

Statement of Expectations: NZRS

2017-2018

1. Introduction

This Statement of Expectations sets out InternetNZ's expectations for the 2017-18 year for New Zealand Domain Name Registry Ltd, trading as NZRS (NZRS).

It provides clarity for the company regarding its core role and the functions the shareholder expects the company to deliver. As well as a formal communication of shareholder expectations, to which the company will be held to account, it is also therefore an input to the company's strategic and business planning.

As sole shareholder InternetNZ's interest is in NZRS operating effectively and efficiently to achieve its core role and required functions. The detail of how that role and those functions are to be provided and the cost of doing so is determined by the company, and is to be set out in the company's Statement of Direction and Goals as detailed in section 8.

This document was approved by Council on 25 November 2016.

2. Strategic Framework

For 2015-2020 InternetNZ has created a Group Strategic Plan. It sets out the overall role of the InternetNZ group and assigns lead responsibility for areas of work to different units. The plan is available in the register of governance documents at www.internetnz.nz.

Of particular relevance to NZRS are:

- **strategic Area 1: .nz as a world-class ccTLD that meets the needs of the local Internet community.**
- **strategic Area 5: Business development and diversification.**

The shareholder expects the company to give effect to these as its core strategic imperative. It should however consider the whole strategy as an input to its own planning process.

The more detailed joint strategy guiding the development of .nz is a shared responsibility for DNCL and for NZRS. The strategy was jointly developed by both companies, and was approved by the Council in June 2015.

The separate Product and Services Development Strategy guides NZRS in its work on product and service development. It was approved by Council in May 2016.

3. Core and Secondary Roles

The core role for NZRS is:

- To operate, maintain and develop the Shared Registry System and the .nz Domain Name System as part of the .nz ccTLD.

This description is a brief summary of the role set out for the company in the **.nz Framework Policy** and in the NZRS Operating Agreement. These documents are available in the register of governance documents at www.internetnz.nz.

In addition to its primary role, the secondary roles for NZRS are:

- Promotion and marketing of the .nz product.
- Technical research.
- Assist the shareholder with business development strategy, policy and implementation.

4. Core functions

In advancing the company's core role, the shareholder expects the functions set out below to be provided.

Function	Explanation
NZRS	
Shared Registry System (SRS)	Maintain and develop the Shared Registry System, the core infrastructure of the .nz register.
Domain Name System (DNS)	Maintain and develop the core DNS infrastructure for .nz.
.nz marketing and promotion	Develop the .nz product brand and promote it so as to increase awareness of and registration of .nz domain names.
<i>ALONG WITH DNCL</i>	
.nz international representation	Consistent with the group international strategy and plan, represent .nz at relevant international events and cooperate with international partners.
.nz product development	Continue to develop the .nz product offering consistent with the group strategy goal regarding .nz being a world-class ccTLD.

The shareholder expects that the commencement of new core functions, or significant changes to the resources applied to the functions set out in this SoE, require explicit prior shareholder agreement.

Such approval could occur through approval of the annual Statement of Direction and Goals (SoDaG) where such changes are set out, or on a case by case basis through an exchange of letters.

Consistent with the no-surprises approach outlined below, where changes of this sort are contemplated they should be raised early with shareholder.

Secondary Functions

In addition to the primary functions set out above, the shareholder expects the secondary function/s set out below to be provided. It notes that performance of secondary functions must be managed in a manner that does not risk the company's ability to perform its primary functions.

<i>Function</i>	<i>Explanation</i>
NZRS	
Technical Research	Maintain a technical research capacity which contributes authoritative information about the New Zealand Internet or Internet technologies, and coordinate its work programme with InternetNZ's Internet Issues programme.
Product and Service Development	Be the lead unit in advancing product and service development priorities, consistent with the agreed Group Product and Service Development Strategy and Policy.

As for primary functions, the commencement of new secondary functions, or significant changes to the resources applied to the functions set out in this SoE, require explicit prior shareholder agreement.

5. Specific projects in 2017-18

The shareholder expects the following projects to be addressed by the company in the 2017-18 business year, and welcomes advice from the company as part of the Statement of Directions and Goals as to how these will be progressed in the coming year.

- Develop the benchmarks approach set out in the Joint .nz Strategy.
- Implement any changes in reporting (activity and financial) as agreed among the three business units.
- Work collaboratively with InternetNZ and DNCL to develop and implement a Māori engagement strategy.

InternetNZ also notes that NZRS should prepare for a review of the Joint .nz Strategy in 2018-19.

6. Financial Requirements

The shareholder expects efficiency to be a key goal for the company. The most efficient and effective use of resources is important. By minimising costs consistent with delivering required functions, the company will assist the shareholder with maximising its ability to pursue its objectives, and will help give the public confidence that the group is a responsible steward for .nz.

The shareholder notes the following factors in respect of financial goals, practice and information for and from the company:

- Achieve an EBIT ratio of **40%** in 2017-18 in respect of .nz operations.
 - This ratio applies to revenue from registrations of .nz domain names
 - The costs of the management fee to DNCL are excluded from calculating this target, as that is outside the company's control.
 - 25% of the costs of the technical research function should be included in calculating this target, as research is required for the ongoing development of the company's core functions.
- Achieve an EBIT ratio of **30%** by the end of the 2015-2017 period in respect of new business development opportunities pursued by the company.
 - This ratio applies to all other revenue from commercial operations.
 - 25% of the costs of the technical research function should be included in calculating this target, as research is required in developing new business opportunities, products and so on.
- Retain a maximum exposure of **\$400,000** for business development purposes (in terms of direct costs) and utilise this consistent with group strategy and policy requirements.
- Aim for a dividend of **\$4.263m** to the shareholder in 2017-18 (subject to finalisation of the company's growth forecasts and 2017-18 budget).
- Return any cash in excess of reserves to the shareholder following the conclusion of each financial year.

Council generally expects subsidiaries to:

- A. adopt sound organisational and financial management practices so as to safeguard and enhance InternetNZ's investment in the company;
- B. operate within the financial and operational scope of the Statement of Direction and Goals as agreed with InternetNZ while meeting the requirements of specific company policies and relevant provisions of Operating Agreements; and

- C. provide meaningful output and financial information reporting against the Statement of Direction and Goals (including changes to plans and priorities) to facilitate the monitoring of the organisation's performance.

7. General Expectations

The shareholder's vision for the group is that it is highly collaborative, committed to working together and to building a vibrant, collegial and inclusive culture to maximise the group's success. Council, subsidiary Boards and all Chief Executives have an obligation to work together in leading the ongoing realisation of this vision.

Consistent with this vision, the shareholder expects subsidiaries to:

- A. maximise the contribution they can make to the group's overall objectives;
- B. continue to maintain a high standard of corporate governance;
- C. maintain an open and transparent approach to their activity, and operate a no-surprises policy across the group;
- D. operate consistent with established group strategy and policies, including by bringing group policies into effect in their own policy frameworks where required, as well as collaborating with other units across the group to develop and implement group strategy and policies;
- E. adopt a sound risk management strategy for all areas of their activities, including the timely reporting of critical operating and financial risks to InternetNZ, and contribution to the maintenance of the Group Risk Register;
- F. ensure that there are effective and productive day-to-day working relationships between all units and actively explore and implement ways to achieve greater co-operation and collaboration between units to the benefit of the wider Internet community; and
- G. operate in accordance with InternetNZ's core values – openness and transparency, leadership, ethical behaviour & stewardship and a can-do attitude.

8. Statement of Direction and Goals

The shareholder requires the company to prepare and present a Statement of Direction and Goals (SoDaG) for the 2017-18 year. The purpose of the SoDaG is to set out how the company intends to meet the expectations set out in this document.

The core components of the SoDaG are as follows:

- A. an outline of the company's long term strategy;
- B. an outline of the environmental factors that feed into the company's strategic planning;
- C. an outline of the key priorities and projects that the company has identified for 2017-18, including those set out in this Statement;
- D. an outline of proposed measures by which the shareholder can judge the company's performance against the requirements set out in this Statement; and
- E. a proposed budget for the 2017-18 financial year, as well as draft budgets for 2018-19 and 2019-20 (subject to adjustments for 2016-17 year end results).

The SoDaG must be presented to the Council as soon as convenient, and no later than its **May 2017** meeting.

The shareholder requires the company's SoDaG to be agreed with the Council.

This is the key mechanism by which Council ensures that the scope of activity and the resources deployed by the company are in keeping with its expectations. Early discussions with the shareholder about core priorities and scope of financial requirements are encouraged.