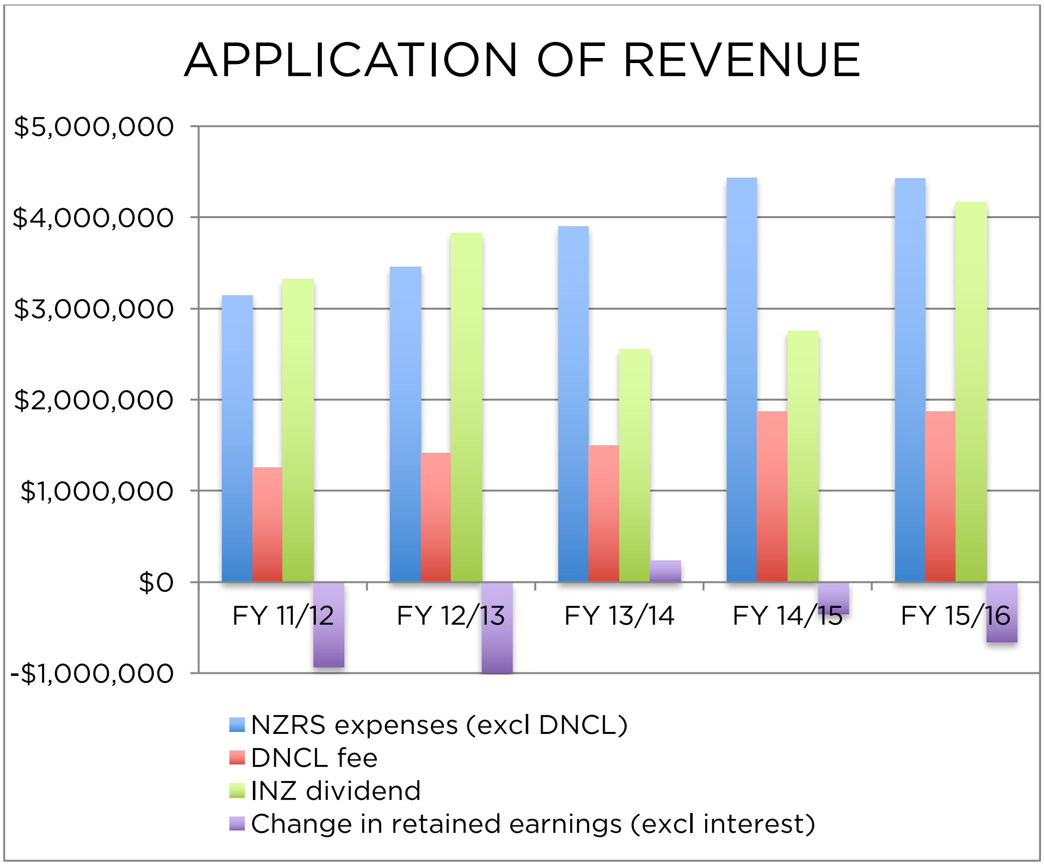


	11/12	12/13	13/14	14/15	15/16
Domain name revenue	$7,086	$7,703	$8,195	$8,712	$9,810
Interest received	$347	$287	$303	$320	$362
Domain names	477	526	549	632	656

All figures are in 000s

Interest income will continue to be a feature of NZRS's overall revenue as long as the company receives prepaid domain name fees under the .nz policy. NZRS manages these funds under company policies (Liquidity, Treasury, Reserves and Dividend) that recognise the legal, commercial and fiduciary obligations to maintain those funds and invest them in a prudent manner.

NZRS has not paid income tax for the 2009-2010 through to 2015-2016 years as a result of our charitable status.



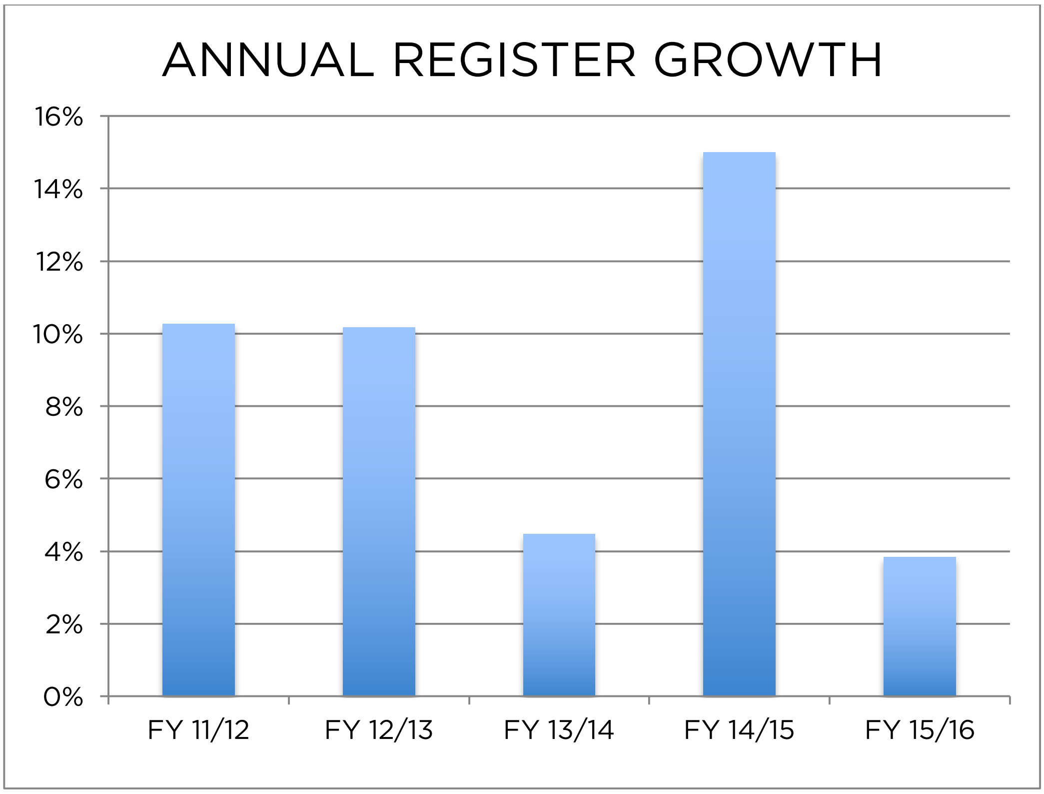
	11/12	12/13	13/14	14/15	15/16
Expenses (excl DNCL)	$3,153	$3,458	$3,900	$4,438	$4,427
DNCL fee	$1,260	$1,411	$1,495	$1,870	$1,870
INZ dividend	$3,325	$3,829	$2,560	$2,756	$4,171
Change in retained earnings (excl interest)	($641)	($994)	$239	($351)	($656)
Tax	$0	$0	$0	$0	$0

All figures are in 000s

Outlook

Growth

We noted in our previous annual report that we expected growth to return to the low growth that we saw before the opening of the second level and that eventuated with growth of 3.8%. We forecast that trend to continue with growth of 3.5% over the next year.



NZRS's budget for 2016 – 2017 is predicated on the rate of monthly growth in domain names as shown below. The company believes this realistically reflects the current outlook.

Net Growth	2016-17
TOTAL	22,920
Monthly average	1,910

Expenditure

For a number of years our expenditure grew as we invested in new services and responded to policy changes, including the introduction of EPP, Internationalised Domain Names, DNSSEC, Registrar Portal and opening the second level. As forecast last year our expenditure is now peaking and this is feeding through into a substantially increased dividend.

Absent any major changes coming from a change in .nz policy, such as the introduction of a comprehensive WHOIS privacy feature, we expect this trend to continue.

The Role of the Board

The Board's role is to effectively represent and promote the interests of the shareholder with a view to adding long-term value to the company while respecting the interests of a wide range of stakeholders within the context of the company's ownership and the shareholder's objectives.

The Board is responsible for the overall direction and control of the company's activities, and its key responsibilities include the following:

- Establishment of goals and strategies with associated business plans
- Monitoring company performance against budget and other performance measures
- Ensuring integrity in reporting
- Communications with the shareholder on a regular basis through an annual Company Plan, Annual Report and quarterly reporting, and other reporting as requested by the shareholder
- Implementation of policies to enhance company performance
- Identifying and managing business risks, including statutory compliance
- Ensuring appropriate internal controls and the quality and independence of the external audit function
- Monitoring management and its performance, including Chief Executive appointment, review, development, succession planning and delegations
- Fostering a company culture that requires directors, management and every staff member to adhere to high standards of ethics and corporate behaviour.

Board Structure

The directors of NZRS Ltd are appointed by the shareholder Internet New Zealand Incorporated. Each year directors retire by rotation and may, if they so desire, make themselves available for re-appointment. Board membership currently consists of five non-executive directors.

Board Operations and Policies

The NZRS Ltd Board meets regularly and policies are in place to ensure these meetings are subject to formal agendas and reporting procedures.

The Board has adopted a Governance Policy, incorporating the following Good Governance Principles which collectively document the Board's role and responsibilities, and deal with principles and processes associated with independence and conflicts of interest, Board committees and procedures, reporting and disclosure, risk management, and relationships with the shareholder and stakeholders.

Good Governance Principles

1. Ethical Standards

The directors of the company observe and foster high ethical standards.

2. Board Composition and Performance

The Board works with the shareholder to ensure there is a balance of independence, skills, knowledge, experience and perspectives among directors so that the Board works effectively.

The Board seeks, in conjunction with its shareholder, to maintain a balance of directors with complementary skills and business experience and who will contribute to the Board in a positive and constructive manner, while acting with the highest levels of integrity and professionalism. Newly appointed directors undergo an induction process which includes the provision of all relevant documentation.

Directors are encouraged to belong to appropriate professional organisations and to participate in ongoing training and development relevant to their governance responsibilities.

The Board notes that its gender composition as at 31 March 2016 was 2 female, 3 male.

3. Board Committees

The Board utilises committees where this enhances its effectiveness in key areas while retaining board responsibility.

The Board has formally constituted one standing Board Committee:

> Audit and Risk Committee – membership consists of all Board members. The Committee is regulated by approved Terms of Reference that address membership, functions and responsibilities, authorities and reporting procedures. The Committee is chaired by a director who is not the Board Chair. The Committee monitors the company's risk management processes, oversees the findings of the company's external auditors and reviews undertaken by other professional advisers, and monitors the company's legislative compliance.

4. Reporting and Disclosure

The Board demands integrity both in financial reporting and in the timeliness and balance of disclosure on the company's affairs.

5. Remuneration

The Board has an objective of the remuneration of directors being transparent, fair and reasonable.

6. Risk Management

The Board regularly verifies that the company has appropriate processes that identify and manage potential and relevant risks.

7. Auditors

The Board ensures the quality and integrity of the external audit process.

8. Shareholder Relations

The Board fosters a constructive relationship with the shareholder InternetNZ, ensures it understands their objectives and encourages them to engage with the company in an appropriate manner.

9. Stakeholder Interests

The Board respects the interests of the company's wide range of stakeholders within the context of the company's ownership, its fundamental purpose and its role in managing a key component of New Zealand's infrastructure.

Left to right: Directors – Linda Robertson, Mark Vivian, David Wright, Richard Currey, Chief Executive Jay Daley, Director Brenda Wallace.

The NZRS Board

Richard Currey (Chairman)

Richard is the Strategic Solutions Director for Hewlett Packard Enterprise NZ. Prior to this role he has provided ICT consultancy and strategic management to a number of large enterprises and has been appointed as an Acting Chief Executive for an NGO. He also has considerable small business skills having started a successful website and multimedia company specialising in e-commerce and database driven solutions. Richard has also worked extensively in the Financial Services industry in senior Treasury roles. Prior to joining the NZRS Board, Richard was a Board member of DNCL for eight years and Chair for two.

David Wright (Chair, Audit & Risk Assessment Committee)

David is a professional company director and business consultant. He has held Chief Executive and senior management positions in the primary production, transport and electricity sectors across both the private and state sectors. His previous appointments include Director of the Land Transport Safety Authority, a role that included oversight of New Zealand's motor vehicle and driver licence registries. His current governance roles include Chair of Air Rescue Group, Deputy Chair NZ Blood Service, Director of WEL Networks Ltd, Director of Wellington Water Ltd and Board Advisor, Global Safety Index Pty Ltd.

Brenda Wallace

Brenda is a developer at Rabid, involved in a social enterprise startup in Wellington, and a council member for InternetNZ. She was previously a Production Engineer at Weta Digital. She has worked in technical and team lead roles in Open source, mobile telecommunications, and electricity generation.

Mark Vivian

Mark is a Partner with Movac, the Wellington-based venture capital firm. He has created and grown successful businesses in New Zealand, the United Kingdom and the United States, and experienced two highly successful IPOs on the NASDAQ and London Stock Exchange. Mark also founded KEA, an award-winning organisation harnessing New Zealand's expat community, and worked with New Zealand businesses to access global markets. He held senior management positions with the New Zealand Rugby Union, and is a former Chairman of the Wellington Sevens. Mark is currently Director of 1Above Limited, Roof Safe Systems Limited, New Ground Media Limited, Cavom Nominee No1 Ltd, Board Advisor to Yellow Brick Road Limited, Board Advisor, TourWriter, Board Advisor, Kiwi Landing Pad and is an investor in a number of privately-held New Zealand companies. He is also a Trustee of the Young Enterprise Trust.

Linda Robertson

Linda is a professional director with over 30 years' experience in the NZ finance sector having worked both in both banking and the corporate environment. In the corporate environment she has worked predominately in the energy sector and has held various senior management roles encompassing, treasury, credit management, audit, risk management and insurance. She was most recently Group Manager Treasury & Procurement at Meridian Energy Ltd. Linda also has extensive governance experience serving on Boards and Audit & Risk Committees including previous roles on the Board of New Zealand Post, Kiwi Bank, Speirs Group and the Earthquake Commission and she was also a member of Audit & Risk Committee of Inland Revenue and Chaired the Audit & Risk Committee of Statistics New Zealand. Current governance positions include; Member of Audit & Risk Committee of Ministry of Social Development, Dunedin City Holdings, Dunedin City Treasury and Dunedin Venues; Member of the Technical Advisory Committee of the New Zealand Export Credit Office, Director of King Country Energy Ltd, Director of NZPM Group, Director of Crown Irrigation Investments and Director of Auckland Council Investments.

She is a Certified Treasury Professional, a Fellow of the Institute of Finance Professionals New Zealand (INFINZ), a Fellow of Governance New Zealand (previously Institute of Chartered Secretaries and Administrators), a Chartered Fellow of the New Zealand Institute of Directors and a Graduate Member of the Australian Institute of Company Directors. Linda has a Bachelor of Commerce Degree and a Diploma in Banking.

NZRS Limited

Financial Statements
For the year ended 31 March 2016

NZRS Limited

Statement of Comprehensive Revenue and Expense
For the year ended 31 March 2016

	Notes	2016 $	2015 $
OPERATING ACTIVITIES			
Exchange revenue - Registry fees		9,809,894	8,711,828
Non-exchange Revenue		-	-
Total operating revenue		9,809,894	8,711,828
Operating expenses			
Audit fees		6,204	11,365
Amortisation	11	424,643	420,049
Depreciation	10	249,216	383,833
Directors' fees		126,750	126,750
DNC management fee	15	1,869,840	1,869,840
Employee remuneration	14	1,830,254	1,743,703
Other expenses	6	1,765,282	1,693,880
Rent		24,286	58,286
Total operating expenses		6,296,475	6,307,706
Surplus/(deficit) from operating activities		3,513,419	2,404,122
INVESTING ACTIVITIES			
Interest Revenue		361,347	320,006
Surplus/(deficit) from investing activity		361,347	320,006
SURPLUS/ (DEFICIT) FOR THE YEAR		3,874,767	2,724,128
Other comprehensive revenue and expense		-	-
TOTAL COMPREHENSIVE REVENUE AND EXPENSES FOR THE YEAR		3,874,767	2,724,128

These financial statements have been authorised for issue by the Board.

Director

20/6/16
Date

Director

20/6/16
Date

CROWE HORWATH NEW ZEALAND

NZRS Limited

Statement of Financial Position
As at 31 March 2016

	Notes	2016 $	2015 $
ASSETS			
Current			
Cash and cash equivalents	7	3,631,358	2,205,361
Short-term deposits	8	6,009,731	6,753,692
Trade debtors and other receivables	9	1,303,943	1,623,380
Total current assets		10,945,032	10,582,433
Non-current			
Property, plant and equipment	10	335,985	462,515
Intangible assets	11	353,633	624,755
Total non-current assets		689,618	1,087,270
TOTAL ASSETS		11,634,650	11,669,703
LIABILITIES			
Current			
Trade creditors and other payables	12	417,749	427,947
Deferred income - current	13	5,356,094	5,533,052
Total current-liabilities		5,773,842	5,960,999
Non-current			
Deferred income - non current	13	2,661,418	2,214,023
Total non-current liabilities		2,661,418	2,214,023
TOTAL LIABILITIES		8,435,261	8,175,022
NET ASSETS		3,199,389	3,494,681
EQUITY			
Accumulated funds		3,199,389	3,494,681
TOTAL EQUITY		3,199,389	3,494,681

CROWE HORWATH NEW ZEALAND

NZRS Limited

Statement of Changes in Net Assets
For the year ended 31 March 2016

	Notes	2016 $	2015 $
SHARE CAPITAL			
Opening balance		30,000	30,000
CLOSING BALANCE ACCUMULATED FUNDS		30,000	30,000
ACCUMULATED FUNDS			
Opening balance		3,464,681	3,496,329
Surplus/(deficit) for the year		3,874,767	2,724,128
Other comprehensive revenue and expense		-	-
Dividend declared	16	(4,170,058)	(2,755,776)
Total comprehensive revenue and expense		(295,291)	(31,648)
CLOSING BALANCE ACCUMULATED FUNDS		3,169,389	3,464,681
TOTAL EQUITY		3,199,389	3,494,681

NZRS Limited

Statement of Cash Flows
For the year ended 31 March 2016

	Notes	2016 $	2015 $
Cash flows from operating activities			
Cash was provided from/(applied to):			
Receipts from customers		10,444,270	9,609,931
Interest received		335,042	318,675
Payments to suppliers and employees		(5,577,125)	(5,646,986)
GST received		(32,099)	135,400
Net cash from/(used in) operating activities	18	5,170,088	4,417,020
Cash flows from financing activity			
Cash was applied to:			
Dividend paid		(4,170,058)	(2,755,776)
Net cash from/(used in) financing activity		(4,170,058)	(2,755,776)
Cash flows from investing activities			
Cash was provided from/(applied to):			
Purchase of property, plant and equipment		(164,473)	(280,505)
Purchase of intangible assets		(153,521)	(521,258)
Net cash from/(used in) investing activities		(317,994)	(801,763)
Net increase/(decrease) in cash and cash equivalents		682,036	859,481
Cash and cash equivalents, beginning of the year		8,959,053	8,099,572
Cash and cash equivalents at end of the year	7,8	9,641,089	8,959,053

CROWE HORWATH NEW ZEALAND

NZRS Limited

Notes to the financial statements

1 Reporting entity

These financial statements comprise the financial statements of NZRS Limited (the "Company") for the year ended 31 March 2016.

The Company was registered with Charities Services (Department of Internal Affairs) on 19 August 2008.

The Company operates in one segment, with the main acitivity being the operation of the .nz Domain Name Shared Registry System in one primary geographical segment, New Zealand.

The Company is a Public Benefit Entity (PBE) as its primary objective is to provide goods and services to the community for social benefit rather than for a financial return.

2 Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with Tier 2 PBE Financial Reporting Standards as issued by the New Zealand External Reporting Board (XRB). They comply with New Zealand equivalents to International Public Sector Accounting Standards Reduced Disclosure Regime (NZ IPSAS with RDR) and other applicable Financial Reporting Standards as appropriate to PBEs.

The Company is eligible to report in accordance with Tier 2 PBE Accounting Standards on the basis that is does not have public accountability and annual expenditure of the Company does not exceed $30 million.

(b) Basis of measurement

The financial statements have been prepared on a historical costs basis.

The accrual basis of accounting has been used unless otherwise stated and the financial statements have been prepared on a going concern basis.

(c) Presentation currency

The financial statements are presented in New Zealand dollars.

All numbers are rounded to the nearest dollar ($), except when otherwise stated.

(d) First-time adoption of PBE Financial Reporting Standards

This is the first set of financial statements of the Company presented in accordance with PBE Financial Reporting Standards. The Company has previously reported in accordance with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS) applying differential reporting exemptions.

The accounting policies adopted in these financial statements are consistent with those of the previous year.

The net asset position and net surplus or deficit reported in the comparatives is consistent with previously authorised financial statements.

The impact of first-time adoption was limited to changes in presentation of the financial statements and amendments to note disclosures.

(e) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

3 Summary of significant accounting policies

The accounting policies of the Company have been applied consistently to all years presented in these financial statements.

The significant accounting policies used in the preparation of these financial statements are summarised below:

(a) Property, plant and equipment

Items of property, plant and equipment are measured at cost, less accumulated depreciation and any impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Additions and subsequent costs

Subsequent costs and the cost of replacing part of an item of property, plant and equipment are recognised as an asset if, and only if, it is probable that future economic benefits or service potential will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised.

In most instances, an item of property, plant and equipment is recognised at its cost. Where an asset is acquired at no cost, or for a nominal cost, it is recognised at fair value at the acquisition date.

All repairs and maintenance expenditure is charged to surplus or deficit in the year in which the expense is incurred.

Disposals

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits or service potential are expected from its use. When an item of property, plant or equipment is disposed of, the gain or loss recognised in the surplus or deficit is calculated as the difference between the net sale proceeds and the carrying amount of the asset.

Depreciation

Depreciation is recognised as an expense in the reported surplus or deficit and measured on a straight line (SL) basis on all property, plant and equipment over the estimated useful life of the asset. The following depreciation rates have been applied:

Leasehold improvements	7.0 - 10.0%	SL
Computer hardware	30.0 - 50.0%	SL
Office equipment	6.0 - 67.0%	SL

The residual value, useful life, and depreciation methods of property, plant and equipment are reassessed annually.

(b) Intangible assets

Intangible assets acquired separately are initially recognised at cost.

The cost of intangible assets acquired in a non exchange transaction is their fair value at the date of the exchange.

Intangible assets acquired by the Company, that have finite useful lives, are measured at cost less accumulated amortisation and any impairment losses.

Intangible assets are amortised using the straight line method of amortisation using the following amortisation rates:

Software	30.0 - 50.0%	SL

Residual values and useful lives are assessed at each reporting date.

Disposals

Gains or losses on de-recognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and recognised in the surplus of deficit for the year.

CROWE HORWATH NEW ZEALAND

(c) Leased assets

Leases, where the Company assumes substantially all the risks and rewards incidental to ownership of the leased assets, are classified as finance leases. All other leases are classified as operating leases.

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

Payments made under operating leases are recognised in the surplus or deficit on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease. Associated costs, such as maintenance and insurance, are expensed as incurred.

(d) Provisions

A provision is recognised for a liability when the settlement amount or timing is uncertain, when there is a present legal or constructive obligation as a result of a past event, it is probable that expenditure will be required to settle the obligation and a reliable estimate of the potential settlement can be made. Provisions are not recognised for future operating losses.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Provisions are discounted to their present values, where the time value of money is material. The increase in the provision due to the passage of time is recognised as an interest expense.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

(e) Employee entitlements

Employee benefits, previously earned from past services, that the Company expect to be settled within 12 months of reporting date, are measured based on accrued entitlements at current rates of pay.

These include salaries and wages accrued up to the reporting date and annual leave earned, but not yet taken, at the reporting date.

(f) Impairment of non-financial assets

At each reporting date, the Company assesses whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups. In this case the recoverable amount is determined for the cash generating unit (CGU) to which the asset belongs. An asset's or CGU's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use.

Where the carrying amount of an asset or the cash-generating unit (CGU) exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised immediately in surplus or deficit.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in surplus or deficit.

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(g) Financial instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial instruments comprise trade debtors and other receivables, cash and cash equivalents, short term deposits and trade creditors and other payables.

Initial recognition and measurement

Financial assets and financial liabilities are recognised initially at fair value plus transaction costs attributable to the acquisition, except for those carried at fair value through surplus or deficit, which are measured at fair value.

Financial assets and financial liabilities are recognised when the reporting entity becomes a party to the contractual provisions of the financial instrument.

Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or if the Company transfers the financial asset to another party without retaining control or substantial all risks and rewards of the asset.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

All financial assets except for those classified as fair value through surplus or deficit are subject to review for impairment at least at each reporting date.

Subsequent measurement of financial assets

The subsequent measurement of financial assets depends on their classification, which is primarily determined by the purpose for which the financial assets were acquired. The Company has classified its financial assets as loans and receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. The Company's cash and cash equivalents, trade debtors and most other receivables fall into this category of financial instruments.

After initial recognition, such financial assets are subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Subsequent measurement of financial liabilities

Trade payables and other borrowings are subsequently measured at amortised cost using the effective interest method.

(h) Revenue

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the Company and revenue can be reliably measured. Revenue is measured at the fair value of consideration received.

The Company assesses its revenue arrangements against specific criteria to determine if it is acting as the principal or agent in a revenue transaction. In an agency relationship only the portion of revenue earned on the Company's own account is recognised as gross revenue in the Statement of Comprehensive Revenue and Expense.

The following specific recognition criteria must be met before revenue is recognised:

Rendering of services

Revenue from services rendered is recognised in the accounting periods in which the services are provided. Registry fees are recognised over the period of registration. Registry fee receipts received for periods subsequent to balance date are treated as deferred income.

Interest income

Interest income is recognised as it is earned using the effective interest rate method.

(i) Expenses

Expenses are recognised in the accounting period in which the services or goods are received.

(j) Foreign currency translation

Transactions in foreign currencies are initially accounted for at the ruling rate of exchange on the date of the transaction.

Trade creditors or debtors denominated in foreign currency are reported at the statement of financial position reporting date by applying the exchange rate on that date. Exchange differences arising from the settlement of creditors, or from the reporting of creditors at rates different from those at which they were initially recorded during the period, are recognised as income or expenses in the period in which they arise.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(k) Income tax

Due to its charitable status, the Company is exempt from income tax.

(l) Goods and Services Tax (GST)

All amounts in these financial statements are shown exclusive of GST, except for receivables and payables that are stated inclusive of GST.

The net amount of GST recoverable from, or payable to, Inland Revenue is included as part of receivables or payables in the Statement of Financial Position.

(m) Dividends declared

Dividends are recognised as a deduction from accumulated funds upon declaration.

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4 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with NZ IPSAS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Where material, information on significant judgements, estimates and assumptions is provided in the relevant accounting policy or provided in the relevant note disclosure.

The estimates and underlying assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances. Estimates are subject to ongoing review and actual results may differ from these estimates. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in future years affected.

Impairment of Receivables
The Company maintains an impairment allowance at a level that management considers adequate to provide for potential uncollectibility of its trade and other receivables. The Company evaluates specific balances where management has information that certain amounts may not be collectible. In these cases, the Company uses judgment, based on available facts and circumstances, and based on a review of the factors that affect the collectibility of the accounts including, but not limited to, the age and status of the receivables, collection experience, past loss experience. The review is made by management on a continuing basis to identify accounts to be provided with allowance. These specific reserves are re-evaluated and adjusted as additional information received affects the amount estimated.

In addition to specific allowance against individually significant receivables, the Company also makes a collective impairment allowance against exposures, which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on historical default experience.

Estimating Useful Life of Intangible Assets and Property, Plant and Equipment
The Company estimates the useful lives of intangible assets and property, plant and equipment based on the period over which each asset is expected to be available for use and on the collective assessment of industry practices, internal evaluation and experience with similar arrangements. The estimated useful life is revisited periodically and updated if expectations differ materially from previous estimates.

There is no change in the estimated useful lives of intangible assets and property, plant and equipment.

Impairment of Non-financial Assets
The Company assesses whether there are any indicators of impairment for all non-financial assets, including intangible assets and property, plant and equipment, at each reporting date. These non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and discounts such cash flows using the sensitivity analysis of key assumptions to calculate the present value as of the reporting date.

5 Capital Management Policy

The Company's capital is its equity, being the net assets represented by retained earnings and other equity reserves. The primary objectives of the Company's capital management policy is to ensure adequate capital reserves are maintained in order to support its activities. The Company manages its capital structure and makes adjustments to it, in light of changes to funding requirements. To maintain or adjust the capital structure, budgeted discretionary expenditure is reduced to avoid the need for external borrowings.

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6 Other expenses

	2016 $	2015 $
DNS expenses	142,470	115,224
SRS maintenance	-	41,735
ISP/Hosting/Networking	385,610	-
Other IT	216,178	136,031
Overheads	1,021,023	1,400,890
Total other expenses	1,765,282	1,693,880

7 Cash and cash equivalents

	2016 $	2015 $
Cash at bank and in hand	1,779,867	2,205,361
Term deposits with maturities of three months or less	1,851,491	-
Cash and cash equivalents at end of the year	3,631,358	2,205,361

The carrying amount of cash and cash equivalents approximates their fair value.

8 Short term deposits

The Company has the following funds invested in term deposits:

	2016		
	Maturity Date	Rate	Amount
ANZ Banking Group	4 October 2016	4.60%	433,418
ANZ Banking Group	5 December 2016	3.60%	620,491
ANZ Banking Group	16 December 2016	3.90%	1,500,000
Bank of New Zealand	21 September 2016	3.65%	1,455,821
Bank of New Zealand	12 August 2016	3.98%	1,000,000
Bank of New Zealand	1 October 2016	3.85%	1,000,000
			6,009,731

	2015		
	Maturity Date	Rate	Amount
ASB Bank	7 June 2015	4.40%	1,137,191
ANZ Banking Group	5 October 2015	4.60%	418,790
ANZ Banking Group	3 December 2015	4.50%	588,059
Bank of New Zealand	21 September 2015	4.90%	1,387,818
Kiwibank	1 October 2015	4.75%	634,476
TSB Bank	12 February 2016	4.10%	1,054,151
TSB Bank	25 September 2015	4.70%	533,208
TSB Bank	24 November 2015	4.75%	1,000,000
			6,753,692

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9 Trade debtors and other receivables

	2016 $	2015 $
Accounts receivable	1,076,741	1,440,681
Interest receivable	115,862	89,556
Prepayments	111,341	93,143
Impairment allowance	-	-
Trade debtors and other receivables	1,303,943	1,623,380

Trade debtors and other receivables are non-interest bearing and receipt is normally on 30 day terms. Therefore the carrying value of trade debtors and other receivables approximates its fair value.

As at 31 March 2015 and 2016, all overdue receivables have been assessed for impairment and appropriate allowances made. All receivables are subject to credit risk exposure.

Impairment allowance

The movement in the allowance for doubtful debts is as follows:

	2016 $	2015 $
Opening balance	-	-
Amounts written off	-	-
Impairment losses recognised in the year	-	-
Impairment losses reversed in the year	-	-
Closing balance	-	-

10 Property, plant and equipment

Movements for each class of property, plant and equipment are as follows:

31 March 2016	Leasehold improvements $	Computer hardware $	Office equipment $	Office relocation $	Total $
Gross carrying amount					
Opening balance	76,218	1,981,229	323,604	-	2,381,051
Additions	-	136,409	27,442	623	164,473
Disposals	-	(27,282)	(72,155)	-	(99,437)
Closing balance	76,218	2,090,356	278,891	623	2,446,087
Accumulated depreciation and impairment					
Opening balance	6,574	1,715,849	196,113	-	1,918,536
Depreciation for the year	7,260	180,687	61,270	-	249,216
Impairment charge for the year	-	-	-	-	-
Depreciation written back on disposal	-	(4,547)	(53,103)	-	(57,650)
Closing balance	13,834	1,891,989	204,280	-	2,110,102
Carrying amount 31 March 2016	62,384	198,367	74,611	623	335,985

31 March 2015	Leasehold improvements $	Computer hardware $	Office equipment $	Office relocation $	Total $
Gross carrying amount					
Opening balance	-	1,949,973	285,868	-	2,235,841
Additions	76,218	31,256	41,174	-	148,648
Disposals	-	-	(3,438)	-	(3,438)
Closing balance	76,218	1,981,229	323,604	-	2,381,051
Accumulated depreciation and impairment					
Opening balance	-	1,410,487	125,935	-	1,536,422
Current year depreciation	6,574	305,362	71,897	-	383,833
Impairment charge for the year	-	-	-	-	-
Depreciation written back on disposal	-	-	(1,719)	-	(1,719)
Closing balance	6,574	1,715,849	196,113	-	1,918,536
Carrying amount 31 March 2015	69,644	265,380	127,491	-	462,515

Capital commitments

As at balance date the Company had no capital commitments (2015 $Nil).

11 Intangible assets

Movements for each class of intangible assets are as follows:

31 March 2016	Software $	Trademarks $	Total $
Gross carrying amount			
Opening balance	3,029,712	10,698	3,040,410
Additions	153,521	-	153,521
Disposals	-	-	-
Closing balance	3,183,233	10,698	3,193,931
Accumulated amortisation and impairment			
Opening balance	2,404,957	10,698	2,415,655
Current year amortisation	424,643	-	424,643
Closing balance	2,829,600	10,698	2,840,298
Carrying amount 31 March 2016	353,633	-	353,633

31 March 2015	Software $	Trademarks $	Total $
Gross carrying amount			
Opening balance	2,508,453	10,698	2,519,151
Additions	521,258	-	521,258
Disposals	-	-	-
Closing balance	3,029,712	10,698	3,040,409
Accumulated amortisation and impairment			
Opening balance	1,984,907	10,698	1,995,605
Current year amortisation	420,049	-	420,049
Closing balance	2,404,957	10,698	2,415,654
Carrying amount 31 March 2015	624,755	-	624,755

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12 Trade creditors and other payables

	2016 $	2015 $
Accounts Payable	245,609	211,851
Holiday pay accrual	82,783	94,641
GST Payable	89,357	121,455
Total trade creditors and other payables	417,749	427,947

Trade creditors and other payables are non-interest bearing and normally settled on 30 day terms; therefore their carrying amount approximates their fair value.

13 Deferred revenue

	2016 $	2015 $
Current	5,356,094	5,533,052
Non-current	2,661,418	2,214,023
Total deferred revenue	8,017,512	7,747,075

Registry fees received by NZRS Limited are recognised as revenue on a straight line basis over the period of registration which ranges from 1 to 10 years. Registry fee receipts received for periods subsequent to balance date are treated as deferred revenue.

14 Employee entitlements

	2016 $	2015 $
Salaries and wages	1,912,492	1,776,442
Capitalised salaries and wages	(119,762)	(102,255)
Employer contributions to contribution plans	49,382	47,858
Increase/(decrease) in employee entitlements	(11,858)	21,658
Total employee entitlements	1,830,254	1,743,703

Short–term employee entitlements represent the Company's obligation to its current and former employees that are expected to be settled within 12 months of balance date. These mainly consist of accrued salaries and wages and holiday entitlements at the reporting date.

During the year seven (2015 eight) employees received remuneration greater than $100,000.

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15 Related party transactions

Related party transactions arise when an entity or person(s) has the ability to significantly influence the financial and operating policies of the Company.

The Company has a related party relationship with its Parent, entities under common control and Key Management Personnel.

Internet New Zealand Incorporated
Internet New Zealand Incorporated (InternetNZ) owns 100% of the the Company.

Dividends declared and paid by the Company during the year amounted to $4,170,058 (2015: $2,755,776).

The Company paid management fees of $145,509 (2015: $59,724) to InternetNZ.

Domain Name Commission Limited
Domain Name Commission Limited, an entity under common control, received management fees totalling $1,869,840 (2015: $1,869,840) from the Company during the year.

Key management personnel compensation
The Company has a related party relationship with its key management personnel. Key management personnel includes directors and executive officers.

Key management personnel compensation includes the following expenses:

	2016	2015
	$	$
Directors fees & other salaries	771,600	730,325
Total remuneration	771,600	730,325
Number of persons recognised as key management personnel	8	8

16 Dividend declared

During the year the Board of Directors declared dividends of $4,170,058 or $139 per share (2015: $2,755,776 or $91.86 per share).

17 Financial instruments

(a) Carrying value of financial instruments
The carrying amounts of all material financial assets and liabilities are considered to be equivalent to fair value.

Fair value is the amount for which an item could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

(b) Classification of financial instruments
All financial assets held by the Company classified as "loans and receivables" are carried at cost less accumulated impairment losses.

All financial liabilities held by the Company are carried at amortised cost using the effective interest rate method.

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18 Reconciliation of cash flows from operating activities

	2016 $	2015 $
Surplus/(deficit) for the year	3,874,767	2,724,128
Add/(deduct) non-cash items		
Depreciation, amortisation and impairment	715,646	803,882
Fair value movements on financial instruments through surplus or deficit	-	-
Bad and doubtful debt expenses	-	-
Other non-cash items	-	-
Add/(deduct) movements classified as investing activities		
(Gain)/loss on disposal of property, plant and equipment	-	-
Add/(deduct) movements in working capital		
(Increase)/ decrease in trade debtors and other receivables	337,634	(492,741)
(Increase)/ decrease in GST receivable	(32,099)	135,400
(Increase)/ decrease in prepayments	(18,198)	(25,496)
Increase/ (decrease) in trade creditors and other payables	33,759	(139,323)
Increase/ (decrease) in employee entitlements	(11,857)	21,657
Increase/ (decrease) in deferred revenue	270,437	1,389,513
Net cash flows from/(used in) operating activities	5,170,088	4,417,020

19 Contingent assets and contingent liabilities

The Company has no contingent assets or contingent liabilities (2015: None).

20 Events after the reporting period

There were no significant events after the balance date (2015: None).

CROWE HORWATH NEW ZEALAND

Crowe Horwath
Crowe Horwath
New Zealand Audit Partnership
Member Crowe Horwath International
Level 1 Crowe Horwath House
57 Willis Street
Wellington 6011 New Zealand
PO Box 11976 Manners Street
Wellington 6142 New Zealand
Tel +64 4 471 0006
Fax +64 4 566 6077
www.crowehorwath.co.nz

INDEPENDENT AUDITOR'S REPORT

To the Directors of NZRS Limited

Report on the Financial Statements

We have audited the financial statements of NZRS Limited on pages 16 to 32, which comprise the statement of financial position as at 31 March 2016, 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.

Directors' Responsibility for the Financial Statements

The directors are responsible on behalf of the entity for the preparation and fair presentation of the financial statements in accordance with the New Zealand equivalents to International Public Sector Accounting Standards with Reduced Disclosure Regime (NZ IPSAS with RDR) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 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 and fair presentation of the financial statements 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 made by management, as well as evaluating the overall 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 NZRS Limited.

Opinion

In our opinion, the financial statements on pages 16 to 32 present fairly, in all material respects, the financial position of NZRS as at 31 March 2016, and its financial performance and its cash flows for the year then ended in accordance with NZ IPSAS with RDR.

Crowe Horwath

Crowe Horwath New Zealand Audit Partnership
CHARTERED ACCOUNTANTS
20 June 2016

NZRS Limited

Company Directory
As At 31st March 2016

Directors	Richard Currey	
	Linda Robertson	
	Mark Vivian	
	Brenda Wallace	
	David Wright	
Ordinary Shares Issued		30,000
Held By	Internet New Zealand Incorporated	30,000
Accountants	Deloitte	
Auditors	Crowe Horwath Wellington	
Bankers	ASB Bank Limited	
Legal Advisors	Quigg Partners	
Registered Office	Level 7, The Bayleys Building, 36 Brandon Street, Wellington	
Company Number	1192313	