

**RESEARCH AND EDUCATION ADVANCED  
NETWORK NEW ZEALAND Ltd. (REANNZ)**

**STATEMENT OF INTENT  
Year ended 30 June 2007**

Presented to the House of Representatives Pursuant to the  
Crown Entities Act 2004

# REANNZ 2006/07 Statement of Intent

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## **INTRODUCTION**

This Statement of Intent is submitted by the Board of Directors of the Research and Education Advanced Network New Zealand Limited (REANNZ), in accordance with the Crown Entities Act 2004.

The purpose of REANNZ is to establish, own and operate a high-speed telecommunications network for the research and education sectors in New Zealand.

The beginning of the 2006/07 planning period will see the major contracts for the construction of the network well underway. Company and selected user focus will initially be on the “proof of concept” phase which is scheduled for late July 2006. This will enable REANNZ and some early user projects to test the network functionality nationally and internationally prior to completion of the network rollout which we expect to accept in November 2006.

Away from the network establishment project the company will be focussed on three main and enduring areas:

1. Engaging with user organisations to finalise membership and expand the base of institutions and partners that will benefit in their research and education objectives by participation in the network
2. Communicating with end-users via various channels to inform and demonstrate to them of the network capability and the various opportunities to develop necessary skills to exploit the promise of the new tool
3. Continue with the company’s development to ensure strong support to members, and to provide active coordination with other Government initiatives that complement the REANNZ mission

From recent experience with overseas networks and their related policy and funding agencies we have confirmed the critical importance of establishing and maintaining strong relations with other research and education networks, their working groups, and their end-users application and sector-specific initiatives. We will be assisting members to establish and grow such relationships and we will be examining what network related opportunities arise from such collaborations.

Also based on our own assessments and confirmed by the extensive experience of overseas networks we will be working closely with Ministry of Education and related agencies such as the Tertiary Education Commission to enhance the value of Information and Communications Technology initiatives to schools. Advanced Networking platforms provide enhanced network functionality and economics and, maybe more importantly, a natural and neutral focus for collaboration and joint problem solving.

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We will of course keep you advised of progress on this key project and will be keen to demonstrate to you examples of the possibilities it can open to us.

***Dr Jim Watson***  
***Chair***  
***REANNZ Board***

## 1. THE COMPANY – REANNZ

The primary objective of REANNZ is to provide an effective advanced networking system (the Advanced Network) to New Zealand researchers and educationalists. A second objective is to extend this capability into the compulsory education sector, especially into secondary schools.

The network will allow and promote more collaborative behaviour between users in New Zealand and also with overseas users on similar national research and education networks (NRENs). It also allows for similar collaboration between teachers and students within particular sectors and between sectors, e.g. senior secondary students participating in entrance level University or Polytechnic courses.

An important allied objective is to enhance the understanding amongst researchers and educators as to the possibilities the network offers, and to build their capability to utilise the network to deliver these new opportunities. Thus, support of the users is a key co-requisite to the success of the network.

## 2. CORE BUSINESS – THE NEW ZEALAND ADVANCED NETWORK

### 2.1. *Core service*

The Company's core business is to establish and operate an effective Advanced Network for New Zealand researchers and educationalists.

An Advanced Network is a specialised high-speed telecommunications network that provides enhanced connectivity arrangements between national and overseas research and education institutes. Its transmission performance and functionality enable efficient exchange of large valuable datasets, shared access to high performance computational facilities and connection to large, high cost, sensor networks. These networks also enable the development of practical, rich media, personal interactions-at-a-distance with multiple locations simultaneously. This opens up new areas of remote teaching and learning.

The network's overall capabilities will be at the leading edge of information and communications technology development. The Advanced Network is a new tool enabling new research and educational capability to be built, and which also acts as a natural focus for common problem solving and collaboration.

The strategic priorities for delivering this service will change over the medium term as the business moves through its developmental stages; that is, from its establishment, through to full development of the network, and including, at an appropriate time, the transfer of the network business into the ownership of users.

## **2.2. Core capabilities**

The most important capability required by REANNZ is the people to govern and manage the business. They will lead and manage the process of implementing the network in conjunction with its suppliers and obtaining the commitment of research and educational organisations to use the Advanced Network. They will also very importantly assist the user community to understand how to use the network, and the possibilities the network presents.

### **2.2.1. Governance**

The Board contains the following generic competencies:

- high-level skills and understandings of financial and legal issues relating particularly to the information technology and communications sectors
- high-level understanding of Information Technology and communications technology issues and potential
- a good understanding of Advanced Network technology and issues
- a good level of knowledge of New Zealand research interests and related international research
- the ability to establish effective business and other working relationships with all stakeholders.

### **2.2.2. Management of the business:**

In addition to the generic competencies identified above, the management and staff of REANNZ require:

- Detailed knowledge of communications technology issues, options and costs
- Understanding of research, education and scientific user needs
- Understanding of network enabled possibilities and capability requirements
- Skills in business analysis
- Relationship management and contracting skills
- Understanding and knowledge of the Crown's accountability requirements.

## **2.3. Other capabilities:**

REANNZ will continue to be a small organisation and accordingly will need efficient infrastructure capabilities to support its work. Some of the company's support requirements will be contracted out primarily for reasons of efficiency. In all cases, REANNZ will own and manage the standards, policies and rules for the network and the business of REANNZ.

### 3. ORGANISATION OF REANNZ

A simple operational structure is being implemented for REANNZ. Since the last Business Plan, there is now much more clarity with respect to the services required by members, and this has been reflected in the organisational structure.

To build and maintain relationships with user organisations a working group support manager and customer services manager will provide:

- Working Group and Special Interest Group meeting facilitation and secretariat;
- Training
- Documentation including website content
- Liaison with members, associates and partners.
- Liaison with the private research sector
- Liaison with schools and related agencies

A small core technical group is required to provide:

- technical support to user organisations
- management of key vendor relationships
- ownership of technical and operational network policies and performance
- technical and operational liaison with vendors
- network development and planning support
- working group liaison and secretarial/logistical support
- training
- documentation
- events/workshops

In addition to this core group, it is likely that REANNZ will continue to seek assistance from technical experts within its User community, as has been the case to date.

The staff for REANNZ will be appointed during the year to fulfil the following functions:

- Chief Executive;
- Administration;
- Web site support;
- Finance, Reporting and Compliance;
- Working group support;
- User Support services;
- Contract Management/Technical.

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(Based on experience gained from recent visits to European and United States of America based National Research and Education Networks it is anticipated that additional functions expected of REANNZ will become apparent during the early phase of the network's operation. The area of member or customer services and information/communications management is expected to need more resource but at this stage it is not possible to gauge the impact for planning purposes.)

The operating model being applied to REANNZ is that it will primarily be a relationship management and standards and contract establishment organisation, rather than an operational one (from a network perspective). This means REANNZ will outsource day-to-day activities such as network management and concentrate its activities in areas such as reviewing the network standards, network architecture, designs, and continual liaison with key stakeholder communities, at both user and decision-maker levels.

REANNZ offices will be sited in Wellington, co-located with the Victoria University Pipitea Campus.

An operating budget of \$1.6 million has been approved and it is intended that the staffing will be managed within that amount.

## 4. COMPANY OBJECTIVES AND RESPONSIBILITIES

### 4.1. *Company Objectives*

1. To operate in a financially sustainable manner, including managing foreseeable upgrades and increases in network capacity through accumulation of reserves. The company is not obliged to pay a dividend to the Crown as it is excluded from the provisions of Section 165 of the Crown Entities Act (CEA).
2. To deliver against the objectives for the Advanced Network:
  - To enable leading edge e-research
  - To facilitate universal connectivity throughout the New Zealand and international research and education community
  - To encourage broad participation by the research and education sector in New Zealand through accessible technology and reasonable pricing
  - To connect research and education sector to the broader innovation community for pre-commercial, research and development-based collaboration.
  - To facilitate participation by multiple telecommunications sector partners, so as to ensure the greatest possible flexibility for on-going evolution
3. To plan the transfer the Crown's share in the company to members, such as Tertiary Education Institutes and Crown Research Institutes, within 4 years.

### 4.2. *Operational Responsibilities*

The company has the following operational responsibilities:

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- Consultation with users on strategic development of the network
- Maintenance of a network development plan and a network use policy (Network Access Policy)
- Approval of applications for network connections and participation of members, associates, or partners.
- Review and setting of tariffs in consultation with members
- Setting of standards and protocols for use in the operation of the network
- Management of relationships with overseas National Research and Education Networks
- Provision of capability building to enhance network use.

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).

The establishment and effective use of the Advanced Network will contribute directly to the Crown's goal of growing an inclusive economy for the benefit of all. This will deliver higher living standards for New Zealanders. Science and technology have a key role to play in producing such improvements.

Information Technology is changing modern science and technology by enabling researchers to capture and distribute huge volumes of data and by facilitating enhanced interactive collaboration. The arts, humanities and law are also embracing these advances – it is important to see this project as providing a new multidisciplinary tool (not just for the sciences and engineering).

### **4.3. High level result**

The high-level result that the Advanced Network will contribute to is:

***“Maximising the benefits from new education and research opportunities for New Zealand, and enhanced participation in worldwide research.”***

### **4.4. Advanced Network Objectives**

The agreed objectives for the Advanced Network are:

- To enable leading edge e-research

*The rate of progress across many fields of modern research is being determined by the availability of new high-bandwidth communications*

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*infrastructure and the tools resulting from work done using this infrastructure. As new network technology evolves, research potential increases.*

- To facilitate universal connectivity throughout the New Zealand and international research and education community

*Universal connectivity implies that any member of the New Zealand Advanced Network will be able to connect with any other or with any collaborator on any of the international partner networks around the world.*

- To encourage broad participation by the research and education sector in New Zealand through accessible technology and reasonable pricing

*The value to all members of universal connectivity increases as more members join. Participation will need to be promoted through arrangements that reduce barriers to access – for example, subsidising the costs of connecting remote members, as these are greater than for members located near existing fibre infrastructure.*

- To connect the research and education sector to the broader innovation community for pre-commercial, research and development-based collaboration.

*This would be achieved through the ability of the Advanced Network to facilitate connections between research and education members and the broader innovation sector which includes private sector firms and regional interests.*

- To facilitate participation by multiple telecommunications sector partners, so as to ensure the greatest possible flexibility for on-going evolution

*The ability of the Advanced Network to have non-exclusive arrangements with suppliers, as necessary, will enable it to interact flexibly and effectively with its members. This may include the network's freedom to determine its pricing models, interconnectivity issues and shared access arrangements, and generally to ensure its operations do not preclude the entrance of new players in the area of infrastructure build.*

In addition to the above, the network needs to be implemented to schedule and to the designed performance standards.

### **4.5. Key Result Areas**

REANNZ will contribute to achieving the following Crown objectives:

#### **4.5.1. Advanced Network promoting emerging industries**

The network will be a vehicle for promoting the transfer of skills, techniques and technologies to wider sectors. Enhanced teaching and learning opportunities will emerge from the use of this new tool and innovative developments will be tested more efficiently, in turn, leading to more commercialisation opportunities.

#### **4.5.2. Professional development**

Capability building is critical to ensure a growing core of skilled users who have the technical skills and the international relationships to make best use of the network. The network, combined with skilled users, will improve New Zealand institutions ability to attract researchers and educationalists from overseas. This enhanced international cross fertilisation process becomes an important element in the overall virtuous cycle associated with the network. The company will be managing several initiatives aimed at capability building.

#### **4.5.3. Embracing Schools**

Collaboration and e-research opportunities developed in the research and tertiary education sectors will not be sustainable if the coming generations of researchers and educators are not also supported. The physical network, and the associated capability to use it, will be made available to schools to the greatest extent possible. This will involve activities such as the development of access aggregation techniques to keep costs to schools to a minimum, and the creation and dissemination of user support material. The customer support activities will be especially valuable in this regard.

## **5. BUSINESS PLANNING**

REANNZ's Business Planning covers two streams of activity: planning for the design and implementation of the Advanced Network; and the establishment of the substantive REANNZ organisation and execution of its business plan.

### **5.1. *Developing the capacity of REANNZ***

The key milestones for ensuring the ability of REANNZ to carry out its core business are:

- To appoint a chief executive officer and other key personnel for REANNZ
- To create the business and network capabilities for operations to be commenced on time and to specification
- To develop user capability; that is, the skills and willingness of users to employ the network effectively, and at an acceptable rate.

### **5.2. *Implementing the Advanced Network***

This phase of work is expected to continue until about the end of 2008/09 as members sign up, user uptake is established, and international capacity is developed.

The critical requirements for establishing and delivering the service in the establishment phase of 2006 -2007 are:

- Selected vendors delivering their contracted components of the network
- Setting appropriate tariffs for associates, partners and schools

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- Capability Building in the user community.

To support this, the following milestones have been identified:

- Delivery of workshops that promote project awareness plus initiation of early exemplar uses and development of institutional preparedness for the network with potential users
- Development of support material to assist institutions to connect and to take advantage of the Advanced Network.

Strategic planning and accountability requirements as set out in the Crown Entities Act 2004 will be complied with and implemented as from 1 July 2006.

### **5.3. *Transferring ownership of the Advanced Network***

REANNZ is expected to have developed the Advanced Network into a financially sustainable service by 2009 such that direct operating costs and the costs of organic growth can be met from its subscription income base.

By 2009, based on the projected user base, the network is forecast to meet its operating and capital requirements from its user income and retained earnings. In a similar timeframe, and in accordance with the Crown's objectives, it is expected that the company to be transferred to the ownership of users.

REANNZ will prepare a report on the financial sustainability of the Advanced Network to the Crown by 30 September 2007.

### **5.4. *Customer Services***

Customer Services include information services, training, awareness activities including workshops, documentation, liaison with the REANNZ community and public relations.

Customer Services is responsible for the member support functions of the company. This includes customer service, information services, training, awareness activities including workshops, documentation, liaison with the REANNZ community and public relations.

The activity covers four main areas: Conference Support, Customer Service, Information Services and Training.

#### **5.4.1. Conference Support**

REANNZ intends to hold at least one annual residential workshop for the REANNZ community: It will also organise a number of one-day throughout the year, as the need arises. REANNZ will also collaborate with other organisations in organising events.

REANNZ will be responsible for all aspects of these events from selection and negotiation of the venues through delegate registration and on-the-day management to post event review and invoicing.

#### **5.4.2. Customer Service**

The REANNZ Customer Service group is the main point of contact for all enquiries regarding the Advanced Network. They will handle a range of incoming queries as well as dealing with Advanced Network connections and registration of customers, liaising mainly with an organisation's computer (Information Technology) support department and Internet Service Providers.

The Customer Service area will handle incoming requests and queries from a multitude of sources including technical queries from an organisation's computer support department. They will have access to technical expertise both within REANNZ and throughout the member community to help them provide the appropriate response.

#### **5.4.3. Information Services**

The group will also manage the REANNZ web servers and is responsible for REANNZ's publications.

The external web servers hold information about REANNZ, REANNZ services, and current developments. The group will work with the other groups within REANNZ to ensure the material remains accurate and up-to-date.

REANNZ's publications will include a wide variety of material ranging from regular issues of REANNZ News, the Annual Report; to advertising brochures and pamphlets, support documentation (Advanced Network Operations Handbook, Fact sheets, service documentation, Guidance Notes) and detailed technical information (project reports, Technical Guides). The majority of these will be published in both paper and electronic form.

#### **5.4.4. Training**

REANNZ Customer Services is also to be responsible for the development and delivery of external training courses for the REANNZ community. REANNZ courses will provide education and training for staff in organisations connected to the Advanced Network who are running, managing or supporting networks and network services. A number of standard courses on various aspects of networking are planned at intervals throughout the year, at different locations in New Zealand. Bespoke courses can also be arranged on demand to meet particular requirements.

### **5.5. *Technical Refresh Process***

Any Advanced Network, no matter how sophisticated, will eventually become an otherwise standard network. An example is the current commodity Internet; when it started, it enabled groups of researchers to collaborate more effectively than was previously possible, and new protocols such as Internet Protocol (IP) and Transmission Control Protocol (TCP) were developed and implemented to facilitate these outcomes. This network has obviously exploded in size and the variety of application it supports, whilst still retaining the key Transmission Control Protocol / Internet Protocol protocols. It has become a ubiquitous network, complex in parts but no longer advanced.

It is vital, therefore, to undertake a programme of technology and capability refresh, in order to keep the Advanced Network advanced. This refresh will require close liaison with overseas networks, as we have to continue to be able to interconnect to them, and

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an understanding of where networking technologies, and, equally importantly, where sensor and computing technologies are heading. Some refresh will be achievable through the normal technology lifecycle management that the company will undertake. Other refresh activity however, may require significant intervention by Government and/or other partners, as large scale change-out of capability is required, and which is otherwise beyond the ability of the users to fund.

### **5.6. Extending to Schools**

#### **5.6.1. Strategy**

A key element of the strategy is to allow schools to use their existing commodity internet connections to the greatest extent possible, then to aggregate that traffic up and present the Advanced Network with a connection which is effectively from a community of schools.

It is also appropriate to keep the choice of connectivity provider (or Internet Service Provider) as open as possible, to allow the schools any benefit of contestable supply.

This sits well alongside the existing concepts that the network is physically able to and will connect with any last mile access provider; the key is the establishment and maintenance of appropriate logical relationships between collaborators and their various sets of equipment, e.g. sensors and computers.

#### **5.6.2. Funding**

Given what the Company understands to be the current demands upon school operational budgets, and the need to have some consistency of approach in order to minimise costs, it is sensible to consider the central funding of Advanced Network connectivity. To this end, the Company will work with the Ministry of Education to determine what may be possible in this regard.

It is also appropriate that funding be made available for capability build within schools, just as it is necessary elsewhere. Without the capability build funding, it will be beyond the ability of most schools to make effective use of the Advanced Network, and to develop the long term skills within their students that will ensure the ongoing benefits the Advanced Network can offer.

Existing funding streams such as the e-Capability Development Fund and the Innovation and Development Fund are also being approached

#### **5.6.3. Implementation**

This could be achievable through the use of Virtual Private Network technology, and would provide acceptable security without incurring unnecessary additional costs.

## 6. STAKEHOLDERS

Key stakeholders groups are:

### 6.1. *The Crown*

- The shareholders of REANNZ are the Minister of Research Science and Technology, and the Minister of Finance.
- The Crown Company Monitoring Advisory Unit and the Treasury provide ownership monitoring and advice to shareholding Ministers
- MoRST and Treasury participate in policy development and outcome monitoring.

### 6.2. *Government Departments and Agencies*

For related research and education policy development and/or use of the network as potential Associates and Partners including:

- Ministry of Research, Science and Technology
- Ministry of Education
- Ministry of Health
- Ministry of Justice
- National Library
- Ministry of Economic Development
- Statistics New Zealand
- Transit New Zealand
- Land Information New Zealand

### 6.3. *Users*

- Members
- Associate Members
- Partners

### 6.4. *Other Groups*

The institutions and communities with which it connects determine REANNZ activities. In order that resources are directed to activities that are most valued there will be ongoing liaison with at least the following New Zealand based stakeholders:

- New Zealand Vice Chancellors Committee Standing Committee on Information Technology

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- Crown Research Institutes Information Technology committee
- Royal Society of New Zealand
- Next Generation Internet New Zealand Society
- Foundation for Research Science and Technology
- Health Research Council
- Tertiary Education Commission
- Education Sector Information and Communications Technology Interagency Forum

Over time it is anticipated that additional groups will become apparent and some will fall away as different needs are being met.

As part of its communications plan REANNZ will develop and maintain a website which will provide access to various resources related to the network and news about working groups and network activities.

## 7. OVERVIEW AND ENVIRONMENT

### 7.1. *Overview*

The new network is focussed on working with and being responsive to the needs of the research and education sectors. While these groups have been without a specialised or dedicated networking facility for over 10 years it does not mean that the network will encourage institutions to “steer by their wake” by offering a form of enhanced substitution of existing telecommunications facilities. The real value will be from encouraging the partnerships and developments in Information and Communications Technology that will allow new ways of teaching, learning, and inquiring to be adopted.

### 7.2. *Target membership, characteristics and needs*

The Network Access Policy defines three classes of membership for the Advanced Network:

#### 7.2.1. **Members**

- Any Tertiary Education Institution as defined in Section 162 of the Education Amendment Act 1989;
- Any Crown Research Institute as defined in the Crown Research Institutes Act 1992;
- National Library;
- Any subsidiary of those Members. A subsidiary for this purpose includes a subsidiary as defined in the Companies Act 1993; and a company in which the Member, or the combined interests of Members, holds 50% or more of the issued shares; and an entity (e.g. an unincorporated joint venture) in which the interest of the Member, or the combined interests of Members, is

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substantially similar in nature to such a subsidiary or company, as defined above.

### 7.2.2. Associates:

As approved by REANNZ:

- Organisations solely or principally undertaking or providing education services (e.g. schools, groups of schools, or other education providers);
- Organisations solely or principally undertaking or providing research services;
- Any library, archive or museum.

### 7.2.3. Partners:

(a) Research and Education Partners

- Organisations (other than Members and Associates), as approved by REANNZ, for purposes that are substantially or materially related to the following purposes:
  - provision of education, training or teaching;
  - conduct or co-ordination of research;
  - administration of those activities;
  - provision of support or ancillary services to entities or persons engaging in those activities

Without limiting which organisations can be Partners, examples include:

- Government departments and other public sector agencies;
- Companies, partnerships and joint ventures formed to engage in research or education;
- Entities engaged in research, or education collaboration partnerships;
- Contractors or agents of Members or Associates;
- Any local or overseas research or education network approved by REANNZ;
- Application Service Providers;
- Hospitals

(b) Technology Partners

- Any supplier organisation engaged in trials or pilots with REANNZ.

### 7.3. ***The ‘member’, ‘associate member’ distinction***

Members are the group who will have most influence over the direction of the Advanced Network.

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Tertiary Education Institutes and Crown Research Institutes have always been seen both as the main users of the Advanced Network, and as the potential owners of REANNZ. The National Library has been included as a potential full member because it plays critical roles in both the research (e.g. through the national research database) and education sectors (e.g. through the New Zealand National Library bibliography).

Associate members of the Advanced Network are likely to be distinguished from members, because they will be less intensive users, and because they will not be expected to take an ownership stake in REANNZ.

These differences suggest three further possible distinctions between members and associate members:

- Members will, in general, pay higher membership fees to reflect expected higher usage.
- Members will be included, as of right, in the consultation processes REANNZ is required to run with users on strategic issues and network development. Associate members would only be involved by individual invitation.
- Members will be entitled to apply for capability building (professional skill development) funding once policy and process had been finalised

## 8. SERVICE OFFERING AND NETWORK ACCESS POLICY

### 8.1. *Service Offering*

A full range of IP<sup>1</sup> protocols is being supported, including:

- The primary transport protocol of Ethernet (IEEE<sup>2</sup> 802.11) with Ethernet over fibre the preferred transmission medium.
- All services will be IP based and be IPv4, IPv6, Jumbo Frame, and IP Multicast capable.
- The backbone network speed will be a minimum of 10 Gb/s.
- The minimum access speed will be 100Mb/s with the preferred speed being 1 Gb/s. 10 Gb/s access speeds shall also be supported.
- Point to Point, managed 10 Gb/s Wavelengths between POP's/AAPs. There shall be no layer 2 or 3 functions operating between the optical interfaces in the POP (including AAP) sites. The point-to-point services will not be supplied via any layer 2 switching or layer 3 routing equipment now or in the future. As such, the latency on each point-to-point connection will be predictable.

The Network Management services being obtained are:

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<sup>1</sup> Internet Protocol

<sup>2</sup> Institute of Electrical and Electronic Engineers

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- ensuring that the Core Network operates efficiently;
- ensuring that the Service Levels can be met or exceeded; and
- minimising of path latency.

In order to deliver the Network Management Services TelstraClear is also performing the following high level tasks:

- Provide REANNZ with the appropriate Private Internet Protocol connections to deliver the Data Collection Network.
- Provide REANNZ with the required Management switches and routers on each site.
- Provide planning and design services to deliver the Network Management Service solution.
- Prepare a High Level and Detailed Network Management Services Design Document.
- Provide the initial, and manage the ongoing, operational configuration of the Management Data Collection Network and the associated equipment.

A key concept relating to national network Service Delivery and Service Levels is that “The Contractor shall provide the Services in accordance with Contractor Standard Practice”. “Contractor Standard Practice” means the practices, processes, procedures, standards, and levels of service generally provided from time to time by the Contractor to its major business and government customers that procure business critical telecommunications, information technology, and service management services from the Contractor;

This will effectively deliver a higher level of service to REANNZ and network users than would otherwise have been the case for an Advanced Network. It is against this background that service levels have not been exhaustively defined, and non-performance is escalated through the Governance Process, backed up by Audit and Performance Notice (leading to possible Termination) rights.

Access to the Advanced Network will allow users to:

- participate in leading-edge research, education and innovation initiatives; and
- explore new applications for such advanced networks

### **8.2. Network Access Policy**

Use of the Advanced Network by Partners is limited to the purposes stated in Paragraph 7.2.3 above except that any Partner-to-Partner traffic must be solely or principally related to those purposes. Use by Members and Associates is unlimited. Use by all Members, Associates and Partners is also subject to the terms of their Access Agreements which will include an Acceptable Use Policy.

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Advanced Network Members, Associates and Partners are not permitted to re-sell Advanced Network services.

The Advanced Network is not to be used to support transit traffic between commercial networks.

When connecting with other networks via the Advanced Network, Members, Associates and Partners of the Advanced Network shall not breach (or cause REANNZ to breach):

- any terms in agreements between REANNZ and those other networks;
- any policy that is similar to this policy (generally, those policies are published on the other networks' websites)

***All organisations connecting to the New Zealand Advanced Network will maintain a link to the commodity Internet.***

## 9. FORECAST FINANCIAL AND SERVICE PERFORMANCE – 2006/07

Because of the differences between the GAAP<sup>3</sup> and Management Accounting views of the REANNZ performance both have been presented. There is no cash difference between these views.

### 9.1. Financial Performance – GAAP View

Revenue Statement						
NZ\$'000		EST	EST	EST	EST	EST
		Jun-06	Jun-07	Jun-08	Jun-09	Jun-10
	Note:					
Users	1	-	2,742	5,023	5,309	5,309
Growth and Innovation Framework	2	19,606	7,804	1,182	-	8,466
Additional Income		-	-	-	-	-
<b>Revenue</b>		<b>19,606</b>	<b>10,547</b>	<b>6,205</b>	<b>5,309</b>	<b>13,775</b>
Domestic	3	- 215	-1,199	-1,230	-1,230	-1,230
International	4	-	-2,238	-2,266	-2,290	-2,290

<sup>3</sup> Generally Accepted Accounting Principles

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Operating		-1,865	-1,661	-1,724	-1,789	-1,857
Depreciation			- 4,839	-6,609	-6,609	-6,337
<b>Earnings Before Interest and Tax</b>		<b>17,526</b>	<b>610</b>	<b>-5,624</b>	<b>-6,609</b>	<b>2,061</b>
Interest		70	32	1	2	2
<b>Net Profit</b>		<b>17,596</b>	<b>642</b>	<b>-5,622</b>	<b>-6,607</b>	<b>2,064</b>

<b>Reconciliation of Growth and Innovation Framework and Tertiary Education Commission funds</b>						
<b>NZ\$'000</b>		<b>EST</b>	<b>EST</b>	<b>EST</b>	<b>EST</b>	<b>EST</b>
		<b>Jun-06</b>	<b>Jun-07</b>	<b>Jun-08</b>	<b>Jun-09</b>	<b>Jun-10</b>
Growth and Innovation Framework contingency		36,444				
Tertiary Education Commission Infrastructure Development Fund Grant		7,376				
Opening Balance		43,820	22,993	13,968	11,565	10,344
<b>Utilised by REANNZ</b>		-19,606	-7,804	-1,182	-	-8,466
Draw down to capability build		-1,221	-1,221	-1,221	-1,221	
<b>Carry forward</b>		<b>22,993</b>	<b>13,968</b>	<b>11,565</b>	<b>10,344</b>	<b>1,877</b>
<b>Accumulative funding requirements net of Capability Build</b>					<b>28,592</b>	

<b>Balance Sheet</b>						
<b>NZ\$'000</b>		<b>EST</b>	<b>EST</b>	<b>EST</b>	<b>EST</b>	<b>EST</b>
		<b>Jun-06</b>	<b>Jun-07</b>	<b>Jun-08</b>	<b>Jun-09</b>	<b>Jun-10</b>
Cash		8,546	45	59	69	82
Accounts Receivable		-	-	-	-	-
Term Assets	<b>5</b>	15,953	18,676	13,046	6,438	8,495
<b>Assets</b>		<b>24,499</b>	<b>18,721</b>	<b>13,106</b>	<b>6,507</b>	<b>8,577</b>

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Trade Creditors and Goods and Services Tax		-231	-482	-489	-498	-504
Capital Expenditure Creditors		-6,672	-			
Unearned Growth and Innovation Framework funds						
<b>Equity</b>		<b>17,596</b>	<b>18,238</b>	<b>12,616</b>	<b>6,009</b>	<b>8,073</b>

<b>Cashflow</b>						
<b>NZ\$'000</b>		<b>EST</b>	<b>EST</b>	<b>EST</b>	<b>EST</b>	<b>EST</b>
	<b>Note</b>	<b>Jun-06</b>	<b>Jun-07</b>	<b>Jun-08</b>	<b>Jun-09</b>	<b>Jun-10</b>
Receipts from users		-	2,742	5,023	5,309	5,309
Receipts from Growth and Innovation Framework		19,606	7,804	1,182	-	8,466
Receipt of interest		70	32	1	2	2
Additional receipts		-	-	-	-	-
<b>TOTAL</b>		<b>19,677</b>	<b>10,579</b>	<b>6,206</b>	<b>5,311</b>	<b>13,777</b>
Payments to suppliers		-1,850	-4,846	-5,213	-5,301	-5,371
<b>Operating cashflow</b>		<b>17,827</b>	<b>5,733</b>	<b>993</b>	<b>10</b>	<b>8,407</b>
Capital Expenditure	<b>5</b>	-9,282	-14,233	-979	-	-8,394
<b>Net cash movement</b>		<b>8,546</b>	<b>-8,500</b>	<b>14</b>	<b>10</b>	<b>13</b>
Net Profit		17,596	642	-5,622	-6,607	2,064
Depreciation		-	4,839	6,609	6,609	6,337
Movement in Accounts Receivable		-	-	-	-	-
Movement in Liabilities		231	252	7	8	6
Movement in Unearned Income						
<b>Operating cashflow</b>		<b>17,827</b>	<b>5,733</b>	<b>993</b>	<b>10</b>	<b>8,407</b>

## REANNZ 2006/07 Statement of Intent

Note 1	User revenue					
	NZ\$'000	EST Jun-06	EST Jun-07	EST Jun-08	EST Jun-09	EST Jun-10
	Universities	-	1,940	2,586	2,586	2,586
	Tertiary Education Institutions	-	104	1,066	1,352	1,352
	Crown Research Institutes	-	635	1,242	1,242	1,242
	Associates	-	-	-	-	-
	National Library /Other	-	64	128	128	128
	Commercial net recoup	-	-	-	-	-
		-	<b>2,742</b>	<b>5,023</b>	<b>5,309</b>	<b>5,309</b>

Note 2	Growth and Innovation Framework income					
	NZ\$'000	EST Jun-06	EST Jun-07	EST Jun-08	EST Jun-09	EST Jun-10
	Opening Balance		-	-	-	-
	Draw down	19,606	7,804	1,182	-	8,466
	<i>Utilised (to profit and Loss)</i>	<b>-19,606</b>	<b>-7,804</b>	<b>-1,182</b>	-	<b>- 8,466</b>
	<b>Carry forward</b>		-	-	-	-

Note 3	Domestic expenditure					
	NZ\$'000	EST Jun-06	EST Jun-07	EST Jun-08	EST Jun-09	EST Jun-10
	POPs Run	-	46	50	50	50
	POPs Accommodation	-	293	320	320	320
	Common Platforms	215	860	860	860	860
		<b>215</b>	<b>1,199</b>	<b>1,230</b>	<b>1,230</b>	<b>1,230</b>

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<b>Note 4</b>	<b>International expenditure</b>					
	<b>NZ\$'000</b>	<b>EST Jun-06</b>	<b>EST Jun-07</b>	<b>EST Jun-08</b>	<b>EST Jun-09</b>	<b>EST Jun-10</b>
	Verizon Business monthly lease	-	2,238	2,266	2,290	2,290
		-	<b>2,238</b>	<b>2,266</b>	<b>2,290</b>	<b>2,290</b>

<b>Note 5</b>	<b>Fixed Assets</b>					
	<b>NZ\$'000</b>	<b>EST Jun-06</b>	<b>EST Jun-07</b>	<b>EST Jun-08</b>	<b>EST Jun-09</b>	<b>EST Jun-10</b>
	<b>Opening Balance</b>					
	Common Platforms		-	-	-	-
	National	10,133	17,694	18,673	18,673	27,067
	International	5,820	5,820	5,820	5,820	5,820
		<b>15,953</b>	<b>23,515</b>	<b>24,494</b>	<b>24,494</b>	<b>32,888</b>
	<b>Additions</b>					
	Common Platforms	-	-	-	-	-
	POPs Connectivity etc	9,703	7,121	979	-	8,394
	POPs Accommodation (includes Regional)	430	440	-	-	-
	Technology Fund		-	-	-	-
	POPs Accommodation set up		-	-	-	-
	National	<b>10,133</b>	<b>7,561</b>	<b>979</b>	-	<b>8,394</b>
	Network and Operations management		-	-	-	-
	Verizon Business	5,820	-	-	-	-
		<b>15,953</b>	<b>7,561</b>	<b>979</b>	-	<b>8,394</b>
	<b>Accumulated Depreciation</b>	-	-	-	-	-
	Common Platforms 5 years	-	-2,899	-7,567	-12,236	-18,573
	National 4 years	-	-1,940	-3,880	-5,820	-5,820

## REANNZ 2006/07 Statement of Intent

International	3 years	-	-4,839	-11,448	-18,056	-24,393
<b>Net Book Value</b>						
Common Platforms		-	-	-	-	-
National		10,133	14,795	11,106	6,438	8,495
International		5,820	3,880	1,940	-	-
		<b>15,953</b>	<b>18,676</b>	<b>13,046</b>	<b>6,438</b>	<b>8,495</b>

### 9.2. Financial Performance – Management Accounting View

Revenue Statement						
NZ\$'000		EST	EST	EST	EST	EST
		Jun-06	Jun-07	Jun-08	Jun-09	Jun-10
	Note:					
Users	1	-	2,742	5,023	5,309	5,309
Growth and Innovation Framework	2	2,010	7,162	6,804	6,607	6,403
Additional Income		-	-	-	-	-
<b>Revenue</b>		<b>2,010</b>	<b>9,905</b>	<b>11,827</b>	<b>11,916</b>	<b>11,712</b>
Domestic	3	-215	-1,199	-1,230	-1,230	-1,230
International	4	-	-2,238	-2,266	-2,290	-2,290
Operating		-1,865	-1,661	-1,724	-1,789	-1,857
Depreciation		-	-4,839	-6,609	-6,609	-6,337
<b>Earnings Before Interest and Tax</b>		<b>-70</b>	<b>-32</b>	<b>-1</b>	<b>-2</b>	<b>-2</b>
Interest		70	32	1	2	2
<b>Net Profit</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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<b>Reconciliation of Growth and Innovation Framework and Tertiary Education Commission funds</b>						
<b>NZ\$'000</b>		<b>EST</b>	<b>EST</b>	<b>EST</b>	<b>EST</b>	<b>EST</b>
		<b>Jun-06</b>	<b>Jun-07</b>	<b>Jun-08</b>	<b>Jun-09</b>	<b>Jun-10</b>
Growth and Innovation Framework contingency		36,444				
Tertiary Education Commission Infrastructure Development Fund Grant		7,376				
Opening Balance		43,820	22,993	13,968	11,565	10,344
<b>Utilised by REANNZ</b>		-19,606	-7,804	-1,182	-	-8,466
Draw down to capability build		-1,221	-1,221	-1,221	-1,221	
<b>Carry forward</b>		<b>22,993</b>	<b>13,968</b>	<b>11,565</b>	<b>10,344</b>	<b>1,877</b>
<b>Accumulative funding requirements net of Capability Build</b>					<b>28,592</b>	

<b>Balance Sheet</b>						
<b>NZ\$'000</b>		<b>EST</b>	<b>EST</b>	<b>EST</b>	<b>EST</b>	<b>EST</b>
		<b>Jun-06</b>	<b>Jun-07</b>	<b>Jun-08</b>	<b>Jun-09</b>	<b>Jun-10</b>
Cash		8,546	45	59	69	82
Accounts Receivable		-	-	-	-	-
Term Assets	<b>5</b>	15,953	18,676	13,046	6,438	8,495
<b>Assets</b>		<b>24,499</b>	<b>18,721</b>	<b>13,106</b>	<b>6,507</b>	<b>8,577</b>
Trade Creditors and Goods and Services Tax		-231	-482	-489	-498	-504
Capital Expenditure Creditors		-6,672	-			
Unearned Growth and Innovation Framework funds		-17,596	-18,238	-12,616	-6,009	-8,073
<b>Equity</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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<b>Cashflow</b>						
<b>NZ\$'000</b>		<b>EST</b>	<b>EST</b>	<b>EST</b>	<b>EST</b>	<b>EST</b>
	<b>Note</b>	<b>Jun-06</b>	<b>Jun-07</b>	<b>Jun-08</b>	<b>Jun-09</b>	<b>Jun-10</b>
Receipts from users		-	2,742	5,023	5,309	5,309
Receipts from Growth and Innovation Framework		19,606	7,804	1,182	-	8,466
Receipt of interest		70	32	1	2	2
Additional receipts		-	-	-	-	-
<b>TOTAL</b>		<b>19,677</b>	<b>10,579</b>	<b>6,206</b>	<b>5,311</b>	<b>13,777</b>
Payments to suppliers		-1,850	-4,846	-5,213	-5,301	-5,371
<b>Operating cashflow</b>		<b>17,827</b>	<b>5,733</b>	<b>993</b>	<b>10</b>	<b>8,407</b>
Capital Expenditure	<b>5</b>	-9,282	-14,233	-979	-	-8,394
<b>Net cash movement</b>		<b>8,546</b>	<b>-8,500</b>	<b>14</b>	<b>10</b>	<b>13</b>
Net Profit		0	0	0	0	0
Depreciation		-	4,839	6,609	6,609	6,337
Movement in Accounts Receivable		-	-	-	-	-
Movement in Liabilities		231	252	7	8	6
Movement in Unearned Income		17,596	642	-5,622	- 6,607	2,064
<b>Operating cashflow</b>		<b>17,827</b>	<b>5,733</b>	<b>993</b>	<b>10</b>	<b>8,407</b>

<b>Note 1</b>	<b>User revenue</b>					
	<b>NZ\$'000</b>	<b>EST Jun-06</b>	<b>EST Jun-07</b>	<b>EST Jun-08</b>	<b>EST Jun-09</b>	<b>EST Jun-10</b>
	Universities	-	1,940	2,586	2,586	2,586
	Tertiary Education Institutions	-	104	1,066	1,352	1,352

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	Crown Research Institutes	-	635	1,242	1,242	1,242
	Associates	-	-	-	-	-
	National Library /Other	-	64	128	128	128
	Commercial net recoup	-	-	-	-	-
		-	<b>2,742</b>	<b>5,023</b>	<b>5,309</b>	<b>5,309</b>

Note 2	Growth and Innovation Framework income					
	NZ\$'000	EST Jun-06	EST Jun-07	EST Jun-08	EST Jun-09	EST Jun-10
	Opening Balance		-	-	-	-
	Draw down	19,606	7,804	1,182	-	8,466
	<i>Utilised (to profit and Loss)</i>	-2,010	-7,162	-6,804	-6,607	-6,403
	<b>Carry forward</b>	<b>17,596</b>	<b>18,238</b>	<b>12,616</b>	<b>6,009</b>	<b>8,073</b>

Note 3	Domestic expenditure					
	NZ\$'000	EST Jun-06	EST Jun-07	EST Jun-08	EST Jun-09	EST Jun-10
	POPs Run	-	46	50	50	50
	POPs Accommodation	-	293	320	320	320
	Common Platforms	215	860	860	860	860
		<b>215</b>	<b>1,199</b>	<b>1,230</b>	<b>1,230</b>	<b>1,230</b>

Note 4	International expenditure					
	NZ\$'000	EST Jun-06	EST Jun-07	EST Jun-08	EST Jun-09	EST Jun-10
	Verizon Business monthly lease	-	2,238	2,266	2,290	2,290
		-	<b>2,238</b>	<b>2,266</b>	<b>2,290</b>	<b>2,290</b>

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<b>Note 5</b>	<b>Fixed Assets</b>					
	<b>NZ\$'000</b>	<b>EST Jun-06</b>	<b>EST Jun-07</b>	<b>EST Jun-08</b>	<b>EST Jun-09</b>	<b>EST Jun-10</b>
	<b>Opening Balance</b>					
	Common Platforms		-	-	-	-
	National	10,133	17,694	18,673	18,673	27,067
	International	5,820	5,820	5,820	5,820	5,820
		<b>15,953</b>	<b>23,515</b>	<b>24,494</b>	<b>24,494</b>	<b>32,888</b>
	<b>Additions</b>					
	Common Platforms	-	-	-	-	-
	POPs Connectivity etc	9,703	7,121	979	-	8,394
	POPs Accommodation (includes Regional)	430	440	-	-	-
	Technology Fund		-	-	-	-
	POPs Accommodation set up		-	-	-	-
	National	<b>10,133</b>	<b>7,561</b>	<b>979</b>	-	<b>8,394</b>
	Network and Operations management		-	-	-	-
	Verizon Business	5,820	-	-	-	-
		<b>15,953</b>	<b>7,561</b>	<b>979</b>	-	<b>8,394</b>
	<b>Accumulated Depreciation</b>	-	-	-	-	-
	Common Platforms	5 years	-	-2,899	-7,567	-12,236
	National	4 years	-	-1,940	-3,880	-5,820
	International	3 years	-	<b>-4,839</b>	<b>-11,448</b>	<b>-18,056</b>
	<b>Net Book Value</b>					
	Common Platforms		-	-	-	-
	National		10,133	14,795	11,106	6,438
	International		5,820	3,880	1,940	-

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		15,953	18,676	13,046	6,438	8,495
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**9.3. REANNZ reconciliation between Financial Statements and Management Accounts**

The audited financial statements of REANNZ are prepared under International Accounting Standards and presented in accordance with Generally Accepted Accounting Principles.

The Board of Directors has determined that REANNZ meets the definition of a Public Benefit Entity, as the purpose of the Company has greater concern with public service provision than profit motive.

Generally, International Accounting Standards provide that where there is an enduring benefit on expenditure in excess of 12 months, the future benefit of that expenditure is deferred to the balance sheet as an asset. However, if the company is a Public Benefit Entity, International Accounting Standards requires the recognition of Government grants to income in full once conditions attaching to the grant are satisfied. This treatment creates a large profit in the initial years of asset construction with subsequent losses as the depreciation element of this expenditure is released to the Income Statement.

To avoid any potential confusion in relation to REANNZ's activities as a result of the required International Accounting Standards accounting treatment of Government grants, the Directors will present additional management accounts to users to illustrate the matching of revenue and expenditure over the period. As the grant received from the Crown has been provided to build, commission and initially subsidise the network until it reaches its user critical mass, this is considered a more realistic and transparent presentation of both financial position and performance.

Note - there is no cash flow difference between International Accounting Standards and Management Accounts.

**9.4. Statement of Forecast Service Performance**

Following the Shareholding Ministers approval of the necessary funding and their resolution that REANNZ can enter into the major and other transactions necessary to give effect to its mission it is now expected that REANNZ will deliver on the following performance measures and standards.

<b>Performance Measures</b>	<b>2005/06 Performance Standards</b>	<b>2006/07 Performance Standards</b>
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"> <li>▪ All compliance documentation prepared</li> <li>▪ Financial Audit completed successfully</li> </ul>

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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"> <li>▪ Practices documented and followed</li> <li>▪ All issues appropriately managed</li> </ul>
Supply contracts signed with key vendors	<ul style="list-style-type: none"> <li>▪ National network vendor contract with TelstraClear Limited</li> <li>▪ International Network vendor contract with Verizon Business</li> <li>▪ PoP accommodation providers contracts – various 100%</li> </ul>	<ul style="list-style-type: none"> <li>▪ Change control managed within contract guidelines</li> <li>▪ Successful network implementation</li> <li>▪ No unauthorised changes</li> </ul>
Membership Agreement finalised and signed	17 user institutions signed by June 2006	28 by June 2007 (financial budget model shows 17 Users by June 2007)
Training for Member staff	Network technical workshops – 3 conducted by June 2006	3 workshops 1 network event
Establish relationships with overseas National Research and Education Networks	Interconnection agreements and Memoranda of Understanding with the Australian Academic Research Network, Internet2 (Abilene), the Canadian Research Network , Asia Pacific Advanced Network	Attend key international National Research and Education Networks meetings e.g. Asia Pacific Advanced Network, Internet2 Fall and Spring, SC0X, QuestNet
Facilitate early use by exemplar applications	Network Proof of Concept initiated (project milestone)	Network for Earthquake Engineering Simulation,
Appointment of key staff	<ul style="list-style-type: none"> <li>▪ Chief Executive Officer appointed</li> <li>▪ Technical Manager appointed</li> <li>▪ 3 technical staff appointed</li> <li>▪ Research Support Manager appointed</li> </ul>	<ul style="list-style-type: none"> <li>▪ By July 2006 for Chief Executive Officer</li> <li>▪ By July 2006 for Technical Manager</li> <li>▪ 2 by July 2006, remaining position by October 2006</li> <li>▪ By August 2006 for Research Support Manager</li> </ul>

In subsequent years REANNZ will set targets and report against metrics relating to user uptake, technical performance of the network (e.g. availability, traffic levels, peer networks, sites connected), and key developments, relationships and applications using the network. The exact form of the non-financial metrics will be established when REANNZ completes work to confirm the relevance of particular metrics as proxies for measuring progress.

## 10. ACCOUNTING POLICIES

### 10.1. *Accounting policies*

The New Zealand Generally Accepted Accounting Principles recognised as appropriate for the measurement and reporting of results, cash flows and financial position under the historical cost method are followed in the preparation of financial statements. Accrual accounting is used to match expenses and revenue. Reliance is placed on the fact that REANNZ is a going concern. Appendix 1 outlines the particular accounting policies that have been adopted by REANNZ.

## 11. STATUTORY DISCLOSURES:

### 11.1. *Information to be disclosed:*

#### **Annual Report**

The Annual Report will be delivered to Shareholding Ministers within three months of the end of each financial year. It will report on the operations of the company during that financial year.

The report will include;

- A commentary on the performance for the period
- A description of advanced network highlights for the year
- An audited statement of financial performance, statement of financial position, statement of cash flows, and notes to the accounts (including accounting policies)
- The auditor's report on those financial statements
- A confirmation that REANNZ has complied with all statutory environmental obligations

#### **Quarterly Reports and Strategic Plan**

The Quarterly Reports will report financial performance for the quarter and year-to-date against budgets in the Strategic Plan, provide updated end of year forecasts, and provide a commentary on performance for the period. The commentary will focus on any material variances and how these will be addressed. The reports will comment on major achievements or milestones for the period and the outlook for the next period. Quarterly reports will continue to be submitted so long as they continue to be required by the Shareholding Ministers.

#### **Other information**

Consistent with the "no surprises" approach REANNZ will keep Shareholding Ministers informed on any issues and will advise them of any applications for connection to the Advanced Network which are declined by REANNZ.

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### **Compensation Sought**

Where the Government wishes REANNZ to undertake activities or assume obligations which result in reduction of REANNZ's financial performance, the Board will seek compensation to offset the impact of the requirement.

No requests for compensation are currently being considered.

## STATEMENT OF INTENT: Part Two

### APPENDIX 1: STATEMENT OF ACCOUNTING POLICY

#### **1.1. Reporting Entity**

The reporting entity to which these financial statements relate is the Research and Education Advanced Network New Zealand Limited (“REANNZ”). The principal activity of REANNZ is the establishment, ownership, and operation of a high-speed communications network for the research and education sector.

#### **1.2. Adoption of new and revised International Financial Reporting Standards**

REANNZ has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Standards Interpretations Committee (IFRIC) of the International Accounting Standards Board that are relevant to its operations. As the period to 30 June 2006 represents the initial trading period for REANNZ there are no changes in accounting policies to report.

For the purposes of International Financial Reporting Standards REANNZ is considered a Public Benefit Entity. Public Benefit Entities are defined as “Reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return for equity holders”. Where International Financial Reporting Standards treatment for Public Benefit Entities differs from commercial companies the former has been applied.

Any Forecast figures are provided as a best indication only as at the time of presentation and may differ from actual future performance. Forecast numbers are not subject to audit.

#### **1.3. Measurement basis**

The financial statements are prepared on the basis of historical cost with the exception of certain items for which accounting policies are stated below.

#### **1.4. Significant Accounting Policies**

##### **(i) Operating Revenue**

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Operating revenue shown in the statement of financial performance comprises amounts received and receivable by REANNZ for services supplied to members in the ordinary course of business.

### (ii) Government Grant Income

Government Grant Income is recorded to revenue once conditions attaching to the grant are satisfied.

### (iii) Fixed Assets

The cost of fixed assets includes the value of consideration given to acquire the assets and the value of other directly attributable costs, which have been incurred by REANNZ in bringing the assets to the location and condition necessary for their intended use.

### (iv) Depreciation

Depreciation is charged on a straight-line basis on fixed assets once in location and condition necessary for its intended use so as to write off the cost of fixed assets over their expected economic lives.

Major economic lives are:

- Leasehold improvements 10 years
- Routers & switches 5 years
- Information Technology Equipment and software 3 years

### (v) Prepayments

Prepayments are recorded where an enduring benefit on expenditure in excess of twelve months can be sustained. Prepayments are released to the revenue statement on a straight-line basis.

### (vi) Accounts Receivable

Accounts Receivable are stated at their estimated realizable value after providing against debts where collection is doubtful. An estimate of the value of doubtful debts is made based on a review of debts at year-end. Bad debts are written off in the period in which they are identified.

### (vii) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the tax payable for the year. Taxable profit may differ from profit as reported in the statement of financial performance due to timing or permanent differences in relation to the Income Tax Act.

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Deferred Tax liabilities are generally recognised for all temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary timing differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Based on preliminary advice to the directors (subject to verification), Growth and Information Framework & Tertiary Education Commission grant revenue is considered to be non-assessable income to the company. As tax deductible costs will exceed assessable revenue from users REANNZ does not expect to be in the position of having to pay corporate income tax. Prima facie a deferred tax asset will be created. It is however, presently considered unlikely that the deferred tax asset will be realised in future years. The carrying value of deferred tax is therefore recorded at a nil value.

### **(viii) Statement of Cash Flows**

Cash means coins and notes, demand deposits and other highly liquid investments in which REANNZ has invested as part of its day-to-day cash management.

Investing activities are those activities relating to the acquisition, holding and disposal of fixed assets and investments.

Financing activities are those activities that result in changes in the size and composition of the capital structure of REANNZ.

Operating activities include all other transactions and events.

### **(ix) Foreign Currency Transactions**

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

Foreign currency monetary assets and liabilities are translated at the rate applying at balance date.

Where foreign exchange risk at balance sheet is covered by forward contracts, the translation is carried out at the rate contained in the applicable contract.

### **(x) Research and Development**

Where incurred, research and development costs are expensed in the period in which they arise.

### **(xi) Goods and Services Tax**

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Items in the statements of financial performance and cash flows are disclosed net of Goods and Services Tax. All items in the Statement of Financial Position are stated net of Goods and Services Tax with the exception of Receivables and Payables, which include Goods and Services Tax invoiced.

### (xii) Financial Instruments

REANNZ is a party to financial instruments as part of its normal operations. Financial instruments carried in the Statement of Financial Position include cash and bank balances, short-term investments and accounts receivable. Such financial instruments are recognised in the Statement of Financial Position at net realizable value.

Financial instruments that are designated as hedges of specific items are recognised on the same basis as the underlying hedged item and recorded within the Statement of Financial Position. At the time that the future expense is incurred and recorded, the impact of the forward foreign exchange contracts is recycled from equity and recorded in the Statement of Financial Performance.

Financial instruments that do not constitute hedges are stated at market value and any resultant gain or loss recognised to the Statement of Financial Performance.

Forward exchange contracts entered into as hedges of foreign exchange assets and liabilities are valued at the exchange rate prevailing at year end. Any unrealized gains or losses are offset against foreign exchange gains or losses on the related asset or liability.

### (xiii) Impairment

Annually, the Directors assess the carrying value of each asset. Where the estimated recoverable amount of the asset is less than its carrying amount, the asset is written down. The impairment loss is recognised in the Statement of Financial Performance.

### (xiv) Changes in Accounting policies

There have been no changes in accounting policy in comparison to the previous period of operation.

## **1.5. Forward Cover for United States of America Denominated Transactions**

### **1.5.1. Background**

REANNZ obtained Ministerial approval to the transaction(s) from the Minister of Finance and the Minister of Research, Science and Technology. This was particularly in relation

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to a more attractive solution involving the New Zealand Debt management Office that was technically unavailable to REANNZ despite both parties effectively being the Crown.

For pricing, procedural and documentation simplicity the transaction was entered into with the New Zealand Debt management Office. As the transaction had the Crown on both sides the documentation burden, especially relating to creditworthiness of REANNZ, is considerably less (and therefore less time consuming) and the pricing can be independently verified or compared with that available from a registered bank.

### **1.5.2. Process for the transaction**

Once REANNZ received the Ministerial approval, the New Zealand Debt management Office acted to give effect to the forward transaction on the following basis:

- Agree the time of the transaction (priced on the hour)
- Agree the screen that will apply (Bloomberg – REANNZ can independently verify with a bank if it wishes)
- The spot rate will be 0.0002 off the mid point (rate the New Zealand Debt management Office uses)
- The forward points per Bloomberg Forward screen for each payment date

REANNZ could decide whether the New Zealand Debt management Office paid Verizon directly or REANNZ in a US\$ account. The latter maybe prudent if it is possible that commissioning dates slip.

REANNZ has been using Taylor Duignan Barry Limited to assist in this matter - they are able to provide REANNZ independent advice on the pricing.

## APPENDIX 3: NETWORK ACCESS POLICY

### ***Preamble***

The New Zealand Advanced Network is established to meet the specific needs of the research, education and innovation sectors for high speed collaborative networking both within New Zealand and internationally.

Access to the Advanced Network will allow users to:

- participate in leading-edge research, education and innovation initiatives; and
- explore new applications for such advanced networks

Research and Education Advanced Network New Zealand Limited (REANNZ) operates the Advanced Network. REANNZ is a Crown owned entity. Its ultimate shareholders are anticipated to be the New Zealand Tertiary Education Institutions, Crown Research Institutes, and the National Library.

The Policy applies to the core elements of the Advanced Network, i.e. between the network Points of Presence (PoPs). The access networks connecting user sites to an Advanced Network PoP are outside the scope of this Policy.

Users of the Advanced Network are recognised as Members, Associates or Partners. As of right, all New Zealand Tertiary Education Institutes, Crown Research Institutes and the National Library may be Members. Other organisations engaged in research or education may be Associates. Others in the research and education sectors may partner with a Member or Associate (or REANNZ itself) to obtain access to the Advanced Network for the relevant areas of their work.

### ***Members, Associates and Partners***

#### **1. Members**

- Any Tertiary Education Institution as defined in Section 162 of the Education Amendment Act 1989;
- Any Crown Research Institute as defined in the Crown Research Institutes Act 1992;
- National Library;
- Any subsidiary of those Members. A subsidiary for this purpose is:
  1. a subsidiary as defined in the Companies Act 1993
  2. a company in which the Member, or the combined interests of Members, holds 50% or more of the issued shares; or
  3. an entity (e.g. an unincorporated joint venture) in which the interest of the Member, or the combined interests of Members, is substantially similar in nature to such a subsidiary or company, as defined above.

#### **2. Associates**

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As approved by REANNZ:

- Organisations solely or principally undertaking or providing education services (e.g. schools, groups of schools, or other education providers);
- Organisations solely or principally undertaking or providing research services;
- Any library, archive or museum.

### 3. Partners

#### (a) Research and Education Partners

- Organisations (other than Members and Associates), as approved by REANNZ, for purposes that are substantially or materially related to the following purposes:
  - provision of education, training or teaching;
  - conduct or co-ordination of research;
  - administration of those activities;
  - provision of support or ancillary services to entities or persons engaging in those activities

Without limiting which organisations can be Partners, examples include:

- Government departments and other public sector agencies;
- Companies, partnerships and joint ventures formed to engage in research or education;
- Entities engaged in research, or education collaboration partnerships;
- Contractors or agents of Members or Associates;
- Any local or overseas research or education network approved by REANNZ;
- Application Service Providers;
- Hospitals

#### (b) Technology Partners

- Any supplier organisation engaged in trials or pilots with REANNZ.

### 4. Conditions of Use

Use of the Advanced Network by Partners is limited to the purposes stated in Para 3(a) above except that any Partner-to-Partner traffic must be solely or principally related to those purposes. Use by Members and Associates is unlimited. Use by all Members, Associates and Partners is also subject to the terms of their Access Agreements which will include an Acceptable Use Policy.

Advanced Network Members, Associates and Partners are not permitted to re-sell Advanced Network services.

The Advanced Network is not to be used to support transit traffic between commercial networks.

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### **5. Connection to other networks**

When connecting with other networks via the Advanced Network, Members, Associates and Partners of the Advanced Network shall not breach (or cause REANNZ to breach):

- any terms in agreements between REANNZ and those other networks;
- any policy that is similar to this policy (generally, those policies are published on the other networks' websites)

### **6. Internet Access**

All organisations connecting to the New Zealand Advanced Network will maintain a link to the commodity Internet.

### **7. Compliance**

REANNZ has responsibility for ensuring compliance with this Access Policy. The Company has a compliance process to manage alleged breaches of the policy and will take appropriate action. Members and Associates are accountable for ensuring compliance by their Partners.

REANNZ can deny access to any Member, Associate or Partner that fails to comply with this policy.

### **8. General**

- Where appropriate in the context, "or" includes "and".
- To avoid doubt, "research" includes pure and applied research, and innovation occurring in connection with pure and applied research.

## DIRECTORY REANNZ Ltd

### 1. Directors

- Dr Jim Watson, Chair
- Professor Warwick Clegg
- Ms Carol Moffatt
- Dr Rick Pridmore
- Ms Jane Taylor

### 2. Chief Executive

- To be appointed

### 3. Project Team

- |                          |                          |
|--------------------------|--------------------------|
| • Acting Chief Executive | Charles Jarvie           |
| • Project Management     | Amos Aked Swift (NZ) Ltd |
| • Legal and Commercial   | Buddle Findlay           |

### 4. Registered Office

- C/- Buddle Findlay  
1 Willis Street  
P.O. Box 2694  
Wellington

### 5. Auditor

- Auditor General

### 6. Bankers

- Westpac

### 7. Company Secretary

- Buddle Findlay

### 8. Postal Address

- C/- MoRST  
P.O. Box 5336  
Wellington