

REANNZ

RESEARCH AND EDUCATION
ADVANCED NETWORK
NEW ZEALAND

Research and Education Advanced Network New Zealand Limited Amended Statement of Intent 2009 – 2012

October 2009

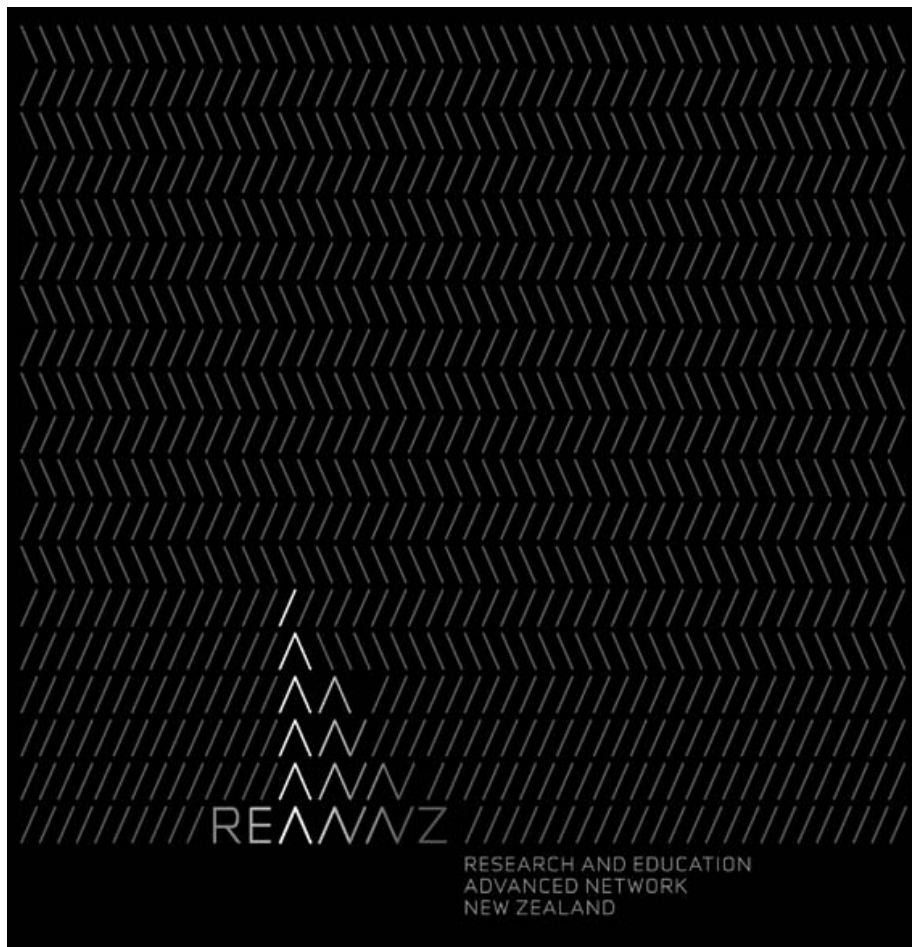




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REANNZ's Amended Statement of Intent 2009-2012



1. Introduction

This Statement of Intent is submitted by the Board of Directors of the Research and Education Advanced Network New Zealand Limited (REANNZ), pursuant to the Crown Entities Act 2004. It is an amended Statement, pursuant to Section 148 of the Crown Entities Act 2004 and in line with shareholding Minister expectations. This amended Statement of Intent contains updated information on the process REANNZ is following to determine a long term viable business model. It sets out the intentions and objectives for REANNZ for the period 1 July 2009 to 30 June 2012.

Statement of responsibility

REANNZ is responsible for the prospective financial statements and statement of forecast service performance contained in this document, including the appropriateness of the assumptions underlying them. It is also responsible for internal control systems, which provide reasonable assurance as to the integrity and reliability of financial reporting.

Professor John Raine
Chair

Mrs Jane Taylor
Deputy Chair

14 October 2009



KAREN has been in operation for two and a half years and has over 60 members, connected at more than 100 sites around New Zealand. These members range from the universities and Crown research institutes, through to polytechnics, sector bodies like the Ministry of Research, Science & Technology, the Royal Society of New Zealand and schools.

The annualised cost of maintaining KAREN in New Zealand is approximately \$12 million. Forecast annual revenues are approximately \$6 million. The central challenge for the company is to close the revenue gap by developing a long term viable business model for advanced networking in New Zealand.

2.3 Role of REANNZ

REANNZ operates as a neutral demand aggregation and procurement agent for the New Zealand research, education and innovation sectors. REANNZ consults with its members and other advanced networks to determine what network services are required. The company then engages with the supplier market to secure these on the best terms.

REANNZ was formed in September 2005 as a Crown-owned Company under the Companies Act and is listed on Schedule 4 of the Public Finance Act. Its shareholding is 100% vested in the Crown, with the Ministers of Research, Science and Technology, and Finance as equal shareholders. REANNZ has a Board of six Directors and 11 Full Time Equivalent employees.

REANNZ’s constitution defines a specific set of research and education goals, and operating objectives for the company as described in section 2.4 below.

2.4 Outcomes

REANNZ has a number of constitutional objectives, which are the outcomes we seek to achieve. They are:



R& E objectives	Operational objectives
<ul style="list-style-type: none"> • Enable leading edge e-research. • Facilitate universal connectivity throughout New Zealand and international research and education community. • Encourage broad participation by the research and education sector in New Zealand through accessible technology and cost-effective pricing. • Connect the research and education sector to the broader innovation sector for the pre-commercial, research-based collaboration. 	<ul style="list-style-type: none"> • Facilitate participation by multiple telecommunications-sector partners so as to ensure the greatest possible flexibility for on-going evolution. • Operate in a financially sustainable manner and manage foreseeable upgrades and increases in Advanced Network capacity through the accumulation of reserves. • Endeavour to obtain a commitment from users of the Advanced Network (for example, Tertiary Education Institutes and Crown Research Institutes) to acquire the Crown’s shares in the Company within a reasonable timeframe.

3. About KAREN

3.1 Investment in KAREN

In 2006, the Crown invested \$43 million in REANNZ to build the network, invest in capability building and support operating costs for the first four years, while network revenues from the network users were generated. In 2009, the Crown announced it would invest a further \$16 million in 2010/11 to allow KAREN to be extended until at least 2013. As part of this second investment, the Crown re-affirmed its expectation that REANNZ would evolve a long term viable business model and set a target date of 2012 for this.

During 2009/10, REANNZ is also acting as investment agent for MoRST to invest \$900,000 to connect remote Crown Research Institutes (CRIs) and university sites, and for Tertiary Education Commission to invest \$2.0 million to connect remote Institutes of Technology and Polytechnics (ITP) sites to KAREN.



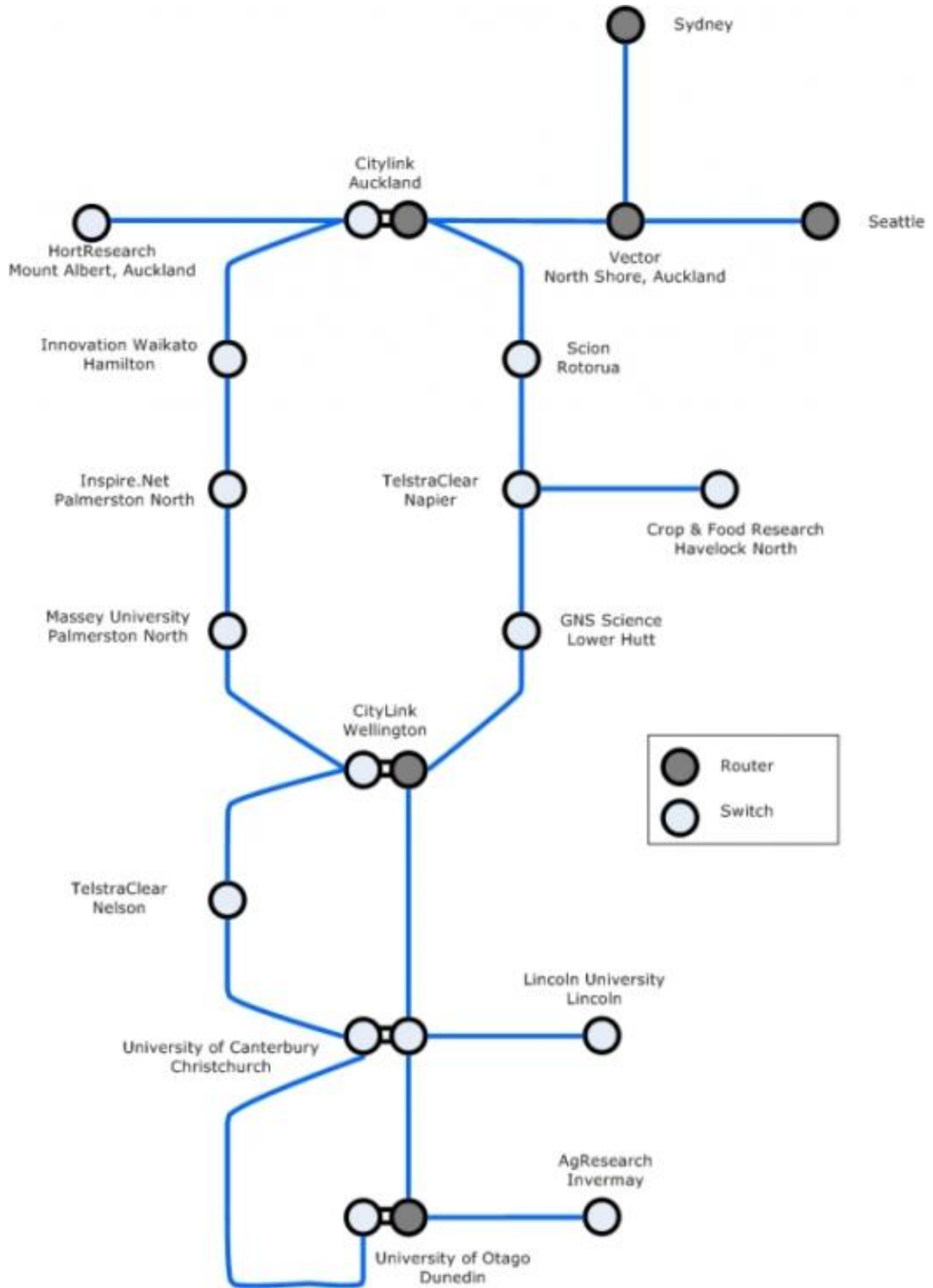
3.2 Services provided

REANNZ primarily supplies unconstrained network connectivity to KAREN and the rest of the world’s research and academic networks (NRENs). Technically this presents as a multi-gigabit Ethernet service, capable of supporting IPv4, IPv6, multicast and jumbo frames. New Zealand users (members) can use KAREN to communicate with other connected parties nationally and internationally without incurring any volume-based charges, minimum network delays and no loss of packets.

The Advanced Network itself is physically resilient nationally and internationally; with 16 local interconnect points (Points of Presence - PoPs), a 10Gb/s national backbone and two international circuits to Sydney and Seattle connecting to similar overseas networks.

REANNZ has also invested in a video conferencing bridge service and a network services facility in Wellington.

The base service is performing very robustly. Most members with multi-campus operations now rely on KAREN as their primary means of connectivity.





the capabilities required to realise the full value of KAREN. International experience suggests this process can take 5 to 10 years.

We will be successful if we:

- Engage with senior stakeholders to secure long-term support and commitment for KAREN
- Increase user education and awareness
- Achieve the Performance Measures for Development & Uptake 2009-11 (See 9.3).

Work towards financial stability (3)

REANNZ will involve members and stakeholders to jointly develop a long term viable business model (see goal 2).

We will be successful if we:

- Renew member contracts
- Develop and implement a long term viable business model
- Achieve the Performance Measures for Management and Governance 2009-11 (See 9.3).

Foster the REANNZ culture and values (4)

As a small knowledge company, it is essential that we actively foster the culture and values that have been carefully built over the past years, especially as we come out of a time of significant uncertainty and stress for staff.

We will be successful if we:

- Actively work on culture and values
- Provide greater operational stability.



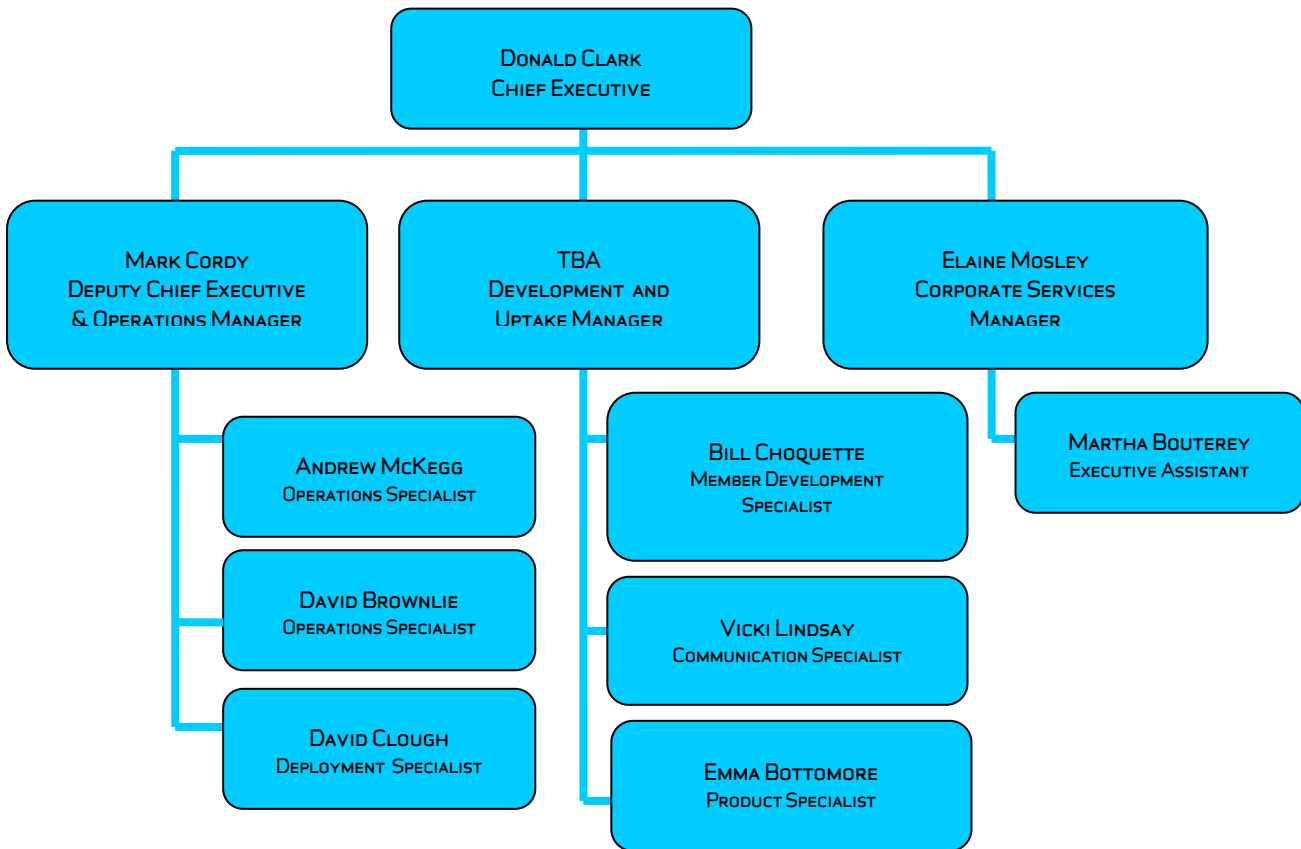
5.4 Relating goals to outcomes

The first three goals relate to the Outcomes in 2.4 above as follows:

R& E Objectives/Outcomes	Associated Goals (Numbered as above)
<ul style="list-style-type: none"> • Enable leading edge e-research. • Facilitate universal connectivity throughout New Zealand and international research and education community. • Encourage broad participation by the research and education sector in New Zealand through accessible technology and cost-effective pricing. • Connect the research and education sector to the broader innovation sector for the pre-commercial, research-based collaboration. 	<ul style="list-style-type: none"> • 1,2 • 1, 2 • 1,2,3 • 1,2

Operational objectives	Associated Goals (Numbered as above)
<ul style="list-style-type: none"> • Facilitate participation by multiple telecommunications-sector partners so as to ensure the greatest possible flexibility for on-going evolution. • Operate in a financially sustainable manner and manage foreseeable upgrades and increases in Advanced Network capacity through the accumulation of reserves. • Endeavour to obtain a commitment from users of the Advanced Network (for example, Tertiary Education Institutes and Crown Research Institutes) to acquire the Crown’s shares in the Company within a reasonable timeframe. 	<ul style="list-style-type: none"> • 1,2,3 • 3,1,2 • 3,1, 2

The achievement of the last goal underpins the success of all of our objectives.



7.3 Good employer

To ensure that REANNZ meets its Good Employer obligations prescribed in the Crown Entities Act Part 3 Section 118, REANNZ will provide opportunities to:

- enhance the abilities of individual employees
- recognise the aims, aspirations and employment requirements of women, and the cultural differences of ethnic or minority groups
- recognise the employment requirements of persons with disabilities.

REANNZ values the uniqueness of its employees and their contribution to the organisational personality and culture. Being responsive to a diverse range of viewpoints and cultures within the workplace will help the organisation develop a more representative workforce able to respond to an increasingly diverse NZ society.



7.4 The REANNZ Approach

REANNZ’s approach to the way we work and do business is to be:

Open

- we are transparent and open with our stakeholders and each other
- we seek out and embrace new ideas and thinking, irrespective of source
- our actions and our outputs are designed to be enabling, not restrictive
- we share our learning.

Collaborative

- we work with others, nationally and globally, not in isolation
- we are not constrained by roles and responsibilities
- our network is required to inter-connect and inter-operate.

Advanced

- we build our community’s capability to push back boundaries
- our network is ahead of the game technically, operationally and commercially.

Reliable & Efficient

- when we say we will do something, we will
- our network can be relied upon
- we do the right thing, even when no one is watching
- we will maximise the value of each dollar we spend.



8 Business and Statutory policies

8.1 Operating responsibilities

REANNZ will:

- consult with members on strategic development of the network
- maintain a network development plan and a network use policy (Network Access Policy)
- approve applications for network connections and participation of members, associates, or partners
- review and set tariffs in consultation with members
- set standards and protocols for use in the operation of the network
- manage relationships with overseas NRENS
- manage the capability build fund to enhance network use.

8.2 Statutory requirements

- REANNZ is established under the Companies Act 1993. The Company, the Board, each director and each shareholder have the rights, powers, duties and obligations set out in the Act, except to the extent that they are negated or modified, in accordance with the Act, by the REANNZ Constitution.
- REANNZ acts as a 'good employer' where 'good employer' has the same meaning as in section 118 of the Crown Entities Act 2004.
- Under the Public Audit Act 2001, the Controller and Auditor-General is to be the auditor of the Company.
- REANNZ is listed on Schedule 4 of the Public Finance Act 1989 , rather than as a Crown entity under the Crown Entities Act 2004. This is to allow flexibility for the company to achieve one of its key objectives: to obtain a commitment from users to acquire the Crown's shares in the company.
- REANNZ is subject to certain sections of the Crown Entities Act 2004² as if it were a Crown entity, and also to the Official Information Act 1982 and the Ombudsmen Act 1975.

² As laid out in REANNZ's Letter of Expectations and Constitution
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- The Company must have regard to any whole of government direction that would apply to the company if it were a Crown entity company under the Crown Entities Act 2004.

8.3 Accounting policies

- The policies will be consistent with the legal requirements for the Companies Act (as amended) and any other relevant legislation.
- Forecasts are made in accordance with generally accepted accounting policies and are compliant with NZIFRS.

8.4 Dividend policy

- It is one of the objectives of the Company that it accumulates reserves to pay for foreseeable upgrades and increases in network capacity. Any funds surplus to this requirement will be distributed to the Company’s shareholders.
- REANNZ is not covered by s165 of Crown Entities Act which governs payment of surpluses.

8.5 International benchmarking

REANNZ will contribute fully to both the Asia Pacific Advanced Networks (APAN) community³ and TERENA (Trans-European Research and Education Networking Association) compendium⁴ surveys that will provide comparative data on our network and operations to most of the other NRENs globally.

8.6 Output agreements

REANNZ has entered into two Output Agreements with the Ministry of Research, Science and Technology (MoRST)⁵:

1. for the governance and operation of REANNZ (network fund)
2. to support development of REANNZ members’ capabilities to access and use the Advanced Network (capability build fund).

The network fund provides the cash to purchase KAREN for an initial period, and support REANNZ’s ongoing corporate and network costs until KAREN is

³ <http://www.apan.net/documents/compendium2007.pdf>

⁴ <http://www.terena.org/activities/compendium/2008/pdf/TERENA-Compendium-2008.pdf>

⁵ [http://www.karen.net.nz/documents/REANNZ's Amended Statement of Intent 2009-2012](http://www.karen.net.nz/documents/REANNZ's%20Amended%20Statement%20of%20Intent%202009-2012)



sustainable from member income. No further payments are expected from MoRST to REANNZ during 2009/10.

The Capability Build Fund is being administered by REANNZ, with the help of a specialist Advisory Panel. Total payments from MoRST to REANNZ over the expected three year life of this fund, were scheduled to be \$5.495m. The bulk of the Fund has already been allocated to development projects, events and travel. The final small project allocation was decided by 30 June 2009.

Each output agreement contains specific outputs and performance targets which REANNZ reports against on the timeframes outlined in those agreements. Both are posted on REANNZ’s website <http://www.karen.net.nz/publications/>.

For the Network agreement, REANNZ reports against the outputs in section 2.2 of that agreement as part of its quarterly report to shareholding Ministers.

For the Capability Build Fund agreement, REANNZ reports against the outputs in section 5 of that agreement as part of its Q2 and Q4 quarterly report, and in its Annual Report, and for its obligations under s32A of the Public Finance Act.



9 Annex 1: Forecast Statement of Service Performance 2010-2012

9.1 Near-term performance measures

REANNZ has identified the main financial and non-financial performance measures (below) by which our performance in the coming three years may be judged.

We have applied target values to each measure for the three year period of this Statement of Intent. Some measures have the same value for each year and are given only once. The measures are grouped by five operational business areas.

9.2 Key measures for 2009 - 2011

The following are the key measures for the three year period, as shown in 8.3 below:

- *Number of users / connections* – determines progress in building the number of people who can have a KAREN experience
- *Event index* – demonstrates our outreach activities are effective
- *An efficient and effective Capability Build Fund* – fulfils our Output Agreement and helps to build sector capability to better leverage KAREN
- *Sector income* – underlies the financial progress of the company.

9.3 REANNZ performance measures 2009-2011

2008/09 results are included where appropriate as baseline, or comparative, data.

Network Operations

Reliability underpins Network Operations’ performance metrics; both from a technical and customer service perspective. Only by operating highly reliably will REANNZ engender member trust in KAREN as an essential service and have KAREN seen as providing value for money.



	2008/09 Completed	2009/10	2010/11	2011/12
Average Traffic load over the domestic network	1-5%	1-5%	5-10%	5-10%

Increasing traffic loads indicate an increasing dependency of KAREN as essential infrastructure. The target represents an average of up to 1000Mb/s of traffic continuously flowing over the network. The 2009/10 year’s target has been reduced because schools’ traffic is no longer being included.

	2008/09	2009/12
Network availability	99.91% national 99.9% international	99.9% 12 month rolling average

If KAREN does not have a very high availability, members will cease to consider it a good investment and will not trust it. Although we have no SLA guarantees, the expectation from all parties is of a highly reliable network. The target represents a network with no more than 8.76 hours of downtime per year.

	2008/09	2009/12
Services availability	99.91% national 99.9% international	99.9% 12 month rolling average

Any services that KAREN introduces (as opposed to third party provided services) must have the same reliability expectations on them as the core network. The target represents services having no more than 8.76 hours of downtime per year.

	2008/09	2009/12
Annual Stakeholder Survey results in the areas of: Responsiveness and behaviour of help desk and support staff	80% excellent or very good	80% excellent or very good

An important part of the trust underpinning the KAREN brand is the responsiveness and expertise of the operational side of the business. The target represents a generally accepted standard for service excellence. The metric “Helping members to connect” has been moved to the Development & Uptake Annual Stakeholder Survey metric.



	2008/09	2009/10	2010/11	2011/12
Route availability on KAREN	Domestic 86 Intl. 12,266	Domestic 250 Intl. 11,500	Domestic 450 Intl. 12,000	Domestic 500 Intl. 12,500

One of the key benefits of KAREN is being able to reach destinations via KAREN (and our peering and partner relationships), thus obtaining performance and pricing advantages. Increasing domestic and international routes will reflect greater value to members.

Increasing traffic loads indicate an increasing dependency of KAREN as essential infrastructure. The target represents an average of up to 1000Mb/s of traffic continuously flowing over the network.

The international route table should be viewed subjectively, in relation to the size of major partner routing tables such as Internet2. The absolute size of the routing table does not necessarily reflect the number of destinations available because of route summarisation.

Domestically, the number of routes available does show growth in the network. The routes are not summarised until they reach the International portion of the network. This number does reflect the number of devices that are potentially available on KAREN.

New network operations metric

Knowledge transfer	1 x Technical workshop monthly
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A new Knowledge Transfer metric has been added, because of the importance of keeping Members exposed to leading edge network features, functions and technical based opportunities.

Redundant network operations metrics

With the first phase of membership largely complete (with most universities and CRIs connected and separately funded hardship initiatives planned to connect the remainder), Network operations will no longer be tracking the Number of users/connection metric. This metric is replaced by the Development and Uptake metric Number of members connected, which will focus on the retention of Members and growing the number of Associates and Partners.



We will not be tracking Research, education and innovation opportunities missed because the network did not support the necessary protocols/function; because of the difficulties in accurately measuring this metric. An effective technical workshop programme is considered of higher value.

Development & Uptake

Development & Uptake (formerly Communities) metrics have been selected to provide solid evidence that KAREN is becoming more essential to an ever increasing user base. Further metrics can be adopted following the completion and acceptance of the Development & Uptake Strategy.

	2008/09	2009/10	2010/11	2011/12
Unique visitors to karen.net.nz	55,488 pa	50,000 pa	60,000 pa	70,000 pa

The flexibility and low cost of our web channel means we intend to maximise it in our communications. Unique visitor numbers provide a reasonable proxy for the relevance and value of the site to the KAREN community. The 2008/09 higher number of Unique Visitors reflects the APAN conference hosted by REANNZ in August 2008.

Event index (see below)	≥ 1 for all events
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This metric demonstrates that the events we hold are of a high quality, highly relevant and are reaching an ever widening audience.

$$Event\ index = \sum_{i=1}^n (person\ score \times [quality \cdot relevance])$$

where :

person score = 1 for regular attendee, 3 for occasional attendee, 5 for new attendee

quality & relevance = 0 → 1

An efficient & effective Capability Build Fund	Fund dispersed in accordance with Output Agreement standards 9 and financial forecast
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While the Capability Build Fund draws to a close, we will finalise its administration in accordance with the Output Agreement, which contains clear outcomes sought from the funds dispersal.

New Development & Uptake metrics

	2008/09	2009/10	2010/11	2011/12
Number of Members connected	68	60	74	82



Retention of existing members and attracting new members is a key metric in evaluating the key areas in the team including Relationship Management, Communications and Marketing and Product Development. These figures above are based on the current membership structure and, unlike previous years, do not include schools (at the end of the 2008/09 year, 22 schools were connected). They are also based on maintaining the existing level of staff with the product development roadmap currently in development.

<p>Effective Delivery of Education and Awareness Programme</p>	<p>1 x eResearch collaboration workshop quarterly (case studies)</p>
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Raising awareness of KAREN and providing appropriate education on how to leverage the use of KAREN is an essential part of helping members maximise research and education value from KAREN.

<p>Annual Stakeholder Survey measuring:</p> <p>How essential KAREN is to member’s infrastructure</p> <p>How strong is the relationship with REANNZ</p> <p>Helping members to connect</p>	<p>>75%</p> <p>>75%</p> <p>>80% excellent or very good</p>
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A number of communications and marketing activities are required to reinforce the value of our members’ investment; stimulating new usage ideas; support of business development (connection) activity; and reinforcing KAREN as essential infrastructure. Following the acceptance of the Development & Uptake Strategy, the team will update the stakeholder survey to assess the effectiveness of the work programme in relation to how members feel we are doing.

Redundant Communities metrics

We will no longer be tracking Case studies of KAREN enabled projects per institutions. This was relevant alongside the capability fund project that is drawing to a close. Case studies will continue to be collected and they will be tracked as part of the effective delivery of workshop training programme.



We will no longer be tracking Active KAREN wiki communities. It is difficult to attract and retain participants on collaborative sites. The value from previous years is considered low whereas an effective workshop programme value is much higher. We will be promoting the use of wikis and the communities' use of them from within the community.

We will not be tracking media uptake on KAREN activities and development. Covering the specialist and wider media is appropriate to build trust and confidence and to raise awareness generally. However, it does not contribute to our supporting imperatives as strongly as other activities including the workshop programme, the visitors to the website, event and relationship management.

Content & Services

Redundant Content & Services metrics

We will no longer be tracking the Content & Services performance metrics of New service trails successfully completed, Publication of a service and content roadmap, Services taken up by members or Direct profit contribution from services because following the adoption of the proposed Development & Uptake Strategy it is planned to add further, more relevant, metrics.

Business Development

Business Development metrics are related very closely to proving that "membership is value for money" and also to our overall goal of medium-term financial sustainability.

Sector income	In line with financial forecasts
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Securing and retaining income in line with the business plan is a critical metric that members are seeing value in KAREN and that we are on track with our finances. This income may come from 'per connection' agreements or sector-level agreements. This metric also absorbs the importance of the 'network effect'.



Redundant Business Development Metrics

We will no longer be tracking the Connection trials successfully completed metric because we have explored and tested many connection models. We are currently developing a new network architecture and when this is adopted, a new metric involving connection trials may be put in place.

We will no longer be tracking the strategic positioning metric relating to the trial use of KAREN as backbone for a National Education Network, because the trial we undertook, which was extended twice until 30 December 2009, has been thoroughly successful.

Management and governance

The management & governance metrics are there to ensure a solid and reliable underpinning base to our operations to allow us to achieve our medium-term goal of sustainability (from a business perspective).

	2008/09	2009/12
Reports delivered on time	100%	100%

Quarterly reports, SoIs, Audit requirements, Output Agreement reports and business plans all delivered on time to ensure efficient operational reporting and accountability. All reporting obligations should be met on time and to a quality acceptable by the Board.

	2008/09	2009/12
Legislative and contract compliance	99%	100%

REANNZ has the legislative obligations of any Company, coupled with various public sector statutory obligations. REANNZ also has several major underpinning contracts. All these obligations require management to avoid risk.

	2008/09	2009/12
Forecast cash position	+\$1.8mill or 15.6%	+/- 10%

An ability to project REANNZ’s cash position and thus financial viability is a key metric for the Board, shareholders and members. REANNZ faces increasing uncertainty as its reliance on Crown income diminishes; and new income routes are explored.



	2008/09	2009/12
Audit management report performance	1 "very good"; 1 "good" Audit Management Report rating	2 out of 2 categories rated 'good' or better

The annual audit provides a comprehensive review of the quality of REANNZ’s processes and systems. The audit provides assurance that the Company has appropriate risk management and operational controls in place. ‘Good’ is the second highest rating given by the Office of the Auditor-General. ‘Very good’ is the highest.

	2008/09	2009/12
Staff turnover	1 resignation, 2 redundancies, 2 new staff members	1 -2 people

As a small company, a climate survey of staff is not practical. Maintaining a moderate staff turnover is a proxy indicator for a positive staff environment.

Redundant governance and management performance metric

We will no longer be tracking the carbon footprint performance metric, because measurement, on mileage travelled only, was not proving to be meaningful. In an economic environment where lower operational expenses are critical, travel is being reduced; and we are increasingly leveraging video conferencing and other remote collaboration.



10.3 Prospective statement of Changes in Equity

PROSPECTIVE STATEMENT OF THE MOVEMENT IN PUBLIC EQUITY OF RESEARCH & EDUCATION ADVANCED NETWORK NZ LTD

(FOR THE YEAR ENDED 30 JUNE)	09/10 (\$000)	10/11 (\$000)	11/12 (\$000)
PUBLIC EQUITY			
Opening Balance	17,911	10,394	20,706
Retained earnings for the year	(7,517)	(5,688)	(5,410)
Shareholder investment	-	16,000	-
Public Equity at end of year	10,394	20,706	15,296

10.4 Prospective statement of Cash Flows

**PROSPECTIVE CASHFLOW STATEMENT
RESEARCH & EDUCATION ADVANCED NETWORK NZ LTD**

(FOR THE YEAR ENDED 30 JUNE)

	09/10 (\$000)	10/11 (\$000)	11/12 (\$000)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from (applied to)			
Crown revenue	-	-	-
Network Income	5,016	5,521	5,619
Interest received	284	221	14
Sundry income	85	85	85
Net GST	(74)	122	(23)
Payments to suppliers and employees	(8,128)	(26,332)	(4,024)
Net cash flow from operating activities	(2,817)	(20,383)	1,671
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from (applied to)			
Purchase of plant & equipment	(405)	(2,540)	(230)
Net cash flows from investing activities	(405)	(2,540)	(230)
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash was provided from (applied to)			
Issue of equity share capital	-	16,000	-
Net cash flow from financing activities	-	16,000	-
Net (decrease)/increase in cash held	(3,222)	(6,923)	1,441
Cash at beginning of year	10,599	7,377	454
Cash at end of year	7,377	454	1,895
<i>Represented by:</i>			
Cash at bank	7,377	454	1,896



Network costs (excluding international connectivity) remain at 2009 budgeted levels, adjusted for inflation until the expiry of our national network contracts in December 2010. At this time these contracts will be renegotiated. We have forecast the costs of the 3 year national network extension based on our current charges, pro rated.

While total corporate costs have reduced due to savings in some areas, general cost escalation is factored at 3.6% per annum on most items, including salaries.

Capital expenditure

We have budgeted \$405,000 to be spent on capital assets during the 2009/10 year. This is an increase of \$25,000 over our projections in our previous planning.

Key 2009/10 capital expenditure has been included as follows:

- \$375,000 has been provided for office equipment and ICT (including small network equipment) upgrades
- \$30,000 has been provided for new AV equipment to further our video conferencing abilities.

Taxation

- REANNZ, as a public entity, is exempt from taxation.

10.6 Nature and purpose of prospective financial statements

The prospective financial statements above have been prepared as a best efforts indication of REANNZ’s future financial performance. Actual financial results achieved for the period covered are likely to vary from the information presented, potentially in a material manner.

The purpose of the prospective financial statements is to inform readers of this Statement of Intent of REANNZ’s best judgment of its future financial performance at the date of publication, and to comply with the specific reporting and disclosure obligations on REANNZ. The statements may not be suitable for other purposes.



11 Annex 3: Statement of accounting policies

11.1 Reporting entity

The reporting entity is Research and Education Advanced Network New Zealand Limited ("REANNZ"), a Crown entity as defined by the Crown Entities Act 2004 and a New Zealand incorporated company. As a Crown Entity, REANNZ's ultimate parent is the New Zealand Crown.

REANNZ's primary objective is to establish and operate a high speed communication network for the research and education sector. As such, REANNZ's aim is to provide services to the public, rather than make a financial return.

Accordingly, REANNZ has designated itself as a public benefit entity for the purposes of New Zealand Equivalents to International Financial Reporting Standards.

11.2 Basis of preparation

Statement of Compliance

The prospective financial statements have been prepared in accordance with the Crown Entities Act 2004, which includes the requirement to comply with New Zealand generally accepted accounting practice ('NZ GAAP').

The prospective financial statements comply with the New Zealand Equivalents to International Financial Reporting Standards ('NZ IFRS') and other applicable financial reporting standards as appropriate for public benefit entities.

Measurement base

The prospective financial statements have been prepared on the basis of historical cost, except where modified by the revaluation of certain items of Property Plant and Equipment, and the measurement of derivative financial instruments at fair value. The accounting policies for these items are stated below.



Functional currency

The prospective financial statements are presented in New Zealand dollars, rounded to the nearest thousand (\$000). The functional currency of REANNZ is New Zealand dollars.

11.3 Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial statements.

Revenue recognition

Revenue is measure at the fair value of the consideration received or receivable.

Grant income is recognised by REANNZ as it is received or receivable from the Crown, when the conditions relating to the grant are met. Where there are no conditions attached to the grant, other than the requirement for REANNZ to own and operate a high speed communication network for the research and education sector, grant income is also recognised as it is received or receivable. Where grant income has been received but the conditions of the grant are not yet satisfied, grant income is recognised as income received in advance in the statement of financial position.

Interest revenue is recognised using the effective interest method.

Property, plant and equipment

Property Plant and equipment asset classes consist of office equipment, ICT equipment, national PoP equipment, leasehold Improvements and network services equipment.

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and any impairment losses. 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.



The cost of an item of property, plant and equipment is only recognised as an asset when it is probable that future economic benefits or service potential associated with the item will flow to REANNZ and the cost of the item can be measured reliably.

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

Gains and losses on disposals are determined by comparing the proceeds of disposal with the carrying amount of the asset. Gains and losses on disposal are included in the statement of comprehensive income.

Assets under construction are held in work in progress until they are completed, at which point they are transferred to the appropriate category of property, plant and equipment.

Costs incurred subsequent to initial acquisition are capitalised only when it is probable that future economic benefits or service potential associated with the item will flow to REANNZ and the cost of the item can be measured reliably.

The costs of servicing property, plant and equipment are recognised in the statement of comprehensive income as they are incurred.

Depreciation on Property, Plant and Equipment (excluding work in progress) is calculated on a straight line basis, from the time the asset is in the location and condition necessary for its intended use. This basis allocates the cost or value of the asset, less its residual value, over its estimated useful life.

The depreciation method, estimated useful lives and residual values of Property, Plant and Equipment are reviewed annually to assess appropriateness.

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
Pop Equipment	8 years



Leasehold improvements are depreciated on the basis of estimated useful life or the remaining lease term, whichever is shorter.

Intangible Assets

Software is a finite life intangible and is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the estimated useful life of the intangible asset.

The following amortisation rates are used in the calculation of amortisation:

Software 3 years

Impairment

At each reporting date, assets are reviewed by the Directors to determine whether there are any events or changes in circumstances that indicate that carrying amounts may not be recoverable. An impairment loss is recognised as the amount by which the asset’s carrying amount exceeds its estimated recoverable amount.

If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and the carrying amount is written down to the recoverable amount. The impairment loss is then recognised as an expense in the statement of comprehensive income.

Where an item of property, plant or equipment has been revalued, any impairment loss is recognised against the revaluation reserve for that class of asset. Where this results in a debit balance in the revaluation reserve, the balance is recognised in the statement of comprehensive income.

Any reversal of an impairment loss is recognised in the statement of comprehensive income. Impairment losses can only be reversed to the extent that the carrying amount of the asset matches the carrying amount as calculated under the cost less accumulated depreciation method.

For items of property, plant or equipment which have been revalued, any reversal of impairment loss is credited back to the revaluation reserve. However, to the extent that an impairment loss for that class of asset was previously recognised



in the statement of comprehensive income, a reversal of impairment loss is also recognised in the statement of comprehensive income.

Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

Inventories

Inventories held for sale or use in the provision of services on a commercial basis are valued at the lower of cost and net realisable value. The cost of purchased inventory is determined using the first-in first-out method.

The write down from cost to net realisable value is recognised in the Statement of Comprehensive Income, in the period when the write-down occurs.

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 comprehensive income. Where the leased items are in use, operating lease payments are allocated in equal installments over the lease term.

Where the leased items are not in use, the operating lease payments will be treated as a prepayment in the Statement of Financial Position. Once the items begin to be used in deriving income, these prepayments are released to the statement of comprehensive income on a straight line basis over the period of the remaining operating lease term.

Financial assets

Investments

For investments under a contract where the terms require delivery within a specified timeframe, the investment is recognised on the date of trade at fair value, net of transaction costs.

Other financial assets are classified into "Cash and cash equivalents" and "receivables". The classification depends on the nature and purpose of the



financial assets and is determined at the time of initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand; cash held in banks, other short-term highly liquid investments with original maturities of three months or less and are net of outstanding bank overdrafts.

Receivables

Accounts receivable are recognised at fair value. A provision for impairment of accounts receivable is made where there is objective evidence that REANNZ will not collect all amounts due according to the original terms of the receivable. When this occurs, the receivable is recorded at amortised cost, less provision for impairment. When the receivable is uncollectible, it is expensed in the statement of comprehensive income.

Financial liabilities

Payables

Accounts payable, comprising trade payables and other accounts payable, are recognised when REANNZ becomes obliged to make future payments resulting from the purchase of goods and services. Payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method.

Derivatives

REANNZ enters into a variety of derivative financial instruments, including forward foreign exchange contracts, as part of its normal operations to manage its exposure to foreign exchange rate risk. REANNZ does not hold these financial instruments for trading purposes.

Financial instruments that constitute hedges, including forward foreign exchange contracts, are valued at the prevailing exchange rate at year end. Any unrealised gains or losses are recognised in the Statement of Comprehensive Income. Financial instruments that do not constitute hedges are stated at fair value and any resulting gain or loss is recognised in the Statement of Comprehensive Income.



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 Comprehensive Income.

Employee entitlements

Provision for accrued annual leave is made when it is probable that settlement will be required and the provision is capable of being measured reliably.

Provisions made for employee benefits expected to be settled within 12 months of the reporting date are measured using the best estimate of the amount required to settle the obligation, based on the remuneration rate expected.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months of the reporting date are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to reporting date

Taxation

REANNZ, as a public entity, is exempt from taxation. Accordingly, no taxation has been provided for.

Statement of cash flows

The Statement of Cash Flows is prepared exclusive of GST, which is consistent with the method used in the Statement of Comprehensive Income.

Definitions of the terms used in the statement of cash flows are:

- "Cash" includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash and includes at call borrowings such as bank overdrafts, used by the entity as part of its day to day cash management
- "Investing activities" are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets

