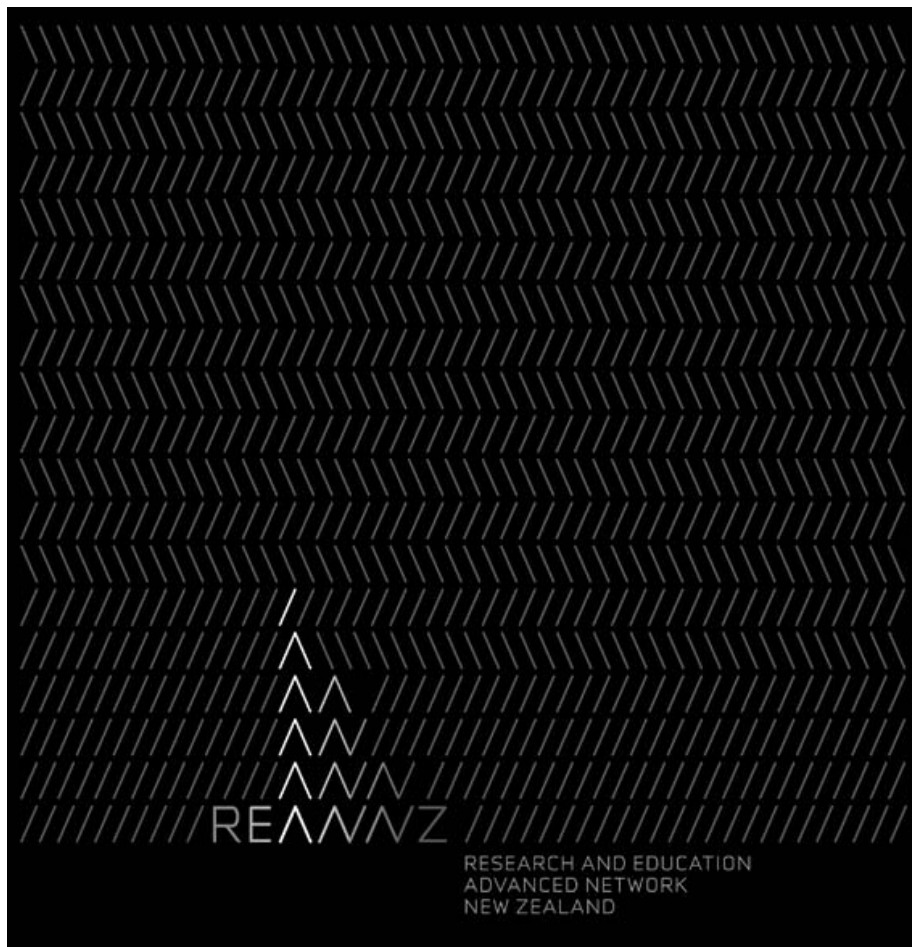


REANNZ

RESEARCH AND EDUCATION  
ADVANCED NETWORK  
NEW ZEALAND

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

June 2009





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## 2. Purpose and objectives

### 2.1. Purpose

REANNZ’s purpose is to establish, and operate a high-speed data network in order to promote research, education and innovation (R,E & I) for the benefit of New Zealanders. This network is called KAREN – the Kiwi Advanced Research and Education Network.

Detailed up-to-date information about KAREN, including its topology, service offerings, community and capability building activity, and connection information can be found on our website: [www.karen.net.nz](http://www.karen.net.nz)

### 2.2. Objectives

REANNZ has a number of constitutional objectives. They are:

R& E objectives	Operational objectives
<ul style="list-style-type: none"> <li>• Enable leading edge e-research.</li> <li>• Facilitate universal connectivity throughout New Zealand and international research and education community.</li> <li>• Encourage broad participation by the research and education sector in New Zealand through accessible technology and cost-effective pricing.</li> <li>• Connect the research and education sector to the broader innovation sector for the pre-commercial, research-based collaboration.</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitate participation by multiple telecommunications-sector partners so as to ensure the greatest possible flexibility for on-going evolution.</li> <li>• Operate in a financially sustainable manner and manage foreseeable upgrades and increases in Advanced Network capacity through the accumulation of reserves.</li> <li>• 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.</li> </ul>



### 3. About REANNZ and KAREN

#### 3.1. Introduction

The Advanced Network known as KAREN, Kiwi Advanced Research and Education Network, provides very high speed, high quality, unconstrained data connectivity to the New Zealand research and education community nationally and to similar communities overseas. Nearly 50 countries have an equivalent network, access to which is considered essential.

KAREN has a fundamental role to play in transforming the economy of New Zealand through connecting our research and education communities to each other and to global networks. A new digitally competent generation leaving the education system can then go on to become both skilled consumers and providers in a changing economy. KAREN will enable new approaches to research where collaboration, not competition, is promoted within the sector and will support technology transfer to businesses.

KAREN has been operating for 2.5 years and has more than 60 members, connected at over 100 locations, sending petabytes of data over the network every month.

This membership uptake and usage growth is in line with overseas experiences. However, like any significant new generation infrastructure, it will take time and concerted effort to ensure the benefits of this investment are fully realised.

#### 3.2. About REANNZ

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 seven Directors and 11.8 Full Time Equivalent employees.

REANNZ’s constitution defines a specific set of research and education goals, and operating objective on the company as described in section 2.2.

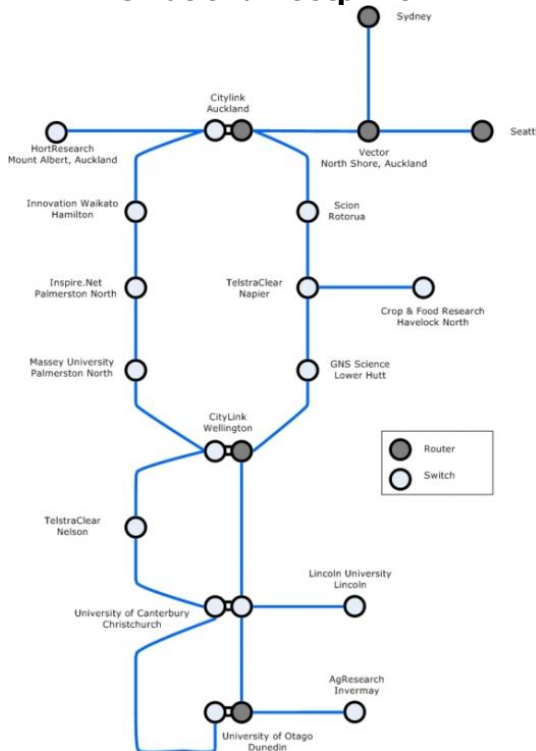


### 3.3. Investment in KAREN

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 as network revenues from the network users were generated. In 2009, the Crown invested a further \$16 million to allow KAREN to be extended until at least 2013. As part of this second investment, the Crown renewed its expectation that REANNZ would be fully funded by its Members by 2013.

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.

#### KAREN's national footprint



REANNZ has also invested in a services facility in Wellington to support video conferencing services along with various technical network services to users.



### 3.4. Services provided

REANNZ primarily supplies effectively 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, the minimum of network delays and almost no loss of packets.

This base service is performing very robustly. Most members with multi-campus operations use KAREN as their primary wide-area network and are decommissioning their legacy communications services.

REANNZ also operates a video conferencing bridge on behalf of its Members.

### 3.5. 2009/12 Focus

As the provider of a vital piece of national infrastructure for the research, education and innovation (R&E&I) sectors, REANNZ ultimately aims to contribute to an increase in the wealth of New Zealanders. This is done by allowing sector organisations to improve their operational efficiency, enabling new national and international collaborations and supporting the creation of a digitally skilled workforce.

In the medium term, the key outcome is to make REANNZ financially self-sustaining, without relying on recourse to the Crown shareholder for further investment. The exact pathway to achieving this outcome is still being determined by the REANNZ Board, in conjunction with network members, shareholders and other stakeholders. As indicated above, REANNZ may choose to re-issue its SOI during the coming year, should its approach and performance metrics differ materially from those presented in this document







- Tertiary Education Commission – as policy development and implementation agent for the tertiary education sector
- Supplier partners – the local and national fibre providers and local wireless providers
- Internet community – InternetNZ and related community for their foresight and influence
- Other NRENs – to ensure good transit and peering agreements and to leverage their experience.

### 5.3. Acquisitions and disposals

While it is unlikely that the Board will seek to acquire or form a subsidiary, it would only take such action after providing adequate written notice seeking shareholding Ministers’ approval of its intentions, and in accordance with Government policy.

REANNZ will advise the shareholding Ministers where it is contemplating new investments exceeding \$1.5M per transaction (or related set of transactions), and will seek shareholding Ministers’ approval in advance for new investments exceeding \$3M per transaction (or related set of transactions).

### 5.4 Reporting

#### **Annual Report**

An Annual Report will be delivered to Ministers within four months of the end of each financial year. It will comply with the reporting provisions of the Crown Entities Act 2004, the Companies Act 1993, and the Financial Reporting Act 1993.

#### **Statement of Intent**

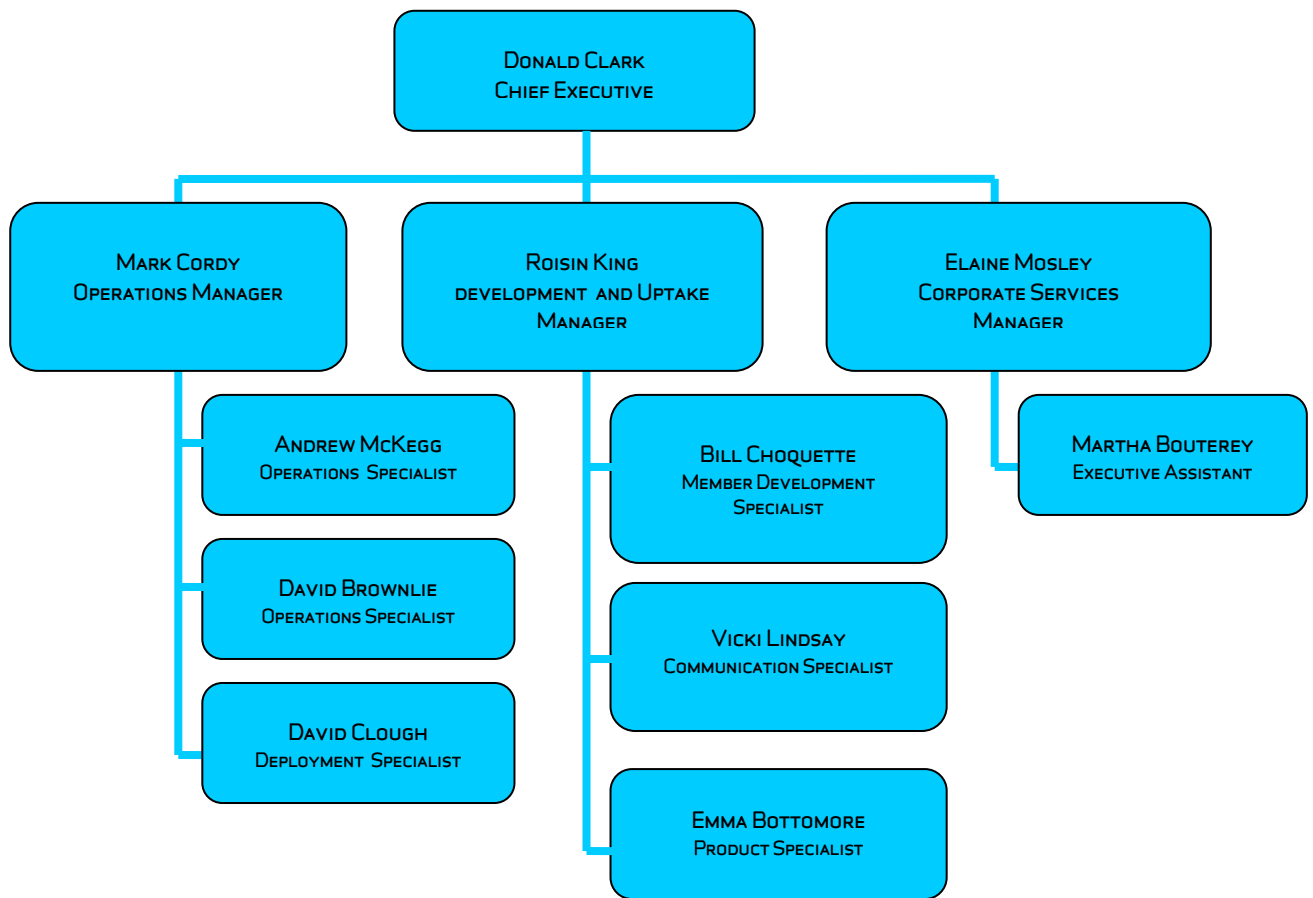
A draft of this Statement of Intent and of our Business Plan is made available to shareholding Ministers no later than one month prior to the commencement of the financial year.

#### **Quarterly reports**

Quarterly reports will be submitted to shareholding Ministers providing provisional financial and non-financial performance data, measured against the forecasts in this Statement of Intent.







### 6.3. 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





## 7. Business and Statutory policies

### 7.1. 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 of 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.

### 7.2. Statutory requirements

- REANNZ is established under the Companies Act 1993 and 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 (CEA).
- 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 (PFA), rather than as a Crown entity under the Crown Entities Act 2004 (CEA). 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 CEA<sup>1</sup> as if it were a Crown entity, and also to the Official Information Act 1982 and the Ombudsmen Act 1975.

<sup>1</sup> As laid out in REANNZ's Letter of Expectations and Constitution



- 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.

### 7.3. 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.

### 7.4. 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.

### 7.5. International benchmarking

REANNZ will contribute fully to both the Asia Pacific Advanced Networks (APAN) community<sup>2</sup> and TERENA compendium<sup>3</sup> surveys that will provide comparative data on our network and operations to most of the other NRENS globally.

### 7.6. Output agreements

REANNZ has entered into two Output Agreements with the Ministry of Research, Science and Technology (MoRST)<sup>4</sup>:

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

<sup>2</sup> <http://www.apan.net/documents/compendium2007.pdf>

<sup>3</sup> <http://www.terena.org/activities/compendium/2008/pdf/TERENA-Compendium-2008.pdf>

<sup>4</sup> <http://www.karen.net.nz/documents/>

REANNZ Statement of Intent 2009-2012





## 8. Annex 1: Forecast Statement of Service Performance 2010-2012

### 8.1. 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 our five operational business areas.

### 8.2. 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.

### 8.3. REANNZ performance measures 2009-2011

#### Network operations

Reliability is the underpinning of Network operations performance metrics; both in a technical and customer service perspective. Only by operating highly reliably will REANNZ engender member trust in KAREN as an essential service and see it as value for money.

<b>Average Traffic load over the domestic network</b>	<b>1-5%</b>	<b>5-10%</b>	<b>5-10%</b>
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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.

**New network operations metric**

<b>Knowledge transfer</b>	<b>1 x Technical workshop monthly</b>
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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 metric**

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.

**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.

<b>Unique visitors to karen.net.nz</b>	<b>50,000 pa</b>	<b>60,000 pa</b>	<b>70,000 pa</b>
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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.

<b>Event index (see below)</b>	<b>≥ 1 for all events</b>
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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



<b>An efficient &amp; effective Capability Build Fund</b>	<b>Fund dispersed in accordance with Output Agreement standards 9 and financial forecast</b>
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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**

<b>Number of Members connected</b>	<b>60</b>	<b>74</b>	<b>82</b>
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Retention of existing members and attracting new members is a key metric in evaluating the key areas in 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. They are also based on maintaining the existing level of staff with the product development roadmap currently in development.

<b>Effective Delivery of Education and Awareness Programme</b>	<b>1 x eResearch collaboration workshop quarterly (case studies)</b>
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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.

<b>Annual Stakeholder Survey measuring:</b>	
<b>How essential KAREN is to member’s infrastructure</b>	<b>&gt;75%</b>
<b>How strong is the relationship with REANNZ</b>	<b>&gt;75%</b>
<b>Helping members to connect</b>	<b>&gt;80% excellent or very good</b>

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 highly 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.

<b>Sector income</b>	<b>In line with financial forecasts</b>
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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 until 30 June 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).

<b>Reports delivered on time</b>	<b>100%</b>
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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.

<b>Legislative and contract compliance</b>	<b>100%</b>
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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.

<b>Forecast cash position</b>	<b>+/- 10%</b>
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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.



<b>Audit management report performance</b>	<b>At least 2 out of 3 categories rated 'good' or better</b>
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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.

<b>Staff turnover</b>	<b>1 -2 people</b>
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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.

## 9. Annex 2: Prospective financial statements

### 9.1. Prospective Statement of Comprehensive Income

#### STATEMENT OF COMPREHENSIVE INCOME RESEARCH & EDUCATION ADVANCED NETWORK NZ LTD

(FOR THE YEAR ENDED 30 JUNE)	09/10 (\$000)	10/11 (\$000)	11/12 (\$000)
Network Income*	4,378	4,356	4,365
Other Income	85	85	85
<b>Total Revenue</b>	<b>4,463</b>	<b>4,441</b>	<b>4,450</b>
<b>EXPENSES</b>			
Audit fee	29	31	32
Amortisation	11	7	8
Depreciation	98	46	36
Directors fees	123	128	132
Employment expenses	1,731	1,793	1,858
Network expenses	9,903	8,357	7,934
Other operating expenses	394	419	423
Professional services	178	184	190
Rental and lease expenses	74	90	90
Travel and vehicle expenses	120	124	129
<b>Total Expenses</b>	<b>12,661</b>	<b>11,179</b>	<b>10,832</b>
<b>Surplus/(loss) before interest</b>	<b>(8,198)</b>	<b>(6,738)</b>	<b>(6,382)</b>
Interest Income	243	180	481
<b>Net Surplus; REANNZ to Public Equity</b>	<b>(7,955)</b>	<b>(6,558)</b>	<b>(5,901)</b>
Other Comprehensive Income	-	-	-
<b>Total Comprehensive Income</b>	<b>(7,955)</b>	<b>(6,558)</b>	<b>(5,901)</b>

\*Based on current Membership contracts; not re-contracted fees from December 2009

## 9.2. Prospective Statement of Financial Position

**PROSPECTIVE STATEMENT OF FINANCIAL POSITION  
RESEARCH & EDUCATION ADVANCED NETWORK NZ LTD**

(AS AT 30 JUNE)	09/10 (\$000)	10/11 (\$000)	11/12 (\$000)
<b>CURRENT ASSETS</b>			
Cash at Bank	6,010	16,020	10,630
Stock on Hand	29	29	29
Debtors and receivables	148	148	148
Prepayments	167	167	167
Net GST Receivable	110	507	515
<b>Total Current Assets</b>	<b>6,464</b>	<b>16,871</b>	<b>11,489</b>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	2,015	3,702	3,359
Prepaid network costs	2,557	-	-
<b>Total Non-Current Assets</b>	<b>4,572</b>	<b>3,702</b>	<b>3,359</b>
<b>TOTAL ASSETS</b>	<b>11,036</b>	<b>20,573</b>	<b>14,848</b>
<b>CURRENT LIABILITIES</b>			
Creditors and payables*	962	1,057	1,233
Employee entitlement	116	116	116
Net GST Payable	-	-	-
<b>Total Current Liabilities</b>	<b>1,078</b>	<b>1,173</b>	<b>1,349</b>
<b>NON-CURRENT LIABILITIES</b>			
	-	-	-
<b>TOTAL LIABILITIES</b>	<b>1,078</b>	<b>1,173</b>	<b>1,349</b>
<b>NET ASSETS</b>	<b>9,958</b>	<b>19,400</b>	<b>13,499</b>
<b>Public Equity</b>	<b>9,958</b>	<b>19,400</b>	<b>13,499</b>

\* This includes the unrealised foreign exchange movement on financial instruments of \$478k as valued at 30 June 2008. This will fluctuate on an annual basis due to the movement of foreign currency.



## 9.4. 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)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Cash was provided from (applied to)</b>			
Crown revenue	-	-	-
Network Income	4,378	4,356	4,364
Interest received	243	180	481
Sundry income	85	85	85
Net GST	(55)	(378)	14
Payments to suppliers and employees	(8,835)	(8,193)	(10,104)
<b>Net cash flow from operating activities</b>	<b>(4,184)</b>	<b>(3,950)</b>	<b>(5,160)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
<b>Cash was provided from (applied to)</b>			
Purchase of plant & equipment	(405)	(2,040)	(230)
<b>Net cash flows from investing activities</b>	<b>(405)</b>	<b>(2,040)</b>	<b>(230)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
<b>Cash was provided from (applied to)</b>			
Issue of equity share capital	-	16,000	-
<b>Net cash flow from financing activities</b>	<b>-</b>	<b>16,000</b>	<b>-</b>
<b>Net (decrease)/increase in cash held</b>	<b>(4,589)</b>	<b>10,010</b>	<b>(5,390)</b>
Cash at beginning of year	10,599	6,010	16,020
<b>Cash at end of year</b>	<b>6,010</b>	<b>16,020</b>	<b>10,630</b>
<i>Represented by:</i>			
<b>Cash at bank</b>	<b>6,010</b>	<b>16,020</b>	<b>10,630</b>



### 9.5. Statement of significant assumptions

Final decisions by Shareholders regarding the reinvestment in REANNZ may result in changes to REANNZ’s prospective financial situation.

This Statement of Intent has been prepared on the basis that the biggest drivers of REANNZ’s forecast financial statements are:

1. The support for REANNZ’s re-investment process both from Government and from our Members;
2. Renewal costs of our national and international network contracts (corporate costs are significantly eclipsed by these).

Given that REANNZ’s current network cost base has been fixed (and its corporate cost base largely fixed), increased capital support and continuing connection and sector income are the most important drivers from a fiscal sustainability perspective for the period of this plan. Unfavourable variances in network income will flow directly to REANNZ’s cash position.

#### Financial position

- For forecasting purposes, we have assumed an average of one month of the previous year’s creditors and debtors at year end.

#### Income

- CRIs and Universities are forecast to continue as members.
- Other sector membership (Polytechnics, fee-paying schools already connected and video-conferencing) is forecast to continue at present levels.
- Crown grant income is forecast consistently with REANNZ’s output agreements with MoRST; including the additional capital investment approved in Budget 2009.
- Partner connection income increases by inflation annually.

#### Network costs

For financial forecasting purposes, a conservative NZD:USD of around 0.557 has been used in estimating international network renewal costs. These costs are the only part of REANNZ’s business open to foreign exchange risk. As such, REANNZ’s policies state that it must enter into forward cover arrangements at the outset of





## 10. Annex 3: Statement of accounting policies

### 10.1. 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 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 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.

### 10.2. 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.

**10.3. 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 received from the Crown and is restricted in its use to assisting REANNZ to meet its objective of operating and maintaining a high speed communications network for the research and education sector in New Zealand, as specified in the statement of intent.

Grant income is recognised as revenue when earned and is reported in the financial period to which it relates.

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 recognized 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.





*Operating Lease*

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
- "Financing activities" are those activities relating to changes in equity of the entity
- "Operating activities" include all transactions and other events that are not investing or financing activities.

**Goods and Services Tax (GST)**

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

The net GST paid to, or received from, the Inland Revenue Department, including the GST relating to investing and financing activities, is classified as an operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

