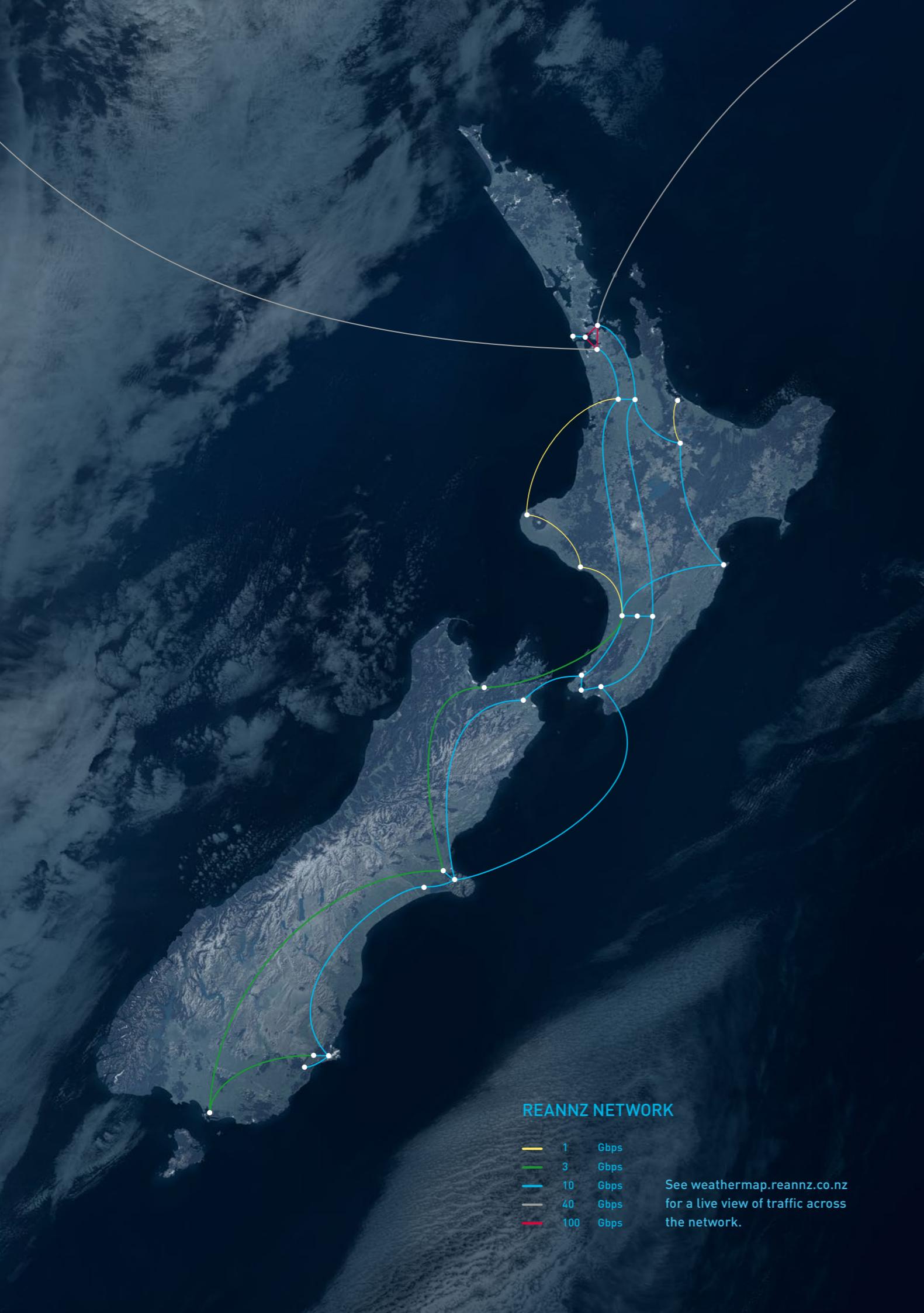


ANNUAL REPORT 2015

REANNZ

IN THE TIME IT TOOK
TO TURN THIS PAGE,
OUR NETWORK COULD
HAVE DOWNLOADED
ENOUGH DATA TO LOAD
100,000 WEB PAGES /
DOWNLOAD RATE
OF 100Gbps /

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DATA DRIVES
MODERN ECONOMIES
COMMUNITIES
THAT SHARE AND
CONVERT DATA
TO KNOWLEDGE
WILL THRIVE /

Our vision

A New Zealand where innovation flourishes through the real-time global exchange of knowledge, ideas and information.

Science used to be a bespoke industry, producing small, manageable amounts of data. Today it's experiencing its own version of an "industrial revolution" – a mass generation of vast volumes of data of every kind. But it simply remains data until someone uses it to make a discovery, or turns it into knowledge.

REANNZ has built a robust, stable and highly capable infrastructure to handle this explosion of data. It goes beyond being a high-capacity network, having evolved into a full service, high performing network organisation. On our members' campuses and in our offices, we promote new ways of thinking, challenging the status quo and experimenting with new ideas.

We provide the springboard to free scientists, researchers and educators to spend time doing what they do best, research and education – and when our best and brightest pursue excellence, it creates a ripple effect, attracting more funding, international collaboration and major scientific and educational breakthroughs.

It is here, it's our future and we're ready for it. We invite you to join us.

STRATEGIC
HIGHLIGHTS /

WE CONTINUE TO DRIVE INNOVATION WITH THE DEPLOYMENT OF NEW TECHNOLOGIES /

THE FIRST 100Gbps
RESEARCH NETWORK
ACROSS THE PACIFIC /

THE FIRST LIVE 8K
STREAMING OF A MEDICAL
CONSULTATION ON
OUR VISUALISATION
WALL – FROM CHICAGO
TO QUEENSTOWN /

THE FIRST NEW ZEALAND
ENTERPRISE TO
DEPLOY A SOFTWARE-
DEFINED NETWORKING
SWITCH ACROSS THE
ENTIRE BUSINESS /

UNDERSTANDING
NEW ZEALAND'S LONG TERM
AMBITIONS / REANNZ IS
PARTNERING WITH NeSI
AND NZGL TO DEVELOP A
NATIONAL RESEARCH DATA
PROGRAMME AS PART OF THE
eRESEARCH 2020 INITIATIVE /

EXPANDING MEMBERSHIP /
REANNZ WELCOMED FIVE
RESPECTED ORGANISATIONS
AS MEMBERS IN THE LAST
12 MONTHS: CAWTHON
INSTITUTE, WELTEC,
BEST PACIFIC INSTITUTE
OF EDUCATION, EDUCATION
PAYROLL LIMITED AND THE
WYNYARD GROUP /



COUNTRIES EITHER INVEST
IN HIGH PERFORMANCE
NATIONAL AND INSTITUTIONAL
INFRASTRUCTURE,
PROGRAMMES AND HUMAN
RESOURCES – OR RISK
BEING RELEGATED TO THE
INTERNATIONAL BACKWATERS /

BOARD CHAIR'S REPORT

REANNZ's shift from being simply a high-capacity network, towards a full-service, high-performance networking organisation is delivering exceptional value for the Crown and our members. It puts REANNZ at the heart of essential infrastructure for New Zealand's researchers, educators and innovative businesses.

The increasing effectiveness and value of REANNZ's services was amply demonstrated in the latest member satisfaction ratings, which are as high as any I have seen in the public and private sectors.

Having invested in 2013/14 in a new, greatly-improved, national network, 2014/15 saw the implementation of much higher performance international links, in conjunction with our Australian counterpart, AARNET. Together with enhanced support and professional services for our members, this has enabled us to substantially enhance our value proposition and services. We are gratified to see this rewarded with substantial growth in members' usage, especially of internet and professional services, as well as attracting new members.

A major decision was taken in 2014/15 to be an anchor tenant on the planned Hawaiki trans-Pacific cable, both for part of REANNZ's long-term needs and to support the Government's desire for a second trans-Pacific operator servicing New Zealand. The New Zealand Government endorsed this decision by allowing the transfer of its \$15 million grant for escrow monies (originally provided for Pacific Fibre) to the Hawaiki project.

One disappointment late in the year was a failure to gain the agreement of members to a replacement video conferencing service, despite a compelling offer overwhelmingly endorsed by members' representatives. This highlights the need to establish a more effective, coherent and strategic procurement relationship with our members.

Meeting financial expectations

REANNZ has delivered very good results for the financial year ending 30 June 2015. REANNZ experienced strong top line performance and lower than budgeted costs, resulting in an operating surplus of \$4.1 million, excluding unrealised foreign exchange gains, against a projected surplus of \$1.5 million. Surpluses are necessary year on year for the organisation to meet its future investment and operating commitments in national and international connectivity, and are within our forecast parameters for managing US\$ exchange rate risk. It is important to note too that REANNZ expects a substantial portion of the unrealised FX gains reported this year (\$4.2M) to be offset by unrealised FX losses as payments are made for contract milestones when the Hawaiki Cable is built as expected in late 2015/early 2016.

Supporting national economic growth

All significant economies have invested in specialised high-performance infrastructure to support data-intensive research, education and innovation (REI). Substantial national and international benefits are sought, both economic and societal. REANNZ was established to support New Zealand's participation in this increasingly important arena. In blunt terms, countries either invest in high performance national and institutional infrastructure, programmes and human resources or, over time, risk being relegated to the international backwaters.

It is worth noting that most countries (as well as data-intensive companies like Google, Amazon, and Microsoft) have built dedicated specialised infrastructure, rather than buying mainstream commercial services. The design, operation and pricing of such infrastructure precludes conventional commercial models. To paraphrase one commentator, "Avis can rent you a car, but not if you want to race in Formula 1".

Although we have seen substantial growth in generic national and international traffic on our network, we have become increasingly concerned by low growth in international research data traffic. This contrasts dramatically with other countries and suggests New Zealand is falling behind, with dire consequences for national and institutional competitiveness. During the year, New Zealand's three e-Research infrastructure organisations, REANNZ, NeSI (high performance computing) and NZGL (genomics technology and services), formalised their cooperation by establishing the eResearch 2020 Group. Together, we began a national conversation on New Zealand's future needs and directions for data-intensive research, education and innovation, including institutional capability as well as national policy, funding, and infrastructure. This has been endorsed by the Minister of Science & Innovation initiating the development of proposals to achieve a substantial shift in New Zealand's data-intensive research capability.

In conclusion

Two board members stood down from the board at the end of the financial year. Phil Norman and Prof. John Raine (my predecessor as chair) contributed enormously to REANNZ's governance during their tenure, and we will miss their knowledge and insights. At the same time, I welcome Professor Simon Hall and Ross Peat to the board.

On behalf of my co-directors, I thank our talented and committed staff for delivering this year's excellent results. In particular, I want to thank CEO Steve Cotter, who, unfortunately for us, will leave REANNZ at the end of October to head GÉANT, the pan-European research & education high-performance network. The GÉANT role is one of the top two R&E network jobs worldwide, and Steve Cotter's appointment is well-earned recognition of his abilities and the tremendous job he and the REANNZ team have done over the last three and a half years.

Just prior to finalising this report, the board appointed Nicole Ferguson as the next CEO of REANNZ. Returning to us from IRD, Nicole was previously CFO at REANNZ and has an in-depth understanding of our business. In addition to her commercial acumen, she is passionate about our role connecting New Zealand's researchers, educators and innovators to the world. Under her leadership, REANNZ will continue to develop our world-class network capabilities and work with our member institutions to support a major uplift of New Zealand participation in data-intensive research, education and innovation.

REANNZ has undergone a very successful transformation over the last few years to become a highly valued part of New Zealand's research & education infrastructure. With the Government's review of the country's data-intensive research & education capability, that process of transformation will continue, and REANNZ is well-placed to play its part.



Jim Donovan
Board Chair



REANNZ BOARD /

1 Jim Donovan / Chair

Jim is a professional director with wide experience in the public and private sectors. His current boards include REANNZ, Skylight Trust, Limber Jobs and Isambard. He is a Chartered Fellow of the Institute of Directors.

2 Ross Peat / Deputy Chair

Ross is Executive Chair of Aptyyx Wealth, a wealth management technology and services company, a director of technology companies HealthSoft New Zealand Ltd and HealthSoft Australia Ltd, and a director of AUT Enterprises Ltd.

3 Professor Simon Hall

Simon is head of fundamental sciences at Massey University. He is a Professor of Electrochemistry at the university and has spun out two companies based on his research on rechargeable batteries.

4 Professor Steve Weaver

Steve is Deputy Vice-Chancellor (Research) at the University of Canterbury. He is currently a director of GNS Science and the NZ e-science Infrastructure (NeSI). He is also a director of two charitable research funding organisations.

5 Susie Johnstone

Susie is based in Balclutha where she is the Managing Partner of Shand Thomson Chartered Accountants. Susie is a Fellow of both Chartered Accountants Australia & New Zealand and the Institute of Directors.



A POWERFUL NETWORK
FREEING RESEARCHERS
FROM CONSTRAINTS /

THE FIRST 100Gbps RESEARCH NETWORK ACROSS THE PACIFIC OCEAN / **SPANNING 11,000 KMS** AND 4,000 TIMES FASTER THAN RESIDENTIAL BROADBAND /

At REANNZ we show what's possible so researchers know that they're unconstrained by bandwidth or distance; there are no limits to what they can achieve.

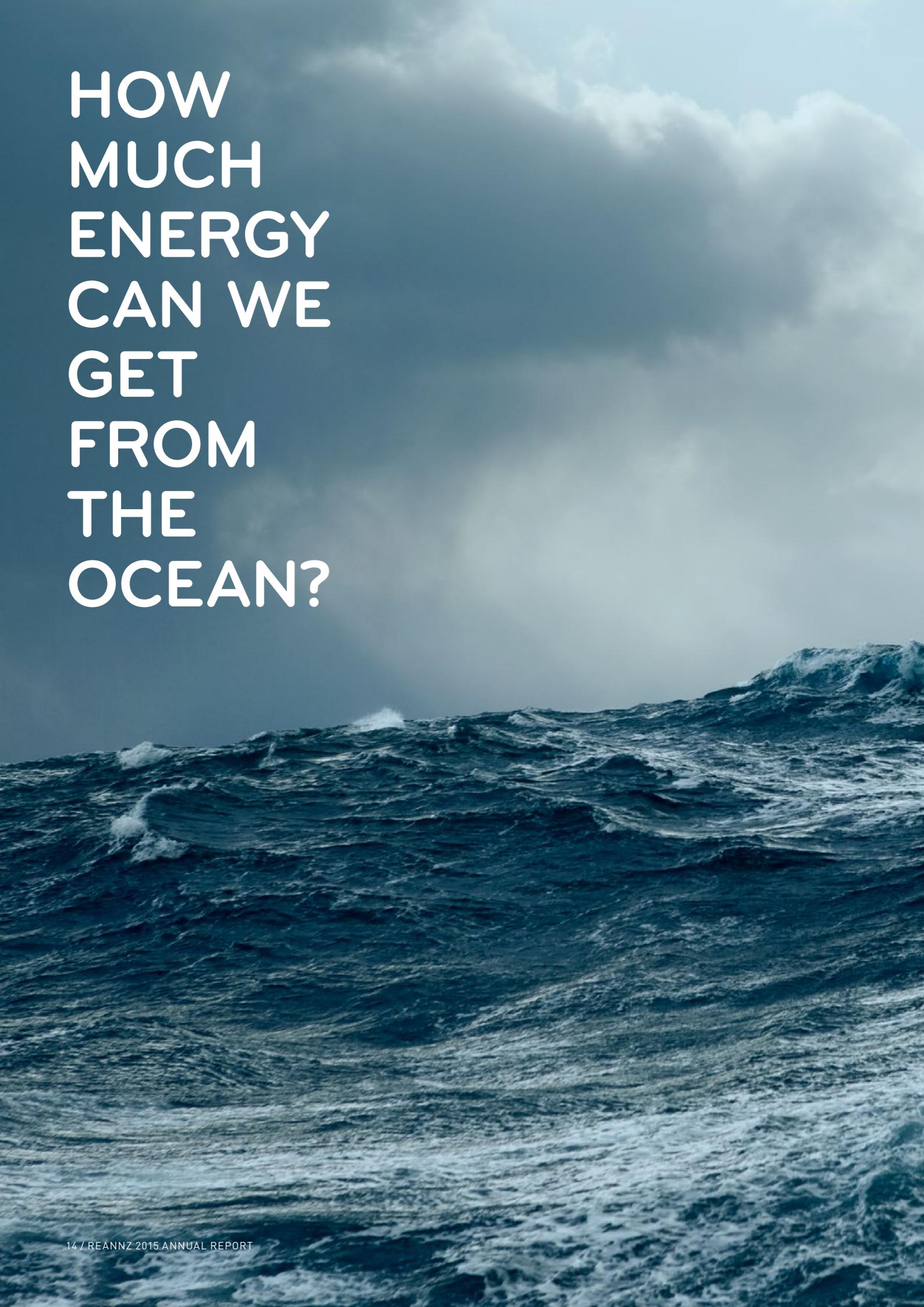
Our 100Gbps Pacific connection shows that REANNZ has the capability to support big science today.

Our 8K visualisation wall can stream complex medical procedures to educate doctors here and allows emergency responders to put up satellite images of disaster areas to decide how and where to respond.

We have also deployed the first organisation wide software-defined networking switch in New Zealand, leading the way in this exciting new field of computer science.



HOW MUCH ENERGY CAN WE GET FROM THE OCEAN?



UNIVERSITY OF OTAGO CASE STUDY

Ross Vennell is a man driven by a challenge. He is a physical oceanographer at the University of Otago, which means he works on demystifying the physics of the ocean, from tidal energy to climate change.

Ross is currently looking at how we could generate electricity from tidal currents, "a bit like having wind turbines under the water". New Zealand is one of the best places on the planet to extract energy from the ocean, and Ross is trying to estimate how much power we could generate from turbines. "We need energy sources which don't come from carbon, and we need them very quickly."

The potential for tidal energy is huge. "At the very upper limit the Cook Strait could probably power two New Zealands. In a practical sense we'd probably get 10% of that which would still power an Auckland or two. The scale of it is really tremendous."

Before we can invest in tidal energy we need to understand how much power we could get. "It's like any new technology, the first one costs you a lot of money, and what I'm working on is: is it worthwhile going there?" says Ross.

Figuring that out is hard, he says. "We only have one Earth and we can't really replicate it a million times and run them in parallel to simulate what might happen." Instead Ross and his students build virtual models to work out what the future could look like.

Ross will use the REANNZ network to get to the NeSI supercomputers to run these virtual models. A fast, reliable network is essential for his work. "The quicker you can get the data, the more you can get out of it, the more analysis you can do and the bigger the scope of the project." Ross describes looking at new data like opening Christmas presents, "it's the excitement of, what am I going to find?"

It's a complex project, but the potential keeps Ross engaged. "I grew up sailing and that's what started me on the road to becoming an oceanographer, it gave me a deep seated sense of wanting to understand why the ocean moves. I can imagine a future where we are generating lots of power from the Cook Strait and you'd actually set your dishwasher by the tides rather than day or night, so depending on where the currents are flowing in the Cook Strait you get cheaper electricity. We could live our lives by the tides, which is kind of cool from an oceanographer's point of view."





THIS IS MY FOURTH AND FINAL ANNUAL REPORT. I LEAVE KNOWING THAT NEW ZEALAND RESEARCHERS ARE NOW WELL EQUIPPED AND POSITIONED TO INNOVATE AND COMPETE GLOBALLY: NO MORE EXCUSES /

CHIEF EXECUTIVE'S REPORT

After years of building the network and introducing enhanced services, New Zealand now has a world class research network. This allows researchers to access one-of-a-kind scientific instruments around the globe and puts them on par with their international colleagues and collaborators.

This year, we completed the upgrades of our national and international networks and made a seamless transition to the new infrastructure. Paired with the specialised consulting we now offer, our members have everything they need to maximise the value they get from using our network. The continued uptake of our services has also led to yet another jump in member satisfaction. 74% of our members now view our services as essential to their business, up from 29% in 2011.

Financially, we have also had our best year ever, achieving a \$4.1 million surplus. Typically, surpluses are earmarked for network expansion and funding the development of advanced services. However, as REANNZ currently faces the end of government support after 2017, its future ability to make investments in infrastructure and services to meet the increasing pressure of globalisation remains in doubt.

Despite all these advances firmly establishing REANNZ as an essential global platform, there is clear hesitation within the membership to take the leap required to make the motto 'innovation economy' more than just an inspiring slogan – as evidenced by a flatline of international research & education traffic in the last three quarters of the year – a possible indication that New Zealand's collaborations with their international peers may have plateaued.

REANNZ is in a prime position to be an essential component of this nation's economic engine if what we have to offer is not just recognised and not just utilised, but maximised. More than ever before, it's important to keep building upon these hard-won gains instead of sitting back and resting on our laurels.

MAJOR ACHIEVEMENTS POSITION US STRONGLY /

We're here to supercharge the ambitions and achievements of our members – their feedback says we're doing that.

In our latest customer satisfaction survey:

- › 98.6% rated REANNZ as 'essential' or 'valuable' – up from 53% in 2011.
- › More importantly, 74% rated it as 'essential' to their business – up from 29% in 2011.

Building a strong business base in preparation for an end to government funding:

- › Total revenues were a record \$15.2M. Two new revenue streams with future contracted revenues of \$1M+ were introduced during the year (commodity internet & managed services). Both revenue streams contributed over \$700K each.
- › Tight cost controls contributed to a \$4.1M surplus. This is an increase of 13% over 2014.
- › For the first time in several years, REANNZ has broadened its appeal and added new members. Cawthon Institute, WelTec, BEST Pacific Institute of Education, and Education Payroll Limited and the Wynyard Group joined in 2014/2015.

Our operational record for the past year was exceptional:

- › 99.99% uptime on national network, 100% uptime on international links.
- › Detailed planning and coordination with members ensured that cutovers to both the Shared National Network and the AARNet ScienceWave went flawlessly.
- › Total network traffic grew 84%. National network traffic grew 65%, against a target of 25%, as more members use the network to connect multiple sites, for remote backup and access to REANNZ's content caches.
- › Strong uptake of REANNZ internet drove total international traffic up 143% from a year earlier. Although international R&E traffic grew 37% for the year, over the last three quarters of the year, it only grew 1%. This falls well short of the 28% gain in international R&E traffic our sister network, AARNet, experienced over the same period and well below their five year average of 68.5% growth.

A year of exceeding service targets and gearing up for growth:

- › REANNZ Internet sales were 70% above target, at 7.1 Gigabits of capacity.
- › eduroam™ is now deployed at 15 member institutions and gets nearly 1,300 logins a day. REANNZ, in partnership with CityLink, deployed eduroam™ at more than 30 locations across the CBD in Wellington. This extends the eduroam™ footprint beyond institutional boundaries and has turned Wellington's CBD into an off site campus for the global knowledge community, helping our city's libraries, museums, cultural institutions and even cafés become key building blocks to a borderless, educated society.
- › REANNZ secured an anchor tenancy on a proposed second undersea cable for New Zealand, the Hawaiki Cable. If the cable build goes forward, this 25-year deal secures international capacity at favourable, long-term pricing.
- › The board passed a resolution to acquire Tuakiri, New Zealand's Federated Identity service. Tuakiri enables students, academics, alumni and researchers to get secure and seamless access to their computing resources and collaboration environments using one set of credentials granted by their home organisation. This also allows consistent and accurate use of online identities, increasing organisational efficiency and flexibility, and improves user experience, leading to reduced costs and competitive advantage.

As the incubator of New Zealand's innovation community, we collaborated with the best and shared world firsts:

- › Collaborated with Google, ESnet, AARNet, and SANREN (South Africa), VUW, Waikato, Corsa and Allied Telesis on software-defined networking (SDN) projects. Unfortunately, the TICSA legislation caused Google to pull its SDN collaborations out of New Zealand and redeploy them in Australia and the US.
- › Hosted the Global Lambda Integrated Facility (GLIF) conference in Queenstown which was attended by nearly 100 senior research network engineers from more than 40 countries. At GLIF REANNZ demonstrated three world firsts:
 - First software-defined networking IP Transit connection utilising software developed by REANNZ and Google between VUW-REANNZ-Berkeley National Lab.
 - First 100Gbps undersea circuit across the Pacific – temporarily set up for the GLIF conference.
 - First 8K video streaming of a medical demonstration.
- We also demonstrated a prototype Emergency Response Network using software-defined networking technology.

This year has been the most successful and promising of my tenure at REANNZ, and this is my fourth and final annual report. I will be leaving to take over as the inaugural CEO of Europe's research networking organisation. I leave knowing that New Zealand researchers are now well equipped and positioned to innovate and compete globally: no more excuses. However, there are threats to the success of New Zealand's innovation ecosystem, and they lie within: a desire to avoid risk, and a focus on short-term returns over long term innovation.

The business dictionary definition of innovation states that it requires "imagination and initiative in deriving greater or different values from resources, and includes all processes by which new ideas are generated and converted into useful products." Innovation isn't about making conservative, incremental change, it's about being bold, being willing to put your head above the parapet. That's the only way to see the path to the future.

Innovation isn't about making conservative, incremental change, it's about being bold, being willing to put your head above the parapet. That's the only way to see the path to the future.

There may well be a new clarion call to do just that. Despite government funding for REANNZ under its current mandate ending in June 2017, the Minister of Science & Innovation has signalled a new commitment to a "refreshed" national strategic approach and a refined mission: to enhance the contribution of eResearch infrastructure to New Zealand's economic future and translate Big Data development into economic benefits for all Kiwis. The tools, the resources and now a refreshed political will are all there. It's time to back words with decisive action.



Steve Cotter
Chief Executive



WE ARE
STRONGER
TOGETHER /



THE HUMAN NETWORK IS EVEN MORE IMPORTANT THAN THE DATA NETWORK / **REANNZ FACILITATES** **THE MEETING OF** **MINDS THROUGH HIGH** **PERFORMING,** **COLLABORATIVE** **TECHNOLOGY /**

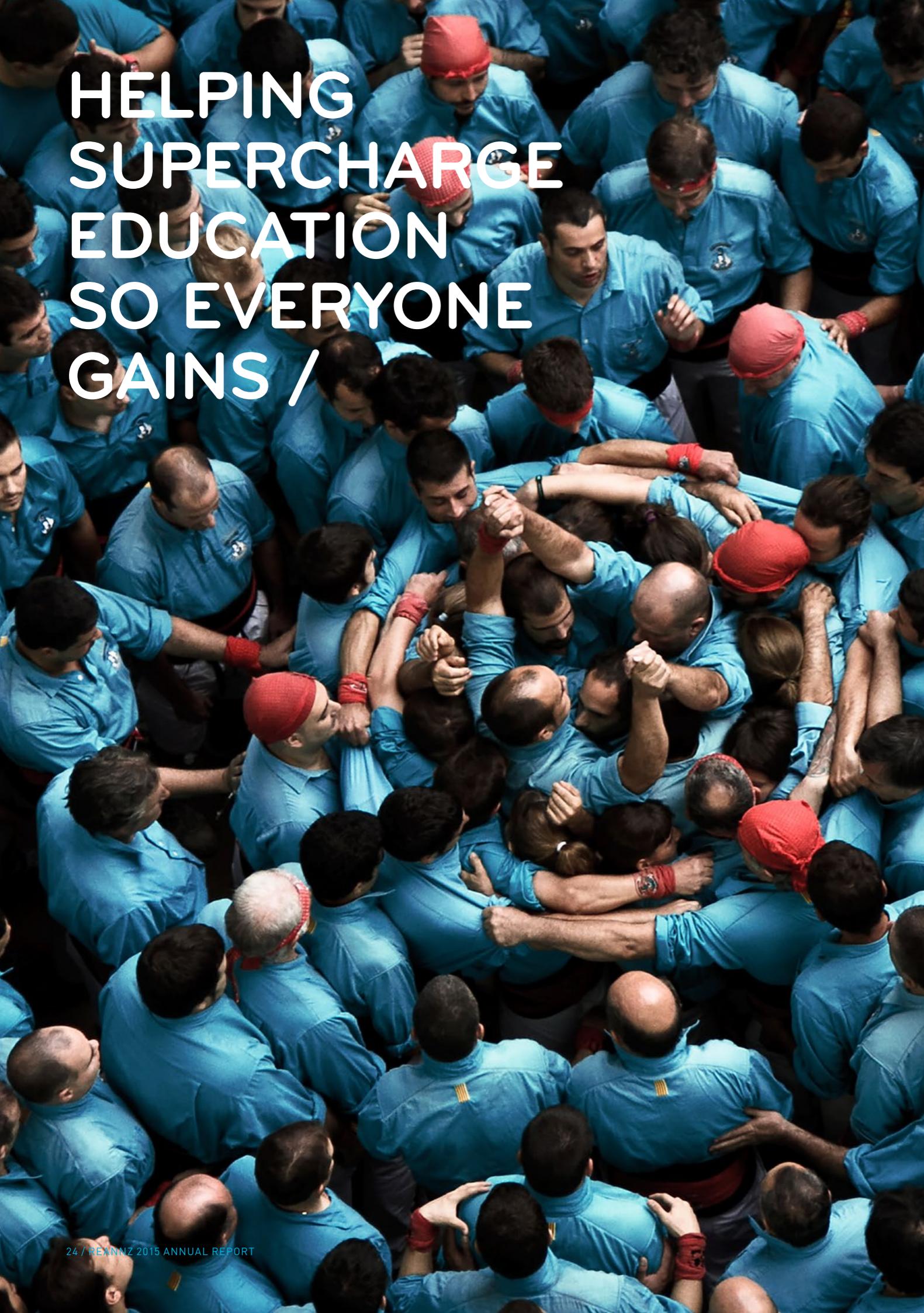
Collaborative technology is a critical part of the science, research and innovation community. Gone are the days when scientists worked alone in labs. Connection to the scientific community is vital, providing access to remote scientific instruments and supercomputers around the world.

At GLIF 2014 we brought 100 of the world's best research networkers to New Zealand so our member institutions could hear and learn from them firsthand.

We also provide internships to up-skill future network and software engineers. Our interns learn what is possible so when they enter the workforce they can knowledgeably assist companies to go further.



Photo Credit: David Oliete



HELPING SUPERCHARGE EDUCATION SO EVERYONE GAINS /

W² SHARED SERVICES CASE STUDY

Education that supports unconstrained growth and development is vital for the future success of New Zealand. It creates a stimulating environment with no limits to knowledge creation and helps raise the living standards of all New Zealanders.

Whitireia and Weltec are polytechnics in the Wellington region who decided to work together to improve the services they offer to their students. As a result of this vision, W² Shared Services was created.

Kathy Wolfe, General Manager of W², and Paul Fallon, Chief Information and Technology Officer, took us on a tour of both campuses to introduce us to what is possible when two organisations recognise the strength that comes from forming a community.

Kathy says that W² is all about putting students first. "For us it's really important that students get the same experience, whether they walk onto a Weltec campus or onto a Whitireia campus. We want to ensure that students just walk into the building and it works, as if by magic."

In 2014 W² came to REANNZ to see what we could offer. On the day we visited in August 2015 the campuses 2,700 students and staff were using the network from every building and all the spaces in between.

W² Shared Services and REANNZ share a common goal: to improve the tertiary sector by connecting people together. Paul tells us, "our relationship with REANNZ is not like any other relationship we have with another network provider. It's a true partnership. They are a trusted advisor".

"REANNZ provides fast, quality infrastructure, so our members don't need to worry about whether their IT infrastructure works, they can trust that it does. And that it will continue to work and meet their students needs in the future" says Steve Cotter.

High quality, high performance IT solutions do not have to cost the earth. Working with REANNZ has saved W² Shared Services \$230,000 per year without compromising on service. "You can squeeze that bottom line as much as possible, but if you're not delivering quality services at the end of the day then that's not helpful either" says Kathy.

Kathy, Paul and many other educators recognise that competition for students is international. When you invest in the best IT solutions it attracts and helps retain highly engaged students and researchers. Steve Cotter says, "IT is an essential part of the business ecosystem and will only increasingly be so in the future. It's important for organisations around New Zealand to take W²'s lead and let high-speed, unlimited access to online resources help their students grow and develop in an unconstrained way."



PERFORMANCE
HIGHLIGHTS /

HIGH PERFORMANCE
RESULTS WHERE IT
ABSOLUTELY COUNTS /

98.6% OF USERS
BELIEVE THE
REANNZ NETWORK
TO BE ESSENTIAL
OR VALUABLE
TO THEIR WORK /

84% INCREASE
IN NETWORK TRAFFIC,
COMPARED TO 25%
OVERALL NETWORK
TRAFFIC GROWTH IN
NEW ZEALAND /

100% OF USERS
SAY REPORTED ISSUES
ARE RESOLVED IN
A TIMELY MANNER /

99.99% NATIONAL
NETWORK AVAILABILITY
AN AVERAGE OF LESS
THAN 10 MINUTES
DOWNTIME PER SITE
IN THE LAST YEAR /

**REANNZ IS COMMITTED
TO PROVIDING AN
ENVIRONMENT AND
CAREER PATHWAY WHERE
ALL MEMBERS OF OUR
TEAM CAN FLOURISH.
EQUALITY AND DIVERSITY
MATTER AND OUR
CULTURE IS BUILT
AROUND ONE GOLDEN
RULE: TREAT OTHERS AS
YOU WOULD LIKE TO BE
TREATED YOURSELF /**

GOOD EMPLOYER STATEMENT /

**WE EMPLOY A SPECTRUM
OF POLICIES TO GUIDE
THE ORGANISATION AND
ENSURE EQUAL EMPLOYMENT
OPPORTUNITIES.**

**WE'VE IDENTIFIED A NUMBER
OF KEY FOCUS AREAS /**

**Leadership, accountability
and culture**

REANNZ is a small and dynamic team with fewer than 30 staff. We encourage all staff to lead by example, supporting others to behave in a way that is consistent with our culture and the values 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. 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 and promotion

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 policies and procedures are in place to minimise risks, particularly when handling network equipment or when visiting our PoP locations.

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 2015.

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 nine scheduled occasions during the year and convened for six special meetings (three Audit Committee meetings, two 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 two times during the year.

Board Changes

Jim Donovan was appointed Chair on 1 July 2015, succeeding John Raine who retired from the board.

Ross Peat was appointed to the board on 1 July 2015 and succeeded Jim Donovan as Deputy Chair.

Professor Simon Hall was appointed to the board and Phil Norman retired from the board on 30 June 2015.

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

A photograph of a large array of satellite dishes, likely the Very Large Array, set against a dark blue night sky filled with stars. The dishes are white and have a distinctive dish-and-boom design.

THE NEXT
BIG STEP IN
SCIENCE IS
BECKONING /



WITH REANNZ WE HAVE A PROVEN NETWORK / LET'S MAKE THE MOST OF IT /

Science has the potential to change lives. One global science project, the Large Hadron Collider, not only discovered the Higgs Boson, but also produced the world wide web which has dramatically changed the way we do business and go about our daily lives. Who knows what the next big science project will produce?

New Zealand has a network capable of handling the science projects of the future. It's now up to scientists, researchers and educators to step up and use it.

REANNZ is working with NeSI and NZGL on eResearch 2020, developing a National Research Data Programme which is all about building the capability of New Zealand's research and data community.



MEGA-SCIENCE MADE REAL RIGHT HERE /



36 / REANNZ 2015 ANNUAL REPORT

AUCKLAND UNIVERSITY OF TECHNOLOGY CASE STUDY: SQUARE KILOMETRE ARRAY

The Square Kilometre Array (SKA) is an array of radio telescopes that, when networked together, will be 100 times as sensitive, and provide image resolution quality 50 times greater than the Hubble Space Telescope.

The SKA project is going to result in two very large radio telescope arrays, one in South Africa and one in Western Australia. The data that these radio telescope arrays will collect will try to answer big science questions like: what are the flow-on effects from the Big Bang? How do different galaxies evolve? Can we find prebiotic molecules on other planets (a sign of extraterrestrial life forms)?

Those big science questions will be looked at in the future, when the arrays are up and running. At the moment the big challenge is to design a computer system that can handle the enormous data rates that the SKA project will produce: around 960 Petabytes of raw data every day, the equivalent of streaming approximately 320 million hours of HD video on Netflix.

Andrew Ensor is the director of the high performance computing lab at Auckland University of Technology (AUT), he leads the team that is designing the SKA computer system. REANNZ has worked with Andrew and AUT on the SKA project for years; “without REANNZ, we probably wouldn’t be working on this project. It would be very difficult for us to be able to do our project work without a good network on which to prototype”.

“I think this is probably the first mega-science project New Zealand’s been so substantially involved in. We tend to think of New Zealand as a small player, that can’t really be on a world stage with other countries, but it’s not the case in this project.”

The SKA project has given New Zealand a chance to get a foot in the door in mega science project work, and it’s setting lots of records:

- › It’s the biggest mega science project in which New Zealand has been substantially involved.
- › It’s the most significant high performance computing effort in New Zealand today.
- › It is the biggest computer system we’ve ever helped design.
- › It’s the longest term collaboration between New Zealand universities and local industry.

New Zealand’s proven it has the ability and credentials to play a key role in such groundbreaking projects as SKA, but it’s critical to maintain the investment to continue having a seat at the international table – and rightly be there at the forefront when the next big step in science is taken.



STATEMENT OF RESPONSIBILITY /

The board of REANNZ accept responsibility for the preparation of the annual financial statements and statement of performance and the judgements used in them, and adopt the financial statements as presented.

The board are responsible for any end-of-year performance information provided by REANNZ under section 19A of the Public Finance Act 1989.

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

In the opinion of the board, the financial statements and statement of performance for the year ended 30 June 2015 fairly reflect the financial position and operations of REANNZ.



Jim Donovan Susie Johnstone
Board Chair Audit Committee Chair

15 October 2015

**OUR TOP LEVEL STRATEGIC
INTENT IS TO CREATE HIGH
PERFORMING TECHNOLOGY
INFRASTRUCTURE TO
CONTRIBUTE TO THE
GROWTH OF OUR ECONOMY,
FOR THE BENEFIT OF ALL
NEW ZEALANDERS /**

PERFORMANCE FRAMEWORK /



This performance framework shows how our output, the advanced network and related tools, enables research and education that leads to a strong research ecosystem and growing economy.

OUR SUITE OF PERFORMANCE INDICATORS ATTEMPT TO MEASURE THE QUALITY, QUANTITY, TIMELINESS AND COST-EFFECTIVENESS OF OUR IMPACT ON NEW ZEALAND'S HIGH-PERFORMING AND GLOBALLY COMPETITIVE RESEARCH, EDUCATION AND INNOVATION SYSTEM /

STATEMENT OF SERVICE PERFORMANCE / FOR THE YEAR ENDED 30 JUNE 2015

OUTCOMES /

One of many contributors

REANNZ is just one of many contributors to New Zealand's high-performing and globally competitive research, education and innovation system. As with other research infrastructures, it is difficult to measure the direct impact our advanced network and services have on the country's innovation ecosystem. Therefore we use external, publicly available competitiveness rankings as a proxy.

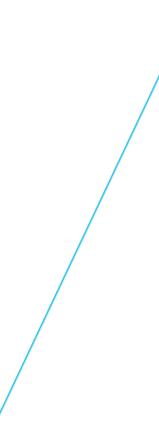
OUTCOME	TREND INDICATORS	RESULTS
High-performing and globally competitive research, education and innovation ecosystem.	New Zealand progresses its position in the top 500 universities per GDP, as shown in the OECD's 'Comparative performance of national science and innovation systems, OECD Science, Technology and Industry Outlook, published every two years.	New Zealand has a current ranking of 200 in the top 500 universities per GDP. The ranking was published on 14 November 2014. There was no change in ranking from the report published on 13 September 2012.
	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 20th place in 2013/14 to 17th place in 2014/15 for university-industry collaboration in R&D. The current ranking was published on 3 September 2014.
	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 21st in 2013/14 to 15th place in 2014/15 for our capacity for innovation. The current ranking was published on 3 September 2014.

Consistent improvements in a country's capacity for innovation and university-industry collaboration are clear indicators of its enhanced global competitiveness. New Zealand rose in the rankings of these two key measures in the World Economic Forum's Global Competitiveness Index. As a key enabler of cross-sector collaboration and facilitator of innovation, the dramatic increase in the use of our network and services over the past year has contributed to the achievement of these results.

MEASURING OUR IMPACT /

Impact: Researchers across all fields are able to conduct data-intensive research

A significant number of New Zealand's science initiatives 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 for analysis, and shared across the globe with collaborating scientists.



MEASURE	RESULT JUNE 2014	TARGET JUNE 2015	RESULT JUNE 2015
Total traffic flows increase	+46% 9.87 PB	+26% 12.44 PB	+84% 18.17 PB

REANNZ has seen very impressive traffic growth of 84% over the last year, indicating a significant increase in the use of network-based applications and amount of data-intensive science occurring within our research and education institutions.

Historically, campus networks have been the bottleneck. Because of this, REANNZ has been actively working with members to improve campus network performance. This effort is beginning to bear fruit by enabling the community to better utilise the advanced network.

The sector-wide uptake of REANNZ Internet has contributed greatly to international traffic volumes. Domestically, REANNZ continues to focus on improving access to online content through settlement-free peering, content caches, and increased use of services such as eduroam™, all of which increase the value our network brings to the community.

MEASURE	RESULT JUNE 2013	RESULT JUNE 2014	TARGET JUNE 2015	RESULT JUNE 2015
Users consider the REANNZ network essential to their work	44%	69%	> 75%	74%
Users consider the REANNZ network valuable to their work	32%	25%	Improvement on 2014	25%

In 2015, we saw another sizeable jump in our users' perceived value of the REANNZ network, with a record 99% considering the network 'essential' or 'valuable' to their work. This impressive outcome is the result of our relentless focus on delivering quality services in demand by our community, such as eduroam™. Going forward, we believe the trend toward institutions moving business-critical services to the cloud will only increase our value proposition for members.

STATEMENT OF SERVICE PERFORMANCE CONTINUED

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 video conference 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 indicate that more collaboration with both national and international participants is taking place.

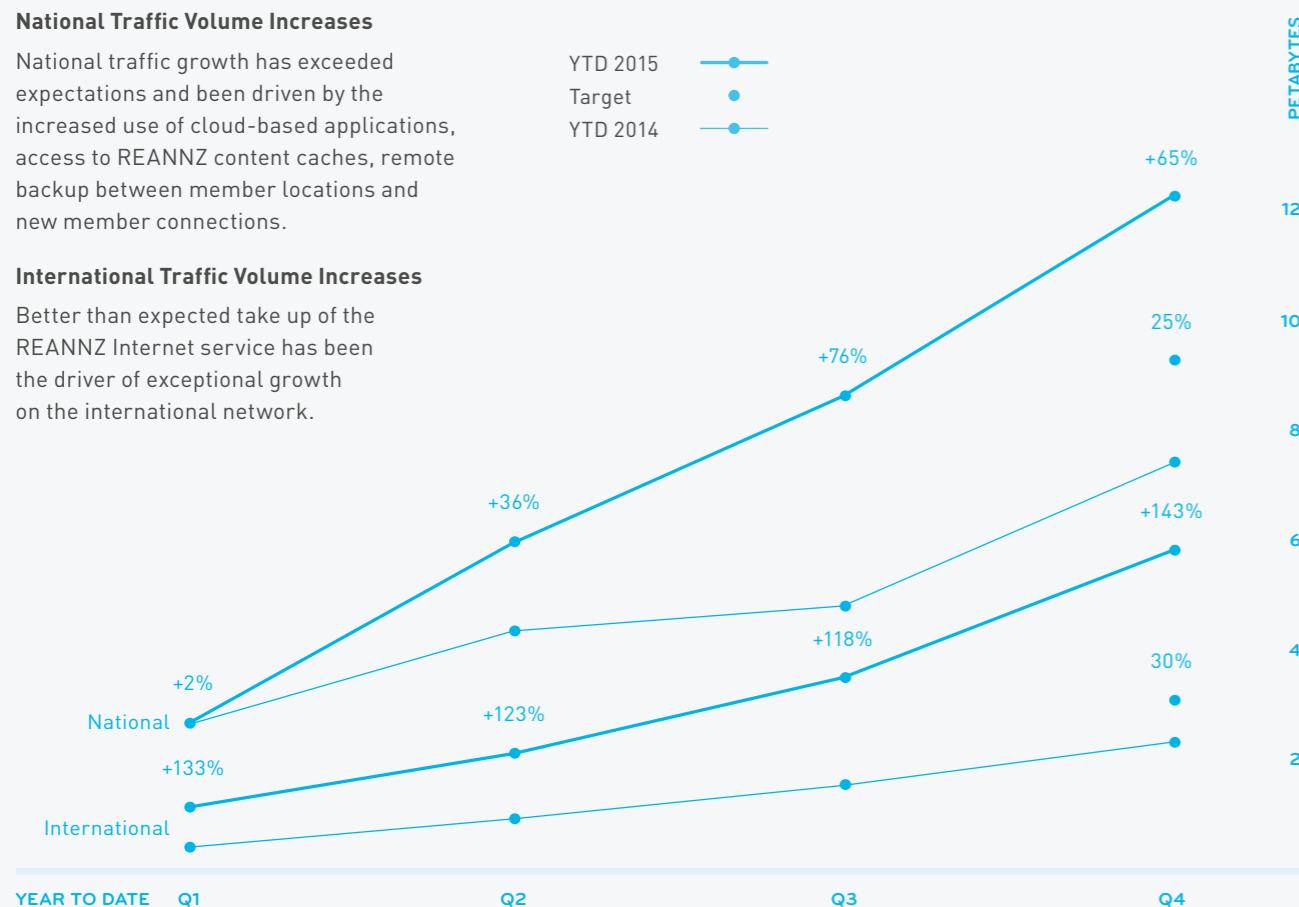
MEASURE	RESULT JUNE 2014	TARGET JUNE 2015	RESULT JUNE 2015
International traffic volume	+95% 2.40 PB	+30% 3.11 PB	+143% 5.83 PB
National traffic volume	+35% 7.47 PB	+25% 9.33 PB	+65% 12.34 PB

National Traffic Volume Increases

National traffic growth has exceeded expectations and been driven by the increased use of cloud-based applications, access to REANNZ content caches, remote backup between member locations and new member connections.

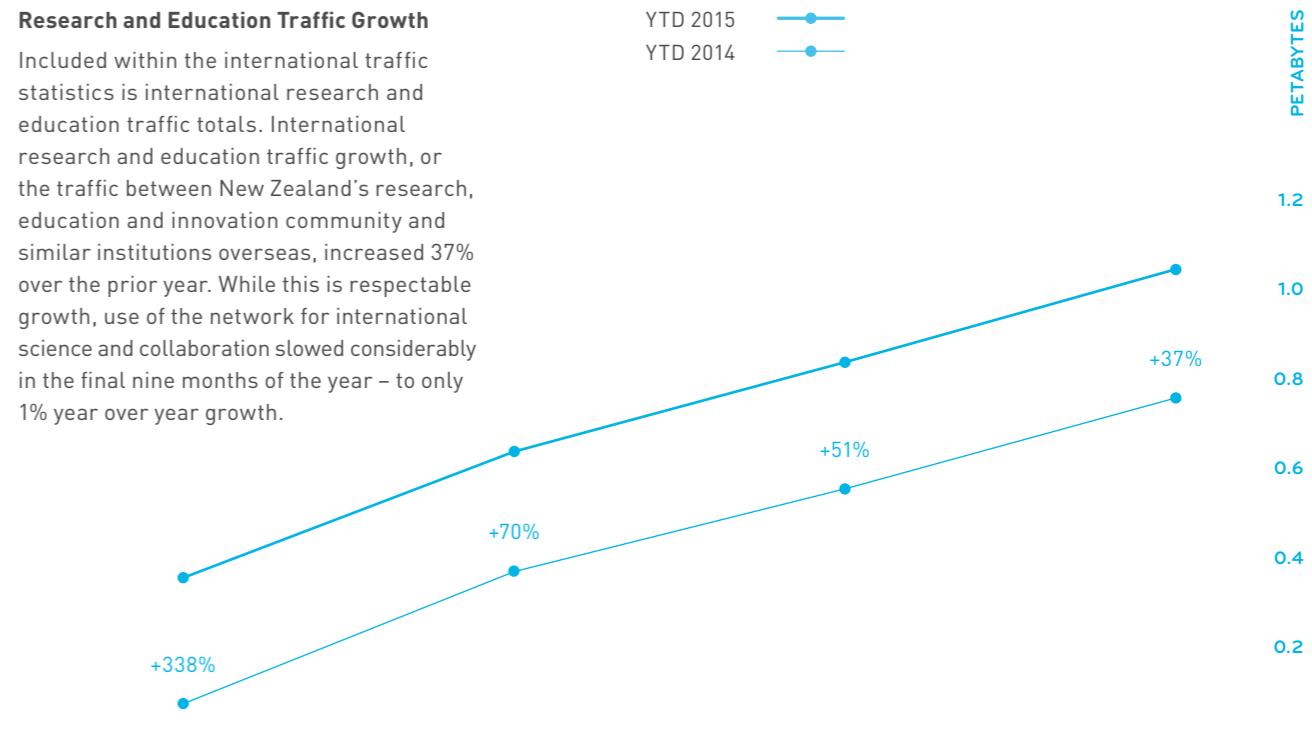
International Traffic Volume Increases

Better than expected take up of the REANNZ Internet service has been the driver of exceptional growth on the international network.



Research and Education Traffic Growth

Included within the international traffic statistics is international research and education traffic totals. International research and education traffic growth, or the traffic between New Zealand's research, education and innovation community and similar institutions overseas, increased 37% over the prior year. While this is respectable growth, use of the network for international science and collaboration slowed considerably in the final nine months of the year – to only 1% year over year growth.



Impact: Users have cost-effective access to the 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 in addition to core network bandwidth.

Members subscribing to REANNZ services are an indication that we provide better value for money than the market.

MEASURE	RESULT JUNE 2014	TARGET JUNE 2015	RESULT JUNE 2015
Subscriptions to services increase	+111%	+55%	+56%

Over the past two years, REANNZ has worked to bring new value-added services to market. Recently launched service offerings include end-to-end network management services, eduroam™, commodity Internet services and access to settlement-free peering and content caches, REANNZ has exceeded its target for the year. The uptake of these services demonstrates REANNZ's ability to deliver services that are relevant and valuable to members.

**STATEMENT OF
SERVICE PERFORMANCE
CONTINUED**

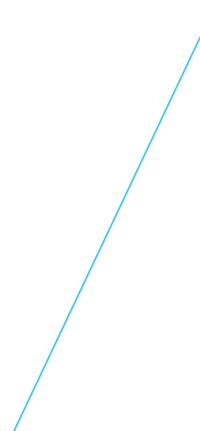
MEASURING OUR OUTPUT /

Output: Provide the REANNZ network and support the member community

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

Quality

The quality of our service can be measured by the availability of the network. 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	RESULT JUNE 2013	RESULT JUNE 2014	TARGET JUNE 2015	RESULT JUNE 2015
National network availability (12 month rolling average)	99.96%	99.99%	99.90%	99.99%
International network availability (12 month rolling average)	99.87%	99.93%	99.90%	100%

Network availability is crucial for our users to be able to perform their work when they need to. Network design is one way to maintain availability, even during outages, by the use of physically diverse paths, fail-over hardware and protected circuits. REANNZ's impressive 2015 network availability statistics (99.99% for the national network and 100% for the international network) are the result of our focus on operational excellence and designing for network resiliency.

Quantity

The number and size of our members' connections are a measure of the quantity of the services we provide.

VOLUME	RESULT JUNE 2014	TARGET JUNE 2015	RESULT JUNE 2015
Network scale and reach (volume of member connections)	259 Gb	+15%	+45%

* The target for June 2015 in the 2014/15 Statement of Performance Expectations was 345 Gb being a 15% increase on the estimated June 2014 result of 300 Gb. The actual 2014 result was 259 Gb, reducing the 2015 target to 298 Gb.

The volume of member connections is a combination of the number and capacity of those connections. Volumes have grown over the last year as new and existing members increased the size and quantity of their connections to the REANNZ network to meet user demand. Network scale and reach is expected to grow 15% per annum as traffic volumes and sites connected increase.

NEW SERVICES ADDED	RESULT JUNE 2014	TARGET JUNE 2015	RESULT JUNE 2015
Service offerings increase	New measure	2 new cloud service offerings available to members	Not achieved

REANNZ planned to launch two cloud service offerings during the year, including a new video conferencing service. The video conferencing service offered to members, at their recommendation, was not taken up by the community. Resourcing constraints meant no other cloud services were offered during the year, however REANNZ will continue to evaluate cloud service offerings over the coming year in our effort to meet member demand.

Timeliness

The speed at which REANNZ staff identify and resolve faults and performance issues is not only a measure of the quality of our

customer service, but also a measure of the effectiveness of our network operations. 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 quickly assigned to REANNZ engineers for resolution.

In 2015, out of 79 survey respondents only 8 had logged a fault with our helpdesk. All 8 considered their issue to have been resolved in a timely manner. This is a fantastic result for REANNZ and indicates that we have adequately resourced the helpdesk facility.

SURVEY OF RESPONSIVENESS	RESULT JUNE 2013	RESULT JUNE 2014	TARGET JUNE 2015	RESULT JUNE 2015
Users consider reported issues to be resolved in a timely manner (based on Member Survey).	92% (11 out of 12 respondents)	84% (16 out of 19 respondents)	80%	100%

**STATEMENT OF
SERVICE PERFORMANCE
CONTINUED**

Cost Effectiveness

As a non-profit research network, REANNZ is focused on performance over profitability. Nevertheless, cost-effectiveness is highly valued and is best demonstrated by retention of our core membership base. If REANNZ was not cost-effective or providing value-for-money, alternative suppliers would enter the market and core membership would decrease.

REANNZ is one of 117 research networks around the world. 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, GÉANT.

One of REANNZ's most significant costs is international connectivity. For most European research networks, this cost is a significantly smaller portion of their operational budgets due to geography and supplier competition. REANNZ operates on a budget below the European average, despite New Zealand's high cost of international bandwidth.

The average budget of European research networks between 2012 and 2014 was EUR10 million. In comparison, REANNZ's budget over the same period was the equivalent of EUR8 million¹.



BUDGET
IN MILLIONS
OF EUROS

¹ Using exchange rate as of June 2015.

**ACTUAL REVENUE
AND EXPENSES /**

Output: The advanced research, education and innovation network and related tools

	ACTUAL* 2015 \$000	BUDGET 2015 \$000
Revenues		
Crown revenue	4,057	4,000
Network revenue	8,007	7,952
Other revenue	3,142	2,205
Total Income	15,206	14,157
Expenses		
Depreciation & amortisation	2,184	2,089
Network expenses	5,796	7,006
Operating expenses	3,158	3,574
Total Expenditure	11,138	12,669
Surplus / (Deficit) excluding gains	4,068	1,488
Foreign currency gains / (losses)	7,778	-
Surplus / (Deficit)	11,846	1,488

* The performance information supporting this revenue and expenditure is reported in pages 43 to 50 above.

**PERFORMANCE AGAINST
ESTIMATES OF APPROPRIATIONS /**

MEMBERSHIPS MAINTAINED	RESULT JUNE 2013	RESULT JUNE 2014	TARGET JUNE 2015	RESULT JUNE 2015
REANNZ maintains its core membership base	8/8 Universities	8/8 Universities	8/8 Universities	8/8 Universities
	8/8 Crown Research Institutes	7/7 Crown Research Institutes	7/7 Crown Research Institutes	7/7 Crown Research Institutes
	-	1/1 ATI	1/1 ATI	1/1 ATI
	12/18 Institutes of Technology and Polytechnics	11/18 Institutes of Technology and Polytechnics	13/18 Institutes of Technology and Polytechnics	12/18 Institutes of Technology and Polytechnics
	2/3 Wānanga	1/3 Wānanga	3/3 Wānanga	1/3 Wānanga

ASSESSMENT OF PERFORMANCE	2013/14 BUDGETED STANDARD	2014/15 ESTIMATED ACTUAL STANDARD	2013/14 BUDGETED STANDARD	2014/15 ESTIMATED ACTUAL STANDARD
Grant made to Research and Education Advanced Network New Zealand in accordance with Crown funding agreement	Achieved	Achieved	Achieved	Achieved
Monitor and assess reporting from Research and Education Advanced Network New Zealand against the Crown funding agreement	Achieved	Achieved	Achieved	Achieved

FINANCIAL STATEMENTS /

STATEMENT OF COMPREHENSIVE REVENUE AND EXPENSE /

FOR THE YEAR ENDED 30 JUNE 2015

RESEARCH AND EDUCATION ADVANCED
NETWORK NEW ZEALAND LIMITED

	ACTUAL 2014 \$000	NOTES	ACTUAL 2015 \$000	BUDGET 2015 \$000
REVENUE				
4,075	Grant revenue	1	4,057	4,000
8,109	Network revenue		8,007	7,952
2,122	Other revenue	2	2,559	1,862
406	Interest revenue		583	343
14,712	Total Revenue Excluding Gains		15,206	14,157
NETWORK EXPENSES				
902	Depreciation & amortisation		2,005	1,884
846	Employment expenses		1,111	1,222
6,521	Network operating expenses	5	4,685	5,784
8,269	Total Network Expenses		7,801	8,891
6,443	Gross Surplus / (Loss)		7,405	5,267
LESS:				
OPERATING EXPENSES				
35	Audit		36	36
150	Depreciation & amortisation		179	205
119	Directors fees	3	119	122
1,341	Employment expenses		1,681	1,896
502	Other operating expenses		747	742
433	Professional services		272	383
132	Operating leases		129	140
133	Travel expenses		174	254
2,845	Total Operating Expenses		3,337	3,779
3,598	SURPLUS / (DEFICIT) EXCLUDING GAINS		4,068	1,488
[385]	Foreign currency gains / (losses)	4	7,778	-
3,213	SURPLUS / (DEFICIT)		11,846	1,488
-	Other comprehensive revenue		-	-
3,213	TOTAL COMPREHENSIVE REVENUE AND EXPENSE		11,846	1,488

Explanations of major variances against budget are provided in note 25.

STATEMENT OF FINANCIAL POSITION /

AS AT 30 JUNE 2015

RESEARCH AND EDUCATION ADVANCED
NETWORK NEW ZEALAND LIMITED

STATEMENT OF CHANGES IN EQUITY /

FOR THE YEAR ENDED 30 JUNE 2015

RESEARCH AND EDUCATION ADVANCED
NETWORK NEW ZEALAND LIMITED

	ACTUAL 2014 \$000	NOTES	ACTUAL 2015 \$000	BUDGET 2015 \$000
CURRENT ASSETS				
24,099 Cash and cash equivalents	6	5,007	2,704	
- Funds held in escrow	7	19,193	15,000	
2,481 Receivables and debtors	8	3,333	2,890	
6,038 Investments	9	11,080	10,000	
(39) Derivative financial instruments	24	702	-	
523 Prepayments		471	410	
503 Prepaid network expenses	10	389	430	
33,605 Total Current Assets		40,175	31,434	
NON-CURRENT ASSETS				
14,997 Property, plant and equipment	11	13,568	13,833	
2 Intangibles	12	1	59	
(306) Derivative financial instruments	24	2,009	-	
325 Prepaid network expenses	10	1,435	1,466	
15,018 Total Non-Current Assets		17,013	15,358	
CURRENT LIABILITIES				
1,155 Accounts payable and accrued expenses	13	892	1,084	
2,359 GST payable		86	126	
195 Employee entitlements	14	211	189	
2,613 Revenue in advance	15	2,511	2,841	
7,361 Deferred revenue	16	6,843	20	
48 Provisions	17	-	-	
13,731 Total Current Liabilities		10,543	4,260	
NON-CURRENT LIABILITIES				
8,513 Deferred revenue	16	8,420	15,000	
8,513 Total Non-Current Assets		8,420	15,000	
26,379 NET ASSETS		38,225	27,532	
PUBLIC EQUITY				
16,001 Share capital	18	16,001	16,001	
10,378 Accumulated surplus		22,224	11,531	
26,379 TOTAL PUBLIC EQUITY		38,225	27,532	

Explanations of major variances against budget are provided in note 25.

	ACTUAL 2014 \$000	NOTES	ACTUAL 2015 \$000	BUDGET 2015 \$000
Opening balance				
16,001 Share Capital			16,001	16,001
7,165 Accumulated Surplus			10,378	10,043
23,166 Public Equity at beginning of year				
- Share Capital introduced			-	-
3,213 Total Comprehensive Revenue and Expense for the year			11,846	1,488
26,379 PUBLIC EQUITY AT END OF YEAR			38,225	27,532

Explanations of major variances to budget are provided in note 25.

The directors of REANNZ authorise these financial statements for issue.

On behalf of the board:

Jim Donovan
Board Chair

Susie Johnstone
Audit Committee Chair

15 October 2015

STATEMENT OF CASH FLOWS /

FOR THE YEAR ENDED 30 JUNE 2015

RESEARCH AND EDUCATION ADVANCED
NETWORK NEW ZEALAND LIMITED

STATEMENT OF ACCOUNTING POLICIES /

	ACTUAL 2014 \$000	ACTUAL 2015 \$000	BUDGET 2015 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash was provided from (applied to)			
19,000	Receipts from the Crown	4,000	19,000
8,001	Network revenue	7,792	7,905
410	Interest revenue	577	343
2,018	Other revenue	1,995	1,370
2,216	Net GST	(2,310)	559
(6,479)	Payments to suppliers and employees	(8,567)	(8,980)
-	Prepayment for network connectivity	(1,804)	-
25,166	Net Cash Flow from Operating Activities	1,683	20,197
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash was provided from (applied to)			
(13,960)	Purchase of plant and equipment	(753)	(839)
-	Funds deposited in escrow	(15,000)	(15,000)
(2,000)	Term deposit investments	(5,022)	(5,989)
(15,960)	Net Cash Flow from Investing Activities	(20,775)	(21,828)
CASH FLOWS FROM FINANCING ACTIVITIES			
-	Cash was provided from (applied to)	-	-
-	Net Cash Flow from Financing Activities	-	-
9,206	Net (Decrease)/Increase in Cash Held	(19,092)	(1,631)
14,893	Cash at beginning of year	24,099	4,335
24,099	CASH AT END OF YEAR	5,007	2,704
Represented by:			
24,099	CASH AT BANK	5,007	2,704

Explanations of major variances to budget are provided in note 25.

Reporting Entity

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

REANNZ's primary objective is to establish, 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 Public Benefit Entity (PBE) accounting standards with reduced disclosures.

The financial statements for REANNZ are for the year ended 30 June 2015 and were approved by the board on 15 October 2015.

Basis for preparation

The financial statements have been prepared on a going-concern basis, and the accounting policies have been applied consistently throughout the period.

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 Public Benefit Entity accounting standards.

The financial statements have been prepared in accordance with Tier 2 PBE Accounting Standards with reduced disclosures. REANNZ is eligible to report as a Tier 2 reporting entity on the basis that it does not have public accountability and is not large.

These financial statements are the first financial statements that have been presented in accordance with the new PBE accounting standards with reduced disclosure, applicable to reporting periods beginning on or after 1 July 2014.

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.

Summary of significant accounting policies

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

The specific accounting policies for significant revenue items are explained below:

Grant revenue

REANNZ is funded in part by the Crown. Where a grant is provided to partially fund the operation of a high-speed communication network for the research and education sector, REANNZ considers there are no conditions attached, and the grant is recognised as revenue at the point of entitlement.

Other grants are recognised as revenue when they become receivable unless there is an obligation in substance to return the funds if conditions of the grant are not met. If there is such an obligation, the grants are initially recorded as deferred income in the Statement of Financial Position, and recognised as revenue when conditions of the grant are satisfied.

**STATEMENT OF
ACCOUNTING POLICIES
CONTINUED**

Network and other revenue

Revenue is measured at the fair value of the consideration received or receivable. All transactions are exchange transactions.

Interest revenue

Interest revenue is recognised using the effective interest method.

Foreign currency transactions

Transactions in foreign currencies, including those for which forward foreign exchange contracts are held, are translated to New Zealand dollars (the functional currency) at the spot rate on the date of transaction.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Revenue and Expense.

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 Revenue and Expense. 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 revenue, these prepayments are released to the Statement of Comprehensive Revenue and Expense on a straight-line basis over the period of the remaining operating lease term.

Finance leases

A finance lease is a lease that transfers to the lessees substantially all the risks and rewards incidental to ownership of an asset, whether or not title is eventually transferred.

At the commencement of the lease term, prepaid finance leases where REANNZ is the lessee are recognised as an asset in the Statement of Financial Position at the fair value of the leased item.

The amount recognised as an asset is depreciated over its useful life. If there is no reasonable certainty as to whether REANNZ will obtain ownership at the end of the lease term, the asset is fully depreciated over the shorter of the lease term and its useful life.

Receivables

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

Investments

Bank term deposits

Investments in bank term deposits are initially measured at the amount invested. After initial recognition, investments in bank deposits are measured at amortised cost using the effective interest rate method, less any provision for impairment.

Derivative financial instruments

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 or issue derivatives for trading purposes. REANNZ has not adopted hedge accounting.

Derivatives are initially recognised at the fair value on the date a derivative contract is entered into and are subsequently revalued at each balance date, with the resulting gain or loss recognised in the Statement of Comprehensive Revenue and Expense.

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.

Property, plant and equipment

Property, plant and equipment asset classes consist of office equipment, ICT equipment, national PoP equipment, international PoP equipment, leasehold improvements, fibre & 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 through a non-exchange transaction, 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 Revenue and Expense.

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 Revenue and Expense 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 & optical equipment	3-8 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.

Costs associated with maintaining computer software are recognised as an expense when incurred.

Staff training costs are recognised as an expense when incurred.

Costs associated with the development and maintenance of the REANNZ website are recognised as an expense when incurred.

The useful life and associated amortisation rates of major classes of intangible assets have been estimated as follows:

Software	3 years
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Impairment of property, plant and equipment and intangible assets

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 Revenue and Expense.

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 Revenue and Expense.

Any reversal of an impairment loss is recognised in the Statement of Comprehensive Revenue and Expense. 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 re-valued, 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 Revenue and Expense, a reversal of impairment loss is also recognised in the Statement of Comprehensive Revenue and Expense.

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

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

Cash flow statement

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

Definitions of the terms used in the Statement of Cash Flows are:

“Cash” includes coins and notes, demand deposits and other highly liquid investments readily convertible into cash used by REANNZ as part of its day-to-day cash management.

“Investing activities” are those activities relating to the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

“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 and accounts payable that are stated inclusive of GST.

The net GST paid to, or received from, Inland Revenue, 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 2014/15 Statement of Performance Expectations, dated 29 May 2014.

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.

1. Grant revenue

	2015 \$000	2014 \$000
NON-EXCHANGE TRANSACTIONS		
Ministry of Business Innovation and Employment Crown funding agreement	4,000	4,000
Ministry of Science and Innovation Hardship Fund	57	75
Total grant revenue	4,057	4,075

REANNZ entered into a Crown funding agreement with the Ministry of Business, Innovation and Employment ('MBIE') during the 2014 financial year. The agreement is for four years, expiring on 30 June 2017, and provides REANNZ with an annual operating grant. REANNZ received \$4 million during the year (2014: \$4M).

All conditions relating to the grant received have been met.

In June 2009, REANNZ received a \$900,000 grant from MBIE (formerly the 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 Revenue and Expense as the related connectivity expenditure is incurred.

2. Other revenue

	2015 \$000	2014 \$000
INCOME FROM EXCHANGE TRANSACTIONS		
Managed Services	710	115
REANNZ Internet	703	353
ITP Connection Fees	467	539
Video conferencing Service	286	337
National Education Network Trial	230	638
Other	163	140
Total other revenue	2,559	2,122

3. Directors fees

	2015 \$000	2014 \$000
Directors fees paid during the year were:		
J Raine (Chair)*	37	38
J Donovan (Deputy Chair)	25	21
S Johnstone	19	19
P Norman*	19	19
S Weaver (appointed 1 July 2014)	19	–
G Benwell (retired 30 June 2014)	–	22
Total directors fees	119	119

* End of tenure 30 June 2015

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.

No board members received compensation or other benefits in relation to cessation (2014: \$Nil)

4. Foreign currency gains / (losses)

	2015 \$000	2014 \$000
Realised foreign currency gains / (losses)	102	14
Unrealised foreign currency gains / (losses)	–	–
Escrow account (USD)	4,193	–
Fair value gains on derivatives	3,056	(345)
Bank account (USD)	427	(54)
Total foreign currency gains / (losses)	7,778	(385)

NOTES TO THE
FINANCIAL STATEMENTS
CONTINUED

The unrealised gain in the USD denominated escrow account is a result of the strong downward movement in the NZD against the USD during the year. In July 2014, NZ\$15M was deposited into an escrow account as the initial fee for a 25-year lease of managed capacity with the Hawaiki Cable Limited Partnership. As construction on the cable has yet to begin, there were no movements in the account balance during the year.

Unrealised gains were made on forward USD contracts held with the New Zealand Debt Management Office (NZDMO) reflecting the increase in fair value of the contracts during the year.

As at 30 June 2015, REANNZ held 17 forward contracts (2014: 21 contracts) to purchase a total of US\$11.6M (2014: US\$12.9M). One contract is settled each quarter until July 2019. The contracts were entered into to mitigate foreign exchange exposure arising from quarterly network payments contractually required to be paid in US dollars.

5. Network operating expenses

	2015 \$000	2014 \$000
NATIONAL NETWORK		
Connectivity	299	1,136
Fibre Circuits	706	746
PoP Accommodation	366	324
Other Network Expenses	1,273	1,702
Asset Disposals	23	48
Total national network expenses	2,667	3,956
INTERNATIONAL NETWORK		
Commodity Internet	1,443	-
Connectivity	510	2,449
PoP Accommodation	14	69
Other Network Expenses	51	47
Total international network expenses	2,018	2,565
Total network operating expenses	4,685	6,521

Network operating expenses include \$297,000 relating to operating lease expenses recognised during the year (2014: \$347,000).

6. Cash and cash equivalents

	2015 \$000	2014 \$000
Cash at bank and on hand	5,007	24,099
Total cash and cash equivalents	5,007	24,099

The total above includes NZ\$569,000 held in US dollars (2014: \$2.148M).

7. Funds held in escrow

	2015 \$000	2014 \$000
Funds held USD escrow account	19,193	-
Total funds held in escrow	19,193	-

In July 2014, REANNZ entered into a 25-year lease of managed capacity with Hawaiki Cable Limited Partnership. The initial fee of \$15M (US\$13.8M) was deposited into a USD denominated escrow account at this time. The \$4.2M movement in this account is a result of unrealised gains on conversion to NZD.

The full amount of the deposit was received as grant funding from the Ministry of Business Innovation & Employment (MBIE) specifically for the initial fee. None of the funding had been spent at balance date. Should the cable project not proceed, the funding will be returned to the Crown.

8. Receivables and debtors

	2015 \$000	2014 \$000
EXCHANGE TRANSACTIONS		
Trade Receivables	2,487	2,335
Forward USD contract receivable	827	110
Sundry Debtors	19	36
Total receivables and debtors	3,333	2,481

In line with member contracts, membership fees are due quarterly in advance. Of the receivables and debtors amount above, \$2,374,000 including GST (2014: \$2,216,000 including GST) relate to membership fees and services to be provided by REANNZ during the coming financial year. These fees are shown as revenue received in advance until the service period begins, at which time the fees are recognised as revenue in the Statement of Comprehensive Revenue and Expense.

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.

9. Investments

	2015 \$000	2014 \$000
Term Deposits (maturity within 12 months)	11,080	6,038
Total investments	11,080	6,038

There is no impairment provision for investments.

10. Prepaid network expenses

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

	2015 \$000	2014 \$000
Balance at beginning of year	828	4,412
Prepayment expensed during year	(808)	(3,584)
Payments made during the year	1,804	-
Net book value	1,824	828
CURRENT/NON-CURRENT SPLIT		
Current	389	503
Non-current	1,435	325
Total prepaid network expenses	1,824	828

NOTES TO THE
FINANCIAL STATEMENTS
CONTINUED

11. Property, plant and equipment

	OFFICE EQUIPMENT \$000	ICT EQUIPMENT \$000	NATIONAL POP EQUIPMENT \$000	INTERNATIONAL POP EQUIPMENT \$000	LEASEHOLD IMPROVEMENTS \$000	NETWORK SERVICES \$000	FIBRE & FIBRE HOUSING \$000	WORK IN PROGRESS \$000	TOTAL \$000
COST OR VALUATION									
Balance at 1 July 2013	74	445	6,269	123	152	522	7,065	16	14,666
Balance at 30 June 2014	78	428	8,564	123	152	518	8,202	–	18,065
Additions	10	70	689	–	7	–	–	–	776
Sales / write offs	(1)	(5)	(100)	–	–	(56)	–	–	(162)
Balance as at 30 June 2015	87	493	9,153	123	159	462	8,202	–	18,679
ACCUMULATED DEPRECIATION									
Balance at 1 July 2013	50	251	1,300	48	9	517	–	–	2,175
Balance at 30 June 2014	57	260	1,748	70	59	516	358	–	3,068
Depreciation expense	10	116	1,567	27	52	1	411	–	2,184
Disposals	(1)	(4)	(79)	–	–	(57)	–	–	(141)
Balance at 30 June 2015	66	372	3,236	97	111	460	769	–	5,111
CARRYING AMOUNTS									
Balance at 1 July 2013	24	194	4,969	75	143	5	7,065	16	12,491
Balance at 30 June 2014	21	168	6,816	53	93	2	7,844	–	14,997
Balance at 30 June 2015	21	121	5,917	26	48	2	7,433	–	13,568

The net amount of fibre held under finance leases is \$2M (2014: \$2.1M). Also refer to note 19.

12. Intangible assets

	SOFTWARE \$000
GROSS CARRYING AMOUNT	
Balance at 1 July 2013	62
Balance at 30 June 2014	62
Additions	–
Disposals	(10)
Balance at 30 June 2015	52
ACCUMULATED AMORTISATION	
Balance at 1 July 2013	54
Balance at 30 June 2014	60
Amortisation expense	1
Disposals	(10)
Impairment losses	–
Balance at 30 June 2015	51
CARRYING AMOUNTS	
Balance at 1 July 2013	8
Balance at 30 June 2014	2
Balance at 30 June 2015	1

There are no restrictions over the title of intangible assets, nor are any intangible assets pledged as security for liabilities.

13. Accounts payable and accrued expenses

	2015 \$000	2014 \$000
EXCHANGE TRANSACTIONS		
Creditors	505	635
Accrued expenses	387	520
Total accounts payable and accrued expenses	892	1,155

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.

14. Employee entitlements

	2015 \$000	2014 \$000
Accrued wages	–	62
Annual leave entitlements	211	133
Total employee entitlements	211	195

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

15. Revenue in advance

	2015 \$000	2014 \$000
Fees received in advance	452	686
Fees invoiced but not yet received	2,059	1,927
Total revenue in advance	2,511	2,613

In line with member contracts, membership fees are due quarterly in advance. Membership fees invoiced but not yet received of \$1,930,000 (excluding GST) relate to fees for services to be provided by REANNZ in the coming financial year (2014: \$1,927,000). These fees are shown as revenue received in advance until the service period begins, at which time the fees will be recognised as revenue in the Statement of Comprehensive Revenue and Expense.

16. Deferred revenue

	2015 \$000	2014 \$000
CURRENT PORTION		
Non-Exchange Transactions		
MBIE Hardship Fund (see Note 1)	33	57
MBIE Hawaiki Cable Managed Capacity Grant	6,750	6,750
Exchange Transactions		
GLIF 2014 Conference Sponsorship	–	27
ITP Connection Fees	–	467
Other prepayments for services	60	60
Total current portion	6,843	7,361
NON-CURRENT PORTION		
Non-Exchange Transactions		
MBIE Hardship Fund (see Note 1)	–	33
MBIE Hawaiki Cable Managed Capacity Grant	8,250	8,250
Exchange Transactions		
Other prepayments for services	170	230
Total non-current portion	8,420	8,513
Total deferred revenue	15,263	15,874

REANNZ received a \$15M grant from the Ministry of Business Innovation & Employment in June 2014 to enter into a 25-year lease of managed capacity with Hawaiki Cable Limited Partnership. The monies will be recognised as revenue when contractual milestones are met and liabilities fall due. None of the funding had been recognised as revenue at balance date. Should the project not proceed, the funding will be returned to the Crown.

17. Provisions

	2015 \$000	2014 \$000
CURRENT PORTION		
Onerous contract	–	48
Total provisions	–	48
MOVEMENTS IN PROVISIONS FOR THE YEAR		
Balance as at 1 July	48	–
Additional provision made for onerous contract	–	156
Amount used	(45)	(108)
Unused amounts reversed	(3)	–
Balance as at 30 June	–	48

REANNZ had a non-cancellable lease for Level 5, 126 Lambton Quay, Wellington. The office space was not used due to the earthquake risks associated with the building [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 was recognised for the obligation. All remaining cash outflows occurred by the end of August 2014 when the lease ended.

18. 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 2015, share capital comprised 1,816 ordinary shares (2014: 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.

19. 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
- Network PoP accommodation and associated support facilities; and
- Network equipment leases

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

	2015 \$000	2014 \$000
Less than one year	353	327
Between one and two years	236	203
Between two and five years	406	358
Later than five years	–	–
Total operating lease commitments	995	888

There are no restrictions placed on REANNZ by any of its leasing arrangements.

iii) Connectivity and managed service commitments

Connectivity and managed service commitments relate to:

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

	2015 \$000	2014 \$000
Less than one year	2,710	2,497
Between one and two years	3,328	314
Between two and five years	8,208	514
Later than five years	–	30
Total connectivity and managed service commitments	14,246	3,355

The significant increase in connectivity and managed service commitments is a result of the completion of upgrades to both the national and international networks. Associated costs of connecting to and maintaining these networks are included above.

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 begin during the 2015/16 financial year. 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 \$2M (2014: \$2.1M).

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.

20. Contingencies

There were no contingent assets or liabilities at balance date for which disclosure is required (2014: \$Nil).

21. Related party transactions

REANNZ is a wholly owned entity of the Crown.

Related party disclosures have not been made for transactions with related parties that are within a normal supplier or client/recipient relationship with terms and conditions no more or less favourable than those that it is reasonable to expect REANNZ would have adopted in dealing with the party at arm's length in the same circumstances. Further, transactions with other government agencies (for example, Government departments and Crown entities) are not disclosed as related party transactions when they are consistent with the normal operating arrangements between government agencies and undertaken on the normal terms and conditions for such transactions.

Key management personnel

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

- REANNZ invoiced Auckland University of Technology (AUT) for membership and services fees of \$600,000 (2014: \$606,000). At balance date \$169,000 including GST was receivable (2014: \$161,000). During the year REANNZ paid AUT \$217 (2014: \$Nil) for conference registration fees. There were no outstanding amounts payable to AUT as at 30 June 2015 (2014: \$Nil). John Raine, Board Chair (to 30 June 2015), is also the Pro Vice-Chancellor of Research and Innovation at the Auckland University of Technology.
- REANNZ invoiced Otago Polytechnic for membership fees and video conferencing fees of \$69,000 (2014: \$64,000). At balance date \$20,000 including GST was receivable (2014: \$18,000). Susie Johnstone, director, retired as the Deputy Chair of the Otago Polytechnic Council on 30 April 2015.

- REANNZ invoiced the Institute of Geological & Nuclear Sciences Limited (GNS Science) for membership fees of \$202,000 (2014: \$199,000). There was \$58,000 including GST outstanding at balance date (2014: \$57,000). Steve Weaver, appointed REANNZ director on 1 July 2014, is also a director of the Institute of Geological & Nuclear Sciences Limited.
- REANNZ invoiced the University of Canterbury for membership and services fees of \$605,000 (2014: \$585,000). There was \$176,000 including GST outstanding at balance date (2014: \$169,000). Steve Weaver, director, is the Deputy Vice-Chancellor Research of the University of Canterbury.
- REANNZ contracted Personal Branz Limited to provide communications services during the financial year. The Chief Executive Officer's wife is a director of Personal Branz Limited. Services amounting to \$520 (2014: \$10,000) were provided during the year. At year-end there were no outstanding amounts payable (2014: \$1,000).

Key management personnel compensation

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

	2015 \$000	2014 \$000
DIRECTORS		
Remuneration	119	119
Full-time equivalent members	0.90	0.90
LEADERSHIP TEAM		
Remuneration*	776	619
Full-time equivalent members	3.0	3.0
Total key management personnel remuneration		
Total full-time equivalent personnel	3.90	3.90

* The amount for 2015 includes contractor payments for interim CFO and leave entitlements paid on resignation of two employees.

22. Employee remuneration

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

	2015	2014
\$100,000 – \$109,999	1	–
\$110,000 – \$119,999	–	1
\$120,000 – \$129,999	1	2
\$130,000 – \$139,999	4	1
\$140,000 – \$149,999	1	1
\$150,000 – \$159,999	1	2
\$160,000 – \$169,999	1	–
\$320,000 – \$329,999	–	1
\$340,000 – \$349,999	1	–

During the year ended 30 June 2015 REANNZ paid no compensation or other benefits in relation to cessation to employees (2014: \$17,500 paid to one employee).

23. 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 2015.

24. Financial instruments

Financial instrument categories

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

	2015 \$000	2014 \$000
FAIR VALUE THROUGH SURPLUS OR DEFICIT – HELD FOR TRADING		
Derivative financial instruments assets	2,711	(345)
LOANS AND RECEIVABLES		
Cash and cash equivalents	5,007	24,099
Funds held in Escrow	19,193	–
Debtors and other receivables	3,333	2,481
Investments – term deposits	11,080	6,038
Total loans and receivables	38,613	32,618
FINANCIAL LIABILITIES MEASURED AT AMORTISED COST		
Accounts payable and accrued expenses (excluding income in advance, taxes payable and grants received subject to conditions)	892	1,155
Finance leases	2,000	2,100
Total financial liabilities measured at amortised cost	2,892	3,255

Fair value measurement

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

On 30 June 2015, the fair value of derivative financial instrument assets was \$2.7M (2014: \$345,000 liability). Of this amount, \$702,000 relates to USD forward contracts due to be settled within 12 months, with the remaining amount to be settled between one and four years.

25. Explanation of major variances to budget

At the time of budgeting in early 2014, it was expected that the major contract in place for an anchor tenancy on the Hawaiki cable would commence during the current financial year. Best estimates were used to forecast the commencement of the upgraded service, however the timeline on the contract was delayed. This delay, together with the weakening of the New Zealand dollar against the United States dollar during the financial year, were the major drivers of the variance to budget for 2014/15 affecting revenue recognition, unrealised foreign exchange gains, and expenditure in some areas.

Statement of comprehensive revenue and expense

Revenue

Increased uptake of managed service offerings resulted in higher than expected revenue. Interest income exceeded budget due to higher than forecasted cash balances across the year.

Network expenses

Unfilled vacancies impacted on network employment expenses for part of the year.

Commodity internet was purchased in smaller increments than budgeted which led to significant savings. Conducting services in-house rather than using external contractors resulted in further cost savings in network operating expenses.

Operating expenses

Overall operating expenses were under budget for the year. Personnel costs were lower than expected due to delays in recruitment of personnel. Professional services fees were also lower than budgeted as planned consultancy work on a new service management tool was deferred.

Unrealised foreign currency gains / (losses)

In July 2014, \$15M was deposited into a US dollar denominated escrow account as the initial fee for the Hawaiki cable. The strong downward movement in the New Zealand dollar against the US dollar resulted in a substantial unrealised gain of \$4.2M for the year.

The weakening New Zealand dollar also gave rise to \$3M fair value gains at year-end on derivative financial instruments.

Statement of financial position

Unrealised gains of \$4.2M on the US dollar escrow account and unrealised fair value gains on derivative financial instruments were the main drivers of the positive variance to budget in total assets.

The delay in the commencement of the Hawaiki cable project is the cause of the deferred revenue variances. Payment of quarterly commodity internet costs during June rather than July, was the main contributor to the payables variance on balance date.

Statement of cash flows

Crown revenue was \$15 million less than expected due to the June 2014 receipt of the Crown grant for managed capacity on the Hawaiki international cable. The grant receipt was budgeted to occur in July 2014. This timing difference also resulted in a GST variance for the year.

The implementation costs for the new, extended capacity international network were expected to occur during the 2013/14 financial year. However, the payments were made this year causing the prepaid network connectivity variance.

To the readers of Research and Education Advanced Network New Zealand Limited's financial statements and performance information for the year ended 30 June 2015

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 the performance information, including the performance information for appropriation, of the company on her behalf.

Opinion on the financial statements and the performance information

We have audited:

- › the financial statements of the company on pages 53 to 70, that comprise the statement of financial position as at 30 June 2015, the Statement of Comprehensive Revenue and Expense, Statement of Changes in Equity and Statement of Cash Flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- › the performance information of the company on pages 43 to 51.

In our opinion:

- › the financial statements of the company:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2015;
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand and have been prepared in accordance with Public Benefit Entity Standards with reduced disclosure requirements.
- › the performance information:
 - presents fairly, in all material respects, the company's performance for the year ended 30 June 2015, including:
 - for each class of reportable outputs:
 - its standards of performance achieved as compared with forecasts included in the Statement of Performance Expectations for the financial year;
 - its actual revenue and output expenses as compared with the forecasts included in the Statement of Performance Expectations for the financial year;
 - what has been achieved with the appropriation;
 - the actual expenses or capital expenditure incurred compared with the appropriated or forecast expenses or capital expenditure; and
 - complies with generally accepted accounting practice in New Zealand.

Our audit was completed on 15 October 2015. 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 and our responsibilities, and 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 the 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 the 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 the performance information. The procedures selected depend on our judgement, including our assessment of risks of material misstatement of the financial statements and the 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 performance information 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;
- › the appropriateness of the reported performance information within the company's framework for reporting performance;
- › the adequacy of the disclosures in the financial statements and the performance information; and
- › the overall presentation of the financial statements and the performance information.

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

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 is responsible for preparing financial statements and performance information that:

- › comply with generally accepted accounting practice in New Zealand;
- › present fairly the company's financial position, financial performance and cash flows; and
- › present fairly the company's performance.

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

The Board is responsible for such internal control as it determines is necessary to enable the preparation of financial statements and performance information that are free from material misstatement, whether due to fraud or error.

The Board is also responsible for the publication of the financial statements and the performance information, whether in printed or electronic form.

Responsibilities of the Auditor

We are responsible for expressing an independent opinion on the financial statements and the performance information and reporting that opinion to you based on our audit. Our responsibility arises from the Public Audit Act 2001.

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 2015.

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



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

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