

REANNZ

RESEARCH AND EDUCATION
ADVANCED NETWORK
NEW ZEALAND

Research and Education Advanced Network New Zealand

Annual Report

For the year ended 30 June 2007

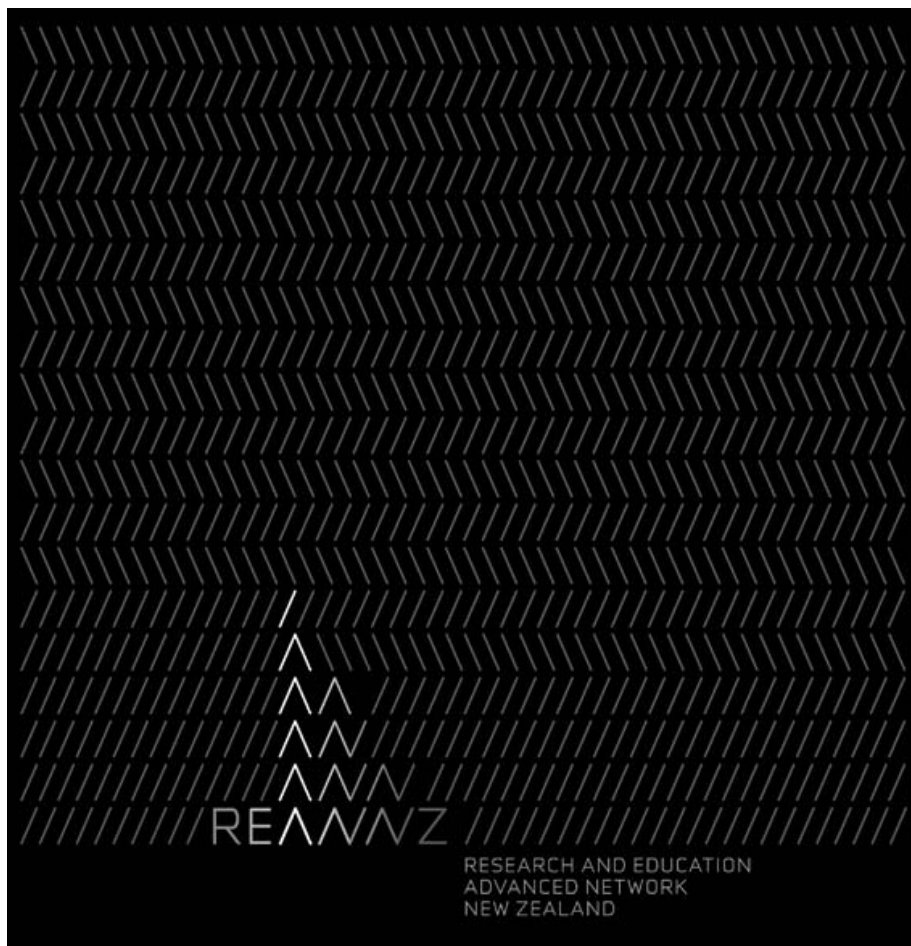




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1. Highlights

- Successful proof-of-concept testing in August 2006
- KAREN launched by Prime Minister and Minister of Research, Science & Technology August 2006
- KAREN goes live 15 December 2006
- Revised Business and Financial Strategy adopted by REANNZ Board in December 2006
- REANNZ operations and communities teams built to manage network and drive usage and uptake
- 16 members connected at 28 sites around the country
- Initial travel and development project investments made from the Capability Build Fund in late 2006 – early 2007
- Peering agreements agreed with 13 other national research and education networks
- Ramp up of community building through regular website news articles, quarterly *hyphen* newsletter and first major annual conference.



2. Chairperson's report

Researcher workers want to collaborate globally with the best in their field and access the best infrastructure, irrespective of location in the world. Our research institutes have a vested interest in attracting and retaining the very best staff. Our funding bodies in New Zealand demand ever higher levels of inter-institute collaboration and involvement of industry partners.

New Zealand is a wonderful country to live in and research from, but can be a long way from the ideal collaboration partners.

With the arrival of KAREN (the Kiwi Advanced Research and Education Network) in December 2006, the distance to our national and international collaborators has shrunk from thousands of kilometres to 100 milliseconds; access to the world's most advanced electron microscope or fastest supercomputer can be obtained from the desktop with very little cost.

KAREN is not just about accelerating existing collaborations. KAREN is pushing research teams to think differently about what is possible, to work more closely with their technical support to attracting more funding. KAREN enables New Zealand researchers to be equal partners with the other approximately 60 countries who are members of CERN in the search for new particles. KAREN will enable real-time, direct access to the new Australian synchrotron facilities and data generated from collaborators worldwide.

Overseas experiences show that significant effort is required by the research community to build its capability to exploit the potential. To aid our community in this regard, REANNZ administers a modest Capability Build Fund that identifies opportunities to facilitate and fund training and pilot activities in member institutions.

From a physical perspective, KAREN is a national and international ultra-high speed data network linking the research, education and innovation sector. It was the first foray by this Government into a centrally co-ordinated infrastructure investment programme for research, and, arguably, the first major investment in new national infrastructure investment this country has made in decades. So far, KAREN is proving a success but the need to move science infrastructure investment onto a more sustainable basis is urgently needed. Australia has made substantial process in the last couple of years and it is heartening to see the Ministry of Research, Science & Technology consulting on this problem.



In the coming year I can confidently predict that more and more researchers will become increasingly dependant upon KAREN as essential infrastructure – and New Zealand’s place in the world’s research and innovation community will be assured.

A handwritten signature in blue ink that reads "Jim Watson".

J. D. Watson
Chairperson

3. Board of directors

Jim Watson - Chairperson

Dr Jim Watson, of Auckland, is the Founding Scientist and former Chief Executive of Genesis Research and Development Corporation. He has served as the Head of the Department of Molecular Medicine, Auckland University, 1984-93; a director of the Foundation for Research, Science and Technology (2000-2003), a member of the Growth and Innovation Advisory Board (2001-2004), and President of the Royal Society of New Zealand (2003-2006). His professional interests enable him to take a highly informed view of the value of the Advanced Network as a key piece of New Zealand's research and education infrastructure.

Carol Moffatt

Based in North Canterbury, Carol Moffatt has more than 40 years experience at all levels of the education sector. She holds directorships with Multiserve Education Trust Ltd and Core Education Ltd (formerly Ultralab South). Carol was the Manager, ICT Strategy for Schools for the Ministry of Education between 1998 and 2003.

Jane Taylor

Jane Taylor is a Queenstown-based barrister specialising in the areas of civil law and equity. Formerly a Chartered Accountant, her business background includes business and share valuations, corporate finance, insolvency and company reconstruction, and litigation support. Jane recently retired as a director of Scion (Crown Research Institute) and was previously a director of Forestry Corporation of New Zealand. She was recently appointed to the board of the Legal Services Agency and is the Chair of the Milford Community Trust. Jane is a member of the Institute of Directors, the New Zealand Law Society and the Institute of Chartered Accountants of New Zealand.

Professor Warwick Clegg

Professor Warwick Clegg is Pro Vice-Chancellor for Information Technology at Victoria University of Wellington. His research area has been data storage devices and systems, and he holds Masters and Doctoral degrees in computer engineering. Professor Clegg is a Chartered Engineer and a Chartered Physicist. He is currently a director of the Library Consortium of New Zealand Ltd and an advisory board member of the New Zealand Electronic Text Centre.

Dr Rick Pridmore

Dr Rick Pridmore resigned from his position of Chief Executive of NIWA in December 2006 after being appointed in 2002. Previous to this he was serving as deputy chief executive (Strategic Development), research director and previously, science leader. From 1980 to 1993 he worked

REANNZ



with the Ministry of Works, DSIR and NIWA specialising in marine and freshwater ecology. He established the NIWA Information Technology Team in 1994, and was also responsible for making the business case for and purchasing the CRAY T3E super computer.



4. Chief Executive’s report

Setting the direction

Of prime importance at the start for 2006/07 was developing a sound operational base for REANNZ. The transition from project to operating company brought with it the need to establish robust financial systems, internal controls and appropriate processes. These have all been implemented during the year.

Critical also, was the need to set the strategy for REANNZ – and for KAREN. The original intent for REANNZ was as a focussed operator of an essentially fully-funded advanced network. It quickly became apparent during the year that REANNZ would have to play a much greater role than anticipated in stimulating usage and capability around KAREN; both to ensure organisations that had committed to become Members received maximum return on their investment; and to widen the membership base.

Our mission is a simple one: *to make KAREN essential infrastructure for an innovative New Zealand.*

This mission clearly sets out the infrastructural nature of KAREN and the view that it will have proven its value when it is contributing to transforming the economic success of the country.

Building the network

2006 was also the year that KAREN became a reality. Our proof of concept testing in July and August was followed on 31 August with a launch event, at which the Prime Minister and Minister of Research, Science and Technology formally ‘lit up’ KAREN. Several months of testing and final implementation then followed and on 15 December 2006, KAREN went live and New Zealand was connected to the rest of the world’s research and education. The fact that such a complex implementation went live on budget, pretty much on the target date is testament to a huge effort from the REANNZ Operations team and our partners TelstraClear and Verizon Business.

Acknowledgement is due to our 18 founder Members, the Universities, Crown research institutes and the National Library, all of whom signed up for three-year membership agreements in 2006/07. Their commitment to a shared vision of a country transformed by unconstrained access to knowledge, data and assets is the underpinning of KAREN’s existence.

Building the community

Throughout the year, we have implemented a number of communication and outreach activities. Our website, Karen.net.nz, went live and now is a



rich resource for technical information, innovative case studies, capability activity, news and events.

hyphen, our quarterly community newsletter has received a warm welcome nationally and internationally. The deliberate focus on our users and their activities has helped spread understanding of the benefits KAREN offers.

It was always envisaged that, as a body for, and responsible to, our members, REANNZ would establish an advisory body to provide insight on the company’s strategic evolution and challenges. Representatives from all our target membership sectors have been appointed and our first meeting of the Advisory Council for KAREN was held in June 2007.

The perfect finish to KAREN’s first (part) year in operation was our inaugural stakeholder event: Building KAREN Communities for Collaboration. A top quality line-up of international and national speakers was secured, with the help from the US National Science Foundation, and registrations, at over 150, surpassed our wildest expectations. A great indication that the KAREN community is building.

Building capability

The Capability Build Advisory Panel has put in significant effort throughout the year to establish the processes and criteria to maximise returns from the modest Capability Build Fund. Two tranches of travel grants were made during the year and one major round of development projects was committed to. Together these comprised over \$2.4m and will deliver a substantial kick-start to building institutional capability amongst our members.

Building the company

Throughout the year, we have steadily built a team at REANNZ that come from a wide range of backgrounds and disciplines and reflect the diverse needs of our strategy. We are structured into three groups, operations, communities and corporate services, but work across boundaries as much as within them.

We have established a strong set of company values and ensure that performance against these is measured as part of our performance management process.

The team has worked tirelessly during 2006/07 to implement KAREN, connect customers, raise awareness of KAREN, stimulate new collaborations and build the capability of our community; often leveraging the significant good will and support of our growing community.



Special notes of thanks are due to: Charles Jarvie, who has returned to Telecom New Zealand International after several years of dedicated service to KAREN; our shareholding Ministers and wider Cabinet supporters for recognising the transformational nature of KAREN; the many Government agencies that are engaged around KAREN and the wider telecommunications sector; the wise guidance of our Capability Build Fund Advisory Panel; the input and insight of our Advisory Council for KAREN; and last, but by no means least, the continued massive support and input from the REANNZ Board.

2006/07 has been a great success. 2007/08 will see us making further strides as we build our membership income, develop a sound capability base in our membership and implement new services.

KAREN is well on the way to becoming essential infrastructure for an innovative New Zealand.

A handwritten signature in dark ink, appearing to read "D. S. Clark", written over a light blue horizontal line.

D. S. Clark
Chief Executive



5. Statement of responsibility

For the year ended 30 June 2007

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

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

In the opinion of the Board and management of REANNZ the annual financial statements and statement of service performance for the year ended 30 June 2007 fairly reflect the financial position and operations of REANNZ.

A handwritten signature in blue ink that reads "Jim Watson".

J. D. Watson
Chairperson

A handwritten signature in blue ink that reads "R. D. Pridmore".

R. D. Pridmore
Director

Date: 26 July 2007

6. Audit report

AUDIT REPORT TO THE READERS OF Research Education Advanced Network New Zealand Limited's FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2007

The Auditor-General is the auditor of Research Education Advanced Network New Zealand Limited (the company). The Auditor-General has appointed me, H C Lim, using the staff and resources of Audit New Zealand, to carry out the audit on his behalf. The audit covers the financial statements and statement of service performance included in the annual report of the company for the year ended 30 June 2007.

Unqualified Opinion

In our opinion:

- The financial statements of the company on pages 30 to 47:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of:
 - the company's financial position as at 30 June 2007; and
 - the results of its operations and cash flows for the year ended on that date.

The statement of service performance of the company on pages 16 to 29:

- complies with generally accepted accounting practice in New Zealand; and
- gives a true and fair view of, for each class of outputs:
 - its standards of delivery performance achieved, as compared with the forecast standards outlined in the statement of forecast service performance adopted at the start of the financial year; and
 - its actual revenue earned and output expenses incurred, as compared with the forecast revenues and output expenses outlined in the statement of forecast service performance adopted at the start of the financial year.

- Based on our examination the company kept proper accounting records.

The audit was completed on 26 July 2007 and is the date at which our opinion is expressed.

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

Basis of Opinion

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

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

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

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

Audit procedures generally include:

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

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

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

Responsibilities of the Board of Directors and the Auditor

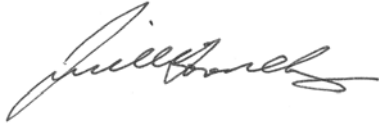
The Board of Directors is responsible for preparing financial statements and a statement of service performance in accordance with generally accepted accounting practice in New Zealand. The financial statements must give a true and fair view of the financial position of the company as at 30 June 2007 and the results of its operations and cash flows for the year ended on that date. The statement of service performance must give a true and fair view of, for each class of outputs, the company's standards of delivery performance achieved and revenue earned and expenses incurred, as compared with the forecast standards, revenue and expenses adopted at the start of the financial year. The board's responsibilities arise from the Public Finance Act 1989, Crown Entities Act 2004, and Financial Reporting Act 1993.

We are responsible for expressing an independent opinion on the financial statements and statement of service performance and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001 and 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 Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the company.



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

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of Research and Education Advanced Network New Zealand (REANNZ) for the period ended 30 June 2007 included on REANNZ's web site. The REANNZ's Board is responsible for the maintenance and integrity of the REANNZ's web site. We have not been engaged to report on the integrity of the REANNZ's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 26 July 2007 to confirm the information included in the audited financial statements presented on this web site.

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



7. Statement of service performance

For the year ended 30 June 2007

Activities and outputs to measure near term (one to three year) performance against are provided below. These are grouped by our four operational focus areas: connection, communities, capability and development, compliance and control.

Likely performance metrics are listed for each focus area. Actual values for these metrics are still being defined as we learn more about the operations of the business. Target outputs for each focus area are provided as a supplement to allow interim performance measurement.

Our two output agreements with the Ministry of Research, Science and Technology contain specific outputs and performance targets. These outputs are included in the milestones and outcomes listed in this Statement of Service Performance using the following notation:

- (*) – milestone is an output under the network fund
- (†) – milestone is an output under the capability build fund



Connection

“Connection” is the title used to describe aspects of REANNZ’s activity that relate to:

- the physical network
- logical design
- operations and support functions
- associated technologies, standards, policies and designs.

It does not include the applications that use the network – these are covered in the Capability area. It may, at some future point, cover network services provided by REANNZ over KAREN.

Connection performance reporting will be based on:

1. Statistics and Trend information on:
 - a. Number of users/type/connections
 - b. Traffic over the network/usage
 - c. Network availability
2. Services supported and usage
3. Protocols and applications supported
4. Annual Stakeholder Survey results in the areas of
 - a. Helping members to connect
 - b. Responsiveness and behaviour of help desk and support staff
 - c. Research, education and innovation opportunities missed because the network did not support the necessary protocols/functions

Target outputs for the near-term are shown (key outputs are underlined) with performance (where relevant) discussed.



Sub-Area	Milestone/Outcome	Date	Performance (where relevant)
National Network Implementation	First tranche of equipment delivered	June 2006	▪ <i>Achieved</i>
	* Proof of Concept starts	24 July 2006	▪ <i>Achieved</i>
	* Proof of Concept ends	1 September 2006	▪ <i>Achieved</i>
	Procedures Manual, Connectivity Design, Logical Design finalised	27 October 2006	▪ <i>Achieved</i>
	Operational services and Core network ready for Acceptance Testing	27 October 2006	▪ <i>Completed</i>
	Second tranche of equipment delivered	15 November 2006	▪ <i>Completed</i>
	Acceptance testing ends	21 November 2006	▪ <i>Outstanding minor activities planned for completion in 2007</i>
* Network goes live	21 November 2006	▪ <u><i>Network went live on 15 December 2006</i></u>	
Swap out of X450a-24T's to X450a-24X's	20 February 2007	▪ <i>Completed</i>	
Implementation project closes	13 March 2007	▪ <i>Achieved</i>	
* Upper South Island redundancy	30 July 2007	▪ <i>Planned for 2007</i>	
* Lower South Island Build complete & operational	30 March 2008	▪ <i>On target</i>	
International Network Implementation	* Ready for service target date	1 July 2006	▪ <i>Go live on 23 September 2006 due to delay in commissioning by Verizon Business</i>
	Peering established in Australia and USA	30 July 2006	▪ <i>Achieved on 30 July (USA) and 7 August 2006 (Australia)</i>
	Peering established with 5 European / Asian networks	30 April 2006	▪ <i>Achieved 30 July 2006</i>
POPs	Accommodation ready for Equipment installation	Up to August 2006	▪ <i>Achieved</i>
	* PoPs commissioned	30 October 2006	▪ <i>All PoPs commissioned by 30 October 06</i>
	New PoPs designed for Queenstown,	June 2007 (or	▪ <i>Preliminary investigations begun for</i>



Sub-Area	Milestone/Outcome	Date	Performance (where relevant)
	Tauranga, Twizel/Tekapo	as required)	<i>Queenstown</i>
Forward Planning	Annual review of network architecture and key services Annual review of connectivity design, logical design and operational processes Annual rolling strategic programme of national and international network and service augmentations (3 year focus) International contract renewal decision National contract renewal decision	November – February annually (starting 2007) May – June annually January – March annually February 2009 May 2010	<ul style="list-style-type: none"> ▪ <i>Planned for 2007</i> ▪ <i>Planned for 2007</i> ▪ <i>Planned for 2007</i> ▪ <i>Future event</i> ▪ <i>Future event</i>



Community

Community activity will build communities with a strong usage of KAREN and of the benefits network brings to them. This will involve:

- Awareness raising: publicity, media, presentations, events, networking, corporate branding and brand values.
- Communications: newsletters, website, publications, media.
- Training: working groups, events, Capability Build Fund activity.

Community performance reporting will be based on:

1. Number of workgroups established and maintaining reasonable activity levels.
2. Event success evaluated through feedback forms.
3. Number of KAREN champions identified and supported by REANNZ.
4. Website effectiveness measured through blog registrants and web interaction levels.
5. Number and reach of communications created.

Target outputs for the near-term are shown (key outputs are underlined) with performance (where relevant) discussed.

Sub-Area	Milestone/Outcome	Date	Performance (where relevant)
Events	* Stage a successful public launch of KAREN	August 2006	▪ <i>Achieved</i>
	KAREN go live event	November 2006	▪ <i>Not held due to delays in network testing</i>
	Chair ICT in Government conference	November 2006	▪ <i>CE Chaired and Communities Manager presented</i>
	Speak at APAN Manila	January 2007	▪ <i>Achieved</i>
	Present at TUANZ Telco day	May 2007	▪ <i>Attended – presented at Tertiary ICT conference and participating on various central and local government network groups.</i>
	Thought leadership event/s	July 2007	▪ <i>Building KAREN communities for collaboration event in July 2007</i>



Sub-Area	Milestone/Outcome	Date	Performance (where relevant)
	Annual KAREN anniversary event Host APAN in New Zealand	November 2007 (then annually) July-August 2008	<ul style="list-style-type: none"> Planned for December 2007 Planning underway – event manager engaged
Workshops	Vendor sponsored workshops * Vendor and technical workshops REANNZ workshops Training materials and documentation available	Two per annum Two in 2006, two per annum Quarterly Following each event	<ul style="list-style-type: none"> 3 workshops held in 2006 with vendor support Activity deferred due to resource constraints KAREN in your community event held at Lincoln, March and in Palmerston North in June Achieved, ongoing
Workgroups / communities of interest	Stakeholders surveyed Workgroups established	November 2006 Three by December 2006 <u>Six by December 2007</u>	<ul style="list-style-type: none"> Planned for July 2007. Future event
Partners	Partner strategy developed Most likely potential partners met	November 2006 March 2007	<ul style="list-style-type: none"> Service Partner strategy ready in April 2007 Achieved June 2007
Communications	* Website phase 1 up Website phase 2 up Weekly blog updates Case studies Newsletters Media articles / profile	August 2006 November 2006 From August 2006 2 per quarter 1 quarterly ongoing	<ul style="list-style-type: none"> Achieved Achieved June 2007 Achieved, ongoing weekly Achieved – 12 on site Achieved – first newsletter January 2007, second March, third for June 2007. Ongoing coverage in press, radio, sector



Sub-Area	Milestone/Outcome	Date	Performance (where relevant)
	Stakeholders surveyed	May 2006	<i>publications</i> <ul style="list-style-type: none"> ▪ <i>Achieved</i>
Others	NGO stakeholders met and regular interaction plan established	September 2007	<ul style="list-style-type: none"> ▪ <i>Activity deferred due to resource constraints.</i>
International	Communicate KAREN's availability and progress in overseas NREN publications	September 2007 then ongoing	<ul style="list-style-type: none"> ▪ <i>Ongoing contact through personal communications and newsletter and blog distribution</i>



Capability & Development

Capability building aims to ensure the skills and awareness of end-users and institutional ICT support staff is high enough to obtain the benefits from access to KAREN. It also covers learning from and collaborating with overseas NRENs.

Capability activities involve:

- Awareness raising and promotion
- Training in network and application areas
- Sharing of experiences
- Development of common middleware

Development activities fall loosely into four areas:

- A revenue focus: Identifying and signing new connectees
- A network federation focus: Identifying and engaging with other NRENs on peering and middleware
- A KAREN enhancement focus: implementing new network functionality, reach and performance
- Policy development focus: influencing MinEd, Nat Lib, MCH in policy and funding approach to network services and physical access

There is a close relationship between community communications activity and capability building and development. The key difference is focus: development activity seeks out new stuff; community activity reinforces and extends existing stuff. Potential overlaps are managed as part of standard internal processes.

Capability performance reporting will be based on:

1. Number and success of national events and workshops delivered
2. CBF applications approved (\$310,000 event and travel, \$1.5m working group and development in 2006/07)
3. Project and travel reports published
4. Speaking engagements by REANNZ
5. International events / workshops attended by members and REANNZ



Development performance reporting will be based on:

1. New subscription income and sponsorship revenue
2. New members, associates and partners connections and income
3. Education sector ICT network architecture and associated budget
4. Network event participation and presentations
5. MoUs, interconnection and peering with other NRENs
6. National and international traffic growth

Target outputs for the near-term are shown (key outputs are underlined> with performance (where relevant) discussed.

Sub-Area	Milestone/Outcome	Date	Performance (where relevant)
Capability Build programme	Output agreement signed	June 2006	<ul style="list-style-type: none"> ▪ <i>Achieved</i>
	† Advisory Panel Established	June 2006	<ul style="list-style-type: none"> ▪ <i>Achieved</i>
	Board approves initial activity funding	End July 2006	<ul style="list-style-type: none"> ▪ <i>Achieved March 2007</i>
	† <u>First round travel and event fund applications close</u>	30 October 2006	<ul style="list-style-type: none"> ▪ <i>Achieved</i>
	† <u>First round working group and development applications close</u>	30 November 2006	<ul style="list-style-type: none"> ▪ <i>Achieved</i>
	† First half-yearly report	February 2007	<ul style="list-style-type: none"> ▪ <i>Not required under legislation</i>
	† Second round travel and event fund applications close	28 February 2007	<ul style="list-style-type: none"> ▪ <i>Planned for 2007</i>
	† CBF roadmap developed	30 March 2007	<ul style="list-style-type: none"> ▪ <i>Achieved June 2007</i>
	† Second round working group and development fund applications close	30 March 2007	<ul style="list-style-type: none"> ▪ <i>Planned for 2007</i>
	† Second half-yearly report	July 2007	<ul style="list-style-type: none"> ▪ <i>Planned for 2007</i>
† Subsequent activity funding approvals	Every 2 – 3 months	<ul style="list-style-type: none"> ▪ <i>Next travel approvals June 2007, Major projects August 2007.</i> 	
† Subsequent half-yearly reports	Every 6 months	<ul style="list-style-type: none"> ▪ <i>No requirement for REANNZ to submit half-yearly reports</i> 	



Sub-Area	Milestone/Outcome	Date	Performance (where relevant)
Members	* Initial 18 Membership agreements signed Plan for Poly/other TEI developed	<u>October 2006</u> November 2006	<ul style="list-style-type: none"> Achieved June 2007 Achieved May 2007
Associates	Tariffs sets for Associates (ex schools and libraries) Develop position on interface with MUSH networks Education sector engagement - ICT policy / strategy - architecture and connection standards - funding (regional and national) options Schools connection pilot (2 schools / groups of schools) 1st non-school associate connected	August 2006 December 2006 Ongoing (at least monthly interactions) March 2007 December 2007	<ul style="list-style-type: none"> Schools tariffs set, libraries and other associates sector targets set Accredited Network Aggregators policy released May 2007 Ongoing, successful influence on ICT sector policy which now places KAREN as its likely backbone network for Institutes of Technology and Polytechnics and Schools Not achieved – expected Q2 2007/2008 Family Centre connected early 2007
Partners	Tariffs set for Partners 1st partner signed up/connected 5 partners signed up/connected All identified partners signed up	August 2006 <u>March 2007</u> December 2007 December 2008	<ul style="list-style-type: none"> Achieved, Septemebr 2006 Achieved March 07 Future activity Future activity
Others	Influence positively govt networks group	Ongoing	<ul style="list-style-type: none"> Ongoing strong engagement across government, including at Cabinet level
International	Plan of REANNZ / NZ attendance at international events & meetings * Five interconnection agreements / MoUs	September 2006 Attendance ongoing <u>March 2007</u>	<ul style="list-style-type: none"> Achieved 6 achieved by March2007, 13 achieved by June 2007



Sub-Area	Milestone/Outcome	Date	Performance (where relevant)
Services	Consult with community on REANNZ service model / framework and produce initial position statement Publish framework for supporting partner provided services over KAREN, eg VoIP	February 2007 February 2007	<ul style="list-style-type: none"> ▪ <i>Draft ready for release, June 2007</i> ▪ <i>Expected August 2007</i>



Compliance & control

Compliance and control activity relates to the operations and performance of REANNZ as a company, including planning and reporting activity.

Compliance and control performance reporting will be based on:

- Accuracy of financial forecasts, provided by variance reporting against budget
- Compliance with statutory deadlines and other expectations, eg OSH
- Staff retention / climate survey
- Audit performance

Target outputs for the near-term are shown (key outputs are underlined> with performance (where relevant) discussed.

Sub-Area	Milestone/Outcome	Date	Performance (where relevant)
Business Plan / SOI	New Business Plan/SOI written including: medium-term performance metrics longer-term strategic issues	November 2007	▪ <i>Achieved</i>
	* Revised Business Plan/SOI submitted to shareholders	December 2007	▪ <i>Achieved</i>
	Member Advisory Committee established	June 2007	▪ <i>Consultation underway, Expected June 2007</i>
Organisation & Performance	* CEO Recruited by July 2006	July 2006	▪ <i>Achieved</i>
	* Office premises established	August 2006	▪ <i>Achieved</i>
	* Manager, Communities recruited	August 2006	▪ <i>Achieved</i>
	* Operations Manager recruited	July 2006	▪ <i>Achieved</i>
	* Core REANNZ team in place Values and Operating Charter implemented	December 2006 May 2007	▪ <i>Achieved</i> ▪ <i>Values adopted, Charter dropped as unnecessary</i>



Sub-Area	Milestone/Outcome	Date	Performance (where relevant)
	Staff performance framework and performance plans agreed	January 2007	<ul style="list-style-type: none"> Achieved
Facilities	Operational in new office accommodation with new IT infrastructure	July 2007	<ul style="list-style-type: none"> Achieved
	KAREN connection, videoconferencing in office	February 2007	<ul style="list-style-type: none"> Equipment purchased and operational
Policies, inc OSH	Draft policies in place	July 2006	<ul style="list-style-type: none"> Achieved
	* Good employer and EEO policies implemented	July 2006	<ul style="list-style-type: none"> Achieved
	OSH assessment of new office	September 2006	<ul style="list-style-type: none"> Not yet undertaken
	ACC audit	March 2006	<ul style="list-style-type: none"> Not yet undertaken
	Attain first level ACC rating	June 2007	<ul style="list-style-type: none"> Planned for 2007
	Attain second level	March 2008	<ul style="list-style-type: none"> Future activity
Financial management	Financial advisors selected	July 2006	<ul style="list-style-type: none"> Achieved
	* Financial practices documented and implemented by July 2006	July 2006	<ul style="list-style-type: none"> Achieved
	Delegated Authority Policy in place	July 2006	<ul style="list-style-type: none"> Achieved
	New accounts structure prepared	July 2006	<ul style="list-style-type: none"> Achieved
	Accounts package implemented and staff trained	August 2006	<ul style="list-style-type: none"> Achieved
	* First audit completed	October 2006	<ul style="list-style-type: none"> Achieved 22 November 2006
	Reporting templates / format finalised	December 2006	<ul style="list-style-type: none"> Achieved
* Second audit completed	August 2007	<ul style="list-style-type: none"> Achieved 	
Reporting	*† Annual report (including on MoRST output agreements)	October 2007	<ul style="list-style-type: none"> Planned for 2007
	* Quarterly reports	1 month following end of each quarter	<ul style="list-style-type: none"> Achieved, ongoing
	Monthly board reports (new format)	August 2006 (constantly)	<ul style="list-style-type: none"> Achieved, ongoing



Sub-Area	Milestone/Outcome	Date	Performance (where relevant)
	* Output Agreement reporting	refine) As per agreements	<ul style="list-style-type: none"> ▪ <i>Achieved, ongoing</i>
Ministerial / Cabinet report backs	Provide solid input into Ongoing financial viability report back to Cabinet	Early 2007	<ul style="list-style-type: none"> ▪ <i>Planned for 2007</i>

8. Financial statements

Research and Education Advanced Network New Zealand Ltd

Statement of Financial Performance

for the year ended 30 June 2007

2006 (10 months) Actual \$000		Note s	2007 (12 months) Actual \$000	2007 (12 months) Budget \$000
	Revenue			
20,267	Grant income	1	12,702	12,802
-	Network Income		2,098	2,332
-	Other income		2	20
394	Foreign currency gains	2	-	-
<u>20,661</u>	Total Revenue		<u>14,802</u>	<u>15,154</u>
	Expenses			
24	Audit fees	5	21	25
-	Amortisation	9	5	-
-	Depreciation	8	224	85
127	Directors fees	6	138	157
272	Employment expenses		912	1,231
-	Foreign currency losses	4	1,971	-
11	Network expenses		5,218	8,152
169	Other operating expenses		996	2,188
1,309	Professional services		106	182
38	Rental and lease expenses		53	53
108	Travel and vehicle expenses		198	546
<u>2,058</u>	Total Expenses		<u>9,842</u>	<u>12,619</u>
18,603	Surplus before interest and taxation		4,960	2,535
96	Interest income		427	319
18,699	Surplus before income tax		5,387	2,854
162	Taxation	3	(162)	-
<u>18,537</u>	Net surplus after taxation		<u>5,549</u>	<u>2,854</u>

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

Research and Education Advanced Network New Zealand Ltd

Statement of Financial Position
as at 30 June 2007

Actual 2006 \$000		Note	Actual 2007 \$000	Budget 2007 \$000
CURRENT ASSETS				
9,202	Cash and cash equivalents	7	6,299	2,913
123	Other financial assets		-	-
-	Receivables and debtors		134	-
68	Prepayments		90	-
-	Prepaid network expenses - current	10	5,498	-
(138)	GST Receivable		237	(53)
-	Stock on hand		26	-
(125)	Tax receivable	3	178	-
<u>9,130</u>	Total Current Assets		<u>12,462</u>	<u>2,860</u>
NON-CURRENT ASSETS				
132	Property, Plant & equipment	8	2,478	608
-	Intangible assets	9	14	-
<u>9,824</u>	Prepaid network expenses – Non Current	10	<u>11,034</u>	<u>17,930</u>
<u>9,956</u>	Total Non-Current Assets		<u>13,526</u>	<u>18,538</u>
CURRENT LIABILITIES				
542	Accounts payables and accrued expenses	11	793	-
7	Employee entitlements		37	7
-	Income in advance		108	-
-	Other financial liabilities	7	963	-
<u>549</u>	Total Current Liabilities		<u>1,901</u>	<u>7</u>
<u>18,537</u>	NET ASSETS		<u>24,087</u>	<u>21,391</u>
PUBLIC EQUITY				
-	Share capital		1	-
<u>18,537</u>	Accumulated surplus		<u>24,086</u>	<u>21,391</u>
<u>18,537</u>	Total Public Equity		<u>24,087</u>	<u>21,391</u>

The Directors of REANNZ authorised these financial statements for issue.
On behalf of the Board:



J. D. Watson
Director



R. D. Pridmore
Director

Date: 26 July 2007

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

Research and Education Advanced Network New Zealand Ltd

Statement of Changes in Equity
for the year ended 30 June 2007

Actual (10 months) 2006 \$000		Actual (12 months) 2007 \$000	Budget (12 months) 2007 \$000
-	Public Equity at beginning of year	18,537	18,537
-	Share Capital introduced	1	-
	Recognised revenues and expenses		
18,537	Surplus (deficit) after taxation	5,549	2,854
<u>18,537</u>	Total recognised revenues and expenses	<u>5,554</u>	<u>2,854</u>
<u>18,537</u>	Public Equity at end of year	<u>24,087</u>	<u>21,391</u>

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

Research and Education Advanced Network New Zealand Ltd

Cash Flows Statement
 for the year ended 30 June 2007

Actual (10 months) 2006 \$000		Note	Actual (12 months) 2007 \$000	Budget (12 months) 2007 \$000
	CASH FLOWS FROM OPERATING ACTIVITIES			
	Cash was provided from (applied to)			
20,255	Crown revenue		12,702	14,408
12	Other government department funding		-	-
-	Network Income		2,087	2,624
59	Interest received		285	319
271	Sundry income		2	17
138	Net GST		(372)	(495)
<u>(11,533)</u>	Payments to suppliers and employees		<u>(14,911)</u>	<u>(22,531)</u>
9,202	Net cash flow from operating activities	12	(207)	(5,658)
	CASH FLOWS FROM INVESTING ACTIVITIES			
	Cash was provided from (applied to)			
<u>-</u>	Purchase of plant & equipment		<u>(2,697)</u>	<u>(631)</u>
-	Net cash flows from investing activities		(2,697)	(631)
	CASH FLOWS FROM FINANCING ACTIVITIES			
	Cash was provided from (applied to)			
<u>-</u>	Issue of equity share capital		<u>1</u>	<u>-</u>
-	Net cash flow from financing activities		1	-
-	Net (decrease)/increase in cash held		(2,903)	(6,289)
-	Cash at beginning of year		9,202	9,202
<u>9,202</u>	Cash at end of year		<u>6,299</u>	<u>2,913</u>
9,202	Represented by:			
	Cash at bank		6,299	2,913

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

9. Statement of accounting policies

Reporting Entity

The reporting entity is the Research and Education Advanced Network New Zealand Limited ("REANNZ"), a not-for-profit Company, incorporated in New Zealand entirely owned by the Crown. The principal activity of REANNZ is the establishment, ownership, and operation of a high speed communication network for the research and education sector.

REANNZ has designated itself as a public benefit entity. Public benefit entities are defined as "Reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with the view of supporting that primary objective rather than for a financial return for equity holders".

Statement of Compliance

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand ('NZ GAAP'). They 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.

Basis for Preparation

The financial statements have been prepared on a historical cost basis except for the revaluation of certain items for which accounting policies are stated below.

Cost is based on the fair value of the consideration given in exchange for assets.

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

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

Specific Accounting Policies

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

a) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable.

Grant income is recognised as it is received or receivable by REANNZ from the Crown where conditions relating to the grant are satisfied. Where there are no conditions specifically relating to the operating activities other than the requirement for REANNZ to own, and operate a high speed communication network for the research and education sector, grant income is recognised as it is received or receivable.

Interest revenue is recognised using the effective interest method.

b) Property, plant and equipment

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

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



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

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

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

Leasehold improvements	10 years
Routers & switches	5 years
Information technology equipment	3 years
Information technology software	3 years
Office equipment	5 years
Pop Equipment	8 years

c) 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
----------	---------

d) Operating leases

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

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

e) Impairment

At each reporting date, the Directors review the carrying amount of the assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

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

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in the Statement of Financial Performance immediately, unless the relevant assets is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.



f) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Other financial assets are classified into the following specified categories: “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 in banks, other short-term highly liquid investments with original maturities of three months or less, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the Statement of Financial Position.

Receivables

Accounts receivable are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that REANNZ will not be able to collect all amounts due according to the original terms of receivables.

g) 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.

h) Derivatives

REANNZ enters into a variety of derivative financial instruments as part of its normal operations to manage its exposure to foreign exchange rate risk, including forward foreign exchange contracts.

Financial instruments that do constitute hedges, including forward foreign exchange contracts, are valued at the exchange rate prevailing at year end. Any unrealised gains or losses are recognised in the Statement of Financial Performance.

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

i) Employee entitlements

Provision is made in respect of liability for annual leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months of reporting date, are measured at the best estimate of the consideration required to settle the obligation using the current remuneration rate expected.

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

j) Taxation

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

k) Cash flow statement

The Cash Flow Statement is prepared exclusive of GST, which is consistent with the method used in the Statement of Financial Performance.

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 and includes at call borrowings such as bank overdrafts, used by the entity as part of its day to day cash management.

“Investing activities” are those activities relating to the acquisition and disposal of current and non-current investments and any other non-current assets.

“Financing activities” are those activities relating to changes in equity of the entity.

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

l) Foreign currency transactions

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

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

m) Goods and Services Tax (GST)

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

n) Budget figures

The budget figures are those that form part of the REANNZ 2006/07 Statement of Intent.

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

o) Comparative Figures

REANNZ was incorporated on 9 September 2005. The comparative figures are for a ten month period.

Changes in Accounting Policies

REANNZ received exempt status from taxation during the financial year. In the prior year a taxation provision was accounted for in the Statement of Financial Position and Statement of Financial Performance. This has been reversed in the current year in the Statement of Financial Position and Statement of Financial Performance. Apart from this there have been no changes in accounting policies during the period.

Standards or Interpretations not yet effective

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

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

10. Notes to Financial Statements

	2007 (12 months) \$000	2006 (10 months) \$000
1 Grant Income		
Growth and Innovation Framework	10,360	20,155
Capability Build	2,342	100
Ministry of Foreign Affairs and Trade Grant	-	12
	<hr/>	<hr/>
Total Grant Income	12,702	20,267

Government grants and government assistance

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

2 Foreign currency gains

Realised foreign currency gain	-	271
Unrealised foreign currency gain	-	123
	<hr/>	<hr/>
Total Other Foreign currency gains	-	394

3 Income Tax

Taxation expense recognised in Statement of Financial Performance

Net surplus before taxation	-	18,699
	<hr/>	<hr/>
Prima-facie tax	-	6,171
Add/(less) taxation effect of permanent differences:		
Government grants	-	(6,688)
Non-deductible expenditure relating to government grants	-	679
Reversal of prior year tax provision	(162)	-
	<hr/>	<hr/>
Taxation expense for year	(162)	162
The taxation expense comprises:		
Current taxation	(162)	162
	<hr/>	<hr/>
Taxation payable/(refundable)		
Balance at beginning of year	125	-
Provision for income tax for the current year	-	162
Reversal of the prior year tax provision	(162)	-
Interest resident withholding tax	(141)	(37)
	<hr/>	<hr/>
Balance at end of year	(178)	125

3 Income Tax (cont)

	2007 (12 months) \$000	2006 (10 months) \$000
Imputation Credits		
Balance at beginning of year	37	-
Reversal of prior years ICA's	(37)	
Taxation paid	-	37
Taxation refunded	-	-
	<hr/>	<hr/>
Balance at end of year	-	37
	<hr/>	<hr/>

During the year REANNZ was exempted from income tax as a public entity under Section CW 31 (2) of the Income Tax Act 2004. As a result the prior year provision for taxation and imputation credit account has been reversed in the current year. The taxation receivable, which relates to Resident Withholding Tax deducted at source on interest earned, will be recovered from the Inland Revenue Department.

4 Foreign Currency Losses

Realised foreign currency losses	885	-
Unrealised foreign currency losses	1,086	-
	<hr/>	<hr/>
	1,971	-
	<hr/>	<hr/>

5 Remuneration to Auditors

Audit of the financial statements	21	21
Fees for Assurance over probity of tender processes for Advanced Network Project	-	3
	<hr/>	<hr/>
	21	24
	<hr/>	<hr/>

6 Directors Fees

Board member fees during the year were:

	\$	\$
Member:		
W W Clegg	25,000	23,750
C Moffatt	25,000	23,750
R D Pridmore	25,000	23,750
D J Taylor	25,000	23,750
J D Watson	38,000	31,667
	<hr/>	<hr/>
Total Board Member Fees	138,000	126,667
	<hr/>	<hr/>

REANNZ has taken out Directors and Officers liability insurance to cover Directors.

7 Financial Instruments

Financial risk management objectives

REANNZ does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of derivatives is governed by REANNZ's policies approved by the Board of Directors, which provide written principles on the use of financial derivatives. REANNZ's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Interest rate risk profile of financial assets and liabilities

REANNZ is exposed to interest rate risk as it has cash on call at floating interest rates. REANNZ manages its interest risk by investing in short term deposits with high credit-rated financial institutions.

The following table details REANNZ's exposure to interest rate risk as at 30 June 2007.

	Weighted average effective interest rate %	Variable interest rate (\$000)	Non interest bearing	Total (\$000)
Financial assets:				
Cash and cash equivalents				
- Westpac business transaction account	1.25	79	-	79
- Westpac cash management account	5.00	5,473	-	5,473
- Westpac USD foreign currency account	4.60	744	-	744
		<u>6,296</u>	<u>-</u>	<u>6,296</u>
Financial liabilities:				
Trade payables	-	-	560	560
Other payables	-	-	233	233
Other financial liabilities		-	963	963
		<u>-</u>	<u>1,756</u>	<u>1,756</u>

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

	Weighted average effective interest rate %	Variable interest rate (\$000)	Non interest bearing	Total (\$000)
(i) Financial assets:				
Cash and cash equivalents				
- Westpac business transaction account	3.50	2,805	-	2,805
- Westpac cash management account	5.50	6,397	-	6,397
- Other financial assts		-	123	123
		<u>9,202</u>	<u>123</u>	<u>9,325</u>
(ii) Financial liabilities:				
Trade payables	-	-	383	383
Other payables	-	-	132	132
		<u>-</u>	<u>515</u>	<u>515</u>

7 Financial Instruments (cont)

Foreign currency risk management

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

The following table details the forward foreign currency contracts outstanding at 30 June 2007:

	Foreign exchange rate at 30 June 2007	Foreign currency USD 000	Contract value NZD 000	Fair value NZD 000
Outstanding Contracts				
<i>Buy US Dollars</i>				
Less than 1 year	0.7692	1,572	2,508	(465)
1 to 2 years	0.7692	1,572	2,539	(496)
2 to 5 years	0.7692	15	21	(2)
		<u>3,159</u>	<u>5,068</u>	<u>(963)</u>

The following table details the forward foreign currency contracts outstanding at 30 June 2006:

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

Credit risk management

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

	2007 \$000	2006 \$000
Bank Balances	6,299	9,202

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

REANNZ is party to letters of credit with Westpac Bank of \$20,000 (2006 - \$10,000)

Fair value of financial instruments

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

	Office Equip	Work in progress	ICT Equip	National Pop Equip	Leasehold Improve ment	2007 Total
8 Property, Plant & Equipment	\$000	\$000	\$000	\$000	\$000	\$000
Gross carrying amount						
Balance at beginning of year	1	131	-	-	-	132
Additions/transfers	30	-	217	2,439	16	2,702
Sales/transfers	(1)	(131)	-	-	-	(132)
Balance at end of year	30	-	217	2,439	16	2,702
Accumulated depreciation and impairment						
Balance at beginning of year	-	-	-	-	-	-
Depreciation expense	5	-	58	158	3	224
Impairment losses charged to Statement of Financial Performance	-	-	-	-	-	-
Balance at end of year	5	-	59	158	3	224
Net book value	25	-	159	2,281	13	2,478
	Office Equip	Work in progress	ICT Equip	National Pop Equip	Leasehold Improve ment	2006 Total
Property, Plant & Equipment (cont)	\$000	\$000	\$000	\$000	\$000	\$000
Gross carrying amount						
Balance at beginning of year	-	-	-	-	-	-
Additions/transfers	1	131	-	-	-	132
Sales/transfers	-	-	-	-	-	-
Balance at end of year	1	131	-	-	-	132
Accumulated depreciation and impairment						
Balance at beginning of year	-	-	-	-	-	-
Depreciation expense	-	-	-	-	-	-
Impairment losses charged to Statement of Financial Performance	-	-	-	-	-	-
Balance at end of year	-	-	-	-	-	-
Net book value	1	131	-	-	-	132

	Software \$000	2007 Total \$000	Software \$000	2006 Total \$000
9 Intangible Assets				
Gross carrying amount				
Balance at beginning of year	-	-	-	-
Additions/transfers	19	19	-	-
Sales/transfers	-	-	-	-
Balance at end of year	19	19	-	-
Accumulated amortisation and impairment				
Balance at beginning of year	-	-	-	-
Amortisation expense	5	5	-	-
Impairment losses charged to Statement of Financial Performance	-	-	-	-
Balance at end of year	5	5	-	-
Net book value	14	14	-	-

10 Prepaid network expenses

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

	2007 \$000	2006 \$000
Gross carrying amount		
Balance at beginning of year	9,824	-
Additions	10,215	9,824
Balance at end of year	20,039	9,824
Portion of prepayment expensed		
Balance at beginning of year	-	-
Prepayment expensed during year	3,507	-
Balance at end of year	3,507	-
Net book value	16,532	9,824
Current/Non current split		
Current	5,498	-
Non current	11,034	9,824
	16,532	9,824

	2007 \$000	2006 \$000
11 Accounts Payable		
Trade payables	560	383
Accrued expenses	233	27
Other payables	-	132
	<hr/>	<hr/>
Total payables and accruals	793	542

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

12 Net Cash Flow from Operating Activities

Reconciliation of Statement of Financial Performance Surplus with net cash flow from operating activities:

	2007 \$000	2006 \$000
Net surplus after taxation for the year	5,549	18,537
Non cash items:		
Amortisation	9	5
Depreciation	8	224
Realised prepaid network expenses	10	3,507
Change in fair value of financial assets	1,086	(123)
	<hr/>	<hr/>
	10,371	18,414
Movements in net assets and liabilities		
(Increase) in accounts receivable	(134)	-
(Increase) in prepayments	(22)	(68)
(Increase) in inventory	(26)	-
Decrease/(Increase) in property, plant and equipment included in accounts payable	107	(132)
(Increase) in prepaid network expenses	10	(10,215)
Increase in accounts payable and accrued expenses	251	542
Increase in income received in advance	108	-
Increase in employee entitlements	30	7
(Decrease)/Increase in GST payable	(374)	138
(Decrease)/Increase in tax payable	(303)	125
	<hr/>	<hr/>
	(10,578)	(9,212)
Net cash inflow from operating activities	<hr/>	<hr/>
	(207)	9,202



13 Employee Remuneration

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

	2007	2006
\$120,000 - \$129,999	1	-
\$130,000 - \$139,999	1	-
\$140,000 - \$149,999	-	-
\$150,000 - \$159,999	2	-
\$160,000 - \$169,999	-	-
\$170,000 - \$179,999	-	-
\$180,000 - \$189,999	1*	1*
\$190,000 - \$199,999	-	1

* Indicates Chief Executive’s remuneration

14 Related Party Transactions

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

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

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

During the period, REANNZ received \$12,702,000 (2006: \$20,255,000) of grants from the Crown for Growth and Innovation Framework and Capability Build and a \$Nil (2006: \$12,000) grant from the Ministry of Foreign Affairs and Trade.

15 Key Management Personnel Compensation

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

	2007 (12 months) \$000	2006 (10 months) \$000
Short-term employee benefits	746	238
Post-employment benefits	-	-
Other long-term employee benefits	-	-
Termination benefits	-	-
Share-based payment	-	-
Total Compensation	746	238

16 Commitments

(i) Capital commitments

There are no capital commitments at reporting date.

(ii) Operating lease commitments

Operating leases relate to the lease of:

- Office lease at Wellington Railway Station; and
- Accommodation space for the use and location of equipment together with access to certain shared facilities and the supply of utilities and other services and deliverables; and
- Core POP accommodation & associated support facilities, core national and international POP connectivity and equipment provision & installation.

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

	2007 \$000	2006 \$000
Less than one year	289	14,575
Between one and two years	289	3,474
Between two and five years	233	3,818
Later than five years	-	-
Total operating lease commitments	811	21,867

(iii) Management services commitments

Management services commitments relates to:

- Payments to Verizon Ltd for the management of the international network; and
- Payments to TelstraClear Ltd for the management of the domestic network.

The Management services agreements are between 3 to 4 years.

	2007 \$000	2006 \$000
Less than one year	3,232	-
Between one and two years	2,253	-
Between two and five years	1,127	-
Later than five years	-	-
Total management services commitments	6,612	-

(iv) Capability Build Fund (CBF)

The CBF is used to fund REANNZ to support development of their member's capabilities to access and use KAREN. In terms of the output agreement between REANNZ and the Minister of Research, Science and Technology (MoRST), REANNZ received regular draw-downs during 2006/07.



16 Commitments (cont'd)

The fund is for a total of \$4,884,000 (excl. GST). The company has received \$2,442,000 (\$2,342,000 2006/07 and \$100,000 2005/06) to date (Refer Note 1) and have expensed \$550,000 of which \$380,622 has been paid out and \$169,378 (excl. GST) has been included in currently liabilities to 30 June 2007.

During the year under review the Board announced the first round of successful applicants and allocated a total of \$1,798,404 (ex GST) to pay over a period of two years as and when the project milestones of the funded projects are met. These projects are a mix of development capability building and travel. The balance of these funds will be allocated in the next round.

Funding not already paid out at 30 June 2007 will be a future potential commitment to the company once the successful applicants reach their project milestones. These future potential commitments are as follows:

Future Potential Commitments	2007/08 \$000	2008/09 \$000
Travel	55	150
Development projects	2,788	1,341
Total	<u>2,843</u>	<u>1,491</u>

17 Contingent liabilities

There are no known contingent liabilities at reporting date.

18 Subsequent events

There are no events subsequent to reporting date, that the Directors are aware of, that would have a material impact on the financial statements for the period ended 30 June 2007.

19 Accounting estimates and judgements

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

11. Governance Statement

Organisation form

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

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

Management of the Company

The Board of Directors meets monthly. During 2006/07 these monthly meetings were supplemented with additional meetings as required for strategic planning purposes and to progress specific decisions. The Board is accountable to shareholding Ministers in the manner set out in the REANNZ Constitution, the Statement of Intent and the shareholding Ministers' Letter of Intent.

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

Board of Directors

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

Directors

Directors are appointed by the shareholding Ministers following Cabinet approval. Three of the Current Directors are appointed for two years through until June 2008, with reappointment at the discretion of the shareholding Ministers. The other two are appointed for three years through until June 2009. The appointment of directors and the Chairperson is at the discretion of the shareholding Ministers.



12. Directors' interests

Disclosures

As at 30 June 2007

The following are specific disclosures given pursuant to section 140(1) of the Companies Act 1993.

Professor Warwick Clegg
Pro-vice Chancellor, IT Victoria University of Wellington

Dr Rick Pridmore
Chief Executive National Institute of Water & Atmospheric
Research Ltd (Resignation effected 31 January
2007)

Both Professor Clegg and Dr Pridmore held senior positions in organisations that, as of 30 June 2007, had signed letters of intent to contract with REANNZ as network members. Dr Pridmore declared his resignation from these organisations to the Board effective from 31 January 2007.

The following are general disclosures of interest given by Directors of REANNZ pursuant to section 140(1) and 140(2) of the Companies Act.

Dr Jim Watson

- Trustee, Malaghan Institute for Medical Research and served as the President of the Royal Society of New Zealand from 2003 – June 12, 2006.
- President, Royal Society of New Zealand (until 12 June 2006)

Carol Moffatt

- Board member, Multiserve Education Trust
- Director, Core Education
- Advisor, Microsoft (New Zealand)

Jane Taylor

- Board member of Legal Services Agency (Appointed 25 May 2007)

Professor Warwick Clegg

- Director. Library Consortium of New Zealand Ltd



Dr Rick Pridmore

- Director, Coal Association of New Zealand (Resignation effected 31 January 2007)
- Director, CRL Energy Ltd (Resignation effected 31 January 2007)
- Director, Unidata Pty Ltd (Resignation effected 31 January 2007)

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 the director's interests and updated regularly.



13. Annex A: About REANNZ

Purpose

REANNZ’s purpose is to establish, own and operate a high-speed data network dedicated to New Zealand’s research, education and innovation (R,E & I) sector.

Such networks are required as “modern science and education is increasingly taking place via collaborations that extend beyond institutional, geographic and international boundaries. Vast datasets are shared and manipulated around the world, digitized reference and education materials are being accessed remotely, and personal and group interaction is being made more real and intimate through applications like virtual reality, even from opposite sides of the globe”¹

Such networks, common overseas, are sometimes called ‘advanced networks’ as they typically offer technical advantages to their members over normal ‘commodity Internet’ connectivity

Due to the non-profit and public good aspect of the research, education and innovation sector, telecommunication infrastructure owners typically provide access to capacity (usually at the fibre optic cable or wavelength of light level) at a price much lower than the open market (or that could be obtained by any single institution). The R&E community therefore gains everyday access to communication speeds far quicker than the general populous.

Commercial networks focus on quality and reliability of service. As such, the ability to innovate with new network protocols (methods of transmitting data), optimize the network for certain events / activities and generally push the boundaries of what is capable with networking technologies is very restricted. An R&E network provides a test-bed for new communications technologies and approaches that may eventually become mainstream.

For users who have lower bandwidth requirements, e.g. schools, the advantage of an NREN lies in its focus on their sector and, frequently, with some national public good mandate to facilitate or provide (subsidised) connectivity and access to content and services.

Many countries have had an R&E network for well over a decade. They have been proven time and again as essential infrastructure; as a natural and neutral focus for collaboration and joint problem solving.

¹ Cabinet paper EDC (04) 69 *Establishment of an Advanced Network*

It is important that New Zealand has its own R&E network so that it can participate fully in an ever globalising economy and increase the value of its exports.

Relation to the market

It is useful to compare KAREN's position in relation to the private sector market in New Zealand with that of NRENs and Advanced Networks in other jurisdictions.

A recent foresight project run by TERENA, the trans-European Research & Education Networking Association, examined the differences² between NRENs and Advanced Networks and standard commercial networks. The following factors were identified as important to such networks in retaining their distinctive value offering.

1. A successful NREN has to anticipate the needs of the users, otherwise will soon become obsolete.
2. NRENs need to focus on advanced services (e.g. wavelength switching), not commercially available.
3. NRENs need to keep full control of the networking infrastructure while at the same time leave it 'open'³.
4. NRENs can/should invest in projects with higher risk and serve user's minorities with specific needs which will never be a "business case".
5. NRENs should go up in the protocols stack creating economies of scale but be careful that moving up may change the operating model (millions of users instead of decades).
6. The Pan-European NREN solidarity, the collaborative role of European NRENs that allows for taking care of aspects like the digital divide or e2e [end to end] services also differentiate their role.
7. Marketing the mission and role of NRENs is important.

² <http://www.terena.nl/activities/earnest/ws1/presentations/EARNEST-CommonQuestions-GroupC-2006-05-23.ppt>

³ 'Open' in this context means the technical and philosophical approach of the network operator is to not restrict multiple uses and service delivery options often pursued by vertically integrated telecommunication providers.



- Comparing solely on a cost-basis, NRENS can be challenged since more than 90% of our users are “normal users” in terms of demand.
- Carriers/ISPs may be able to provide most of the services that an NREN provides but, unlike NRENS, will do so on a “project”-basis.

KAREN is consistent with this comparative analysis in that:

- it has been developed in advance of widespread availability of network-enabled research and education applications
- it offers an entire wavelength without capacity or usage charges
- it has open PoPs and maintains open layer-2 network protocols
- no institution could afford the national or international bandwidth KAREN provides
- it connects to many other NRENS on a peering equivalence basis and is focussed on universal connectivity for the R&E sector.

KAREN leverages the existing telecommunications market as it does not currently lay or own fibre or other transmission infrastructure. National and international connectivity are provided by the market – but on a non-standard basis. KAREN also leases space for some of its PoP premises from commercial providers.

KAREN can have a positive impact on the market in the way it directly procures connectivity and facilitates content and services. Our core national build has enabled TelstraClear’s business case for extending its fibre network into new areas, bringing competitive supply and significant cost savings to many of our members and other businesses already. As we address local access issues, it is likely that urban fibre networks and 3G mobile networks will see advantages from KAREN member demand.

Stakeholders

As a network company REANNZ has to retain excellent relationships with a large number of members, government and non-government stakeholders.

Key working relationships are important with:

- MoRST – as a funder, an RS&T policy agency
- MED – as a coordinator of telecommunications policy in government, and funder of digital strategy initiatives



- Ministry of Education – as policy and funding agency for schools and the tertiary education sector
- Supplier partners – the local and national fibre providers and local wireless providers.
- Internet community – InternetNZ and related community for their foresight and influence
- Other NRENs – to ensure good transit and peering agreements and to leverage their experience.

Stakeholder management is the responsibility of everyone in REANNZ at all times, but has a formal focus in the Communities team.

Good employer

To ensure that the Research Education and Advanced Network New Zealand (REANNZ) meets its Good Employer obligations prescribed in the Crown Entities Act Part 3 Section 1 18.

REANNZ will provide opportunities to:

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

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

Company values

Open

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



- we share our learning

Collaborative

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

Advanced

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

Reliable & Efficient

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

Responsibilities

REANNZ will:

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

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

REANNZ



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



14. Annex B: About KAREN

The KAREN offering

KAREN supports a full range of IP protocols is being supported, including:

- the primary transport protocol of ethernet (IEEE 802.3e) with Ethernet over fibre the preferred transmission medium
- all services will be IP based and be IPv4, IPv6, Jumbo Frame, and IP Multicast capable
- the backbone network speed is 10 Gb/s national
- the minimum access speed will be 100Mb/s with the preferred speed being 1 Gb/s. 10 Gb/s access speeds shall also be supported
- point to point, managed 10 Gb/s Wavelengths between POPs/AAPs. There shall be no layer 2 or 3 functions operating between the optical interfaces in the POP (including AAP) sites. The point-to-point services will not be supplied via any layer 2 switching or layer 3 routing equipment now or in the future. As such, the latency on each point-to-point connection will be predictable.

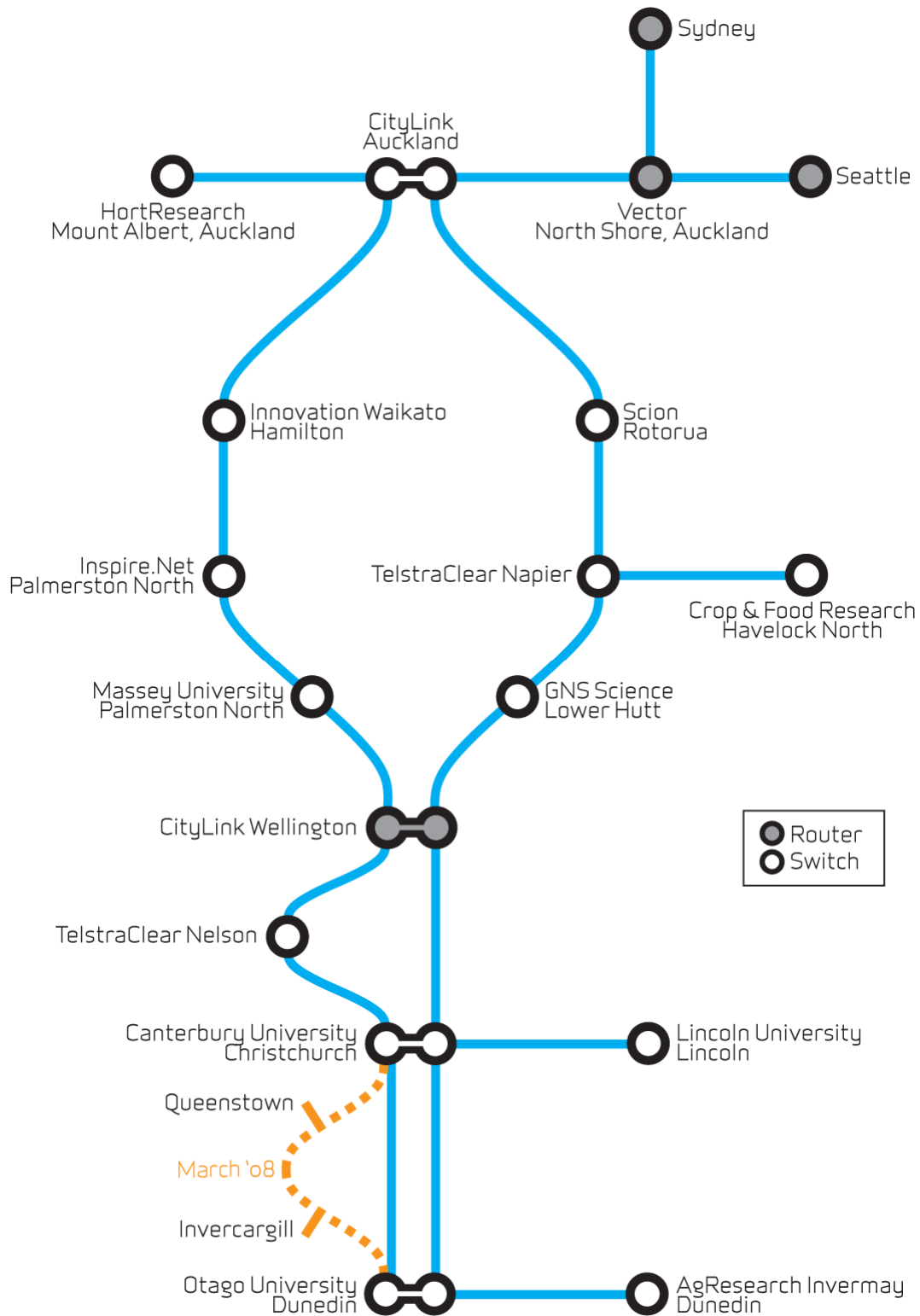
KAREN provides some support for network partitioning such as VLANs, VPNs where it makes sense. There should not be quality of service issues with our network given its size. Our philosophy will be to overprovision bandwidth – not manage it as a scarce resource.

KAREN will support a range of service offerings in the future, but will be agnostic about the technology used to deploy such services provided they are able to run over the network.

KAREN topology

KAREN has 16 points of presence (PoPs) around the country, mostly hosted with Members. Connecting organisations must come to one of these PoPs to join KAREN.

KAREN has two international connections, one to Sydney and one to Seattle. Through these connections, we can reach (subject to peering agreements) all other NRENs around the world and the institutions connecting to them.





Relationship between REANNZ and KAREN

The company has a separate identity for the network it has established – KAREN, the Kiwi Advanced Research and Education Network. Creating a separate identity was done for two reasons:

1. the REANNZ name was difficult to say, non personal, not easily remembered and was confused in many peoples’ minds with REINZ (Real Estate Institute NZ)
2. REANNZ has a clearly defined ownership structure and remit, the network has a much wider and more diffuse community of interest.

KAREN is both a technical network – encompassing both REANNZ’s equipment and connections and members’ equipment and connections – and a network of people, applications and usage. Whilst our mission to deliver and sustain the former, this will only be achieved alongside the growth of the latter.

Moving forward, the REANNZ brand will remain in the background – it will be used only in reference to activities or outputs that are strictly the responsibility of the company and even then only in situations where the use of KAREN would be confusing or misleading. Our website, www.karen.net.nz, is a good example of this focus on KAREN, not REANNZ.

Building a KAREN Brand

The KAREN identity has met with widespread positive acceptance. It is now important to develop a KAREN *brand*. A brand will underpin our communications around KAREN, our development as a company and as a community. A good brand position is memorable, simple, differentiating and contains an element of aspiration – both for those providing and those purchasing the service / product.

During 2007 we will commission a stakeholder survey to baseline the perceptions of the KAREN brand and to inform our business activities and strategy.