

REANNZ
ANNUAL REPORT 2014



RESEARCH AND EDUCATION ADVANCED
NETWORK NEW ZEALAND LTD

CONNECTING NEW ZEALAND'S STUDENTS & RESEARCHERS WITH EACH OTHER AND THE REST OF THE WORLD

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WHO WE ARE

REANNZ IS THE HIGH-PERFORMANCE NETWORKING ORGANISATION DEDICATED TO THE UNIQUE NEEDS OF RESEARCH, EDUCATION AND INNOVATION IN NEW ZEALAND.

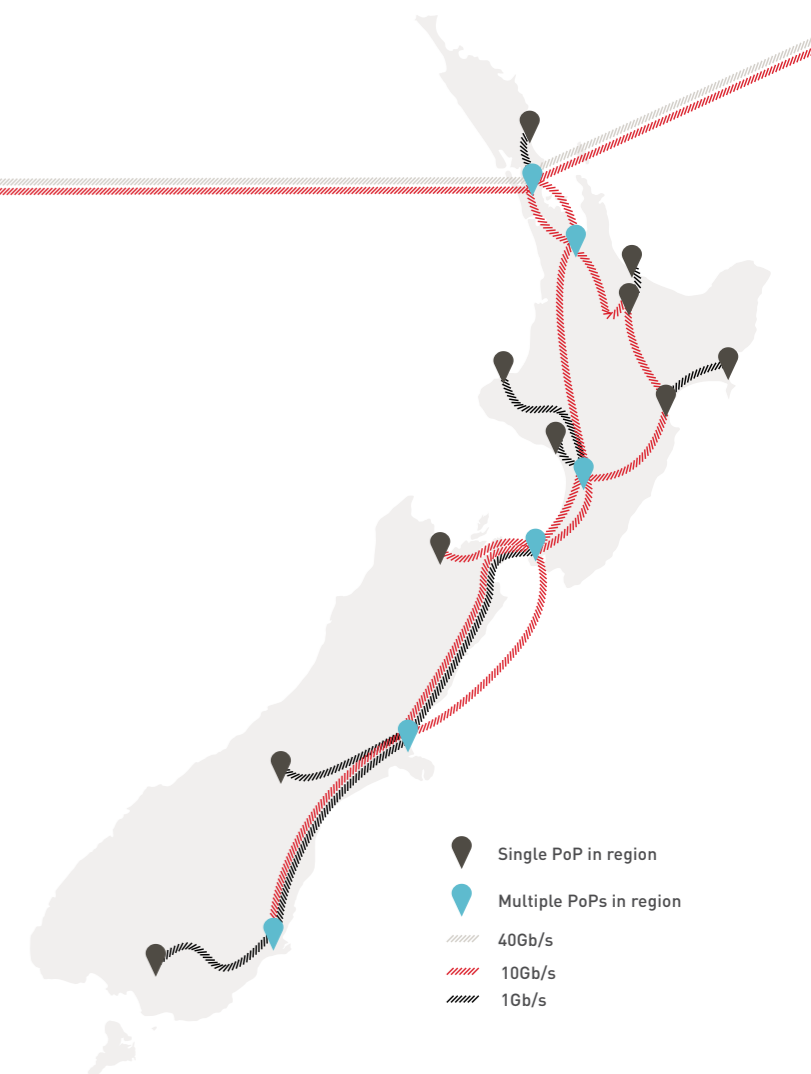
OUR VISION IS A NEW ZEALAND WHERE INNOVATION FLOURISHES THROUGH CATALYSING REAL-TIME GLOBAL EXCHANGE OF OUR KNOWLEDGE, IDEAS AND INFORMATION WITH THE REST OF THE WORLD.

Our mission is to provide outstanding network services, infrastructure and tools that enable collaboration and accelerate education, science and innovation.

Our members include New Zealand's universities, Crown Research Institutes, wānanga, ITPs (institutes of technology and polytechnics) and other entities in the research and education (R&E) community.¹

At the heart of REANNZ is the advanced network, which connects our community to each other and to their international peers with high-capacity, high-quality broadband, designed to meet the exacting requirements of 21st century science, education and innovation.

REANNZ also provides tools that facilitate collaboration between institutions, specialised services that enhance our members' ability to use our network, and products and services that enhance the effectiveness and efficiency of our members' businesses.



REANNZ'S NETWORK FOOTPRINT

See <http://weathermap.reannz.co.nz> for a live view of traffic across the network.



STRATEGIC HIGHLIGHTS

FORTY-FOLD CAPACITY INCREASE



We secured a forty-fold increase in international capacity to Australia, the United States and beyond for research and education activity.

DEPLOYED SHARED OPTICAL NETWORK



We deployed an innovative, shared optical network with FX Networks capable of supporting up to 2Tbps of members traffic.

CROWN FUNDING SECURED



We agreed a four-year funding agreement with Government, ensuring New Zealanders retain access to the advanced networking capabilities that are necessary to grow the economy.

100GBPS AUCKLAND RING



We lit a new high-capacity network around Auckland, with data now circling the city at 100Gbps.

SUPPORTED A NEW INTERNATIONAL CABLE



We signed an agreement with Hawaiki for capacity on a proposed second international cable to New Zealand.

CONNECTING STUDENTS IN THE CAPITAL



We deployed eduroam™ throughout the Wellington CBD, providing free roaming Internet for staff and students.



FROM THE CHAIR

IN 2006 REANNZ WAS LAUNCHED AS A START-UP ADVANCED NETWORK COMPANY, SIMPLY CONNECTING A HANDFUL OF RESEARCH INSTITUTIONS WITH A HIGH BANDWIDTH PIPELINE.

CHAIRPERSON'S REPORT



IN 2014 REANNZ SITS AT THE CUTTING EDGE OF INTERNATIONAL ADVANCED NETWORK TECHNOLOGY, IS NOW A THOUGHT LEADER IN NETWORK TECHNOLOGY, AND THROUGH CEO STEVE COTTER, IS POSITIONED AS A SIGNIFICANT PLAYER IN DEVELOPMENTS IN RESEARCH AND EDUCATION (R&E) NETWORKS WORLDWIDE.

I am pleased to report that the 2013-2014 year has seen a consolidation of the business, together with exciting developments in professional services delivery, and growth in revenues. REANNZ also produced its first operational surplus, which will contribute to long-term investment in renewal of the network.

New national and international contracts with FX Networks and AARNet respectively, now mean that REANNZ can provide connectivity at data speeds of up to 100Gbps. The REANNZ network and associated professional services are today seen as essential or valuable to business by 94% of our clients, enabling transformation in research, education and innovation sectors. While many individual researchers in our members' organisations have yet to take advantage of the data connectivity that REANNZ now provides, 'big data' research is growing rapidly with advances in high-performance computing, and this has contributed to the very high year-on-year increase in bandwidth demand on the REANNZ network.

Over the past year REANNZ has been able to secure very attractive arrangements for members for commodity Internet access associated with the new AARNet international contract, and uptake of eduroam™ continues to escalate rapidly, providing convenience for R&E staff in identity authentication when moving geographically between networks.

New Zealand's dependence on a single international cable operator continues to constrain the market, and REANNZ has welcomed the opportunity in the past year to lead the Government's planned investment in a second Pacific cable. At the time of writing, investor negotiations for this cable are at an advanced stage. Should the second cable proceed, it will offer REANNZ over time international data speeds in excess of 100Gbps, and make New Zealand very attractive as a research data processing destination.

The CEO's report notes that REANNZ is experiencing increasing demand from our members for professional services, which will enable them to increase the performance of their internal networks, thereby delivering enhanced end-to-end performance for staff. One driver for this is increasing inter-institutional collaboration in R&E, notably through developments such as the National Science Challenges and the new Centres for Research Excellence, which will often involve not only high-performance computing but also the movement of massive data sets between institutions within New Zealand, and between New Zealand researchers and overseas research partners.

The increasing importance of science and technology to our economy requires tertiary education institutions to produce more STEM (Science, Technology, Engineering and Mathematics) graduates than ever before to support demand for employees in the high-value manufacturing sector, whose growth will also increase demand for very high bandwidth networking. Over the coming year, REANNZ will continue to deliver a high-performance network to the R&E community, together with value-added services and a world-class user experience.

The company will offer thought leadership to enable and drive innovation, and aim to increase user awareness of the potential that the REANNZ network can offer to enable research, education and innovation activities. In this regard, REANNZ will take the opportunity to work more closely with Callaghan Innovation and some of the R&D intensive high-technology companies that have been funded through their technology grants system.

Necessarily, the downstream benefits to researchers, and to the economy, of advanced networking developments lie in the future and are difficult to quantify. Most R&E advanced networks worldwide operate in this 'market failure' environment with government subsidies. R&E networks require massive bandwidth 'headroom' to meet the demands for large research data traffic bursts and it is not cost-effective for commercial carriers to deliver this. REANNZ continues to operate with a \$4M per annum (approximately 33%) subsidy from the New Zealand Government. Combined with member fees and some contribution from specialist network engineering consultancy to members, this is used to meet essential ongoing network reinvestment and upgrading over time together with an investment in highly capable staff. This investment is essential to meet the escalating demand for bandwidth, operation at limits of the technology capability, high network reliability, and the researcher-driven demand for high-skilled professional services support.

REANNZ continues to work closely with the Ministry of Business Innovation and Employment on policy developments around national research infrastructure, and the Joint Working Group between the boards of REANNZ, National e-Science Infrastructure (NeSI) and New Zealand Genomics Ltd (NZGL) continues to work towards a more closely integrated approach to the specific area of e-Research. REANNZ recognises the need for effectiveness in the Government's investment in advanced research infrastructure, and will continue to work with colleague organisations to achieve this.

REANNZ is reliant on a small, highly skilled professional team. As the business grows in scope in response to the community's increasingly challenging demands for data-intensive capabilities, we are developing the range of staff capabilities, and are moving to position REANNZ as a premium employer in this sector where demand for staff, particularly network engineers, with the necessary capabilities is very high both in New Zealand and worldwide. In this regard, the Board acknowledges again this year the contribution of the CEO, Steve Cotter, in giving top international-level leadership to the company. Steve's continuing connection and contribution to R&E network CEOs worldwide through the Global CEO Forum are essential to bring the latest thinking to developments on the REANNZ network.

In closing, I wish to thank REANNZ staff warmly once again for their commitment, innovative drive and energy, and our directors for contributing another year of their vision, creative thinking, and wise counsel. At the end of the year the Board farewelled its longest-serving member, George Benwell, who stepped down after six years of extremely valuable service. The Board wishes him well with his future endeavours. We were pleased to welcome to the Board Professor Steve Weaver, Deputy Vice-Chancellor (Research) at the University of Canterbury. Steve is a current board member of GNS and NeSI and will bring valuable knowledge of the R&E sector to the Board.

On behalf of the Board, I thank the Government and members for their continued support.



Prof John Raine
Chairman

REANNZ BOARD



PROFESSOR JOHN RAINE
CHAIRMAN (TO 2015)

John is Pro Vice-Chancellor (Research and Innovation) at the Auckland University of Technology. He is a board member of the Committee for Auckland Ltd and AUT Enterprises Ltd.



JIM DONOVAN
DEPUTY CHAIR (TO 2015)

Jim is a professional director with wide experience in the public and private sectors. His other current board roles include Isambard, the Institute of Directors and the Skylight Charitable Trust. He is chairman of Limber Jobs' advisory board.



SUSIE JOHNSTONE
(TO 2015)

Susie is the Managing Partner of Shand Thomson Chartered Accountants, and also serves as Deputy Chair of the Otago Polytechnic Council. Past governance roles have included the Otago and Southern District Health Boards, Tourism New Zealand and the New Zealand Blood Service.



PHIL NORMAN
(TO 2015)

Phil is Managing Director of Nortek Management Services Limited, a boutique business advisory firm. Phil's other roles include the Independent Chairmanship of Loyalty New Zealand Limited and Chair of NZAX listed VMob Group Limited. Phil was the founding Chairman of Xero Limited.



PROFESSOR GEORGE BENWELL
(RETIRED 2014)

Professor Benwell is Pro-Vice-Chancellor (Commerce) and Dean of the Otago Business School at the University of Otago. He led the Information Science Department from 2001-2006 and has served as the School's Dean of Research and the University's Academic Director of Research. Professor Benwell retired from the REANNZ Board on 30 June 2014.



PROFESSOR STEVE WEAVER
(TO 2015)

Steve is Deputy Vice-Chancellor (Research) at the University of Canterbury. He holds numerous directorships including GNS Science, the Canterbury Medical Research Foundation and the New Zealand Brain Research Institute. Steve is a Fellow of the Royal Society of New Zealand. Steve was appointed to the REANNZ Board in July 2014.



GLOBALISATION



As science and education becomes more distributed, the trend toward globalisation within the R&E community will only accelerate. Collaboration will broaden and increasingly cross borders, expanding consortia. A national focus will become increasingly irrelevant for R&E networks as their members begin to value global reach.

IN 2014 WE

BROADENED
COLLABORATION
AND GLOBAL
REACH



FROM THE CHIEF EXECUTIVE

THIS YEAR, REANNZ HIT ALL FINANCIAL AND OPERATIONAL TARGETS AND IS FAST BECOMING ESSENTIAL INFRASTRUCTURE FOR RESEARCHERS AND EDUCATORS. IT'S ALSO, FOR THE FIRST TIME, POSITIONED TO HELP INSTITUTIONS WITH THE BUSINESS OF RESEARCH AND EDUCATION. REASONS TO CELEBRATE, BUT NOT TO STAND STILL.

CHIEF EXECUTIVE'S REPORT



NEW ZEALAND'S RESEARCH AND EDUCATION (R&E) SECTOR IS FACING UNPRECEDENTED PRESSURE FROM THE FORCES OF TECHNOLOGY AND GLOBALISATION.

Competition for talent and funding are intensifying and new models for teaching and learning are emerging that threaten the status quo.

Research is becoming increasingly international and will continue to be affected by competitive forces and the push toward greater collaboration. Massive Open Online Courses (MOOCs) are gaining more traction and private providers are creating commercial research/education hybrids to offer specialised degrees. Even the value of a tertiary education is being questioned with increasing merit given to experience over formal qualifications, as evidenced by the prestige given to Thiel Fellowships. In addition, school and higher level educational systems are being affected by innovation in the global economy. Potential students are able to 'shop' globally for the best education offerings with location no longer the deciding factor – only the quality of learning and opportunities following graduation.

Competition is global not only for institutions as a whole, but for each discipline within them (i.e. medical school, engineering programme). Combine this with advances in technology and we're seeing an increasing trend in the 'unbundling then rebundling of IT' in order to yield economies of scale and increase the value of the R&E institution's 'supply chain'.

Over the course of a very successful year, REANNZ worked hard to cement our position as an essential component of the community's supply chain and help our members be more competitive. We hit all of our financial and operational targets while making our network even more reliable and scalable to meet our community's growing needs. We moved 'up the stack' by adding new services above the network layer and dramatically

increased our international reach so that our researchers are on par with their global peers; all while adding significant value to REANNZ membership.

FINANCIAL PERFORMANCE

To tackle some of the challenges facing our community, REANNZ needs to be in a strong financial position.

I'm pleased to announce that after years of making a loss, REANNZ is now operating on a financially sustainable basis. This year's surplus will be applied toward our capital obligations, obviating the need for future capital injections.

Total revenues were \$14.7M, resulting in a surplus of \$3.2M compared to a deficit of \$0.7M in 2013. A slight decrease in membership fees was offset by higher-than-expected service income from programmes like video conferencing and REANNZ Internet, as well as \$1.1M in new professional services contracts. In addition, REANNZ secured a four-year, \$4M per annum funding agreement with the Ministry of Business, Innovation and Employment (MBIE) to provide advanced network services for the universities and Crown research institutes.

Costs were well contained throughout the year. Total network expenditures were 32% under budget due to the delayed commencement of international connectivity services and the timing of the shared network build. Operating costs were on track with higher-than-anticipated legal fees related to new contracts offset by savings in personnel and travel costs.

As a capital-intensive business, this year's surplus is required to meet users' ongoing network capacity needs, including the investment required for an anchor tenancy on a new undersea cable; part of our commitment to financial sustainability.

FROM 'CONNECTING' TO 'RE-BUNDLING'

While the value of R&E networks has traditionally come from connecting local organisations to one another and to the Internet, R&E organisations are now becoming multilateral, transnational consortia, focused on similar strategic goals or intrinsic organisational characteristics (reputation, disciplines, etc.).

As the R&E constituency broadens and the network-client relationship becomes more commercial, the value of the network is going to be determined by how well it connects R&E business functions (and providers) to one another.

Successfully integrating into the 'business' of R&E requires a level of control over infrastructure, which REANNZ achieved in 2014, by signing a ground-breaking joint operating agreement with FX Networks giving both organisations co-ownership and management of a new optical network.

With more control over the services we offer, REANNZ can now provision 10, 40 or 100Gbps (Gigabits per second) circuits to any cloud service provider or commercial data centre in New Zealand for our members. Just one example: we've already established our first 100Gbps connection between the Southern Cross Cable Network landing points in Takapuna and Whenuapai for our new international connectivity service.

REANNZ's closer integration into business functions is already paying dividends for our members. REANNZ provides the Ministry of Education with 10Gbps connectivity to its three data centres, as well as perfSONAR network performance measurement nodes and REANNZ Internet, transforming the way they do disaster recovery and backups.

Other services include a dedicated 10Gbps connection to the University of Auckland's Tamaki Data Centre and a 10Gbps managed wide area network for Nelson Marlborough Institute of Technology. An extension to the Ministry of Education NEN Trial was signed, as well as a collaboration with Google that enabled Waikato University to deploy the first software defined networking-based ScienceDMZ in New Zealand.

During 2014, REANNZ upgraded AUT's connection to the radio telescope at Warkworth from 1Gbps to 10Gbps making AUT the first university in New Zealand to send a multi-Gbps science data flow overseas.

The unique joint operating agreement with FX Networks has already proven to be a success. REANNZ now has 2Tbps (Terabits per second) of capacity available to meet demand while the administrative and operational burdens on both organisations have been significantly decreased. With deployment of the new shared network, removal of single points of failure and the improved reliability of the Infinera hardware has raised network availability to an all-time high, exceeding our 99.9% uptime target. Better network engineering and fine-tuning of applications have resulted in traffic volumes increasing 46% over the prior year, well above industry growth rates.

As science and education becomes more distributed, the trend toward globalisation within the R&E community will only accelerate. Collaboration will broaden and increasingly cross borders, expanding consortia. A national focus will become increasingly irrelevant for R&E networks as their members begin to value global reach.

REANNZ is well positioned for this future state. In January, REANNZ signed an international partnering agreement with its sister network in Australia, AARNet, to replace the 2Gbps international service from Vodafone that had become severely congested. This five-year contract not only gives members access to 4Gbps of uncontested commodity Internet but also 40Gbps of capacity to the US and Australia for science traffic. The significant efficiencies over the older service are providing the community with economies of scale. This trans-Tasman partnership will strengthen the relationship between the research, education and innovation communities in both countries and likewise enhance their scientific capabilities.

The high quality of our international links, combined with the shift toward cloud services and more international collaborations, drove our international traffic volumes up 95% last year.

To provide long-term certainty about its international connectivity supply and cost, REANNZ also worked with officials from MBIE to secure a 25-year, \$65M anchor tenancy on the new submarine Hawaiki Cable. This will connect researchers and educators in New Zealand to their peers in Australia and the United States. Hawaiki is seeking

investment to complete the entire build and, if successful, the cable will go into service in 2016/17 giving REANNZ access to 20Gbps of capacity to Australia and the United States, with the ability to add/drop traffic in Hawaii and possibly the Pacific Islands. While annual costs remain the same, capacity will grow 30% year-on-year until reaching 2Tbps in each direction. This effort supports the Government's policy goal of increasing competition in the international submarine cable market.

SUPERIOR CYBER-LOGISTICS

In the years to come, R&E networks like REANNZ will create value by efficiently managing the supply and delivery chains of their customers, thereby increasing their productivity. The network and connection-related services will remain a core part of the business, but be much less visible to users. The value proposition will reside in the 'orchestration' of diverse R&E business processes, expanding 'upwards' into the spaces where mediation is required between R&E organisations and their myriad suppliers.

With several additional 'above the network' services available in 2014 uptake is at all-time highs. Total subscribers to REANNZ's enhanced settlement-free peering services grew to 27. These direct connections to content caches and cloud providers not only deliver better performance, but also significantly reduce the amount of commodity Internet traversing members' metered connections.

Meeting students' expectations for ubiquitous access to the Internet, REANNZ rolled out its global eduroam™ service – the secure, world-wide Internet roaming access service developed for the international R&E community that is available at more than 5000 institutions in nearly 70 countries. There are now 12 members using eduroam™, including all eight universities, several polytechs and wānanga, with another six members currently deploying the service. During the year, REANNZ provided eduroam™ for the MBIE/TEC sponsored 'Innovations in Tertiary Education Delivery Summit 2014' at the Auckland War Memorial Museum. Also see our Wellington CBD eduroam™ feature later in this report.

Increasingly, our members are asking us to extend our capabilities beyond the network edge onto their campuses so that they can focus all of their resources on their core business. Not only do we manage a ScienceDMZ and the network for NZ Genomics, but REANNZ has also provided engineering consulting services for Plant and Food Research, the University of Waikato and Te Whare Wānanga o Awanuiārangi.

REANNZ continues to work closely with both NeSI and NZGL in support of large scale, data-intensive science. Throughout the year, the chairs of REANNZ, NeSI, and NZGL met as part of a joint working group that works to ensure the three organisations stay aligned in their efforts to support the Government's National Science Challenges initiative.

This has been a busy but rewarding year. Our strategy of supporting both the mission and the business of R&E is clearly paying off: an overwhelming 94% of members responding to this year's customer satisfaction survey said that our network was either 'essential' or 'valuable' to their work, up from 76% last year. More importantly, 69% rated it 'essential' – up from only 29% in 2011, the year before I arrived. Looking ahead, I am confident that REANNZ, with its new network and additional services, is more than ever strategically positioned to help New Zealand take advantage of global trends in higher education and research and no longer be considered at the edge of the world, but at the leading edge of digital science.



Steve Cotter
Chief Executive



A DAY IN THE NETWORK



REANNZ provides members access to the tools and services they need to not only perform their work, but to do it faster and better than their international counterparts. We support a wide range of activity, from data-intensive science and research to the day-to-day needs of the institutions in which our users work. We exist to enable their success, and their success is essential to our goal of an economy that delivers greater prosperity and opportunity for all New Zealanders.



2:00AM

ENABLING INTERNATIONAL PROGRAMMES

NASA uses REANNZ's perfSONAR nodes to test throughput between their Earth Observation System in the United States and sites in New Zealand.



9:00AM

REMOTE TEACHING AND LEARNING

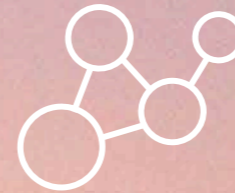
Waikato University delivers the first MOOC (massively open online course) by a New Zealand university to participants around the world.



11:00AM

BOOSTING SCIENTIFIC CAPABILITY

AUT sends NZ's first international, multi-gigabit science transfer, sending astronomy data on the southern skies to international collaborators.



2:00PM

LEADING INNOVATION

The WAND research group at the University of Waikato experiment with leading-edge networking technology, building a world-first software defined networking ScienceDMZ.



3:00PM

ACCESS TO CLOUD-BASED RESEARCH TOOLS

ESR accesses Amazon's elastic compute facility in Sydney to run scientific modeling and tests.



8:00PM

SUPPORTING THE BUSINESS SIDE OF EDUCATION

The Ministry of Education begins multi-site data backups between its corporate offices and their data centres.



PERFORMANCE HIGHLIGHTS

NATIONAL NETWORK AVAILABILITY

99.998%

THIS IS EQUAL TO LESS THAN 10 MINUTES OF DOWNTIME PER SITE OVER THE LAST YEAR

REANNZ TOTAL TRAFFIC GROWTH

WE'RE GROWING AT NEARLY TWICE THE SPEED OF THE ORDINARY INTERNET

+46%

VS.

25% AVERAGE NZ INTERNET GROWTH

94% OF USERS CONSIDER THE REANNZ NETWORK VALUABLE OR ESSENTIAL TO THEIR WORK IN 2014



VS.



+111%

INCREASE IN SUBSCRIPTIONS TO SERVICES JUNE 2014

VS.

+21% JUNE 2013



EDUROAM™

IN 2014 WE



REANNZ has partnered with Citylink to take eduroam™ out of the campus and deliver it across Wellington. Using Citylink's proven Wi-Fi infrastructure and REANNZ's eduroam™ service, students from eduroam™ enabled institutions can seamlessly connect to the Internet, free of charge, throughout the Wellington city centre. Visiting and local students can now continue to have high-quality connectivity wherever they roam in the capital. We're taking learning out of the classroom and into the city.

CONNECTED STUDENTS IN THE CAPITAL



EDUROAM™ IN 2014

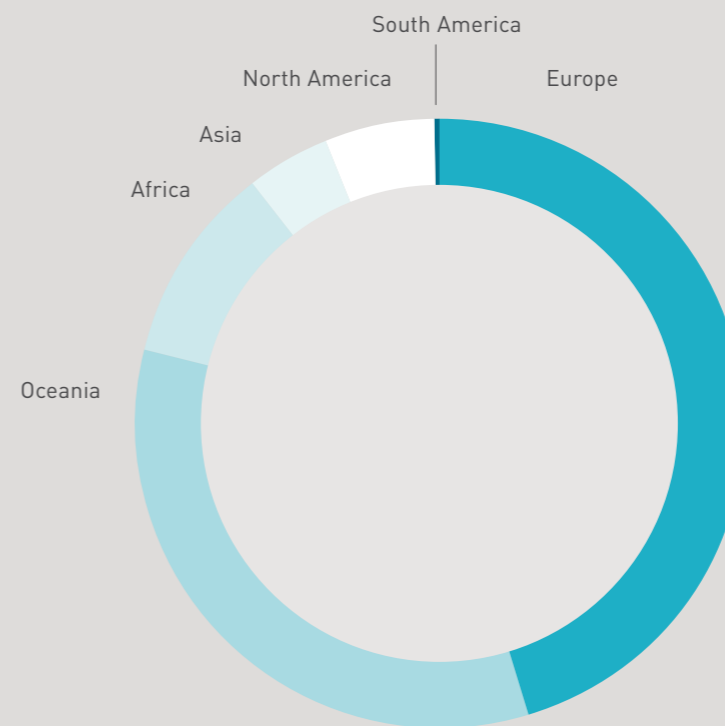
eduroam™ is the secure, world-wide Internet access service developed for the research and education community. eduroam™ allows students, researchers and staff from participating institutions to obtain instant Internet connectivity across campus and when visiting other participating institutions by simply turning on their device. Throughout 2014, we have seen great uptake of our eduroam™ service.

811

ROAMING ORGANISATIONS



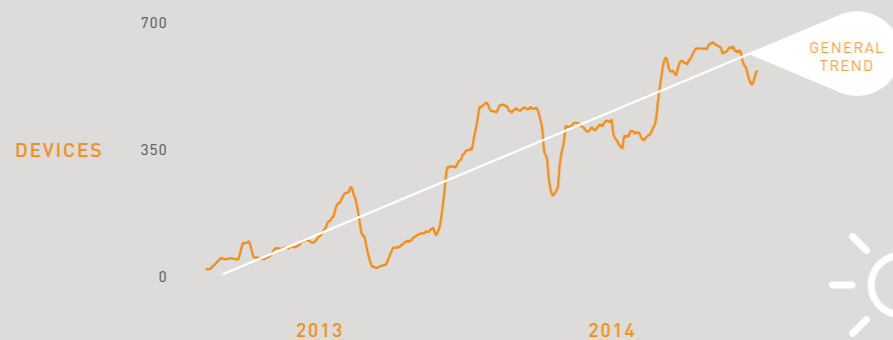
WE SAW A HUGE DIVERSITY OF NATIONAL AND INTERNATIONAL USERS TAKING ADVANTAGE OF EDUROAM™. USERS FROM OVER 800 DIFFERENT ORGANISATIONS ROAMED WHILE IN NEW ZEALAND.



NZ EDUROAM™ USAGE BY CONTINENT



NEW ZEALAND SUPPORTS VISITORS FROM ALL OVER THE WORLD. NEW ZEALANDERS THEMSELVES HAVE ACCESS TO EDUROAM™ IN NEARLY 70 COUNTRIES AROUND THE WORLD, WITH MORE LOCATIONS BEING ADDED ALL THE TIME.



DAILY USAGE



WE'RE NOW SUPPORTING OVER 600 INDIVIDUAL DEVICE LOGINS TO EDUROAM™ PER DAY ACROSS THE COUNTRY.

18,483

ROAMING DEVICES



IN THE LAST 12 MONTHS, KIWI INSTITUTIONS HAVE SUPPORTED OVER 18,000 ROAMING DEVICES USING EDUROAM™, PROVIDING TRAVELLING USERS WITH QUICK AND EASY ACCESS TO THE INTERNET.



GOOD EMPLOYER & GOVERNANCE STATEMENTS

REANNZ IS COMMITTED TO ITS RESPONSIBILITIES AS A GOOD EMPLOYER. IT ACKNOWLEDGES THAT EQUALITY AND DIVERSITY ARE IMPORTANT FACTORS FOR BOTH THE COMPANY AND ITS EMPLOYEES.

GOOD EMPLOYER STATEMENT

REANNZ AS A GOOD EMPLOYER

Policies are in place to guide the organisation with what it means to be a good employer, and to ensure it provides equal employment opportunities.

Areas of focus for REANNZ are as follows:

Leadership, accountability and culture

REANNZ has a small and dynamic team, with fewer than 20 staff. Our culture is built upon our golden rule: 'treat others as you would like to be treated'. We encourage all staff to lead by example, supporting others to behave in a way that is consistent with our culture and the values that we believe are crucial to our success. These values include putting the community first, integrity, responsiveness, taking action, personal responsibility and continual innovation.

Recruitment, selection and induction

REANNZ recruits new staff members through a number of channels, some through a recruitment agency and others through industry networks and recommendations. All positions are openly advertised. Prospective employees give a short presentation to REANNZ staff, allowing all staff to participate in the recruitment process and have a say in the appointment of their co-workers.

Employee development, promotion and exit

Being a small and diverse organisation there is opportunity for continual development and experience across multiple disciplines. External training and development is also encouraged and specific budget is set aside for courses and conferences to ensure staff remain current in their field.

Remuneration, recognition and conditions

We are committed to ensuring we attract, retain and motivate high-performing people. We continue to provide an environment that identifies, encourages and rewards excellence, innovation and high-quality services by using a remuneration structure that is competitive and fair. We offer flexible working hours by agreement, to ensure our staff have a work-life balance they are happy with.

Harassment and bullying prevention

REANNZ has a published policy on harassment and bullying and has a zero tolerance approach. An employee assistance programme is available to all staff to enable them to get confidential support. Open communication between staff and the leadership team is supported and encouraged.

Safe and healthy environment

Health and safety is taken seriously at REANNZ and procedures are in place to minimise risks, particularly when handling network equipment or when visiting our PoP locations. Staff wellbeing is high priority and REANNZ offers a flexible working environment where staff are able to manage their work responsibilities around other personal commitments.

GOVERNANCE STATEMENT

ORGANISATIONAL FORM

REANNZ is a Company under the Companies Act 1993, and is listed under schedule 4A of the Public Finance Act 1989. Its shareholders are the Minister of Finance and the Minister of Science and Innovation. At balance date, each shareholder held 908 shares on behalf of the New Zealand public.

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

ROLE OF THE BOARD

REANNZ's Shareholding Ministers appoint a governing board of directors. The company's constitution sets the size of the Board at a minimum of two and a maximum of nine directors. There were five directors appointed for the year to 30 June 2014.

The Board is responsible under the company's constitution to manage, direct and supervise the company's business affairs. In practice, day-to-day management of the company is delegated to the Chief Executive.

The Board establishes the company's strategic and business plans, approves annual budgets and monitors management's performance against established goals. The Board also considers and approves new policies and business initiatives, authorises transactions outside the prescribed delegated authorities of management and appoints the Chief Executive. Procedures are in place at Board, corporate and operational levels to safeguard the company's assets and its wider commercial interests.

A well-established regime of regular reporting is designed to maintain a high standard of internal communication and to ensure the Board remains appropriately informed of all aspects of the company's business and activities. Board fees are set by the Shareholding Ministers each year.

RISK MANAGEMENT

The Board is also responsible for ensuring that the Company has effective policies in place to manage its risks. The Board decides the level and nature of the risks that are acceptable to the Company. The Chief Executive is delegated responsibility for managing normal business risks. As part of managing its broader risk profile, the Board maintains and regularly reviews a risk register, and approves and reviews all company policies.

LEGISLATIVE COMPLIANCE

The Board acknowledges its responsibility to ensure the organisation complies with all legislation. The Board has delegated responsibility to the Chief Executive for the development and operation of a programme to systematically identify compliance issues and ensure staff are aware of relevant legislative requirements.

BOARD MEETINGS

The Board of Directors generally meets monthly, and these meetings are supplemented with additional meetings as required for strategic planning purposes and to progress specific decisions. The Board met on 10 scheduled occasions during the year and convened for seven special meetings (three Audit Committee meetings, three HR Committee meetings and one strategic planning meeting).

BOARD COMMITTEES

The Board has formally constituted an Audit Committee to focus on audit and risk management issues. Three members of the Board are on this committee, and the committee met three times during the year. The Board also has an HR Committee to advise on remuneration, performance and other employment related issues. Three Board members served on this committee and it met three times during the year.

BOARD CHANGES

Jim Donovan was appointed Acting Deputy Chair on 1 January 2014, succeeding Professor George Benwell who remained a Board member until the end of his tenure on 30 June 2014.

Jim Donovan was appointed Deputy Chair on 1 July 2014. Prof Steve Weaver was appointed to the board on 1 July 2014, following the retirement of Professor George Benwell.

INTEREST PROCEDURES

The REANNZ Board has a documented conflict of interest policy that sets out procedures for identifying and addressing potential conflict of interests. This policy applies to the directors and staff of REANNZ.

The key determination when considering whether an interest might create a conflict is whether the interest creates an incentive for the director or staff member to act in a way that may not be in the interests of REANNZ.

In deciding whether a conflict is present in any given situation it is appropriate that the determination be whether a reasonably informed objective observer would infer from the circumstances that the board or staff member's judgement is likely to be influenced to the detriment of REANNZ's best interest.

An 'interests register' is maintained of director's interests and updated regularly.

AUDITOR

Audit New Zealand, acting on behalf of the Controller and Auditor-General, is the auditor of REANNZ in accordance with section 32 of the Public Audit Act 2001.

REGISTERED OFFICE

Research and Education Advanced Network
New Zealand Limited
Level 1, QualIT House
22 The Terrace
Wellington 6011



INNOVATION

IN 2014 WE



Over the past year REANNZ has worked to bring new value-added services to our members, including end-to-end network management services, eduroam™, commodity Internet, access to settlement free peering services and content caches. The continued uptake of these services over the past year demonstrates our ability to deliver services that are relevant and valuable to our members.

ADDED VALUE THROUGH COST-EFFECTIVE INNOVATION



STATEMENT OF RESPONSIBILITY

FOR THE YEAR ENDED
30 JUNE 2014

THE BOARD AND MANAGEMENT OF REANNZ ACCEPT RESPONSIBILITY FOR THE PREPARATION OF THE ANNUAL FINANCIAL STATEMENTS AND STATEMENT OF SERVICE PERFORMANCE AND THE JUDGMENTS USED IN THEM.

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

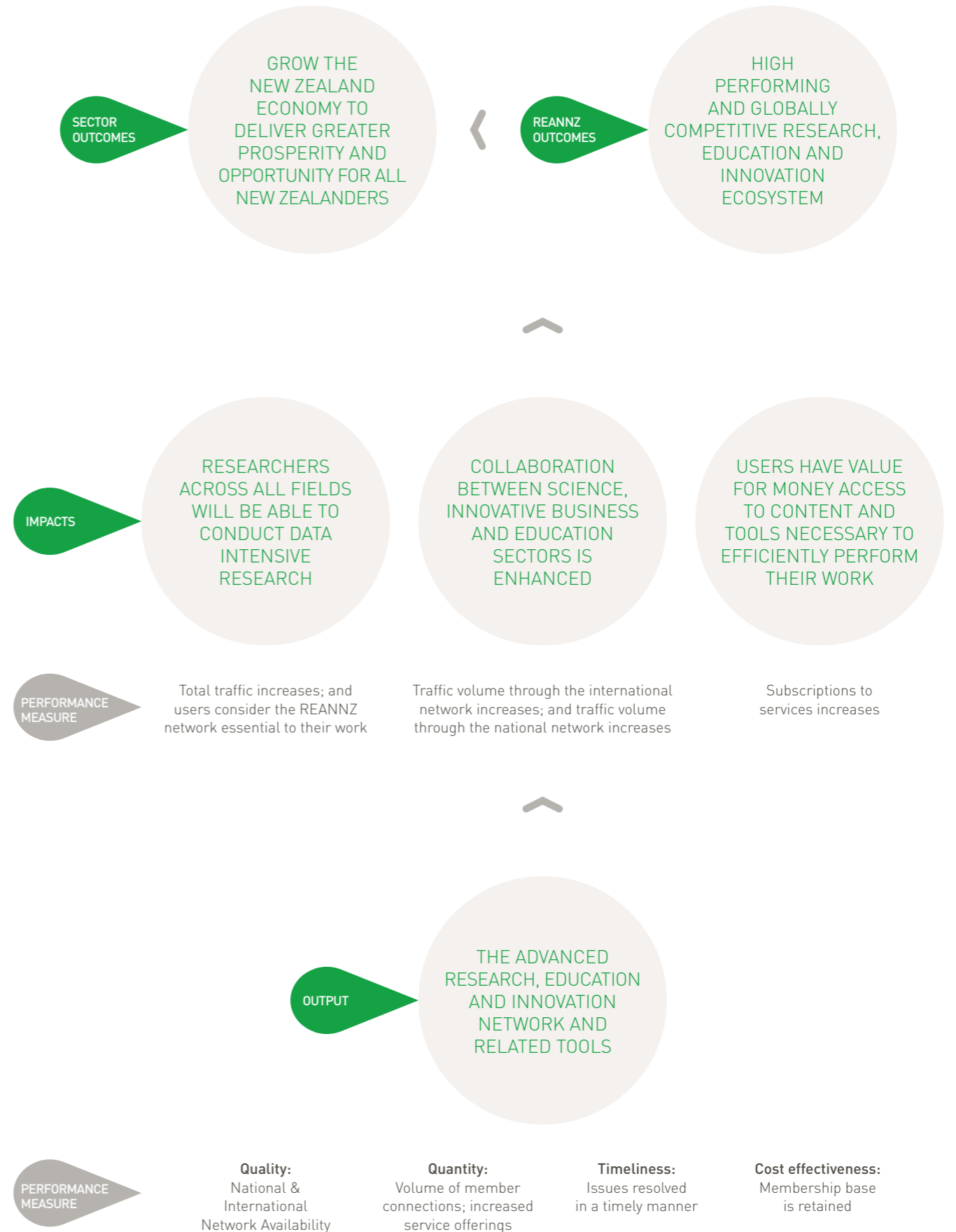
In the opinion of the Board and management of REANNZ the annual financial statements and statement of service performance for the year ended 30 June 2014 fairly reflect the financial position and operations of REANNZ.

Prof John Raine
Board Chair
16 October 2014

Susie Johnstone
Audit Committee Chair

PERFORMANCE FRAMEWORK

AT THE HIGHEST LEVEL, OUR STRATEGIC INTENTION IS TO CONTRIBUTE TO GROWING THE NEW ZEALAND ECONOMY TO DELIVER GREATER PROSPERITY AND OPPORTUNITY FOR ALL NEW ZEALANDERS. THE FOLLOWING DIAGRAM SHOWS HOW OUR OUTPUT, THE ADVANCED NETWORK AND RELATED TOOLS, ENABLES RESEARCH AND EDUCATION THAT LEADS TO A STRONG RESEARCH ECOSYSTEM AND GROWING ECONOMY.





STATEMENT OF SERVICE PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2014

OUR SUITE OF PERFORMANCE INDICATORS TRACKS TRENDS IN OUR HIGH-LEVEL OUTCOME OF A HIGH-PERFORMING AND GLOBALLY COMPETITIVE RESEARCH, EDUCATION AND INNOVATION SYSTEM. IT HAS INDICATORS THAT MEASURE OUR IMPACTS, AND THE QUALITY, QUANTITY, TIMELINESS AND COST-EFFECTIVENESS OF OUR OUTPUT; THE ADVANCED RESEARCH, EDUCATION AND INNOVATION NETWORK AND RELATED TOOLS.

OUTCOMES

A HIGH-PERFORMING AND GLOBALLY COMPETITIVE RESEARCH, EDUCATION AND INNOVATION ECOSYSTEM.

REANNZ is one of many contributors to the outcome of a high-performing and globally competitive research, education and innovation system. To track trends in this outcome we use external, publicly available indicators of the performance of New Zealand's research education and innovation system, but we do not forecast specific changes in the trend indicators.

OUTCOME	TREND INDICATORS	RESULTS
High-performing and globally competitive research, education and innovation system	New Zealand maintains its position in the top 500 universities per GDP, as shown in the OECD's 'Comparative performance of national science and innovation systems, OECD Science, Technology and Industry Outlook, published every two years.	OECD report not yet available.
	New Zealand maintains its ranking for university-industry collaboration in R&D in the World Economic Forum global competitiveness index.	New Zealand's ranking has improved from 23rd in 2012/13 to 20th place in 2013/14 for university-industry collaboration in R&D.
	An improvement in New Zealand's ranking for 'capacity for innovation' in the World Economic Forum global competitiveness index.	New Zealand's ranking has improved from 24th in 2012/13 to 21st place in 2013/14 for our capacity for innovation.

New Zealand is now ranked 18th overall in the World Economic Forum global competitiveness index which assesses the competitiveness landscape of 148 economies.

Consistent improvements in New Zealand's capacity for innovation and university-industry collaboration are critical drivers in enhancing our global competitiveness. The value of this innovative strength is underscored by the fact that Switzerland, ranked second in the world for innovation, is the most competitive economy in the world.

The rise in New Zealand's rankings in these two key indicators, as demonstrated, reflects the contribution of many organisations across the country including REANNZ. The advances in our network and services over the past year are a key enabler and facilitator of innovation and cross-sectoral collaboration essential to the achievement of these results.

MEASURING OUR IMPACT

IMPACT: RESEARCHERS ACROSS ALL FIELDS ARE ABLE TO CONDUCT DATA-INTENSIVE RESEARCH

A number of science initiatives with large data requirements are being conducted that could not occur without the reach, reliability and speed of an advanced network. Examples include NeSI (supercomputing), NZGL (which performs genome sequencing), and radio astronomy. All of these projects involve scientific instruments that generate massive datasets. These datasets need to be transported quickly across lossless networks from the instruments to hosting or processing centres, and to collaborating scientists performing the analysis.

Indications of the amount of data-intensive science occurring are represented by the amount of data flowing over the network, as well as our users' assessment of the need for the network.

MEASURE	RESULT JUNE 2013	TARGET JUNE 2014	RESULT JUNE 2014
Total traffic flows increase	+28% 6.75 PB	+ 25% 8.44 PB	+ 46% 9.87 PB

REANNZ has seen impressive traffic growth of 46% over the last year, indicating a significant increase in the amount of data-intensive science occurring within our research and education institutions.

Over the last year REANNZ has been actively helping to remove bottlenecks in our member campuses, which has exposed pent up demand. Removing these barriers, and improving members' internal network design and throughput, has enabled the community to better utilise the advanced network. Improved network engineering on the international network has eliminated packet loss, making it possible for larger datasets to be transferred at high speeds. Our focus on improving access to valuable content through settlement free peering and the launch of new services such as eduroam™ has better demonstrated the value that an advanced network can bring to the community.

N.B. REANNZ has changed the way traffic flows are measured. We now measure traffic to and from members' connections, rather than all traffic flowing around the backbone network. We have restated the 2013 actual result to the new measurement approach.

MEASURE	RESULT JUNE 2012	RESULT JUNE 2013	TARGET JUNE 2014	RESULT JUNE 2014
Users consider the REANNZ network valuable or essential to their work	75% (43% essential, 32% valuable)	76% (44% essential, 32% valuable)	> 76% Improvement on 2013	94% (69% essential, 25% valuable)

In 2014 we saw a large increase in our users' perceived value of the REANNZ network, with a record 94% considering the network essential or valuable to their work.

REANNZ has been working to improve services and the visibility of REANNZ within member institutions. Our newsletter and working group programmes have driven increased communication and participation with our member base. New services launched in the last year, most notably eduroam™, are also improving the value proposition for members. Our members are also starting to move business-critical services to the cloud, a strategy which requires robust and reliable network infrastructure like REANNZ's to be successful.

The increased capacity promised by our recent international and national network deals has generated a lot of interest in our member community, creating opportunities for New Zealand researchers to actively participate in global science that was previously impossible.

As a result of these initiatives, REANNZ and the network are becoming higher profile and more essential to our members and end users.

IMPACT: COLLABORATION BETWEEN SCIENCE, INNOVATIVE BUSINESS AND EDUCATION SECTORS IS ENHANCED

Collaboration takes many forms: it can be as simple as having a conversation over videoconference, or as complex as the multistep process of turning one scientist's research project into a commercial product. REANNZ enables these collaborations by providing connectivity and the tools to make collaboration easier and more effective.

Increasing amounts of traffic flowing through our network indirectly indicates that more collaboration with both national and international participants is taking place.

MEASURE	RESULT JUNE 2013	TARGET JUNE 2014	RESULT JUNE 2014
International traffic volume	1.23 PB	+ 30% 1.6 PB	+ 95% 2.40 PB
National traffic volume	5.52 PB	+ 25% 6.90 PB	+35% 7.47 PB

Despite the fact that international links were constrained at 1Gb/s (prior to AARNet), REANNZ has experienced exceptional growth over the last year as the network matures and members are better enabled within their own institutions.

With recent capacity increases on the international network, unmet demand is now being met and we expect the strong growth trend to continue next year.

As well as an increase in capacity, network engineering improvements have been made on the international network which have eliminated packet loss. This is making it possible for large datasets to be transferred at high speeds, with reliability and assurance. We have recently seen the first multi-gigabit international science transfer, from the newly upgraded 10Gb/s Warkworth telescope, and we are enthusiastic about more big data transfers to come.

MEASURING OUR OUTPUT

IMPACT: USERS HAVE COST-EFFECTIVE ACCESS TO CONTENT AND TOOLS THEY NEED

Many of the services required by the REANNZ community are cost-prohibitive (or simply unavailable) on the commercial market. Today, such services include schedule-able bandwidth, on-demand multi-domain circuits, flexible traffic engineering, IPv6 service and performance parity, and active multi-domain performance monitoring. These are networking features that are required by members on top of core network bandwidth. As a not-for-profit company that acts in the best interests of its community, REANNZ is able to provide those services that would otherwise be unavailable or unaffordable on the commercial market.

Members subscribing to REANNZ services indicate that our services are better value for money than others available in the market.

MEASURE	RESULT JUNE 2013	TARGET JUNE 2014	RESULT JUNE 2014
Subscriptions to services increase	+ 21%	+35%	+ 111%

Over the past year REANNZ has worked to bring new value-added services to our members. The significant increase in subscriptions reported for the year is a result of REANNZ's increased service offerings, including end-to-end network management services, eduroam™, commodity Internet services and access to settlement free peering services and content caches. The uptake of these services demonstrates REANNZ's ability to deliver services that are relevant and valuable to our members.

We have adjusted the presentation of this measure to be consistent with our most recent, 2014/15 Statement of Performance Expectations.

THE SIGNIFICANT INCREASE IN SUBSCRIPTIONS REPORTED FOR THE YEAR IS A RESULT OF REANNZ'S INCREASED SERVICE OFFERINGS

+ 111 % VS. + 35 % TARGET JUNE 14

OUTPUT: THE ADVANCED RESEARCH, EDUCATION AND INNOVATION NETWORK AND RELATED TOOLS

REANNZ benchmarks and monitors the performance of our network on the dimensions of quality, quantity, cost-effectiveness and timeliness.

Quality

The quality of our service can be measured by the reliability of the network.

MEASURE	RESULT JUNE 2012	RESULT JUNE 2013	TARGET JUNE 2014	RESULT JUNE 2014
National network availability (12 month rolling average)	99.99%	99.96%	99.90%	99.99%
International network availability (12 month rolling average)	99.65%	99.87%	99.90%	99.93%

National and international network availability measures the reliability of the network. Downtime includes faults and other connectivity or hardware outages, but excludes planned maintenance outages. 99.90% network availability is standard for research and education networks internationally.

Network availability is crucial for our users to be able to perform their work when they need to. Network design helps to maintain availability, even during an outage, by the use of alternative paths, fail-over hardware and protected circuits. The improvements we have made to our network in the last year have directly influenced the improvement in network availability.

Our goal is to maintain this high level of reliability. REANNZ aims for network reliability to be as high as reasonably possible, given the need to balance the costs associated with each magnitude increase in network reliability.

Quantity

The number and size of our member network connections demonstrates the quantity of the services we provide. Adding new services is another measure of providing an increasing quantity of services to our members.

VOLUME	RESULT JUNE 2013	TARGET JUNE 2014	RESULT JUNE 2014
Network scale and reach (volume of member connections)	178 Gb	+ 10% 196 Gb	+ 46% 259 Gb

The volume of member connections is a combination of the number of member connections to the network and their size. The more members, and the larger the size of their connection, the more use our network supports. Volumes have grown over the last year as our members increase the size of their connections to the REANNZ network to meet increased user demand, and as the network becomes more essential and they deploy second connections to our network for resiliency. REANNZ has also attracted new members and connected new member sites to the network.

This measure reflects the capability that REANNZ supports, rather than actual usage or traffic growth. Traffic or usage is expected to grow at 26% per annum, as our members better utilise their current connections to the network. As this growth is realised, the size and/or number of connections members need to perform their science will increase and this measure will grow, albeit more slowly over time as more members establish second connections.

NEW SERVICES ADDED	RESULT JUNE 2013	TARGET JUNE 2014	RESULT JUNE 2014
Service offerings increase	New measure	5 new service offerings available to members 5 members connected to the network via Science DMZs	4 new service offerings available to members 3 members connected to the network via Science DMZs

During the year REANNZ launched four new service offerings, including end-to-end network management, eduroam™, settlement free peering and content caching, and network monitoring and testing suite PerfSONAR. REANNZ will continue to evaluate and deliver new service offerings to members over the coming year in our effort to meet their unique requirements.

ScienceDMZs allow members to connect their significant scientific instruments directly to the network, avoiding firewalls that are not designed to handle large scientific data flows. For many researchers, this is crucial to enable the transfer of data sets to both collaborators and other facilities such as a supercomputer for the purpose of processing and analysis. REANNZ will continue to promote the benefits of ScienceDMZs for scientific productivity, and work with members to implement them on their campuses.

REANNZ is also participating in a global programme that will result in cloud applications, specifically for the R&E sector, being made available to our members. These additional service offerings help ensure our members have the tools and resources necessary for New Zealand to remain competitive in the global marketplace.

Cost Effectiveness

REANNZ assesses the cost effectiveness of the network for our members, and for New Zealand as a whole.

The cost-effectiveness of the REANNZ network for our members is best demonstrated by the retention of our core membership base. If REANNZ membership was not cost-effective or providing value-for-money, alternative suppliers would enter the market, and we would lose members.

MEMBERSHIPS MAINTAINED	RESULT JUNE 2012	RESULT JUNE 2013	TARGET JUNE 2014	RESULT JUNE 2014
REANNZ maintains its core membership base	8/8 Universities 8/8 Crown Research Institutes 13/20 Institutes of Technology and Polytechnics* 2/3 Wānanga	8/8 Universities 8/8 Crown Research Institutes 12/18 Institutes of Technology and Polytechnics* 2/3 Wānanga	8/8 Universities 8/8 Crown Research Institutes 13/20 Institutes of Technology and Polytechnics* 2/3 Wānanga	8/8 Universities 7/7 Crown Research Institutes 1/1 ATI 11/18 Institutes of Technology and Polytechnics* 1/3 Wānanga

* Total number of ITPs has decreased due to mergers.

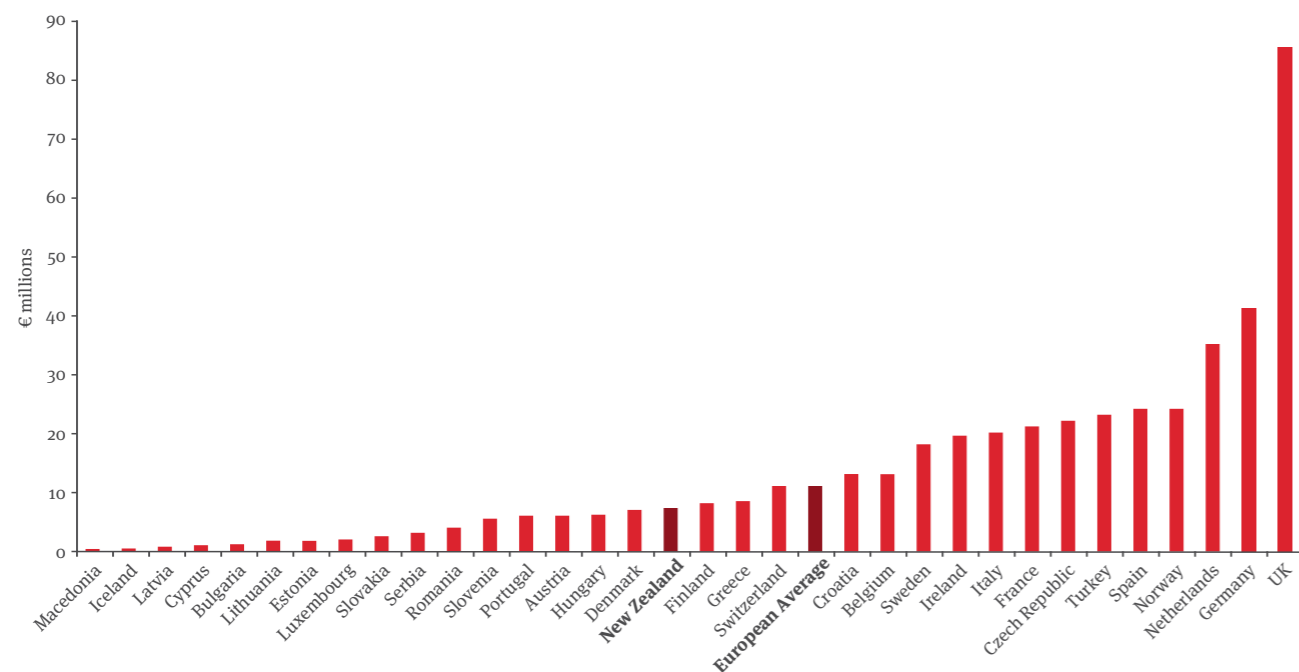
REANNZ addresses a niche market that commercial networks cannot – the provisioning of the unique services that meet science, research and education needs. Comparisons of cost with commercial telecommunications providers are misleading, as not only is our network designed to support time-sensitive and bursty traffic flows, but the network has other performance attributes, such as low latency and jitter, which commercial networks cannot economically provide. Performance is more valuable to our members than maximising utilisation.

REANNZ is one of many research networks internationally. While it is difficult to directly compare costs with our international counterparts, as they each operate within different geographical constraints and supply markets and are at different stages of maturity with regards to service offerings, we can provide an indicative comparison of REANNZ's budget to similar networks which are members of the European networking association, TERENA.

One of REANNZ's most significant costs is the cost of international connectivity. For most European nations, the cost of this capacity is negligible due to geography and supplier competition. REANNZ operates on a budget below the European average, despite the relative increased cost of international capacity.

The average budget of the European NREN between 2011 and 2013 was EUR13 million. In comparison, REANNZ's budget over the same period was the equivalent of EUR7.3 million¹.

NREN BUDGETS 2011-2013



Timeliness

SURVEY OF RESPONSIVENESS	RESULT JUNE 2012	RESULT JUNE 2013	TARGET JUNE 2014	RESULT JUNE 2014
Users consider reported issues to be resolved in a timely manner (based on Member Survey)	80%	92% (11 out of 12 respondents)	80%	84% (16 out of 19 respondents)

The speed at which we identify and resolve faults and other network performance issues is not only a measure of the quality of our customer service, but also a measure of the timeliness of our network management activity. REANNZ proactively monitors the network in real time for performance issues, and regularly communicates both planned and unplanned outages to users. Users can also log incidents through the REANNZ helpdesk, which are escalated to REANNZ engineers for resolution.

In 2014, out of 59 survey respondents only 19 had logged a fault with our helpdesk. Of those, 16 (or 84%) considered that their issue had been resolved in a timely manner. REANNZ is pleased with this result as the target of 80% represents a balance between responsiveness and the cost of resourcing to increase responsiveness. A result of 80% or more indicates that we have adequately resourced the helpdesk facility.

¹ Using exchange rate as of March 2014. REANNZ's budget has remained stable at around NZD12 million per annum over this period, but the value in Euros has increased due to exchange rate changes.

ACTUAL REVENUE EARNED AND EXPENSES INCURRED

Output: The Advanced Research, Education and Innovation Network and Related Tools

	ACTUAL \$'000	BUDGET \$'000
REVENUES		
Crown Income	4,075	4,000
Network Income	8,109	8,256
Other income	2,528	2,352
TOTAL INCOME	14,712	14,608
EXPENSES		
Amortisation & Depreciation	1,052	1,643
Network Expenses	7,367	10,640
Operating Expenses	3,080	2,658
TOTAL EXPENDITURE	11,499	14,941
SURPLUS/(DEFICIT)	3,213	(333)

USERS CONSIDER REPORTED ISSUES TO BE RESOLVED IN A TIMELY MANNER (BASED ON MEMBER SURVEY)

84% VS. **80%** TARGET JUNE 14

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2014

ACTUAL 2013 \$000		NOTES	ACTUAL 2014 \$000	BUDGET 2014 \$000
CURRENT ASSETS				
14,893	Cash and cash equivalents	8	24,099	1,706
2,573	Receivables and debtors	9	2,481	2,763
1,354	GST receivable		–	8
4,036	Investments	10	6,038	5,000
459	Prepayments		523	453
3,583	Prepaid network expenses	11	503	1,814
26,898	TOTAL CURRENT ASSETS		33,644	11,744
NON-CURRENT ASSETS				
12,491	Property, plant & equipment	12	14,997	12,001
8	Intangible assets	13	2	4
829	Prepaid network expenses	11	325	4,585
13,328	TOTAL NON-CURRENT ASSETS		15,324	16,590
CURRENT LIABILITIES				
12,794	Accounts payable & accrued expenses	14	1,155	2,531
–	GST payable		2,359	–
–	Derivative financial liabilities	26	39	–
168	Employee entitlements	15	195	83
2,771	Income in advance	16	2,613	2,778
704	Deferred income	17	7,361	465
156	Provisions	18	48	–
16,593	TOTAL CURRENT LIABILITIES		13,770	5,857
NON-CURRENT LIABILITIES				
467	Deferred income	17	8,513	–
–	Derivative financial liabilities	26	306	–
467	TOTAL NON-CURRENT LIABILITIES		8,819	–
23,166	NET ASSETS		26,379	22,477
PUBLIC EQUITY				
16,001	Share capital	19	16,001	16,001
7,165	Accumulated surplus		10,378	6,476
23,166	TOTAL PUBLIC EQUITY	19	26,379	22,477

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2014

ACTUAL 2013 \$000		NOTES	ACTUAL 2014 \$000	BUDGET 2014 \$000
23,911	Public Equity at beginning of year		23,166	22,810
–	Share Capital introduced		–	–
COMPREHENSIVE INCOME				
(745)	Surplus (deficit) for the year		3,213	(333)
(745)	TOTAL COMPREHENSIVE INCOME/(LOSS)		3,213	(333)
23,166	PUBLIC EQUITY AT END OF YEAR	19	26,379	22,477

The Directors of REANNZ authorise these financial statements for issue.

On behalf of the Board:



Prof. John Raine
Board Chair

16 October 2014



Susie Johnstone
Audit Committee Chair

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2014

ACTUAL 2013 \$000		NOTES	ACTUAL 2014 \$000	BUDGET 2014 \$000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash was provided from (applied to)				
(2,492)	Crown revenue (repayment)		19,000	4,000
8,390	Network income		8,001	8,256
760	Interest received		410	284
1,567	Other income		2,018	1,447
2	Net GST		2,216	883
(5,415)	Payments to suppliers and employees		(6,479)	(8,777)
(652)	Prepayment for network connectivity		-	(4,644)
2,160	NET CASH FLOW FROM OPERATING ACTIVITIES	20	25,166	1,449
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash was provided from (applied to)				
(594)	Purchase of plant & equipment		(13,960)	(5,057)
2,492	Funds deposited in escrow		-	-
9,000	Term deposit investments		(2,000)	4,000
10,898	NET CASH FLOW FROM INVESTING ACTIVITIES		(15,960)	(1,057)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash was provided from (applied to)				
-	Issue of equity share capital		-	-
-	NET CASH FLOW FROM FINANCING ACTIVITIES		-	-
13,058	NET INCREASE/(DECREASE) IN CASH HELD		9,206	392
1,835	Cash at beginning of year		14,893	1,314
14,893	CASH AT END OF YEAR		24,099	1,706
<i>Represented by:</i>				
14,893	CASH AT BANK		24,099	1,706

STATEMENT OF ACCOUNTING POLICIES

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

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

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

The financial statements for REANNZ are for the year ended 30 June 2014 and were approved by the board on 16 October 2014.

BASIS FOR PREPARATION

Statement of compliance

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

Changes in accounting policies

There have been no changes in accounting policies during the financial year.

SIGNIFICANT ACCOUNTING POLICIES

Standards, amendments and interpretations issued that are not yet effective and have not been early adopted

Standards, amendments and interpretations issued but not yet effective that have not been early adopted, and which are relevant to REANNZ are:

- NZ IFRS 9 Financial Instruments will eventually replace NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IAS 39 is being replaced in three main phases: Phase 1 Classification and Measurement, Phase 2 Impairment Methodology, Phase 3 Hedge Accounting. Phase 1 has been completed and has been published to the new financial instrument standard NZ IFRS 9. NZ IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in NZ IAS 39. The approach in NZ IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The financial liability requirements are the same as NZ IAS 39, except for when an entity elects to designate a financial liability at fair value through profit and loss. The new standard is required to be adopted for the year ended 30 June 2016. However, as a new Accounting Standards Framework will apply before this date, there is no certainty when an equivalent standard to NZ IAS 9 will be applied by public benefit entities.

The Minister of Commerce has approved a new Accounting Standards Framework (incorporating a tier strategy). Under this framework, REANNZ is classified as a Tier 2 reporting entity and will be required to apply Public Benefit Entity Accounting Standards (PAS) with reduced disclosure requirements. The effective date for the new standards for public sector entities is expected to be for reporting periods beginning on or after 1 July 2014. REANNZ expects to implement the new standards in preparing its 30 June 2015 financial statements.

Due to the change in the Accounting Standards Framework for public benefit entities, the XRB has effectively frozen the financial reporting requirements for public benefit entities up until the new Accounting Standards Framework is effective. Accordingly, no disclosure has been made about new or amended NZ IFRS that exclude public benefit entities from their scope.

REANNZ anticipates that these standards will have no material impact on the financial statements in the initial period of application. It is likely that the changes arising from this framework will affect the disclosures required in the financial statements. However, it is not practicable to provide a reasonable estimate until a detailed review has been completed.

Accounting policies are selected and applied in a manner that ensures that the resulting financial information satisfies the concepts of relevance and reliability. REANNZ accounting policies, therefore, are designed to report the substance of the underlying transactions undertaken by the entity.

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

REVENUE RECOGNITION

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

Grant income is recognised by REANNZ as it is received or receivable from the Crown, when the conditions relating to the grant are met. Where the grant is provided to partially fund the operation of a high-speed communication network for the research and education sector, grant income is recognised as it is received or receivable. Where grant income has been received but the conditions of the grant are not yet satisfied, grant income is recognised as deferred income in the Statement of Financial Position.

Interest revenue is recognised using the effective interest method.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment asset classes consist of office equipment, ICT equipment, national PoP equipment, leasehold improvements, fibre and fibre housing and network services equipment.

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

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

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

Gains and losses on disposals are determined by comparing the proceeds of disposal with the carrying amount of the asset. Gains and losses on disposal are included in the Statement of Comprehensive Income.

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

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

The costs of servicing property, plant and equipment are recognised in the Statement of Comprehensive Income as they are incurred.

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

The depreciation method, estimated useful lives and residual values of property, plant and equipment are reviewed annually to assess appropriateness.

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

Leasehold improvements	6 years
Routers, switches and optical equipment	5-7 years
Information technology equipment	3 years
Office equipment	5 years
PoP equipment	8 years
Fibre and fibre housing	20 years

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

INTANGIBLE ASSETS

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

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

Software	3 years
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IMPAIRMENT

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

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

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

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

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

BORROWING COSTS

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

INVENTORIES

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

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

OPERATING LEASES

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased items, are included in the Statement of Comprehensive Income. Where the leased items are in use, operating lease payments are allocated in equal instalments 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 and other short-term highly liquid investments with original maturities of less than three months.

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 uncollectable, 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 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, including forward rates, as at year end. Any unrealised gains or losses are recognised in the Statement of Comprehensive Income.

The fair value of a forward foreign exchange derivative is classified as current if the contract is due for settlement within 12 months of balance date; otherwise foreign exchange derivatives are classified as non-current.

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 the reporting date.

CASH FLOW STATEMENT

The Cash Flow Statement 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 cash flow statement are:

“Cash” includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash used by REANNZ 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 REANNZ.

“Operating activities” include all transactions and other events that are not investing or financing activities.

GOODS AND SERVICES TAX (GST)

These financial statements have been prepared on a GST exclusive basis except for accounts receivable, accounts payable, deferred income and income in advance, 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.

INCOME TAX

As a public entity under section CW 38(2) of the Income Tax Act 2007, the company is exempt from income tax. Accordingly, no provision has been made for income tax.

BUDGET FIGURES

The budget figures are those that form part of the REANNZ 2013 – 2016 Statement of Intent, dated May 2013.

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

ACCOUNTING ESTIMATES AND JUDGMENTS

There are no accounting estimates in these financial statements that have had a significant effect on the amounts recognised in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. GRANT REVENUE

	2014 \$000	2013 \$000
Ministry of Business Innovation and Employment Crown Funding Agreement	4,000	–
Ministry of Business Innovation and Employment Hardship Fund	75	–
TOTAL GRANT INCOME	4,075	–

During the year, REANNZ entered into a Crown Funding Agreement with the Ministry of Business, Innovation and Employment ('MBIE'). The agreement is for four years, expiring on 30 June 2018, and provides REANNZ with an annual operating grant of \$4 million. REANNZ received the first \$4 million operating grant during the year (2013: \$Nil).

All conditions relating to the grant received during the year have been met.

In June 2009 REANNZ received a \$900,000 grant from MBIE (formerly Ministry for Research, Science & Technology) for the purpose of connecting remote locations to the REANNZ Network. Grant monies relating to these connections are recognised in the Statement of Comprehensive Income as the related connectivity expenditure is incurred.

2. OTHER INCOME

	2014 \$000	2013 \$000
IIP Connection Fees	539	539
National Education Network Trial	638	921
REANNZ Internet	353	302
Video Conferencing Service	337	354
Managed Services	115	62
Other	140	23
TOTAL OTHER INCOME	2,122	2,201

3. AUDITOR'S REMUNERATION

	2014 \$000	2013 \$000
Audit of the financial statements	31	36
Review of Telecommunications Development Levy calculation	4	–
TOTAL REMUNERATION TO AUDITORS	35	36

4. DIRECTORS' FEES

	2014 \$000	2013 \$000
Directors fees paid during the year were:		
J Raine (Chair)	38	38
G Benwell (Deputy Chair to 31 December 2013)	22	24
J Donovan (Acting Deputy Chair from 1 January 2014)	21	19
S Johnstone	19	19
P Norman	19	11
M Riley	–	3
TOTAL DIRECTORS' FEES	119	114

There have been no payments made to committee members appointed to the board who are not directors during the year.

REANNZ provides a deed of indemnity to directors for certain activities undertaken in performance of REANNZ's functions.

REANNZ holds Directors and Officers Liability and Professional Indemnity insurance cover in respect of the liability of board members and employees.

5. FINANCE COSTS

	2014 \$000	2013 \$000
Loss on fair value of derivative financial instruments	345	–
TOTAL FINANCE COSTS	345	–

6. FOREIGN CURRENCY GAINS (LOSSES)

	2014 \$000	2013 \$000
Realised foreign currency gains (losses)	14	(14)
Unrealised foreign currency gains (losses)	(54)	(36)
TOTAL FOREIGN CURRENCY GAINS (LOSSES)	(40)	(50)

7. NETWORK EXPENSES

	2014 \$000	2013 \$000
NATIONAL NETWORK		
Connectivity	1,136	2,415
PoP Accommodation	324	315
Other Network Expenses	2,448	2,046
Asset Disposals	48	374
TOTAL NATIONAL NETWORK EXPENSES	3,956	5,150
INTERNATIONAL NETWORK		
Connectivity	2,449	2,449
PoP Accommodation	69	66
Other Network Expenses	47	15
TOTAL INTERNATIONAL NETWORK EXPENSES	2,565	2,530
TOTAL NETWORK EXPENSES	6,521	7,680

Network expenses include \$347,000 relating to operating lease expenses recognised during the year (2013: \$398,000).

8. CASH AND CASH EQUIVALENTS

	2014 \$000	2013 \$000
Cash at bank and on hand	24,099	14,893
TOTAL CASH AND CASH EQUIVALENTS	24,099	14,893

The total above includes NZD2,148,000 held in US dollars (2013: \$Nil).

9. RECEIVABLES AND DEBTORS

	2014 \$000	2013 \$000
Trade Receivables	2,335	2,531
Forward USD contract receivable	110	–
Sundry Debtors	36	42
TOTAL RECEIVABLES AND DEBTORS	2,481	2,573

In line with member contracts, membership fees are due quarterly in advance. Of the amount of receivables and debtors above, \$2,216,000 including GST (2013: \$2,294,000 including GST) relate to membership fees and services to be provided by REANNZ during the coming financial year. These fees are shown as income received in advance until the service period begins, at which time the fees are recognised as revenue in the Statement of Comprehensive Income.

The ageing profile of receivables at year end is detailed below:

	2014 \$000	2013 \$000
Not past due	2,464	2,459
Past due 1–30 days	17	113
Past due > 90 days	–	1
TOTAL RECEIVABLES AND DEBTORS	2,481	2,573

The carrying value of debtors and other receivables approximates their fair value. REANNZ expects to recover all outstanding receivables and debtors.

REANNZ holds no collateral as security or other credit enhancements over receivables that are past due or impaired.

10. INVESTMENTS

	2014 \$000	2013 \$000
Term Deposit (maturity within 12 months)	6,038	4,036
TOTAL INVESTMENTS	6,038	4,036

Term deposits of \$6,038,000 are for a term of less than 12 months and will mature in August 2014. No collateral is held on the above amount. The carrying amount of the term deposit approximates its fair value. The weighted average interest rate on term deposits during the year was 4.03% (2013: 4.1%).

11. PREPAID NETWORK EXPENSES

Prepaid network expenses relate to core PoP connectivity and network service operation and management. These prepayments will be expensed to the Statement of Comprehensive Income on a straight-line basis over the contract term.

	NOTES	2014 \$000	2013 \$000
Balance at beginning of year		4,412	8,624
Prepayment expensed during year	20	(3,584)	(4,864)
Payments made during the year		-	652
NET BOOK VALUE		828	4,412
CURRENT/NON-CURRENT SPLIT			
Current		503	3,583
Non-current		325	829
NET BOOK VALUE		828	4,412

12. PROPERTY, PLANT AND EQUIPMENT

2014	OFFICE EQUIPMENT	ICT EQUIPMENT	NATIONAL POP EQUIPMENT	INTERNATIONAL POP EQUIPMENT	LEASEHOLD IMPROVEMENTS	NETWORK SERVICES	FIBRE & FIBRE HOUSING	WORK IN PROGRESS	2014 TOTAL
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
GROSS CARRYING AMOUNT									
Balance at beginning of year	74	445	6,269	123	152	522	7,065	16	14,666
Additions / transfers	8	66	2,410	-	-	-	1,137	-	3,621
Sales / write offs	(4)	(83)	(115)	-	-	(4)	-	(16)	(222)
BALANCE AT END OF YEAR	78	428	8,564	123	152	518	8,202	-	18,065
ACCUMULATED DEPRECIATION									
Balance at beginning of year	50	251	1,300	48	9	517	-	-	2,175
Depreciation expense	9	89	515	22	50	3	358	-	1,046
Disposals charged to the Statement of Comprehensive Income	(2)	(80)	(67)	-	-	(4)	-	-	(153)
BALANCE AT END OF YEAR	57	260	1,748	70	59	516	358	-	3,068
NET BOOK VALUE	21	168	6,816	53	93	2	7,844	-	14,997

The net amount of fibre held under finance leases is \$2,100,000 (2013: \$2,200,000). Also refer to note 21.

2013	OFFICE EQUIPMENT	ICT EQUIPMENT	NATIONAL POP EQUIPMENT	INTERNATIONAL POP EQUIPMENT	LEASEHOLD IMPROVEMENTS	NETWORK SERVICES	FIBRE	WORK IN PROGRESS	2013 TOTAL
	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000	\$000
GROSS CARRYING AMOUNT									
Balance at beginning of year	66	242	4,099	123	19	522	-	-	5,071
Additions / transfers	8	228	3,742	-	151	-	7,065	16	11,210
Sales / write offs	-	(25)	(1,572)	-	(18)	-	-	-	(1,615)
BALANCE AT END OF YEAR	74	445	6,269	123	152	522	7,065	16	14,666
ACCUMULATED DEPRECIATION									
Balance at beginning of year	41	202	2,017	27	5	416	-	-	2,708
Depreciation expense	9	72	482	21	9	101	-	-	694
Disposals charged to the Statement of Comprehensive Income	-	(23)	(1,199)	-	(5)	-	-	-	(1,227)
BALANCE AT END OF YEAR	50	251	1,300	48	9	517	-	-	2,175
NET BOOK VALUE	24	194	4,969	75	143	5	7,065	16	12,491

13. INTANGIBLE ASSETS

	NOTES	2014 \$000	2013 \$000
GROSS CARRYING AMOUNT			
Balance at beginning of year		62	103
Additions/transfers		-	2
Sales/transfers		-	(43)
BALANCE AT END OF YEAR		62	62
ACCUMULATED AMORTISATION			
Balance at beginning of year		54	76
Amortisation expense	20	6	20
Disposals		-	(42)
BALANCE AT END OF YEAR		60	54
NET BOOK VALUE		2	8

14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2014 \$000	2013 \$000
Creditors	635	12,296
Accrued expenses	520	498
Other payables	–	–
TOTAL ACCOUNTS PAYABLE AND ACCRUED EXPENSES	1,155	12,794

Creditors and other payables are non-interest bearing and are normally settled on 30-day terms. Therefore, the carrying value of creditors and other payables approximates their fair values.

15. EMPLOYEE ENTITLEMENTS

	2014 \$000	2013 \$000
Accrued Wages	62	92
Annual leave entitlements	133	76
TOTAL EMPLOYEE ENTITLEMENTS	195	168

All employee entitlements are expected to be settled within 12 months of balance date.

16. INCOME IN ADVANCE

	2014 \$000	2013 \$000
Fees received in advance	686	776
Fees invoiced but not yet received	1,927	1,995
TOTAL INCOME IN ADVANCE	2,613	2,771

In line with member contracts, membership fees are due quarterly in advance. Membership fees invoiced but not yet received of \$1,927,000 (excluding GST) relate to fees for services to be provided by REANNZ in the coming financial year (2013: \$1,995,000). These fees are shown as income received in advance until the service period begins, at which time the fees will be recognised as revenue in the Statement of Comprehensive Income.

17. DEFERRED INCOME

	2014 \$000	2013 \$000
CURRENT PORTION		
MBIE Hardship Fund (see note 1)	57	166
MBIE Hawaiki Cable Managed Capacity Grant	6,750	–
GLIF 2014 Conference Sponsorship	27	–
ITP Connection Fees	467	538
Other prepayments for services	60	–
TOTAL CURRENT PORTION	7,361	704
NON-CURRENT PORTION		
MBIE Hardship Fund (see note 1)	33	–
MBIE Hawaiki Cable Managed Capacity Grant	8,250	–
ITP Connection Fees	–	467
Other prepayments for services	230	–
TOTAL NON-CURRENT PORTION	8,513	467
TOTAL DEFERRED INCOME	15,874	1,171

REANNZ received a \$15,000,000 grant from MBIE in June 2014 to enter into a 25-year lease of managed capacity with Hawaiki Cable Limited Partnership. The monies will be recognised as income when contractual milestones are met and liabilities fall due.

ITP Connection Fees are fees to connect seven Institutes of Technology and Polytechnics to the REANNZ network. Connection fees are recognised as income periodically over the 55-month term of the membership contracts, from the date they were connected to the network.

18. PROVISIONS

	2014 \$000	2013 \$000
CURRENT PORTION		
Onerous Contract	48	156
TOTAL CURRENT PORTION	48	156
	2014 \$000	2013 \$000
MOVEMENTS IN PROVISIONS FOR THE YEAR		
Opening balance	156	–
Additional provision made for Onerous Contract	–	156
Amount used	108	–
BALANCE AS AT 30 JUNE	48	156

REANNZ has a non-cancellable lease for Level 5, 126 Lambton Quay. The office space is not being used due to the earthquake risks associated with the building, as it has a 22% earthquake strength rating. The right to terminate the lease was exercised in November 2013, with early termination penalties applicable. A provision has been recognised for the obligation, with all remaining cash outflows to occur by the end of August 2014, at which time the lease ends.

19. PUBLIC EQUITY

Capital management

REANNZ's capital is its equity, which comprises accumulated funds and share capital. Equity is represented by net assets.

REANNZ is subject to the financial management and accountability provisions of the Crown Entities Act 2004, which impose restrictions in relation to borrowings, acquisition of securities, issuing guarantees and indemnities and the use of derivatives.

REANNZ manages its equity as a by-product of prudently managing revenues, expenses, assets, liabilities, investments, and general financial dealings to ensure REANNZ effectively achieves its objectives and purpose, whilst remaining a going concern.

Share capital

At 30 June 2014, share capital comprised 1,816 ordinary shares (2013: 1,816). All issued shares are fully paid and have no par value.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the company, and rank equally with regard to the company's residual assets.

20. NET CASH FLOW FROM OPERATING ACTIVITIES

	NOTES	2014 \$000	2013 \$000
NET SURPLUS/(DEFICIT) AFTER TAXATION FOR THE YEAR		3,213	(745)
NON-CASH ITEMS			
Amortisation	13	6	20
Depreciation	12	1,046	694
Disposal of assets		70	390
Realised prepaid network expenses	11	3,584	4,864
Fair value loss on derivative financial instruments		345	–
Provision for onerous contract		(108)	–
Accrued interest		(3)	135
		4,940	6,103
MOVEMENTS IN WORKING CAPITAL			
Decrease (Increase) in accounts receivable		92	(21)
Decrease (Increase) in prepayments		(64)	58
Decrease (Increase) in property, plant and equipment included in accounts payable		10,339	(10,619)
Decrease (Increase) in prepaid network expenses		–	(652)
Increase (Decrease) in accounts payable and accrued expenses		(11,639)	12,533
Increase (Decrease) in income received in advance and deferred income		14,545	(2,955)
Increase (Decrease) in employee entitlements		27	17
Increase (Decrease) in GST payable		3,713	(1,559)
		17,013	(3,198)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES		25,166	2,160

21. CAPITAL COMMITMENTS AND OPERATING LEASES

i) Capital commitments

There were no capital commitments at balance date.

ii) Operating lease commitments

Operating leases relate to the following activities:

- Office premises at QualIT House, The Terrace, Wellington
- Office premises at Interger House, Lambton Quay, Wellington
- Network PoP accommodation and associated support facilities; and
- Network equipment leases.

The minimum future lease payments payable under non-cancellable operating leases are as follows:

	2014 \$000	2013 \$000
Less than one year	327	441
Between one and two years	203	152
Between two and five years	358	103
Later than five years	–	–
TOTAL OPERATING LEASE COMMITMENTS	888	696

iii) Connectivity and managed service commitments

Connectivity and managed service commitments relate to:

- Payments to suppliers for national and international connectivity services; and
- Payments to suppliers for service management of the national network.

	2014 \$000	2013 \$000
Less than one year	2,497	682
Between one and two years	314	292
Between two and five years	514	29
Later than five years	30	–
TOTAL CONNECTIVITY AND MANAGED SERVICE COMMITMENTS	3,355	1,003

In June 2014, REANNZ entered into a 25-year lease of managed capacity with Hawaiki Cable Limited Partnership. Construction of the cable is expected to take two years, and the project is conditional on Hawaiki Cable Limited Partnership meeting its financing requirements. The upfront cost of the lease is \$15 million, to be paid in instalments over the next two financial years once financing has been achieved and as construction milestones are met. REANNZ will recognise the upfront cost of the lease over the term of the contract, commencing when the cable is ready for service. Following ready for service, REANNZ will also incur annual lease payments.

iv) Finance leases

Indefeasible Rights of Use (IRUs) have been granted to REANNZ over specific fibre pairs, and have been accounted for as finance leases as the risks and rewards of ownership have transferred to REANNZ. The net carrying amount of the leased assets is \$2,100,000 (2013: \$2,200,000).

The finance lease term is for the expected economic life of the asset, and has been prepaid. As such, there are no future finance lease payments payable.

REANNZ does not hold an option to purchase the asset at the end of the lease term.

22. CONTINGENCIES

There were no contingent assets or liabilities at balance date for which disclosure is required (2013: \$Nil).

23. RELATED PARTY TRANSACTIONS

All related party transactions have been entered into on an arm's length basis.

REANNZ is a wholly owned entity of the Crown.

Significant transactions with government-related entities

A grant of \$4 million (2013: \$Nil) was received from MBIE to partially fund the operation of the REANNZ advanced network. The funding agreement commenced on 1 July 2013 for a period of four years, with an annual grant of \$4 million. The funding is contingent on REANNZ meeting key performance targets.

MBIE also provided REANNZ with \$15 million funding to enter into a 25-year lease of managed capacity with Hawaiki Cable Limited Partnership. At balance date, this amount was held as deferred revenue (2013: \$Nil) to be recognised as income as project milestones are met.

REANNZ also entered into a contract for services with the Ministry of Education for maintaining the National Education Network trial. During the year revenue of \$639,000 was received (2013: \$921,000). At balance date, \$60,000 was receivable (2013: \$211,000).

Collectively, but not individually, significant transactions with government-related entities

In conducting its activities, REANNZ is required to pay various taxes and levies (such as GST, FBT, PAYE and ACC levies) to the Crown and entities related to the Crown. The payment of these taxes and levies are based on the standard terms and conditions that apply to all tax and levy payers. REANNZ is exempt from paying income tax.

REANNZ membership base is largely made up of entities controlled, significantly influenced, or jointly controlled by the Crown. Membership fees and other income from these government-related entities, for the year ended 30 June 2014, totalled \$9.1 million (2013: \$8.8 million). At balance date, \$2.2 million including GST was receivable (2013: \$2.3 million including GST), and \$2.2 million relates to income in advance (2013: \$2.3 million). This membership base includes universities, Crown Research Institutes, schools, polytechnics and other government departments and agencies.

REANNZ also purchases goods and services from entities controlled, significantly influenced, or jointly controlled by the Crown. Purchases from these government-related entities, for the year ended 30 June 2014, totalled \$331,000 (2013: \$546,000). At balance date \$29,000 including GST was payable (2013: \$36,000 including GST). These purchases included, amongst other things, the purchase of air travel from Air New Zealand.

23. RELATED PARTY TRANSACTIONS *continued*

Key management personnel

The following transactions were entered into during the year with key management personnel:

- REANNZ invoiced Auckland University of Technology for membership fees of \$606,000 (2013: \$544,000). At balance date \$161,000 including GST was receivable (2013: \$157,000). John Raine, Chair of the Board of Directors, is also the Pro Vice Chancellor of Research and Innovation at the Auckland University of Technology.
- REANNZ invoiced Otago Polytechnic for membership fees of \$64,000 (2013: \$64,000). At balance date \$18,000 including GST was receivable (2013: \$18,000). Susie Johnstone, Director, is also the Deputy Chair of the Otago Polytechnic Council.
- REANNZ invoiced University of Otago for membership fees of \$857,000 (2013: \$848,000). There was \$3,800 outstanding at balance date (2013: \$Nil) relating to the purchase of optical devices. George Benwell, Director is also the Pro Vice Chancellor of Commerce, and the Dean of the Business School at the University of Otago.
- REANNZ contracted Personal Branz Limited to provide public relations and communications advice during the financial year. The Chief Executive Officer's wife is a director of Personal Branz Limited. Services amounting to \$10,000 (2013: \$Nil) were provided during the year. At year end there was an outstanding payable of \$1,000 (2013: \$Nil).

Key management personnel compensation

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

	2014 \$000	2013 \$000
Short-term employee benefits	729	905*
Post-employment benefits	9	5
Other long-term employee benefits	–	–
Termination benefits	–	–
Share-based payment	–	–
TOTAL COMPENSATION	738	910

* includes redundancy payments of \$133,544 to Senior Management

24. EMPLOYEE REMUNERATION

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

	2014 \$000	2013 \$000
\$100,000–\$109,999	–	2*
\$110,000–\$119,999	1	–
\$120,000–\$129,999	2	1*
\$130,000–\$139,999	1	1
\$140,000–\$149,999	1	1
\$150,000–\$159,999	2	1
\$220,000–\$229,999	–	1*
\$280,000–\$289,999	–	1
\$320,000–\$329,999	1	–

* includes a redundancy payment

During the year ended 30 June 2014 REANNZ paid compensation and other benefits in relation to cessation to one employee totalling \$17,500 (2013: \$172,148 paid to three employees).

25. EVENTS AFTER BALANCE DATE

There are no events subsequent to reporting date, of which the directors are aware, that would have a material impact on the financial statements for the period ended 30 June 2014.

26. FINANCIAL INSTRUMENTS

Financial instrument categories

The carrying amount of financial asset and liabilities categories are as follows:

	2014 \$000	2013 \$000
LOANS AND RECEIVABLES		
Cash and cash equivalents	24,099	14,893
Debtors and other receivables	2,481	2,573
Investments – term deposits	6,038	4,036
TOTAL LOANS AND RECEIVABLES	32,618	21,502
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		
Accounts payable and accrued expenses	1,155	12,794
FINANCIAL LIABILITIES MEASURED AT FAIR VALUE THROUGH SURPLUS OF DEFICIT		
Derivative financial instrument liabilities	345	–

26. FINANCIAL INSTRUMENTS *continued*

Fair value measurement

Derivative financial instruments are recognised at fair value in the Statement of Financial Position.

The fair value of foreign exchange forward contracts has been calculated using discounted cash flow techniques. Quoted forward exchange rates and yield curves derived from quoted market rates have been used during the valuation. The forward foreign exchange points relevant to the NZD/USD contracts as at 30 June 2014 ranged between 3 months –74.46 to 5 years –1,239.54, against spot rate of 0.8755.

On 30 June 2014, the fair value of derivative financial instrument liabilities was \$345,000 (2013: \$Nil). Of this amount, \$39,000 relates to USD forward contracts due to be settled within 12 months, with the remaining amount to be settled between one and five years.

Fair value hierarchy

Derivative financial instruments are recognised at fair value in the Statement of Financial Position.

Fair values are calculated using either:

- a) Quoted market prices (level 1) – Financial instruments with quoted prices in active markets; or
- b) Valuation using observable inputs (level 2) – Financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all inputs are observable.

The derivative financial instruments have been valued using level 2 inputs that are observable for the asset or liability, either directly (US prices), or indirectly (derived from prices).

Financial risk management

REANNZ's activities expose it to a variety of financial instrument risks, including market risk, credit risk and liquidity risk. REANNZ has a series of policies to manage the risks associated with financial instruments. These policies do not allow any transactions that are speculative in nature to be entered into.

Market risk – interest rate risk

Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. REANNZ's exposure to fair value interest rate risk is limited to bank deposits which are held at fixed rates of interest to maturity.

Cash flow interest rate risk is the risk that the cash flows from a financial instrument will fluctuate because of changes in market interest rates. Cash and cash equivalents held at variable interest rates expose REANNZ to cash flow interest rate risk. REANNZ's cash management policies require surplus cash to be invested in term deposits with a spread of investment maturity dates to limit exposure to short-term interest rate movements.

Market risk – foreign currency risk – translation risk

Currency translation risk relates to foreign exchange risk derived from revaluing monetary items at measurement date. REANNZ holds funds in a USD denominated bank account that is subject to currency translation risk. At balance date, the USD bank account had a balance of US\$1,886,000 (2013 \$Nil). REANNZ manages this risk by ensuring the account holds only enough funds to cover expected commitments in the next two months.

Market risk – foreign currency risk – transaction risk

Foreign currency transaction risk is the risk derived from foreign exchange future contracts.

The functional currency of REANNZ is the New Zealand dollar. REANNZ purchases goods and services that are denominated in other currencies (mainly USD). As a result of these activities, exposure to foreign currency risk arises.

REANNZ enters into foreign exchange forward contracts to manage foreign currency exposure, where that exposure exceeds pre-defined monetary thresholds. The timing of the exposures varies between one month and five years. Prior to entering into forward foreign exchange contracts, REANNZ takes advice from suitably qualified experts to determine the appropriate degree to which foreign currency exposure should be hedged.

At balance date REANNZ held 21 foreign exchange forward contracts at a notional value of \$16,475,000 (2013: \$Nil).

Sensitivity analysis

Interest rate risk

At 30 June 2014 it is estimated that a general increase/decrease of one percentage point in interest rates with all other variables held constant would increase/decrease interest received on bank balances for the year, and therefore REANNZ's profit, by approximately \$128,000 (2013: \$167,000). This movement is attributed to interest received on cash and term deposit investments.

Foreign currency sensitivity

At 30 June 2014, if the NZD had weakened/strengthened by 10% against the US dollar with all other variables held constant, the surplus for the year would have been:

- \$1,639,000 higher if the NZD had weakened (2013: \$116,000 lower).
- \$2,100,000 lower if the NZD had strengthened (2013: \$357,000 higher).

The movement is attributable to foreign exchange gains/losses on translation of US denominated creditors and bank balances, and fair value gains/losses on forward USD contracts.

Liquidity risk

Liquidity risk is the risk that REANNZ will encounter difficulty raising liquid funds to meet commitments as they fall due. Prudent liquidity management implies maintaining sufficient cash and the ability to close out market positions. REANNZ manages liquidity risk by continuously monitoring forecast and actual cash flow requirements.

At balance date, REANNZ held financial liabilities relating to accounts payable and accrued expenses of \$1,155,000 (2013: \$12,794,000). All are payable within two months of balance date.

26. FINANCIAL INSTRUMENTS *continued*

Contractual maturity analysis of financial liabilities and derivatives

The table below analyses financial liabilities and derivative financial instruments that are settled net and all gross settled derivatives into their relevant maturity groupings based on the remaining period at balance date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	LIABILITY CARRYING AMOUNT \$000	ASSET CARRYING AMOUNT \$000	CONTRACTUAL CASHFLOWS \$000	LESS THAN 6 MONTHS	6-12 MONTHS	1-2 YEARS	2-5 YEARS	OVER 5 YEARS
2014								
Accounts payable & accrued expenses	1,155	–	1,155	1,155	–	–	–	–
Forward foreign exchange contracts in USD	345	–	–	–	–	–	–	–
– Outflow	–	–	16,475	334	1,156	3,357	10,702	926
– Inflow	–	–	14,637	323	1,100	3,109	9,328	777
2013								
Accounts payable & accrued expenses	12,794	–	12,794	12,794	–	–	–	–
Forward foreign exchange contracts in USD	–	–	–	–	–	–	–	–
– Outflow	–	–	–	–	–	–	–	–
– Inflow	–	–	–	–	–	–	–	–

Credit risk

Credit risk is the risk that a third party will default on its obligation to REANNZ, causing REANNZ to incur a loss. Due to the timing of its cash inflows and outflows, REANNZ invests surplus cash with registered banks.

In the normal course of business, REANNZ is exposed to credit risk from cash and term deposits with banks, debtors and other receivables. For each of these, the maximum credit exposure is best represented by the carrying amount in the Statement of Financial Position.

REANNZ invests funds with registered banks that have a Standards and Poor's credit rating of at least A+ for short-term and AA- for long-term investments. REANNZ has experienced no defaults of interest or principal payments for term deposits.

REANNZ uses forward foreign exchange contracts to manage foreign currency risk. REANNZ therefore is exposed to the credit risk of the counterparty. To mitigate credit risk REANNZ only enters into transactions with the New Zealand Debt Management Office, which is a government-owned entity.

As at 30 June 2014, no collateral has been received or placed to mitigate credit exposure.

Offsetting

As at 30 June 2014 no financial assets or financial liabilities have been offset in the Statement of Financial Position. In addition REANNZ is not entitled to set off any of its derivative financial instruments, as there are no master netting agreements in place.

27. EXPLANATION OF MAJOR VARIANCES TO BUDGET

At the time of budgeting in early 2013, major contracts that were in negotiation for the renewal and upgrading of the national and international network had not been completed or signed. Best estimates were used to forecast the commencement of the expenditure for the upgraded services however both contracts took longer to complete than expected. This delay in implementation is the major driver of the variance to budget for 2013/14.

Statement of comprehensive income

Network expenses

Network expenses are less than expected with the delays in the expenditure associated with the new contracts impacting on depreciation and ongoing monthly costs associated with these services.

Some unfilled vacancies impacted on network employment expenses along with the reclassification of some headcount to operating personnel.

Operating expenses

Unbudgeted finance costs of \$345,000 were the main reason for the variance in operating expenses and were due to the unrealised fair value loss on derivative financial instruments recognised at year end.

Personnel costs were higher than expected due to the addition of systems staff to strengthen operational infrastructure and the reclassification of some headcount from network personnel. Overall, personnel costs are less than planned due to hard-to-fill vacancies in highly skilled and specialist positions. Professional services fees were also higher than budgeted due to legal fees incurred in the negotiation of major supply contracts. However, other operating expense savings offset this variance.

Statement of financial position

The receipt of a \$15 million (plus GST) Crown grant to enter into a 25-year lease of managed capacity on a new international cable led to large variances in cash and cash equivalents, GST and deferred income at year end.

The timing change in the commencement of international network services and the associated upfront payments was also a contributor to cash and cash equivalents being higher than planned. This was also the driver of the variance in prepaid network expenses at balance date.

Statement of cash flows

Crown revenue was \$15 million more than expected due to the receipt of the Crown grant in late June for managed capacity on a new international cable. This was expected in the 2014/15 financial year.

The final implementation dates for the new, extended capacity, national and international network contracts resulted in payments to suppliers being under budget for the year.

The prepaid network connectivity variance is due to the upfront service payment for new international network connectivity being delayed until the 2014/15 financial year, as well as the reclassification of fibre lease costs from prepaid network connectivity expenditure to capital expenditure.

It was expected that a \$7 million payment for the rights to fibre purchased in June 2013 would fall in 2012/13, however this did not occur until July 2013.

INDEPENDENT AUDITOR'S REPORT

AUDIT NEW ZEALAND
Mana Arotake Aotearoa

TO THE READERS OF RESEARCH AND EDUCATION ADVANCED NETWORK NEW ZEALAND LIMITED'S FINANCIAL STATEMENTS AND NON-FINANCIAL PERFORMANCE INFORMATION

For the year ended 30 June 2014

The Auditor-General is the auditor of Research and Education Advanced Network New Zealand Limited (the company). The Auditor-General has appointed me, Clint Ramoo, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements and non-financial performance information of the company on her behalf.

We have audited:

- the financial statements of the company on pages 45 to 73, that comprise the statement of financial position as at 30 June 2014, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and notes to the financial statements that include accounting policies and other explanatory information; and
- the non-financial performance information of the company that comprises the statement of service performance and outcomes on pages 35 to 43.

OPINION

Financial statements and non-financial performance information

In our opinion:

- the financial statements of the company on pages 45 to 73:
 - comply with generally accepted accounting practice in New Zealand;
 - comply with International Financial Reporting Standards; and
 - give a true and fair view of the company's:
 - financial position as at 30 June 2014; and
 - financial performance and cash flows for the year ended on that date.
- the non-financial performance information of the company on pages 35 to 43:
 - complies with generally accepted accounting practice in New Zealand; and
 - gives a true and fair view of the company's service performance and outcomes for the year ended 30 June 2014, including for each class of outputs:
 - its service performance compared with forecasts in the statement of forecast service performance at the start of the financial year; and
 - its actual revenue and output expenses compared with the forecasts in the statement of forecast service performance at the start of the financial year.

OTHER LEGAL REQUIREMENTS

In accordance with the Financial Reporting Act 1993 we report that, in our opinion, proper accounting records have been kept by the company as far as appears from an examination of those records.

Our audit was completed on 16 October 2014. This is the date at which our opinion is expressed.

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

BASIS OF OPINION

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and carry out our audit to obtain reasonable assurance about whether the financial statements and non-financial performance information are free from material misstatement.

Material misstatements are differences or omissions of amounts and disclosures that, in our judgement, are likely to influence readers' overall understanding of the financial statements and non-financial performance information. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

An audit involves carrying out procedures to obtain audit evidence about the amounts and disclosures in the financial statements and non-financial performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and non-financial performance information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the company's financial statements and non-financial performance information that give a true and fair view of the matters to which they relate. We consider internal control in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

An audit also involves evaluating:

- the appropriateness of accounting policies used and whether they have been consistently applied;
- the reasonableness of the significant accounting estimates and judgements made by the Board of Directors;
- the appropriateness of the reported service performance within the company's framework for reporting performance;
- the adequacy of all disclosures in the financial statements and non-financial performance information; and
- the overall presentation of the financial statements and non-financial performance information.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements and non-financial performance information. Also we did not evaluate the security and controls over the electronic publication of the financial statements and non-financial performance information.

In accordance with the Financial Reporting Act 1993 we report that we have obtained all the information and explanations we have required. We believe we have obtained sufficient and appropriate audit evidence to provide a basis for our audit opinion.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

The Board of Directors is responsible for preparing financial statements and non-financial performance information that:

- comply with generally accepted accounting practice in New Zealand;
- give a true and fair view of the company's financial position, financial performance and cash flows; and
- give a true and fair view of its service performance and outcomes.

The Board of Directors is also responsible for such internal control as is determined necessary to enable the preparation of financial statements and non-financial performance information that are free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for the publication of the financial statements and non-financial performance information, whether in printed or electronic form.

The Board of Directors' responsibilities arise from the Crown Entities Act 2004, the Financial Reporting Act 1993, the Companies Act 1993 and the Public Finance Act 1989.

RESPONSIBILITIES OF THE AUDITOR

We are responsible for expressing an independent opinion on the financial statements and non-financial performance information and reporting that opinion to you based on our audit. Our responsibility arises from section 15 of the Public Audit Act 2001 and the Crown Entities Act 2004.

INDEPENDENCE

When carrying out the audit, we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the External Reporting Board.

In addition to the audit of the annual financial statements, we carried out an assurance engagement with respect to the information provided in Templates 1 to 3 in accordance with the "Instructions for Preparing Specified Information Under Section 83 to Identify a Qualifying Liable Person's Qualified Revenue for the Purposes of the Telecommunications Development Levy" for the year ended 30 June 2014.

Other than the annual audit and the above engagement, we have no relationship with or interests in the company.



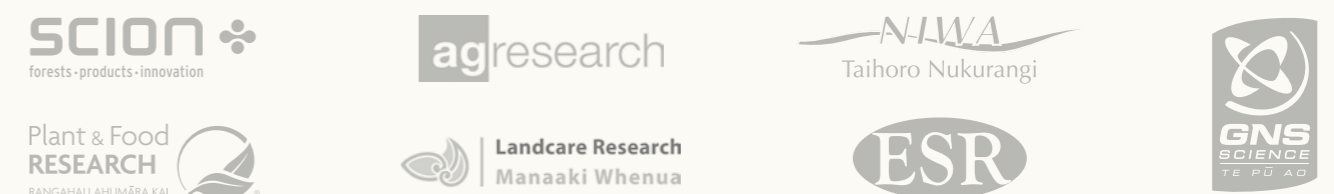
Clint Ramoo
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

MEMBERS

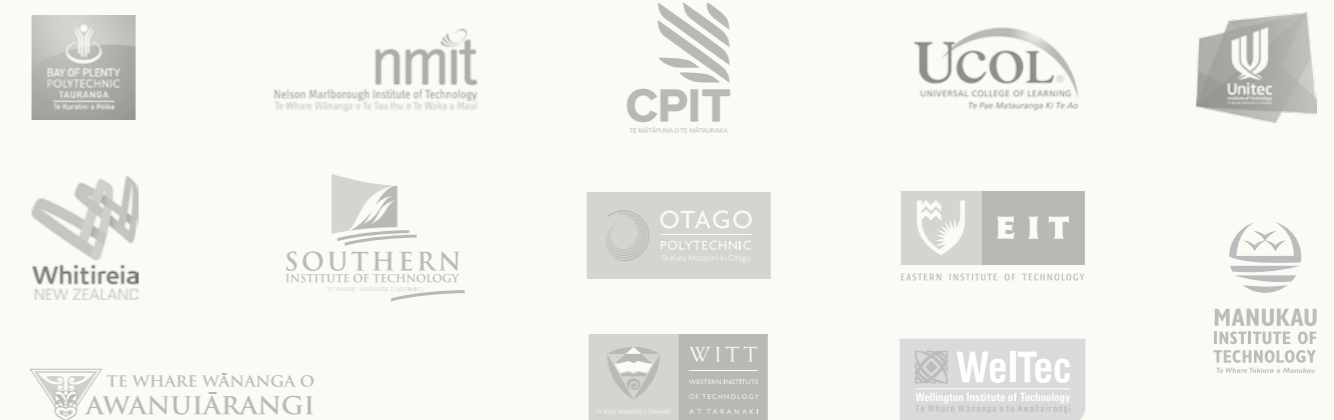
UNIVERSITIES



CROWN RESEARCH INSTITUTES



POLYTECHNICS & WA-NANGA



OTHER MEMBERS



REANNZ