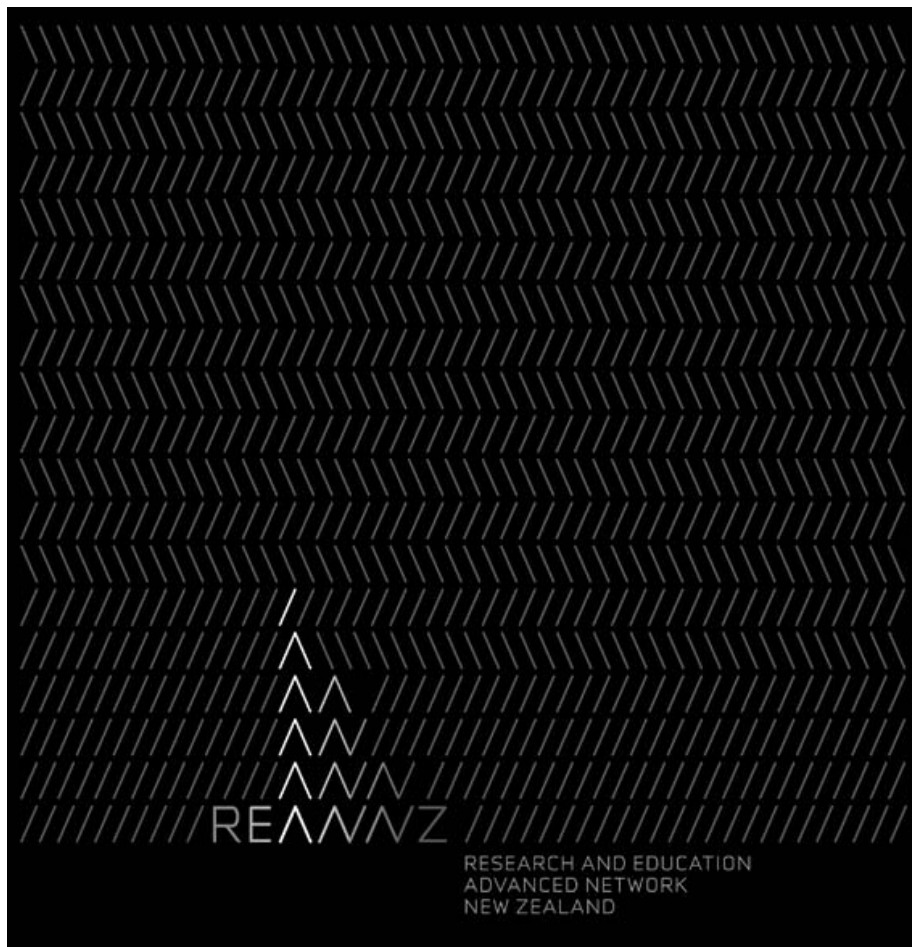


REANNZ

RESEARCH AND EDUCATION
ADVANCED NETWORK
NEW ZEALAND

Research and Education Advanced Network New Zealand Annual Report

9 September 2005 to 30 June 2006





1. Highlights

- REANNZ was established in September 2005 following Cabinet approval of board appointments, incorporation and funding
- Negotiations were finalised with suppliers for the core national network and the international network in March 2006
- Network construction began in late March 2006 and was scheduled to be completed by November 2006
- Board and management representatives visited key research and education funding agencies and operators in Europe, United Kingdom, and United States to shortcut REANNZ's learning process
- Multi-year funding for professional skill development and capability building, Capability Build Fund (CBF), was confirmed in an Output Agreement with MoRST
- A Advisory Panel of technical and user experts was appointed to advise the Board on disbursements of the CBF
- Memoranda of Understanding were signed with Internet2, a pre-eminent research and education network organisation in the USA
- REANNZ hosted Chris Hancock, Chief Executive of AARNET - the Australian research and education network operator
- Appointment of Donald Clark as Chief Executive in June 2006 and contracts for continuation of key project staff completed.



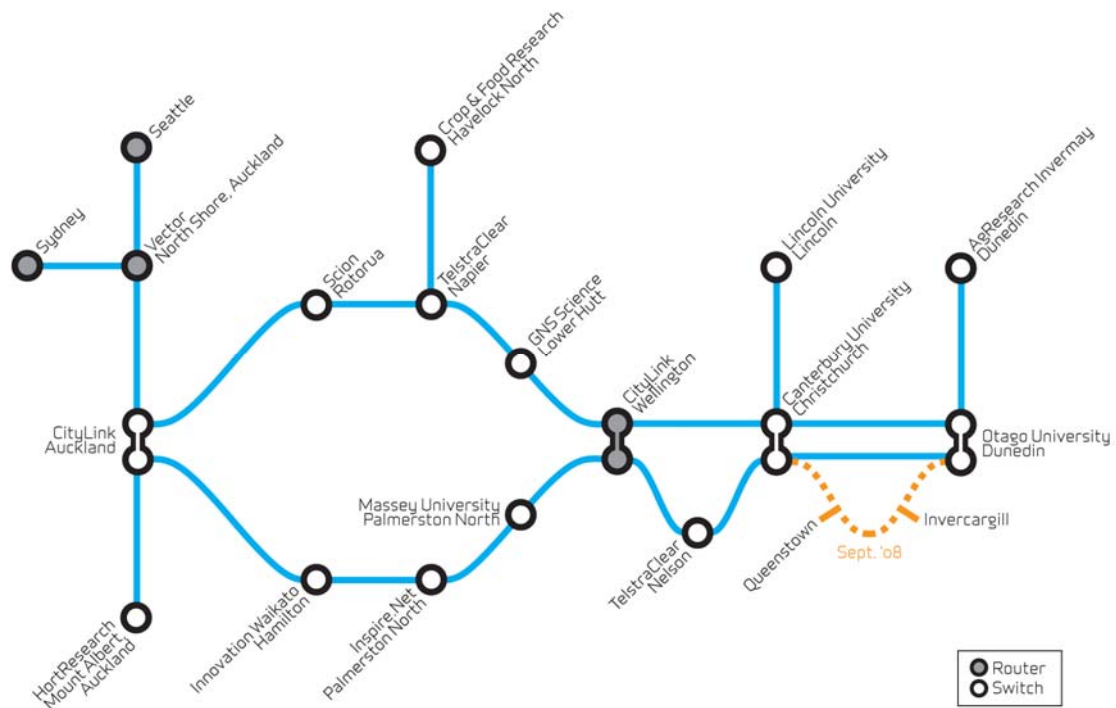
previously, science leader. From 1980 to 1993 he worked with the Ministry of Works, DSIR and NIWA specialising in marine and freshwater ecology. He established the NIWA Information Technology Team in 1994, and was also responsible for making the business case for and purchasing the CRAY T3E super computer.



4. Chief Executive's report

Established in September 2005, REANNZ has seen the culmination of several years of vision setting, policy and funding work and procurement negotiation with the signing in March 2006 of the two primary contracts underpinning New Zealand's new research and education network. This has also marked the first year of existence for REANNZ.

REANNZ's mission is to establish, own and operate an advanced network for our country's research and education community¹, KAREN, the Kiwi Advanced Research & Education Network. KAREN is now substantially in place and will be ready for the 17 Foundation Members across the country to connect towards the end of 2006.



Technically, the network consists of a 10Gb/s national backbone network with dedicated 155Mb/s and 622Mb/s connections to Sydney and Seattle respectively. Members can connect to KAREN at any of 16 points of presence (PoPs) across the country. These PoPs have been conveniently situated close to, or within, Member premises in order to minimise the "last mile" connection costs which members are responsible for implementing.

¹ Full details of REANNZ's structure, purpose and accountability can be found in its 2005/06 Sol.



Our international linkages allow KAREN to connect with the global R&E networking community. Connection agreements have been completed with AARNet in Australia and Pacific Wave in Seattle. Connection with AARNet allows deeper collaboration with New Zealand’s closest neighbour and largest trading partner. Pacific Wave provides inter-connect and allows KAREN to connect easily to the other 43 countries operating R&E networks. These connections enable New Zealand educators and researchers to be equal partners in international projects.

Key operating principles for REANNZ are ‘small and focussed’. REANNZ finished the year with 4 FTEs likely to grow to a total 8 FTEs in 2006/2007. Our role is to act as a procurement agent for our Members and to simulate or catalyse usage of KAREN in the wider community.

We are developing policies and procedures to support the growth of our working environment as the organisation grows during 2006/07.

Whilst REANNZ may be a small organisation our customer community is large. Membership of KAREN includes initially the Universities, Crown Research Institutes and the National Library who are founding Members. All of New Zealand’s tertiary education institutes, research organisations, schools, libraries, museums and teaching hospitals will be eligible to enjoy the benefits of a KAREN connection in the future as partner members. Partner Membership is also available to those government departments and private companies that are undertaking research and education or supporting the delivery or administration of these activities.

It is our role of REANNZ staff to nurture this community and ensure that existing activities are being enhanced so that others may learn how to effectively use the network as quickly as possible. REANNZ has been working closely with the Ministry of Education to ensure that KAREN is able to quickly support their objectives in the wider education sector.

One of the potential barriers to Members use of the benefits KAREN is a generally low level of professional capability in New Zealand around the use of advanced networks. To help address this issue, REANNZ administers a \$4.8m fund known as the Capability Build Fund for growing professional and community capability across New Zealand.

The Capability Build Fund Build will ensure basic skills are developed quickly and consistently for common network applications. REANNZ is the contracted funding agent for this initiative and has established an Advisory Panel of key experts to identify opportunities and to advise on which training and pilot activities to fund. The administration of the grants process is being managed by the Royal Society of New Zealand. REANNZ is coordinating its own community building events with Capability Build Fund activities.



Looking forward, 2006/07 will see a number of exciting milestones:

- KAREN going live across the country at the end of 2006;
- The Capability Build Fund becoming operational and distributing funds for worthy projects and activities;
- A number of specialist working groups established (with Capability Fund support), around network performance measurement, security, access grid set up and use, industry liaison;
- Recruitment of staff to complete the REANNZ management team;
- Our first Partner Members connected.

Our website – www.karen.net.nz – will always have the latest information, alongside copies of key document and publications.

As I took up the role of Chief Executive of REANNZ on 12 June, I would like to highlight the achievements in 2005/06 of Charles Jarvie and Mark Cordy who constituted the Advanced Network project team since its inception and are now part of REANNZ management; MoRST who led the policy design along with the Advanced Network Steering Group; and the Next Generation Internet NZ to spearhead the drive for New Zealand’s own advanced network.

A special note of thanks also to Jim Watson and the rest of the Board who have met almost every week since the company formed. Their efforts have been significant in getting REANNZ and KAREN to where it is today.

Donald Clark
Chief Executive



5. Statement of responsibility

For the period ended 30 June 2003

The Board and management of REANNZ accept responsibility for the preparation of the annual financial statements and the judgements used in them.

The Board and management of REANNZ accept responsibility for establishing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of financial and non-financial reporting.

In the opinion of the Board and management of REANNZ the annual financial statements and statement of service performance for the period ended 30 June 2006 fairly reflect the financial position and operations of REANNZ.

J. D. Watson, Chairperson

D.S. Clark, Chief Executive

Date: 22 November 2006

6. Audit report

**TO THE READERS OF
RESEARCH AND EDUCATION ADVANCED NETWORK NEW ZEALAND
LIMITED'S
FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2006**

The Auditor-General is the auditor of Research and Education Advanced Network New Zealand Limited (REANNZ). The Auditor-General has appointed me, H C Lim, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of REANNZ on his behalf, for the period ended 30 June 2006.

Unqualified opinion

In our opinion:

The financial statements of REANNZ on pages 15 to 31:

- comply with generally accepted accounting practice in New Zealand; and
- give a true and fair view of:
 - REANNZ's financial position as at 30 June 2006;
 - the results of operations and cash flows for the period ended on that date; and
 - the service performance achievements measured against the performance targets adopted for the period ended on that date.

Based on our examination REANNZ kept proper accounting records.

The audit was completed on 30 November 2006, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Board of Directors and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements, whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data;
- verifying samples of transactions and account balances;
- performing analyses to identify anomalies in the reported data;
- reviewing significant estimates and judgements made by the Board of Directors;
- confirming period-end balances;
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Board of Directors and the Auditor

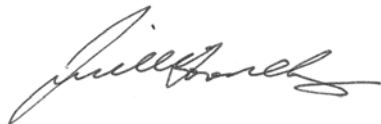
The Board of Directors is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must give a true and fair view of the financial position of REANNZ as at 30 June 2006. They must also give a true and fair view of the results of operations and cash flows and service performance achievements for the period ended on that date. The Board of Directors' responsibilities arise from the Public Finance Act 1989 and the Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and the Public Finance Act 1989.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

We have performed an assurance assignment over probity of tender processes for the advanced network project, which is compatible with those independence requirements. Other than the audit and this assignment, we have no relationship with or interests in REANNZ.



H C Lim
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of Research and Education Advanced Network New Zealand (REANNZ) for the period ended 30 June 2006 included on REANNZ's web site. The REANNZ's Board is responsible for the maintenance and integrity of the REANNZ's web site. We have not been engaged to report on the integrity of the REANNZ's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 30 November 2006 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



7. Statement of service performance

For the period ended 30 June 2006

REANNZ is required to prepare an annual Statement of Service Performance, reporting on the Performance Standards as set out in the 2005-2007 Statement of Intent.

Strong progress was made during the year 2005/06 on the procurement and provisioning of the core national network and the connections to Australia and the USA. The process of establishing international linkages (both in person and from a data perspective) with other NRENs was begun. Sound contracting policies were established for all REANNZ suppliers, not just the network vendors, and the Chief Executive Officer was appointed June 12, 2006.

Performance Measure	Forecast performance 2005/06	Actual performance 2005/06
Governance	Good governance of the Company in accordance with its Constitution, Statement of Intent and the expectations of shareholding Ministers.	<ul style="list-style-type: none"> ▪ Achieved
Administration	Sound administrative practices are implemented to support REANNZ's core business, including effective management of contracts REANNZ has entered into.	<ul style="list-style-type: none"> ▪ Achieved
Supply contracts signed with key vendors	<ul style="list-style-type: none"> ▪ National network vendor contract with TelstraClear Limited ▪ International Network vendor contract with Verizon Business ▪ PoP accommodation providers contracts – various 100% 	<ul style="list-style-type: none"> ▪ Achieved ▪ Achieved ▪ 50% of contracts signed by 30 June.
Membership Agreement finalised and signed	17 user institutions signed by June 2006	<ul style="list-style-type: none"> ▪ Network Access Policy approved ▪ Acceptable Use Policy approved ▪ Tariffs for members approved
Training for Member staff	Network technical workshops – 3 conducted by June 2006	<ul style="list-style-type: none"> ▪ 1 workshop held



<p>Establish relationships with overseas National Research and Education Networks</p>	<p>Interconnection agreements and Memoranda of Understanding with the Australian Academic Research Network, Internet2 (Abilene), the Canadian Research Network , Asia Pacific Advanced Network</p>	<p>Agreements established with Internet2 and Pacific Wave.</p>
<p>Facilitate early use by exemplar applications</p>	<p>Network Proof of Concept initiated (project milestone)</p>	<p>Proof of Concept group established. Two exemplar projects supported².</p>
<p>Appointment of key staff</p>	<ul style="list-style-type: none"> ▪ Chief Executive Officer appointed ▪ Technical Manager appointed ▪ 3 technical staff appointed ▪ Research Support Manager appointed 	<ul style="list-style-type: none"> ▪ Achieved ▪ Achieved ▪ 1 technical specialist appointed ▪ Not achieved

With key management staff now in place, REANNZ will set new targets and report against metrics relating to user uptake, technical performance of the network (e.g. availability, traffic levels, peer networks, sites connected), key developments, relationships and applications using the network.

² NEES@Auckland and HITLab NZ

8. Financial statements

RESEARCH AND EDUCATION ADVANCED NETWORK NEW ZEALAND LTD

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE PERIOD ENDED 30 JUNE 2006

	NOTES	2006 (10 Months) Actual \$000	2006 (10 Months) Budget \$000
Revenue			
Grant income	1	20,267	19,606
Other income	2	490	70
Expenses			
Audit fees	4	(24)	(24)
Depreciation and amortisation		-	-
Directors fees	5	(127)	(127)
Employee expenses		(272)	(370)
Other operating costs		(169)	(91)
National network expenses		(11)	(215)
Professional services		(1,309)	(1,112)
Rental and lease		(38)	(42)
Travel and vehicles		(108)	(99)
Profit before tax expense		<u>18,699</u>	<u>17,596</u>
Tax expense	3	(162)	-
Net Profit for the period		<u>18,537</u>	<u>17,596</u>

The Statement of Accounting Policies and Notes to the financial statements form part of and are to be read in conjunction with these financial statements

RESEARCH AND EDUCATION ADVANCED NETWORK NEW ZEALAND LTD

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2006

	NOTE	2006 Actual \$000	2006 Budget \$000
CURRENT ASSETS			
Cash and cash equivalents		9,202	8,546
Other financial assets	6	123	-
Prepayments		68	-
TOTAL CURRENT ASSETS		<u>9,393</u>	<u>8,546</u>
NON-CURRENT ASSETS			
Property, plant and equipment	7	132	430
Prepaid network leases	8	9,824	15,523
TOTAL ASSETS		<u>9,956</u>	<u>15,953</u>
CURRENT LIABILITIES			
Accounts payables and accrued expenses	9	542	6,903
GST payable		138	-
Employee entitlements		7	-
Tax payable	3	125	-
TOTAL CURRENT LIABILITIES		<u>812</u>	<u>6,903</u>
NET ASSETS		<u>18,537</u>	<u>17,596</u>
PUBLIC EQUITY			
Accumulated surplus		18,537	17,596
TOTAL PUBLIC EQUITY		<u>18,537</u>	<u>17,596</u>

The Directors of REANNZ authorised these financial statements for issue.

On behalf of the Board



J. D. Watson
Director



D. J. Taylor
Director

Date: 22 November 2006

The Statement of Accounting Policies and Notes to the financial statements form part of and are to be read in conjunction with these financial statements

RESEARCH AND EDUCATION ADVANCED NETWORK NEW ZEALAND LTD

STATEMENT OF CHANGES IN EQUITY

FOR THE PERIOD ENDED 30 JUNE 2006

	2006 Actual \$000	2006 Budget \$000
PUBLIC EQUITY AT THE START OF THE PERIOD	-	-
Net profit for the period	18,537	17,596
Total recognised revenue and expenses for the period	<u>18,537</u>	<u>17,596</u>
PUBLIC EQUITY AT THE END OF THE PERIOD	<u>18,537</u>	<u>17,596</u>

RESEARCH AND EDUCATION ADVANCED NETWORK NEW ZEALAND LTD

CASH FLOW STATEMENT

FOR THE PERIOD ENDED 30 JUNE 2006

	NOTE	2006 Actual \$000	2006 Budget \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from:			
Crown revenue		20,255	19,606
Other government department funding		12	-
Interest received		59	70
Sundry income		271	-
Net GST		138	-
		<u>20,735</u>	<u>19,676</u>
Cash was applied to:			
Payments to suppliers and employees		<u>(11,533)</u>	<u>(11,130)</u>
		(11,533)	(11,130)
Net cash flows from operating activities	10	<u>9,202</u>	<u>8,546</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was applied to:			
Purchase of property, plant and equipment		-	-
Net cash flows from investing activities		<u>-</u>	<u>-</u>
Plus cash at the start of the period		-	-
Cash held at the end of the period		<u>9,202</u>	<u>8,546</u>
Represented by:			
Cash		9,202	8,546
Cash held at the end of the period		<u>9,202</u>	<u>8,546</u>

The Statement of Accounting Policies and Notes to the financial statements form part of and are to be read in conjunction with these financial statements



own, and operate a high speed communication network for the research and education sector, grant income is recognised as it is received or receivable.

Interest revenue is recognised using the effective interest method.

Property, plant and equipment

Property, plant and equipment is stated at cost or valuation less accumulated depreciation and impairment. Cost includes consideration given to acquire or create the asset and any directly attributable costs of bringing the asset to working condition for its intended use.

Where an asset is acquired at no cost, or for a nominal cost, the asset will be recorded at fair value as at the date of acquisition.

Assets under construction are held in work in progress until they are completed when they will be transferred to the appropriate category of property, plant and equipment.

Depreciation is calculated on a straight-line basis on property, plant and equipment (excluding work in progress) once in the location and condition necessary for its intended use so as to write off the cost or valuation of the property, plant and equipment over their expected useful life to its estimated residual value. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period and adjusted if appropriate.

The following estimated useful lives are used in the calculation of depreciation:

Leasehold improvements	10 years
Routers & switches	5 years
Information technology equipment	3 years
Information technology software	3 years
Office equipment	5 years

Operating leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in the statement of financial performance in equal instalments over the lease term when the leased items are in use.

Where the leased items are not in use, the operating lease payments will be treated as a prepayment until the items are being used to derive income. These prepayments are released to the statement of financial performance on a straight line basis over the period of the remaining operating lease term.

Impairment

At each reporting date, the Directors review the carrying amount of the assets to determine whether there is any indication that those assets have suffered an 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).

If the recoverable amount of an asset is less than its carrying amount, the asset is written down to its recoverable amount. The impairment loss is recognised as an expense in the statement of financial performance.

Where an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal



Foreign currency transactions

Transactions in foreign currencies are translated to New Zealand dollars at the rate applying at the date of transaction.

At balance date foreign currency monetary assets and liabilities are translated at the closing rate and exchange variations arising from these translations are recognised in the Statement of Financial Performance.

Goods and Services Tax (GST)

These financial statements have been prepared on a GST exclusive basis except for accounts receivable and accounts payable which are stated inclusive of GST.

Budget figures

The budget figures are those that form part of the REANNZ 2005/06 Statement of Intent.

The budget figures have been prepared in accordance with generally accepted accounting practice and are consistent with the accounting policies adopted by REANNZ for the preparation of the financial statements.

Changes in accounting policies

There have been no changes in accounting policies during the period.

Standards or interpretations not yet effective

Various standards, amendments and interpretations have been issued by the Accounting Standards Review Board but have not been adopted by REANNZ as they are not yet effective.

Application of these standards, amendments and interpretations is not expected to have a material impact on REANNZ's financial position and results in the period of initial application.



10. Notes to the financial statements

	2006 (10 Months) Actual \$000
1. GRANT INCOME	
Growth and Innovation Framework	20,155
Capability Build	100
Ministry of Foreign Affairs and Trade Grant	<u>12</u>
Total Grant Income	<u>20,267</u>

Government grants and government assistance

Government grants relate to grants provided to REANNZ to assist them in establishing, owning and operating a high-speed telecommunications network for the research and education sectors in New Zealand. There were no conditions attached to this grant and therefore are no unfulfilled conditions as at balance date.

2. OTHER INCOME

Interest received	96
Realised foreign currency gain	271
Unrealised foreign currency gain	<u>123</u>
Total Other Income	<u>490</u>

3. INCOME TAX

Income tax recognised in Statement of Financial Performance

Profit before income tax	18,699
Income tax expense calculated at 33%	6,171
<i>Permanent Differences</i>	
Government grants	(6,688)
<i>Non deductible expenses</i>	
Expenses relating to Government grants	<u>679</u>
Income tax expense	<u>162</u>

Comprised of:	
Current taxation	162

Current tax payable

Income tax expense	162
<i>Less</i>	
Resident withholding tax paid	<u>(37)</u>
Current tax payable	<u>125</u>

Deferred tax

There has been no deferred tax recognised in the period due to there being no deductible temporary differences, unused tax losses, or unused tax credits for which a deferred tax assets or liability is required to be recognised.



The following table details REANNZ's exposure to interest rate risk as at 30 June 2006.

	Weighted average effective interest rate %	Variable interest rate (\$000)	Non interest bearing	Total (\$000)
Financial assets:				
Cash and cash equivalents				
– Business transaction account	3.50	2,805	-	2,805
– Cash management account	5.50	6,397	-	6,397
Other financial assets	-		123	123
		9,202	123	9,325
Financial Liabilities				
Trade payables	-	-	383	383
Other payables	-	-	132	132
		-	515	515

Foreign currency risk management

REANNZ undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations arise. Exchange rate exposures are managed within the approved policy parameters utilising forward foreign exchange contracts.

The following table details the forward foreign currency contracts outstanding at reporting date:

Outstanding Contracts	Foreign exchange rate at 30 June 2006	Foreign currency USD 000	Contract value NZD 000	Fair value NZD 000
Buy US Dollars				
Less than 1 year	0.6041	5,068	8,336	54
1 to 2 years	0.6041	1,397	2,266	46
2 to 5 years	0.6041	1,397	2,289	23
		7,862	12,891	123

Credit risk management

Financial instruments which potentially subject the entity to credit risk principally consist of bank balances. REANNZ does not extend credit and places its cash with high credit quality financial institutions.

Maximum exposures to credit risk at reporting date are:

	2006
	\$000
Bank Balances	9,202

No collateral is held on the above amounts. There is no maturity date on the bank balances as these represent cash held in transactional and cash management accounts.

REANNZ is party to letters of credit with Westpac Bank of \$10,000.



Fair value of financial instruments

The directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

7. PROPERTY, PLANT AND EQUIPMENT

	Office Equipment	Work in progress	Total
	\$000	\$000	\$000
Gross carrying amount			
Balance at beginning of period	-	-	-
Additions	1	131	132
Balance at 30 June 2006	1	131	132
Accumulated depreciation and impairment			
Balance at beginning of period	-	-	-
Depreciation expense	-	-	-
Impairment losses charged to profit	-	-	-
Balance at 30 June 2006	-	-	-
Net book value			
As at 30 June 2006	1	131	132

Work in progress relates to national point of presence (POP) equipment which is not yet connected.

8. PREPAID NETWORK LEASES

The prepaid network leases relate to operating lease payments for Core POP Accommodation & Associated Support Facilities, Core POP Connectivity and Equipment Provision & Installation, and Network and Service Operation and Management. These prepayments will be released to the statement of financial performance on a straight line basis over the period the items are being used for the remaining operating lease term.

	National Connectivity	Total
	\$000	\$000
Gross carrying amount		
Balance at beginning of period	-	-
Additions	9,824	9,824
Balance at 30 June 2006	9,824	9,824
Portion of prepayment expensed		
Balance at beginning of period	-	-
Prepayment expensed during period	-	-
Balance at 30 June 2006	-	-
Net book value		
As at 30 June 2006	9,824	9,824



9. ACCOUNTS PAYABLE

	2006 Actual \$000
Trade payables	383
Accrued expenses	27
Other payables	132
	542
	542

The average credit period on purchases is 30 days. For the majority of trade payables no interest is charged. REANNZ has a financial risk management policy in place to ensure that all payables are paid within the credit timeframe.

10. RECONCILIATION OF PROFIT FOR THE PERIOD TO CASH FLOWS FROM OPERATING ACTIVITIES

	2006 (10 Months) Actual \$000
Net profit for the period	18,537
<i>Less non-cash items:</i>	
Changes in fair value of financial assets	(123)
	18,414
Changes in net assets and liabilities:	
Increase in prepayments	(68)
Increase in property, plant and equipment	(132)
Increase in prepaid network leases	(9,824)
Increase in accounts payable and accrued expenses	542
Increase in GST payable	138
Increase in tax payable	125
Increase in employee entitlements	7
	(9,212)
Net Cash flow from Operating Activities	9,202

11. EMPLOYEE REMUNERATION

Remuneration and other benefits of \$100,000 per annum or more received by employees in their capacity as employees were:

	2006
\$150,000 - \$159,999	0
\$160,000 - \$169,999	0
\$170,000 - \$179,999	0
\$180,000 - \$189,999	1*
\$190,000 - \$199,999	1

* Indicates Chief Executive's remuneration.



12. RELATED PARTY TRANSACTION

REANNZ is a wholly owned entity of the Crown. The Government significantly influences the role of REANNZ as well as being its major source of revenue.

REANNZ has entered into a number of transactions with government departments, Crown agencies, and state-owned entities on an arm’s length basis and in the course of their normal dealings.

Where those parties are acting in the course of their normal dealings with REANNZ, and the transaction are at arms length, related party disclosures have not been made for transactions of this nature.

During the period, REANNZ received \$20,255,000 of grants from the Crown for Growth and Innovation Framework and Capability Build and a \$12,000 grant from the Ministry of Foreign Affairs and Trade.

Key Management Personnel Compensation

The compensation of the Directors, Chief Executive and senior management, being the key management personnel of REANNZ, is set out below:

	2006
	(10 Months)
	\$
Short-term employee benefits	237,951
Post-employment benefits	-
Other long-term employee benefits	-
Termination benefits	-
Share-based payment	-
Total Compensation	<u><u>237,951</u></u>

13. COMMITMENTS

Capital commitments

There are no capital commitments at reporting date.

Operating lease commitments

Operating leases relate to the lease of:

- Accommodation space for the use and location of equipment together with access to certain shared facilities and the supply of utilities and other services and deliverables; and
- Core POP accommodation & associated support facilities, core national and international POP connectivity and equipment provision & installation, and network and service operation and management

The lease terms are between 3 to 4 years, with an automatic renewal for a further 3 to 4 years at the same or lesser price. With the exception of one lease, all other leases have subsequent rolling 3 month terms unless written notice to the contrary is provided by REANNZ. REANNZ does not have an option to purchase the leased asset at the expiry of the lease period.



11. Governance Statement

Organisation form

REANNZ was incorporated on 9 September 2005 under the Companies Act 1993. REANNZ is a Crown-owned company, listed under schedule 4 of the Public Finance Act 1989. Its shareholders are the Minister of Finance and the Minister of Research, Science & Technology. Each shareholder holds 500 shares on behalf of the New Zealand public.

REANNZ is not a Crown Entity listed under the Crown Entities Act. It is the intent of the shareholders that REANNZ act in a manner consistent with the Crown Entities Act. REANNZ is subject to the Official Information Act.

Management of the Company

The Board of Directors meets monthly. During 2005/06 these monthly meetings were frequently supplemented with weekly audio conferences and additional meetings as required for strategic planning purposes and to progress specific decisions. The Board is accountable to shareholding Ministers in the manner set out in the REANNZ Constitution, the Statement of Intent and the shareholding Ministers' Letter of Intent.

REANNZ has two key output agreements with the Ministry of Research, Science & Technology covering the build of the network and the development of professional capability that place additional accountabilities on the REANNZ Board.

Board of Directors

The Board has established strategic policy, and guides and monitors the business and affairs of the company on behalf of shareholders and is committed to a high standard of corporate governance. Responsibility for the operation and administration of the company is delegated to the Chief Executive Officer who is accountable to the Board. The Board places emphasis on strategic planning, implementation of sound administrative systems and procedures and regulatory compliance.

Directors

Directors are appointed by the shareholding Ministers following Cabinet approval. Current Directors are appointed for three years through until August 2009, with reappointment at the discretion of the shareholding Ministers.

The appointment of a Chairperson is at the discretion of the shareholding Ministers.

