AARNet Pty Ltd Financial Report and Directors' Report 2019

for the year ended 31 December 2019

ABN 54 084 540 518

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DIRECTORS' REPORT

Your Directors present their report on the Company, AARNet Pty Limited ("AARNet"), for the year ended 31 December 2019.

The following persons were Directors of AARNet during the whole of the financial year and up to the date of this report:

Emeritus Professor Gerard Sutton AO
Chair of the Board and Chair of the Nomination and Remuneration Committee

Dr Christine Burns

Professor John Dewar AO

Mr Robert Fitzpatrick
Member of the Audit, Finance and Risk Committee

Mr Chris Hancock
Chief Executive Officer

Mr John Rohan
Deputy Chair of the Board, Chair of the Audit, Finance and Risk Committee and member of the Nomination and Remuneration Committee

Professor Deborah Terry AO

Emeritus Professor Mark Wainwright AM
Member of the Audit, Finance and Risk Committee and the Nomination and Remuneration Committee

Dr David Williams

Professor Annabelle Duncan was a director from the commencement of the financial year until her resignation on 5 July 2019.

Mr Jeff Murray was a director from the commencement of the financial year until his resignation on 25 March 2020.

Ms Fiona Rankin was appointed a director on 25 June 2019, and remains a director at the date of this report.

Professor Brigid Heywood was appointed a director on 22 October 2019, and remains a director at the date of this report.

Mr David Formica was appointed a director on 25 March 2020, and remains a director at the date of this report.

PRINCIPAL ACTIVITIES

AARNet is a not for profit, proprietary company in which 38 Australian universities and the Commonwealth Scientific and Industrial Research Organisation (CSIRO) have an equal shareholding.

AARNet's principal activity is the provision of internet and advanced telecommunication and network services to its shareholders ("Members") and to other relevant organisations. Services are provided in accordance with the AARNet Access Policy in order that Members and other customers may:

a) use AARNet's internet and other telecommunications facilities and services to provide educational programs and conduct research activities in an efficient and cost effective manner; and

b) collaborate with other parties (nationally and internationally) in furtherance of research and education objectives.

OTHER ACTIVITIES

In addition, AARNet:

a) facilitates the construction of optical fibre infrastructure to extend the AARNet backbone and to connect campuses and other locations to facilitate services for Members and customers;

b) provides applications and services which operate across the AARNet network supporting education and research activities;

c) assists Members and other customers with network design, engineering and consulting services to optimise the end-to-end performance, robustness and resiliency of campus, data centre and cloud networks via the AARNet4 network;

d) participates in the design and deployment of advanced network infrastructure in partnership with network organisations in Australia and internationally, to develop national and global research and education networks; and

e) makes representations to all levels of government on policy, legislation and programs to improve the telecommunications facilities and services available to its Members and other customers.

DIVIDENDS

AARNet's constitution prohibits the payment of dividends or other distributions to its shareholders. Accordingly, no dividends have been paid, declared or recommended either during the financial year or in the period since that year ended (2018: nil).

REVIEW OF OPERATIONS

Network Performance

Throughout 2019 AARNet's network continued to perform at consistently high levels while carrying increasing volumes of traffic for Members and other customers.

For 2019 the average availability was 99.93% which was slightly higher than the level achieved in 2018 (99.92%). Network availability in 2019 was affected by scheduled maintenance, specifically core backbone router upgrades; excluding the effect of those outages, the level of availability would have been ~100%.

Telecommunications traffic carried in 2019 was 14% higher than 2018, and within this, traffic carried on behalf of AARNet's Members grew by just over 20% year-on-year (the key reason why overall traffic grew at a slower rate than Members' traffic was due to the cessation of services provided to an overseas based national research and education network in mid-2019, see discussion on Subscriptions and Telecommunications Revenues below).

Network Expansion

During 2019 AARNet devoted more investment than in any previous year toward upgrading the capacity of the AARNet network and to expanding its geographic reach.

Overall spending on communication assets (including network infrastructure and equipment) was $43,297,410 during the year which was substantially higher than the $27,343,926 invested in 2018 (refer to note 21 to the financial statements).

The increased investment was devoted toward two international submarine cable systems, Indigo and JGA, as well as extensions of AARNet's domestic fibre network.

Indigo Cable System

The Indigo consortium, of which AARNet is a member, has constructed a high speed, high capacity submarine cable system running around southern Australia, from Sydney to Perth, and then internationally from Perth to Singapore.

Indigo was brought into service during 2019 and is now carrying a substantial portion of AARNet's traffic. The Sydney to Perth segment provides a direct, high speed path between the east and west coasts of Australia, adding diversity and resilience for AARNet's domestic network.

The international segment to Singapore, provides AARNet with significantly enhanced capacity to connect with research networks in Asia and also the major research and education networks and facilities in Europe.

JGA South

AARNet is also a member of the JGA South consortium laying a submarine fibre system between Sydney and Guam. Guam is a significant hub for telecommunications services and by participating in the construction and ownership of JGA South, AARNet will gain high capacity bandwidth able to on-connect to research and education networks in Asia (particularly into North Asia).

We expect JGA to enter service during 2020.

Subscriptions and Telecommunications Revenues

AARNet's Members pay subscription and related fees for connection to the network and carriage of data across the network (to research and education facilities in Australia, international research and education networks, and to the general internet). These charges form the largest single component of AARNet's revenues.

During 2019 Members' subscription and related charges were only 0.6% higher than in 2018 despite the growth in Members' traffic discussed above.

	2019	2018	Increase
	$	$	
Members: Subscription, Traffic and Access	40,825,590	40,593,177	**0.6%**
Non-Member: Subscription, Traffic and Access	16,456,613	18,153,717	**(9.3%)**
Other Services	19,453,705	16,915,079	**15.0%**
Telecommunications Revenue	76,735,908	75,661,973	**1.4%**

Until mid 2019 a national research and education network based outside Australia used capacity on AARNet's international network in return for paying a subscription to AARNet. The expiry of this contract resulted in lower non-Member subscription fees in 2019 compared to 2018.

Other Services

AARNet offers a range of other services to Members and other customers. Broadly, these services fall into two categories:

i) Transmission services providing point-to-point capacity: these enable Members and customers to link together geographically diverse campuses, research centres and remote research instruments; or to provide dedicated high-speed capacity between user facilities and third party data centres; and

ii) Above the network services which directly support the delivery of education and research outcomes (including Zoom, a video conferencing/meeting service offered in conjunction with Zoom Inc and Cloudstor, a service which is optimised for the storage and sharing of research data sets).

Revenue from these other services rose by 15.0% during 2019. AARNet's suite of video conferencing and cloud storage services continue to be embraced by users across the research and education sector; and this was supplemented by continued growth in our more traditional services of transmission services and circuits.

Overall, subscriptions and service revenues increased by 1.4% from 2018 after allowing for the expiry of the contract for international capacity, referred to above.

Infrastructure Revenues

Infrastructure establishment fees (income from the provision of new fibre infrastructure) declined slightly in 2019 as the amount of recognised revenue for new fibre and transmission services brought into service was marginally lower than the amount of recognised revenue for contracts at the end of their revenue recognition profile.

	2019	2018	Increase
	$	$	
Infrastructure Establishment Fees	4,652,770	4,742,009	**(1.9%)**
Infrastructure Construction Revenue	1,361,084	1,280,109	**6.3%**
	6,013,854	6,022,118	**(0.1%)**

Revenues from infrastructure construction and allied activities (such as services to relocate infrastructure) were 6.3% higher in 2019 than 2018. This income stream is very reactive to the impact of activity by utility providers, other telecommunications carriers and infrastructure projects (such as transport projects) and income can vary significantly from year to year.

Other Revenues

In addition to revenues from the provision of telecommunications services and infrastructure, AARNet also gains income from interest and dividends on invested funds. In 2019, this investment income totalled $2,759,901 (2018 $3,210,073) (see note 10 to the financial statements). In 2019 investment returns were lower than the previous year due to lower amounts held in investments (as funds were expended on the investments in network outlined earlier) and the effect of lower interest rates.

In 2019, AARNet again benefited from a significant gain on foreign currency contracts held to hedge against adverse movements in exchange rates. In 2019, a gain of $1,210,746 was recognised on these contracts compared to a gain of $3,250,943 in 2018. The gain or loss generated from these contracts largely derives from movements in exchange rates.

Adoption of AASB16 Leases

With effect from 1 January 2019, AARNet implemented the new accounting standard on Leases, AASB16, as more fully described in note 30 to the financial statements.

Under AASB16 rights to use certain property (such as dark fibre, racks and data centre capacity, office space etc), which did not qualify as leased assets under the previous accounting standard on leases (AASB117), are now classified as assets and included in the balance of Property, Plant and Equipment (refer to note 8 to the financial statements). At the same time a lease liability is recognised in respect of the remaining lease payments.

The effect of this is to include in AARNet's results for 2019 depreciation charges and interest charges in respect of leased assets and liabilities, which were not recognised in 2018 and earlier years.

Conversely, AARNet's 2018 results include in various expense categories rental payments in respect of leased assets. In 2019 and subsequent years, these payments are no longer recognised as expenses (and are instead applied to reduce related lease liability.

Telecommunication Expenses

Telecommunication expenses for 2019 were almost $1.0m higher than the previous year. The largest single contributor to this increase was the inclusion of interest expenses related to lease liabilities recognised under AASB16 of $3,018,895 (refer note 11 to the financial statements). There was no equivalent cost included in Telecommunication Expenses for 2018 as AARNet adopted AASB16 with effect from 1 January 2019.

There were also additional telecommunication costs driven by increases in traffic and capacity on the AARNet network. This includes costs for transmission, duct rental and maintenance as well as charges associated with the Indigo Cable System, which commenced operation during 2019. Also included in this category are increased costs related to the operation of services, such as video conferencing, where demand continued to increase during the year.

Offsetting all these increases was the exclusion from Telecommunication Expenses during 2019 of rental charges on items now accounted for as leased assets which, as explained above, were expensed in 2018 but were treated as a reduction of a lease liability in 2019.

Employee and Administration Costs

To support the growth of our network, AARNet added staff to its infrastructure development team, and to support customers in the use of services, added staff to its service desk, cyber security and eResearch support teams.

Depreciation and Amortisation Charges

Depreciation and Amortisation charges, inclusive of depreciation on equipment, depreciation on infrastructure and amortisation of Indefeasible Rights to Use (IRUs) totalled $22,068,461 in 2019 compared to $19,510,010 in 2018.

There were three factors behind this increase:

a) commissioning of additional assets which expanded the capacity and reach of the network (particularly the Indigo subsea cable between Sydney-Perth-Singapore);

b) a weakening of the Australian Dollar which has the effect of increasing amortisation charges on certain IRUs (see below); and

c) the adoption of AASB16 referred to above, which requires recognition of depreciation charges on leased assets.

Amortisation of the IRUs is calculated on the full value of the IRU (including any unpaid portion). Certain of AARNet's international IRUs are subject to deferred payment terms with an outstanding balance denominated in US Dollars. When the Australian Dollar declines against the US Dollar the total value of the IRU (including the deferred portion, when measured in Australian Dollars) increases; therefore, amortisation charges also increase to reflect the higher asset value.

Other Expenses (including Finance Costs)

These costs of $897,811 are higher than 2018 ($104,120) mainly due to losses on foreign currency contracts, incurred as part of AARNet's hedging activities (refer discussion in note 25).

ACCUMULATED SURPLUS AND RESERVES

In 2019 AARNet recorded a net surplus of $7,602,686 (2018: $15,468,460).

In the Board's view, it is prudent for AARNet to generate a surplus in order that investments in network capability and services may be funded without calling on Members to contribute further equity to the company.

Surpluses earned by AARNet cannot (by virtue of the terms of AARNet's constitution) be distributed to the shareholders.

Surpluses earned in prior years, aided by conservative financial management, have therefore been accumulated into significant holdings of cash and investments. In 2019 and 2018 a significant portion of these funds were invested in:

i) the Indigo and JGA South high capacity submarine cable systems (as described earlier);

ii) extensions and enhancements to AARNet's own terrestrial fibre infrastructure to improve the reach, resilience and capacity of the domestic network.

These investments are expected to continue into future years. In addition, AARNet intends to use further funds to:

a) finance investments in technology to enhance the delivery of services to Members and other customers;

b) supplement Members' subscriptions and other income in future years;

c) meet obligations to settle lease liabilities which totalled $46.1m at year end as shown in note 8(i) to the financial statements; and

d) defray part of the significant financial commitments in respect of capacity commitments (principally rights to use the traffic paths of cable systems operated by other telecommunication carriers) which, at year end, were $48.8m, refer note 2(b) to the financial statements.

NET ASSETS

Net assets at 31 December 2019 were $222,798,104 (2018: $214,198,927). The increase represents the surplus for 2019 plus the change in value of available-for-sale financial assets during 2019.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Except for the matters discussed under the heading "Review of Operations" there were no significant changes in the Company's state of affairs during the financial year ended 31 December 2019.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

In February and March 2020 the COVID-19 virus began to spread throughout Australia. AARNet, following directions issued by the Commonwealth and state governments, and in line with practices adopted by many other businesses, instituted a number of responses to assist in slowing the spread of the virus through the community, and to reduce the health risks to our employees, customers, suppliers and other groups with which we work and interact.

These responses include restrictions on travel, requirements for people to self isolate and the closure of our workplaces with employees directed to work from home.

In order to assist our Members and other customers continue operations while their own campuses and workplaces are also closed, AARNet has invested additional time and resources into supporting both the continued operation of our network and our video conferencing services (in particular, Zoom) which are frequently used for both online teaching and in support of research.

Actions AARNet has taken include:

- **i)** increasing capacity between Australia and north Asian countries to assist Members offer online teaching to students unable to travel to Australia to continue their courses;
- **ii)** increasing capacity on the key transmission links between AARNet and certain Australian internet service providers to adapt to increasing traffic across those links as staff and students began to work and participate in online learning from their homes;
- **iii)** providing incentives and technical assistance to Members and other customers as they transition to video conference based learning (particularly by use of the Zoom video conferencing services which AARNet hosts and operates); and
- **iv)** reconfiguring and upgrading the hardware on which Zoom and other services operate to accommodate increased demand.

The potential future financial and operational impact of the COVID-19 virus is discussed further in the following section ("Likely developments and expected results of operations").

Except for matters concerning the COVID-19 virus discussed above, and the matters discussed under the heading "Review of Operations", no other matter or circumstance has arisen since 31 December 2019 that has significantly affected or may significantly affect:

a) AARNet's operations in future financial years;

b) the results of those operations in future financial years; or;

c) AARNet's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The potential impact of the COVID-19 virus on AARNet's future operations and financial position is difficult to forecast. A key factor will be the length of time over which businesses will be required to operate without unfettered access to their workplaces.

The financial impacts of the COVID-19 virus are also difficult to quantify. AARNet now expects to benefit from savings in travel expenditure and some office costs (eg utilities) but these are likely to be more than offset by additional traffic and transmission costs, along with amounts expended to increase capacity on key services.

Volatility in investment markets resulting from the COVID-19 outbreak will impact AARNet during 2020. Since the end of the financial year, the value of AARNet's fixed interest investments have declined by some 3.5% or approximately $1.8m. AARNet does not intend to sell any of these investments prior to maturity and, absent a default by an issuer, expects to recover most of this value over the period until each security matures.

AARNet also holds a smaller value of equity investments which, since 31 December 2019, have declined in value by 31.1% or just under $3.0m. AARNet does not expect to sell any of these investments in the foreseeable future, but to avoid realising any of these losses, the value of these securities would need to recover before the investment is disposed of.

While AARNet does not presently intend to liquidate any significant portion of its portfolio, it may, should markets not recover, eventually be required to sell investments and crystallise a loss.

Ongoing economic and investment market disruption may also reduce the investment income that AARNet would otherwise generate from its investment portfolio in future.

Similar volatility in foreign exchange markets has resulted in the Australia dollar depreciating against the US Dollar throughout the early part of 2020. Without any reversal of this currency movement across the remainder of 2020, AARNet would expect higher costs for equipment and services denominated in USD but would also expect these additional costs to be substantially offset by gains on our foreign exchange hedging instruments and holdings of foreign currency.

Despite this, AARNet expects to continue investing during 2020 in its domestic fibre network and in the JGA South submarine cable system. JGA South is now expected to enter service later in 2020 and will provide AARNet's Members and other users with a high capacity path to South East Asia and beyond.

Notwithstanding the disruption to AARNet's operations and the operations of our Members and other users, in the view of the Directors, AARNet's financial position remains sound.

ENVIRONMENTAL REGULATION

AARNet's operations are not adversely affected by any significant environmental regulation. AARNet believes its greenhouse gas emissions are substantially below the thresholds that are subject to the reporting requirements of either the *Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007.*

INSURANCE FOR OFFICERS

During the financial year, AARNet paid a premium of $40,759 (2018: $33,091) in respect of liability insurance for the Company's Directors and Officers. The liabilities insured against are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the Directors and Officers in their capacity as Directors and Officers of AARNet, and any other payments arising from liabilities incurred by the Officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the Directors or Officers or the improper use by the Directors or Officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to AARNet. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

No known liability has arisen under these indemnities to the date of this report.

AGREEMENT TO INDEMNIFY OFFICERS

Under the terms of its Constitution, AARNet provides indemnity to persons who are, or have been, an officer or auditor of AARNet, but only to the extent permitted by law and to the extent that the officer or auditor is not indemnified by Directors' and Officers' liability insurance maintained by AARNet. The indemnity is against liability incurred by that person as an officer or auditor of AARNet to another person and for costs and expenses incurred by the officer or auditor in defending such proceedings.

Separately, AARNet and each director of AARNet have entered into a Deed of Indemnity under which AARNet indemnifies each director against any liability:

a) to a third party (that is, other than to AARNet) unless the liability arises out of conduct involving a lack of good faith; and

b) for legal costs incurred in successfully defending civil or criminal proceedings or in connection with proceedings in which relief is granted under the *Corporations Act 2001.*

No known liability has arisen under these indemnities as at the date of this report.

AUDITOR

A copy of the Auditor's Independence Declaration as required under s.60-40 of the Australian Charities and Not-for-profits Commission Act 2012 is included on page 11 of this financial report.

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001.*

This report is made in accordance with a resolution of Directors.

Emeritus Professor MS Wainwright AM	Mr JF Rohan
Director	Director
Sydney	
8th April 2020	

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Auditor's Independence Declaration

As lead auditor for the audit of AARNet Pty Limited for the year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of any applicable code of professional conduct in relation to the audit.

Scott Walsh
Partner
PricewaterhouseCoopers

Sydney
8 April 2020

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STATEMENT OF SURPLUS

	Notes	2019 $	2018 $
Services revenue	9	82,749,762	81,684,091
Other revenue	10	4,839,425	7,046,915
Grants and contributions received	10	554,333	403,189
Total revenue		88,143,520	89,134,195
Telecommunications expenses		(20,129,253)	(19,145,255)
Depreciation and amortisation - Telecommunications	11	(14,849,014)	(12,306,825)
Employee benefits expense - Telecommunications		(20,216,618)	(17,816,893)
Administration - Telecommunications		(10,806,926)	(10,111,623)
Infrastructure project construction		(2,668,950)	(2,837,920)
Depreciation and amortisation - Infrastructure projects	11	(7,219,447)	(7,203,185)
Employee benefits expense - Infrastructure Development Group		(3,042,773)	(3,226,181)
Administration - Infrastructure Development Group		(710,042)	(913,733)
Other expenses (including finance costs)	11	(897,811)	(104,120)
Total expenses		(80,540,834)	(73,665,735)
Net surplus		7,602,686	15,468,460
Other comprehensive income			
Movement in the fair value of financial assets		996,491	(837,368)
Total comprehensive surplus for the year		8,599,177	14,631,092

The above Statement of Surplus should be read in conjunction with the accompanying notes.

BALANCE SHEET

	Notes	31 December 2019 $	31 December 2018 $
ASSETS			
Current assets			
Cash and cash equivalents	12	21,826,815	23,702,332
Receivables	14	55,394,340	51,997,349
Derivative financial instruments	15	418,344	797,885
Accrued income	17	24,503,602	33,557,323
Financial instruments at amortised cost	25	752,667	834,915
Total current assets		102,895,768	110,889,804
Non-current assets			
Financial instruments at amortised cost	18	35,470,029	38,192,198
Financial assets at fair value through other comprehensive income	19	15,880,605	9,302,267
Receivables	20	-	214,195
Property, plant and equipment	21	188,802,379	107,615,408
Indefeasible Rights of Use traffic paths	22	65,905,781	67,448,514
Derivative financial instruments	25	25,131	485,492
Total non-current assets		306,083,925	223,258,074
Total assets		408,979,693	334,147,878
LIABILITIES			
Current liabilities			
Payables	3	20,921,837	11,929,419
Income in advance	4	64,635,938	56,311,337
Provisions	6	5,750,872	5,171,758
Lease liabilities	8	1,586,377	-
Other liabilities		308,130	326,746
Total current liabilities		93,203,154	73,739,260
Non-current liabilities			
Income in advance	5	47,602,483	45,468,827
Provisions	7	877,679	740,864
Lease liabilities	8	44,494,632	
Derivative financial instruments	25	3,641	-
Total non-current liabilities		92,978,435	46,209,691
Total liabilities		186,181,589	119,948,951
Net assets		222,798,104	214,198,927
EQUITY			
Contributed equity	23	39,039	39,039
Reserve (accumulated unrealised gain/loss on investments)	24	747,980	(248,511)
Retained earnings	24	222,011,085	214,408,399
Capital and reserves attributable to members of AARNet Pty Ltd		222,798,104	214,198,927
Total equity		222,798,104	214,198,927

The above Balance Sheet should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

	31 December 2019 $	31 December 2018 $
Total equity at the beginning of the financial year	**214,198,927**	199,567,835
Net surplus for the year	**7,602,686**	**15,468,460**
Other comprehensive income		
Changes in financial assets at fair value, net of tax	**996,491**	(837,368)
Total comprehensive surplus for the year	**8,599,177**	14,631,092
Total equity at the end of the financial year	**222,798,104**	214,198,927

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

	Notes	31 December 2019 $	31 December 2018 $
Cash flows from operating activities			
Receipts from members and customers (inclusive of goods and services tax)		**109,192,855**	91,861,883
Payments to suppliers and employees (inclusive of goods and services tax)		**(65,732,198)**	(63,609,595)
Interest received		**2,152,199**	2,460,594
Interest payment on leases		**(3,018,895)**	-
Net cash inflow from operating activities	13	**42,593,961**	30,712,882
Cash flows from investing activities			
Payments for property, plant and equipment		**(43,165,837)**	(30,894,755)
Payments for Indefeasible Rights of Use traffic paths (intangible assets)		**(6,161,095)**	-
Payments for financial assets at fair value through other comprehensive income		**(9,111,402)**	(1,889,492)
Payments for financial instruments at amortised cost		**(69,906,202)**	(89,569,935)
Proceeds from sale of financial assets at fair value through other comprehensive income		**3,482,648**	4,647,677
Proceeds from financial instruments at amortised cost		**81,508,050**	86,611,580
Dividends received		**766,384**	518,049
Proceeds from sale of property, plant and equipment		**46,658**	-
Net cash outflow from investing activities		**(42,540,796)**	(30,576,876)
Cash flows from financing activities			
Principal elements of lease payments		**(1,928,682)**	-
Net cash (outflow) inflow from financing activities		**(1,928,682)**	-
Net (decrease)/increase in cash and cash equivalents		**(1,875,517)**	136,006
Cash and cash equivalents at the beginning of the financial year		**23,702,332**	23,566,326
Cash and cash equivalents at end of year	12	**21,826,815**	23,702,332

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the Australian Charities and Not-for-profits Commission Act 2012. AARNet Pty Ltd is domiciled in Australia and is a not-for-profit entity for the purpose of preparing the financial statements. The registered address of AARNet Pty Ltd is Tower A, Level 7, 799 Pacific Highway, Chatswood, NSW, 2067.

Historical cost convention

The financial statements have been prepared on a historical cost basis, except for the following: financial assets at fair value through statement of other comprehensive income, financial assets and liabilities (including derivative instruments) and certain classes of property, plant and equipment.

Income tax

AARNet is exempt from income tax under Section 50-5 of the Income Tax Assessment Act 1997 and therefore, no provision for income tax is included in these financial statements.

2. COMMITMENTS AND CONTINGENCIES

(a) Expenditure and capital commitments

	31 December 2019 $	31 December 2018 $
Within one year	**22,184,680**	26,154,945
Later than one year but not later than five years	**5,695,480**	6,665,797
Later than five years	**9,539,874**	102,600
	37,420,034	32,923,342

(b) Capacity commitments

	31 December 2019 $	31 December 2018 $
Within one year	**13,643,217**	10,714,908
Later than one year but not later than five years	**22,031,491**	50,107,150
Later than five years	**13,107,998**	60,826,167
Commitments not recognised in the financial statements	**48,782,706**	121,648,225

The 2018 Capacity Commitments total includes operating leases under AASB 117 Leases. See Note 8 for more detail on the application of AASB 16 Leases and Note 30 for the reconciliation between the 31 December figure of $121,648,225 and the 1 January 2019 lease liability figure of $47,346,908.

(c) Contingent Liabilities

AARNet's bankers have issued bank guarantees in favour of the Company's landlords and a third-party contractor with total face value of $1,035,269 (2018: $906,363).

3. CURRENT LIABILITIES - PAYABLES

	31 December 2019 $	31 December 2018 $
Current liabilities		
Trade payables	**10,982,121**	3,795,181
Other payables	**9,939,716**	8,134,238
	20,921,837	11,929,419

Trade payables and accruals are expected to be paid within 30 days.

These amounts represent liabilities for goods and services provided to AARNet prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Accounting Policy

The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to AARNet for similar financial instruments.

4. CURRENT LIABILITIES - INCOME IN ADVANCE

	31 December 2019 $	31 December 2018 $
Infrastructure establishment fees	**24,109,009**	18,085,038
Other deferred income	**803,242**	1,271,242
Infrastructure service fees	**8,408,864**	7,359,282
Subscriptions	**31,314,823**	29,595,775
	64,635,938	56,311,337

Accounting Policy

The Accounting Policy for Income in Advance is described in note 9.

5. NON-CURRENT LIABILITIES - INCOME IN ADVANCE

	31 December 2019 $	31 December 2018 $
Infrastructure establishment fees	**44,951,317**	42,262,308
Infrastructure projects	**1,232,495**	1,475,755
Other deferred income	**1,418,671**	1,730,764
	47,602,483	45,468,827

Accounting Policy

The Accounting Policy for Income in Advance is described in note 9.

6. CURRENT LIABILITIES - PROVISIONS

	31 December 2019 $	31 December 2018 $
Employee benefits	**5,750,872**	5,171,758

Accounting Policy

Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and leave entitlements expected to be settled within 12 months of the reporting date, are recognised in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

7. NON-CURRENT LIABILITIES - PROVISIONS

	31 December 2019 $	31 December 2018 $
Employee benefits	**393,620**	303,961
Make good on leased premises	**484,059**	436,903
	877,679	740,864

Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

2019	**Make good on leased premises $**
Non-current liabilities - Provisions	
Carrying amount at start of year	**436,903**
Additional provision to make good	**47,156**
Carrying amount at end of year	**484,059**

2018	**Make good on leased premises $**
Non-current liabilities - Provisions	
Carrying amount at start of year	120,063
Additional provision to make good	343,491
Decrease in provision recognised	(26,651)
Carrying amount at end of year	436,903

Accounting Policy

Employee benefits

These are liabilities for long service leave and annual leave not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method.

Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Re-measurements as a result of experience adjustments are recognised in the Statement of Surplus.

Make good on leased premises

Provisions for make good costs on leased premises are recognised when AARNet has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

8. LEASES

This note provides information for leases where AARNet is the lessee.

i) *Amounts recognised in the balance sheet*

The balance sheet shows the following amounts relating to leases:

	31 December 2019 $	1 January 2019 $
Right-of-use assets		
Communication assets	**44,730,203**	47,346,908
	44,730,203	47,346,908
Lease liabilities		
Current	**1,586,377**	1,888,545
Non-current	**44,494,632**	45,458,363
	46,081,009	47,346,908

The movement in the right-of-use assets over the year are as follows:

	$
Opening Right-of-use assets as at 1 January 2019	47,346,908
Depreciation charge of right-of-use assets	(3,279,488)
Additions to right-of-use assets	662,783
Right-of-use assets recognised as at 31 December 2019	44,730,203

ii) *Amounts recognised in the Statement of Surplus*

The statement of surplus shows the following amounts relating to leases:

	2019 $
Depreciation charge of right-to-use assets	
Communication assets	3,279,488
Interest expense (included in Telecommunication Expenses)	3,018,895
Expense related to short-term leases (included in Administration Expenses)	1,270,790
Expenses related to leases of low-value assets that are not shown above as short-term leases (included in Administration Expenses)	29,181
Expenses related to variable lease payments not included in lease liabilities (included in Administrative Expense)	185,648

The total cash outflow for leases in 2019 was $7,784,002.

iii) AARNet's leasing activities and how these are accounted for

AARNet leases various offices, data centre space and dark fibre. Rental contracts are typically made for fixed periods of 1 to 20 years, but may have extension options as described in (iv) below.

Contracts may contain both lease and non-lease components. AARNet allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which AARNet is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Until the start of the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January, 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by AARNet.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by AARNet under residual value guarantees, and
- Payments of penalties for terminating the lease, if the lease term reflects AARNet exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases at AARNet, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain as asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, AARNet uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by AARNet.

AARNet is exposed to potential future increases in lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to Statement of Surplus over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in Statement of Surplus. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise of equipment and small items of office furniture.

iv) Extension and termination options

Extension and termination options are included in a number of leases. These are used to maximize operational flexibility in terms of managing the assets used in AARNet's operations. The majority of extension and termination options held are exercisable only by AARNet and not by the respective lessor.

9. SERVICE REVENUE

	31 December 2019 $	31 December 2018 $
Telecommunications		
Members: Subscription, Traffic and Access	**40,825,590**	40,593,177
Non-Member: Subscription, Traffic and Access	**16,456,613**	18,153,717
Other Services	**19,453,705**	16,915,079
	76,735,908	75,661,973
Infrastructure & service agreements		
Infrastructure Establishment Fees	**4,652,770**	4,742,008
Infrastructure Project Construction	**1,361,084**	1,280,110
	82,749,762	81,684,091

a) Disaggregation of revenue from contracts with customers

AARNet derives revenue from the transfer of goods and services over time and at a point in time in the following major product lines:

	Teleco-Members	Teleco-Non-Member	Teleco-Other Services	Infra Establishment Fees	Infra Project Construction	Total
2019						
At a point in time	-	-	-	-	1,361,084	1,361,084
Over time	40,825,590	16,456,613	19,453,705	4,652,770	-	81,388,678
Total	**40,825,590**	**16,456,613**	**19,453,705**	**4,652,770**	**1,361,084**	**82,749,762**

	Teleco-Members	Teleco-Non-Member	Teleco-Other Services	Infra Establishment Fees	Infra Project Construction	Total
2018						
At a point in time	-	-	-	-	1,280,109	1,280,109
Over time	40,593,177	18,153,717	16,915,079	4,742,009	-	80,403,982
Total	**40,593,177**	**18,153,717**	**16,915,079**	**4,742,009**	**1,280,109**	**81,684,091**

b) Assets and liabilities related to contracts with customers

AARNet has recognised the following assets and liabilities related to contracts with customers:

	31 December 2019 $	31 December 2018 $
Current Liabilities- Income in Advance in relation to:		
Infrastructure Establishment Fees	**24,109,009**	18,085,038
Other Deferred Income	**803,242**	1,271,242
Infrastructure Service Fees	**8,408,864**	7,359,282
Subscriptions	**31,314,823**	29,595,775
Non-Current Liabilities- Income in Advance in relation to:		
Infrastructure Establishment Fees	**44,951,317**	42,262,308
Infrastructure Projects	**1,232,495**	1,475,755
Other Deferred Income	**1,418,671**	1,730,764

(i) Significant changes in contract assets and liabilities

Contract liabilities for Infrastructure and service agreements have increased due to an increase in establishment fees for new projects that have not been completed as at 31 December 2019, despite no change in the timing of satisfied performance obligations; the nature of the goods supplied; nor the terms of payment.

(ii) Revenue recognised in relation to contract liabilities

The following table shows how much of the revenue recognised in the current reporting period relates to carried forward contract liabilities.

	31 December 2019 $	31 December 2018 $
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Members: Subscription, Traffic and Access	**26,321,311**	22,304,930
Non-Members: Subscription, Traffic and Access	**3,274,464**	3,103,862
Other Services	**7,657,765**	4,585,761
Infrastructure Establishment Fees	**4,219,599**	4,083,926
Infrastructure Project Construction	**243,261**	36,667
Total Service Revenue	**41,716,400**	34,115,146
Other Revenue	**481,610**	745,684
Total Revenue	**42,198,010**	34,860,830

There are no material amounts of revenue recognised for both financial years in relation to performance obligations satisfied in previous periods.

(iii) Unsatisfied long-term transmission service contracts

As permitted under the provisions in AASB 15, the transaction price allocated to (partially) unsatisfied performance obligations is not disclosed where the entity has a right to invoice the customer in the amount that corresponds directly with the value of the entity's performance completed or the original expected duration of the underlying contract is one year or less. For Infrastructure establishment fees the total amount allocated to unsatisfied performance obligations is $69,060,326. The anticipated timing for revenue recognition of liabilities related to contracts with customers (including Infrastructure establishment fees) is as follows:

	31 December 2019 $	31 December 2018 $
Within one year	**64,635,938**	56,311,337
Later than one year but not later than five years	**16,754,318**	16,935,177
Later than five years	**30,848,166**	28,533,650
	112,238,422	101,780,164

Accounting Policy

Service revenues (derived from contracts with customers) have been accounted for under the accounting standard, AASB15 Revenue from Contracts with Customers.

(i) Transmission Services
Transmission services consist of a series of performance obligations where revenue is recognised as data services have been delivered in accordance to the contract.

The performance obligation for Transmission services is coupled with a performance obligation relating to access rights to the AARNet network, for the service agreement performance obligation cannot be executed without an access agreement.

An establishment fee forms part of the transaction price for transmission services. The establishment fee is not a consideration for a performance obligation in its own right, for the work to enable a transmission service cannot be separated from the transmission service itself.

(ii) Infrastructure Project Construction Revenue
Revenue from the provision of infrastructure where the infrastructure becomes the property of the customer is recognised when the underlying performance obligation is completed.

(iii) Stand alone selling price in the application of AASB15 Revenue from Contracts with Customers
The stand alone selling price in relation to all performance obligations contained within service contracts with customers is judged to be the fair value of those performance obligations if bought on a stand-alone basis.

(iv) Discounts and Taxes
Amounts disclosed as revenue are net of any discounts or taxes paid.

(v) Income in Advance
Amounts received or due and receivable in respect of future subscription periods or for services which have not been delivered are recorded as Income in Advance and appear as a liability (refer notes 4 and 5). Income in Advance is classified as either a current liability or a non-current liability depending on when the relevant subscription expires or the related service is expected to be delivered.

10. OTHER REVENUE, GRANTS AND CONTRIBUTIONS RECEIVED

In 2019 and 2018 AARNet recorded significant amounts of Other Revenue, Grants Received and Other Contributions.

These amounts are a material component of the surplus recorded by AARNet.

	31 December 2019 $	31 December 2018 $
Interest	**2,083,861**	2,507,380
Gain on foreign currency transactions	**1,210,746**	3,250,943
Other income	**822,120**	585,899
Dividends	**676,040**	618,516
Net gain on disposal of property, plant and equipment	**46,658**	-
Gain on financial assets at fair value through other comprehensive income	**-**	84,177
Other Revenue	**4,839,425**	7,046,915
Grants and Contributions received	**554,333**	403,189

Gain on Foreign Currency Contracts

AARNet hedges a significant proportion of its exposure to foreign currency movements (refer note 25) and does not apply hedge accounting. The accounting policy adopted with respect to derivatives and hedging activities is described below. During 2019 movements in the Australian dollar produced a gain (including realised and unrealised gain) on the hedging instruments held during and as at the end of the year of $1,210,746 (2018: gain of $3,250,943).

Grants and Contributions Received

This item includes amounts received by AARNet by way of grants and contributions where AARNet does not supply a service to the organisations providing the funding, however grants and contributions are recognised only upon completion of all performance obligations and when there are no unfulfilled conditions or other contingencies attaching to the grants.

Accounting Policy

Interest and Dividend Income

Interest and dividend income is recognised as it accrues and dividends are recognised as revenue when the right to receive payment is established.

Foreign Currency Contracts

At year end, Foreign Currency Contracts are recognised at fair value as described in note 25 (see Derivative Financial Instruments). Realised and unrealised gain or losses on such contracts are taken into account each year in the Statement of Surplus. AARNet does not apply hedge accounting.

Contributed Assets

Contributed assets (including the contribution of funds by government agencies or other persons to facilitate the construction of infrastructure for the AARNet network) are recognised at fair value when title and control of the asset passes or when the conditions to receive or retain funding are met.

11. EXPENSES

		31 December 2019 $	31 December 2018 $
Depreciation			
Communication assets		**12,366,904**	9,326,292
Office equipment		**1,620,564**	1,203,732
Leasehold improvements		**339,263**	627,276
Software		**34,630**	51,466
Buildings		**3,272**	3,071
Total depreciation	21	**14,364,633**	11,211,837
Amortisation			
Intangibles - Indefeasible Rights of Use traffic paths	22	**7,703,828**	8,298,175
Total depreciation and amortisation		**22,068,461**	19,510,012
Other expenses (including finance costs)			
Interest expense on leases		**3,018,895**	-
Loss on foreign currency contracts		**546,360**	-
Loss on financial assets at fair value through other comprehensive income		**238,857**	-
Loss on disposal of assets		**112,593**	1,531
Loss on foreign currency transactions		**-**	102,589
Total other expenses		**3,916,705**	104,120
Rental expense relating to operating leases			
Minimum lease payments - premises		**-**	1,619,850
Superannuation expense		**2,892,067**	2,596,928

Accounting Policy

Depreciation and Amortisation

The accounting policy for depreciation and amortisation is described in notes 21 and 22 respectively.

12. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	31 December 2019 $	31 December 2018 $
Current assets		
Cash at bank and in hand (AUD)	**8,036,392**	12,865,159
Cash at bank (USD and EUR)	**9,191,540**	2,265,361
Deposits at call - all denominated in AUD	**4,598,883**	8,571,812
	21,826,815	23,702,332

Cash at bank and on hand

Cash at bank and on hand is held at interest rates varying between 0.00% and 0.90% (2018: 0.00% and 1.36%). During the year, cash is transferred to or from term deposits to meet liquidity requirements.

Deposits at call

Interest bearing deposits at call attracted interest rates between 0.10% and 1.70% (2018: 0.40% and 0.50%).

Accounting Policy

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, bank overdrafts and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

13. RECONCILIATION OF NET SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	31 December 2019 $	31 December 2018 $
Surplus for the year	**7,602,686**	15,468,460
Depreciation and amortisation	**22,068,461**	19,510,012
Dividend income	**(676,040)**	(618,516)
Net loss (gain) on sale of investments	**238,857**	(84,177)
Net amortised interest income	**(17,908)**	(41,798)
Net loss on sale of property, plant and equipment	**65,935**	1,531
Write off of CRC share	**-**	1
Decrease/ (increase) in trade receivables	**5,005,433**	(14,495,477)
Decrease/ (increase) in accrued income	**289,197**	(100,379)
Decrease/ (increase) in prepayments and other debtors	**(8,188,229)**	(968,959)
Decrease/ (increase) in derivative financial instruments	**546,249**	(3,250,944)
Increase in trade payables	**4,550,906**	873,864
Increase/ (decrease) in other operating liabilities	**(18,616)**	133,198
Increase in provisions	**668,773**	367,565
Increase/(decrease) in income received in advance	**10,458,257**	13,918,501
Net cash inflow from operating activities	**42,593,961**	30,712,882

14. CURRENT ASSETS - RECEIVABLES

	31 December 2019 $	31 December 2018 $
Trade receivables	**43,206,574**	48,212,007
Provision for impairment of receivables	**(255,000)**	(255,000)
	42,951,574	47,957,007
Prepayments and Other Debtors	**12,442,766**	4,040,342
	55,394,340	51,997,349

Trade Receivables

Trade receivables are due for settlement no more than 30 days from the date of recognition.

At 31 December 2019, trade receivables included balances of $1,499,426 (2018: $1,015,845) which are past due but not impaired or considered uncollectable. These amounts have been outstanding for more than 90 days. These relate to a number of customers for whom there is no history of default.

Prepayments and Other Debtors

Payments for goods and services which are to be provided in future years are recognised as prepayments.

Other debtors generally arise from transactions outside the usual operating activities of AARNet. Interest is not normally charged.

Fair Value

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

Accounting Policy

Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components when they are recognised at fair value. They are subsequently measured at amortised cost, less provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. The group applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The amount of the provision is recognised in the Statement of Surplus in Administration-Telecommunications expenses.

The carrying value less impairment provision of trade receivables is assumed to approximate fair value due to the short-term nature of the receivables.

15. CURRENT ASSETS - ACCRUED INCOME

	31 December 2019 $	31 December 2018 $
Current assets		
Infrastructure projects	**221**	34,356
Other	**98,652**	267,467
Accrued interest receivable	**319,471**	496,062
	418,344	797,885

16. FINANCIAL ASSETS AND INVESTMENTS

AARNet holds financial assets and investments (other than prepayments or trade receivables) including

- Financial instruments at amortised cost (notes 17 and 18)
- Financial assets at fair value through other comprehensive income (note 19)
- Derivative financial instruments (shown on the Balance Sheet)

Accounting Policy

Financial instruments at amortised cost

Financial instruments at amortised cost are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. If AARNet were to sell other than an insignificant amount of financial instruments at amortised cost, the whole category would be tainted and reclassified as financial assets at fair value through other comprehensive income. Financial instruments at amortised cost are included in non-current assets, except for those with maturities less than 12 months from the end of the reporting period, which are classified as current assets.

At initial recognition, AARNet measures a financial instrument at amortised cost at fair value plus transaction costs that are directly attributable to the acquisition of the investment. Financial instruments at amortised cost are subsequently carried at amortised cost using the effective interest method.

If a financial instrument at amortised cost has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, AARNet may measure impairment on the basis of an instrument's fair value using an observable market price.

Purchases and sales of financial assets are recognised on the date on which AARNet commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and AARNet has transferred substantially all the risks and rewards of ownership.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are held at fair value with gains and losses recognised in other comprehensive income. Debt or equity securities that are not held to maturity are recognised as financial assets at fair value through other comprehensive income. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period.

At each reporting period, AARNet assesses whether any financial assets at fair value through other comprehensive income are impaired. Impairment exists if one or more events have occurred which have a negative impact on the security's estimated cash flows which can be reliably estimated.

If financial assets at fair value through other comprehensive income are impaired, the cumulative loss - measured as the difference between the original cost and the current fair value, less any impairment charge previously recognised in the Statement of Changes in Equity - is removed and recognised in the Statement of Surplus.

Impairment losses on equity financial assets at fair value through other comprehensive income previously recognised in the Statement of Surplus are not reversed in subsequent periods. If the fair value of a debt security which has been impaired increases, due to an event which has occurred after the impairment was recognised, the impairment charge is reversed through the Statement of Surplus.

When securities classified as financial assets at fair value through comprehensive income are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to net surplus.

Derivatives and hedging activities

Derivatives are initially recognised at cost on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date.

AARNet has entered into forward exchange contracts which are economic hedges for foreign currencies to be traded at a future date but do not satisfy the requirements for hedge accounting. Any changes in fair values are taken to other comprehensive income immediately.

Fair value measurements

AARNet measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets at fair value through profit or loss; and
- Derivative financial instruments.

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table presents the company's assets and liabilities measured and recognised at fair value at 31 December 2019 and 31 December 2018:

31 December 2019	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Derivative financial instruments	-	777,798	-	777,798
Financial assets at fair value through other comprehensive income				
Equity securities	9,606,181	-	-	9,606,181
Bonds	6,274,424	-	-	6,274,424
Total assets	**15,880,605**	**777,798**	**-**	**16,658,403**
Derivative financial instruments	-	(3,641)	-	(3,641)
Total liabilities	**-**	**(3,641)**	**-**	**(3,641)**

31 December 2018	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Derivative financial instruments	-	1,320,407	-	1,320,407
Financial assets at fair value through other comprehensive income				
Equity securities	5,200,622	-	-	5,200,622
Bonds	4,101,645	-	-	4,101,645
Total assets	**9,302,267**	**1,320,407**	**-**	**10,622,674**

The fair value of financial instruments traded in active markets (such as financial assets at fair value through other comprehensive income are based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (such as derivative financial instruments) are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

17. CURRENT ASSETS - FINANCIAL INSTRUMENTS AT AMORTISED COST

	31 December 2019 $	31 December 2018 $
Debt securities (fixed and floating rates)	8,503,602	3,757,323
Term deposits	16,000,000	29,800,000
	24,503,602	33,557,323

Bank guarantee and credit facilities

AARNet has a $1,500,000 Bank Guarantee Facility provided by the National Australia Bank. AARNet has drawn on this facility to provide bank guarantees in favour of the landlords for leased premises and a third party contractor. AARNet has an unsecured credit card facility of $300,000.

18. NON-CURRENT ASSETS - FINANCIAL INSTRUMENTS AT AMORTISED COST

	31 December 2019 $	31 December 2018 $
Debt securities (fixed and floating rates)	35,470,029	38,192,198

19. NON-CURRENT ASSETS - FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019 $	31 December 2018 $
Non-current assets		
Debt securities (fixed and floating rates)	6,274,424	4,101,645
Equity securities	9,606,181	5,200,622
	15,880,605	9,302,267

20. NON-CURRENT ASSETS - RECEIVABLES

	31 December 2019 $	31 December 2018 $
Prepayments	-	214,195

21. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	Freehold buildings $	Leasehold improvements $	Office equipment $	Communication assets $	Software $	Total $
At 1 January 2018						
Cost or fair value	-	2,527,412	7,656,237	152,406,631	1,155,015	163,745,295
Accumulated depreciation	-	(1,834,388)	(5,565,592)	(67,595,166)	(1,066,763)	(76,061,909)
Net book amount	**-**	**693,024**	**2,090,645**	**84,811,465**	**88,252**	**87,683,386**
Year ended 31 December 2018						
Opening net book amount	-	693,024	2,090,645	84,811,465	88,252	87,683,386
Additions	81,927	2,121,196	2,589,341	27,343,926	9,000	32,145,390
Disposals	-	-	(1,531)	-	-	(1,531)
Additions (finance leases)	-	-	-	260,796	-	260,796
Disposal (finance leases)	-	-	-	(1,260,796)	-	(1,260,796)
Depreciation charge	(3,071)	(627,276)	(1,203,732)	(9,326,292)	(51,466)	(11,211,837)
Closing net book amount	**78,856**	**2,186,944**	**3,474,723**	**101,829,099**	**45,786**	**107,615,408**
At 31 December 2018						
Cost or fair value	81,927	4,521,238	10,226,227	178,261,159	1,164,015	194,254,566
Accumulated depreciation	(3,071)	(2,334,294)	(6,751,504)	(76,432,060)	(1,118,229)	(86,639,158)
Net book amount	**78,856**	**2,186,944**	**3,474,723**	**101,829,099**	**45,786**	**107,615,408**

	Freehold buildings $	Leasehold improvements $	Office equipment $	Communication assets $	Software $	Total $
At 1 January 2019						
Opening net book amount	78,856	2,186,944	3,474,723	101,829,099	45,786	107,615,408
Impact of transition to AASB16	-	-	-	47,346,908	-	47,346,908
Opening net book amount (restated)	**78,856**	**2,186,944**	**3,474,723**	**149,176,007**	**45,786**	**154,962,316**
Year ended 31 December 2019						
Opening net book amount	78,856	2,186,944	3,474,723	149,176,007	45,786	154,962,316
Additions	-	1,105,757	2,494,202	43,297,410	757,137	47,654,506
Additions (Right-of-Use Assets)	-	-	-	662,783	-	662,783
Disposals	-	-	(2,246)	(110,347)	-	(112,593)
Depreciation charge	(3,272)	(339,263)	(1,620,564)	(12,366,904)	(34,630)	(14,364,633)
Closing net book amount	**75,584**	**2,953,438**	**4,346,115**	**180,658,949**	**768,293**	**188,802,379**
At 31 December 2019						
Cost or fair value	81,927	4,209,954	12,098,157	267,602,762	1,921,152	285,913,952
Accumulated depreciation	(6,343)	(1,256,516)	(7,752,042)	(86,943,813)	(1,152,859)	(97,111,573)
Net book amount	**75,584**	**2,953,438**	**4,346,115**	**180,658,949**	**768,293**	**188,802,379**

Communication Assets- Finance Leases

AARNet provides other parties with rights of use components of AARNet's fibre and other infrastructure in return for that party providing AARNet with similar rights of use components of its fibre and infrastructure.

These arrangements are in the nature of two separate finance leases with each party acting as lessor and lessee. Each lease is treated as settled when both sides of the swap agreement come into force. Consequently, there is no lease finance cost or outstanding lease liability arising in respect of such transactions.

Right-of-use assets

Communication assets include both assets and leased right-of-use assets. See Note 8 for more detail on right-of-use assets.

Assets in the course of construction

Included in the carrying amounts of the assets shown above are assets that were in the course of construction as at the end of the reporting period. The relevant amounts are as follows:

	31 December 2019 $	31 December 2018 $
Communication assets	**25,884,091**	34,931,114
Office equipment	**1,226,847**	1,601,048
Leasehold improvements	**14,630**	464,155
Software	**737,389**	-
Total assets in the course of construction	**27,862,957**	36,996,317

Accounting Policy

Acquisition

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to AARNet and the cost of the item can be measured reliably.

Fibre and Infrastructure Swaps

AARNet may enter into arrangements granting other parties the right of use AARNet's fibre or infrastructure in return for receiving rights of use fibre or infrastructure owned by the other party ("swaps"). Where such swaps involve significant values of assets, AARNet records an asset disposal in respect of the assets used by the other party at the carrying value of the relevant assets at the time the swap becomes effective. AARNet then recognises an asset of equivalent value, being the right of use the fibre or infrastructure of the other party.

Unincorporated Joint Operations

AARNet accounts for interests in unincorporated joint operations by recognising its share of the assets and liabilities held or owed by the joint operation along with its share of the expenses incurred by the joint operation.

Where the assets held within the joint operation include assets in the course of construction, AARNet's share of those assets is included in the values for assets in the course of construction shown in this note.

Depreciation

Property, plant and equipment is depreciated using the straight-line method to allocate cost, net of residual value, over each item's estimated useful life, as follows:

Leasehold improvements	10 years
Office equipment	3 years
Leased communication assets	5 - 6 years
Leased office equipment	3 years
Communication assets	3 - 25 years
Software	2 - 3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period; such adjustments may result in a revised useful life shorter than that shown above.

Impairment of Assets

Assets that are subject to depreciation or amortisation are reviewed for indicators of impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. As a not-for-profit entity, value in use is calculated on the basis of the depreciated replacement cost, which represents the current replacement cost of an asset less, where applicable, accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired future economic benefits of the asset.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). The company has only one cash generating unit.

Gains and Losses

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the Statement of Surplus.

22. NON-CURRENT ASSETS - INDEFEASIBLE RIGHTS OF USE TRAFFIC PATHS (INTANGIBLE ASSETS)

	Total $
At 1 January 2018	
Total payments	164,007,918
Accumulated amortisation on a straight line basis	(88,261,229)
Net book amount	75,746,689
Year ended 31 December 2018	
Opening net book amount	75,746,689
Amortisation charge	(8,298,175)
Closing net book amount	67,448,514
Total payments	164,007,918
Accumulated amortisation on a straight line basis	(96,559,404)
Net book amount	67,448,514
Year ended 31 December 2019	
Opening net book amount	67,448,514
Additions	6,161,095
Amortisation charge	(7,703,828)
Closing net book amount	65,905,781
At 31 December 2019	
Cost	170,169,013
Accumulated amortisation	(104,263,232)
Net book amount	65,905,781

AARNet's intangible assets are indefeasible rights of use (IRU) capacity on traffic paths across communication infrastructure owned by other parties.

Accounting Policy

The value of each IRU is amortised from the date each right become available for service and will continue to be amortised over the term of the right, which varies from 10 to 28 years. The longest remaining amortisation period is approximately 20 years.

Impairment

IRUs are also subject to impairment review as described in note 21.

23. CONTRIBUTED EQUITY

	31 December 2019 Shares	31 December 2018 Shares	31 December 2019 $	31 December 2018 $
Ordinary shares				
Fully paid ordinary shares	**78**	78	**39,039**	39,039

Movements in ordinary share capital

Date	Details	Number of shares	$
1 January 2018	Opening balance	78	39,039
31 December 2018	Balance	78	39,039
31 December 2019	Balance	78	39,039

AARNet's shareholders are 38 Australian Universities and the Commonwealth Scientific and Industrial Research Organisation (CSIRO). Each shareholder holds two ordinary shares.

Holders of ordinary shares are entitled to one vote per share on resolutions put before the members. Holders of ordinary shares are not entitled to dividends and have no right to receive any distribution during a winding up.

24. RETAINED EARNINGS AND RESERVE

Retained earnings

Movements in retained earnings were as follows:

	31 December 2019 $	31 December 2018 $
Balance 1 January	**214,408,399**	198,939,939
Surplus for the year	**7,602,686**	15,468,460
Balance 31 December	**222,011,085**	214,408,399

Reserve - accummulated unrealised gain/loss on investments

Movements in reserve were as follows:

	31 December 2019 $	31 December 2018 $
Balance 1 January	**(248,511)**	588,857
Changes in the fair value of financial assets through other comprehensive income	**996,491**	(837,368)
Balance 31 December	**747,980**	(248,511)

25. FINANCIAL RISK MANAGEMENT

AARNet's activities are exposed to a variety of financial risks including:

a) Market risk (including currency risk, interest rate risk and equity price risk);

b) Credit risk; and

c) Liquidity risk.

This note explains the Company's level of exposure to these risks, how these risks could affect the Company's future financial performance and how AARNet manages the impact of these risks.

AARNet's overall risk management program focuses on managing its liquidity and seeking to minimise potential adverse effects on financial performance. The Board, through the Audit, Finance & Risk Committee, is responsible for setting the overall objectives for risk management and provides specific policies where necessary.

The day to day risk management is carried out by identifying, evaluating and hedging financial risks. This is the responsibility of the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) and they are supported by operating management.

a) Market risk

(i) Currency risk

AARNet operates equipment at international locations and deals with certain suppliers in foreign currencies and is impacted by changes in foreign exchange rates. The Company is primarily exposed to changes in the US dollar (USD) and to a smaller extent, the Euro (EUR). AARNet currently has monthly requirements in excess of USD200,000, for the purchase of international communications capacity and other services. These requirements are expected to increase over time.

Currency risk is measured using sensitivity analyses and cash flow forecasting, summarised below.

Currency risk is managed by holding foreign currency, entering into forward foreign exchange contracts and purchasing options to acquire foreign currency. At year end, AARNet held USD6,257,490 (AUD8,901,730) in USD denominated bank accounts and EUR181,457 (AUD289,809) in a EUR denominated bank account. AARNet's risk management policy is to hedge at least 60% of anticipated short-term cash flows (mainly for the purchase of capacity to the USA) in USD.

The following table summarises the sensitivity of the Company's financial assets and financial liabilities to foreign exchange risk for the year.

		-100 bps		+100 bps	
At 31 December 2019	Carrying amount $	Surplus $	Equity $	Surplus $	Equity $
Cash and cash equivalents	21,826,815	(1,021,282)	(1,021,282)	835,594	835,594
Trade Receivables	43,206,574	(25,127)	(25,127)	20,559	20,559
Derivative financial instruments (assets)	777,798	(86,422)	(86,422)	70,709	70,709
Derivative financial instruments (liabilities)	(3,641)	405	405	(331)	(331)
Trade payables	**(10,982,121)**	**148,212**	**148,212**	**(121,264)**	**(121,264)**

		-100 bps		+100 bps	
At 31 December 2018	Carrying amount $	Surplus $	Equity $	Surplus $	Equity $
Cash and cash equivalents	23,702,332	(251,707)	(251,707)	205,942	205,942
Trade Receivables	49,067,561	(357,593)	(357,593)	292,576	292,576
Derivative financial instruments (assets)	1,320,407	(146,712)	(146,712)	120,037	120,037
Trade payables	**(3,795,181)**	**201,382**	**201,382**	**(164,767)**	**(164,767)**

(ii) Interest rate risk

AARNet's main interest rate risk arises from its cash at bank, cash in deposits and financial instruments at amortised cost.

The Company's interest rate risk is monitored using sensitivity analysis and is reviewed by management and the company's external investment consultant.

The following table summarises the sensitivity of the Company's financial assets and financial liabilities to interest rate risk for the year.

		Interest rate risk			
		-10%		+10%	
At 31 December 2019	Carrying amount $	Surplus $	Equity $	Surplus $	Equity $
Financial assets					
Cash and cash equivalents	21,826,815	(35,166)	(35,166)	126,353	126,353
Financial instruments at amortised cost, term deposits	16,000,000	(160,000)	(160,000)	160,000	160,000
Financial instruments at amortised cost, floating rate notes	43,973,631	(439,736)	(439,736)	439,736	439,736

		Interest rate risk			
		-10%		+10%	
At 31 December 2018	Carrying amount $	Surplus $	Equity $	Surplus $	Equity $
Financial assets					
Cash and cash equivalents	23,702,332	(126,721)	(126,721)	214,370	214,370
Financial instruments at amortised cost, term deposits	29,800,000	(298,000)	(298,000)	298,000	298,000
Financial instruments at amortised cost, floating rate notes	41,949,521	(419,495)	(419,495)	419,495	419,495

(iii) assets at fair value through statement of changes in equity (price risk)

AARNet's equity price risk arises from holding financial assets at fair value through other comprehensive income such as equity instruments, listed bonds and hybrid investments.

Price risk is measured and using sensitivity analysis and is monitored by management and the company's external investment consultant.

The following table summarises the sensitivity of the Company's financial assets and financial liabilities to price risk for the year.

		Other price risk			
		-1%		+1%	
At 31 December 2019	Carrying amount $	Surplus $	Equity $	Surplus $	Equity $
Financial assets					
Financial assets at fair value through other comprehensive income	15,880,605	-	(158,806)	-	158,806

		Other price risk			
		-1%		+1%	
At 31 December 2018	Carrying amount $	Surplus $	Equity $	Surplus $	Equity $
Financial assets					
Financial assets at fair value through other comprehensive income	9,302,267	-	(93,023)	-	93,023

b) Credit risk

Credit risk arises where a debtor fails to make contractual payments to AARNet as and when they fall due. AARNet is exposed to credit risk on its holdings of cash and cash equivalents, term deposits, corporate bonds and loan notes, hybrid securities and derivative financial instruments. Further credit risk arises from credit exposures to customers in the form of outstanding receivables and committed transactions.

AARNet's credit risk is mainly managed through the following measures:

Credit risk source	Management
Bank deposits and derivative financial instruments	• Principally deal with highly rated financial institutions.
Investments in hybrid loan notes and bonds	• Bound by an approved investment policy which stipulates minimum ratings or other criteria for investment funds. • Investment decisions based on recommendations from a licensed investment advisor.
Customers	• Assessment of credit quality of the customer, taking into account its financial position, past experience and other factors. • Invoicing in advance for significant portion of income.

(i) Trade receivables

AARNet applies the simplified approach to providing for expected credit losses prescribed by AASB 9, which permits the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

During the year, no material gain/(loss) was recognised in Statement of Surplus in other expenses in relation to impaired receivables.

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively, to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For those receivables, the estimated impairment losses were recognised in a separate provision for impairment. The group considered that there was evidence of impairment if any of the following indicators were present:

- Significant financial difficulties for the debtor
- Probability that the debtor will enter bankruptcy or financial re-organisation
- Default or delinquency in payments (more than 60 days overdue).

(ii) Other financial assets at amortised cost

Other financial assets at amortised cost include debt securities and term deposits (previously held-to-maturity). All of these financial assets are considered to have low credit risk, and thus the impairment provision recognised during the period was zero. Management consider 'low credit risk for listed bonds to be an investment grade credit rating with at least one major rating agency. Other instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash to meet the needs of the business. Management monitors AARNet's liquidity and cash and cash equivalents on a rolling forecast expected cash flow basis. This analysis is prepared in Australian Dollars.

AARNet's Board periodically considers longer range financial forecasts (5+ years) provided as part of the normal course of its deliberations. The Board also considers the expenditure commitments disclosed in note 2 when assessing the liquidity of the Company.

26. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

Often, this involves estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Useful life of intangible assets

The Directors have assumed in the ordinary course of business that AARNet's customers will continue to use AARNet's services into the forseeable future. The useful economic lives assigned for intangible assets are based on the contractual terms agreed for each Indefeasible Right of Use.

(ii) Useful life of assets

AARNet is the owner of a significant amount of assets and infrastructure. Estimates are made as to the useful life of these assets which can affect both the amount of depreciation and amortisation expense during the year and the amount of revenue recognised in relation to Establishment Fees.

(iii) Lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), AARNet is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, AARNet is typically reasonably certain to extend (or not terminate).
- Otherwise, AARNet considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or AARNet becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

27. DIRECTORS

The Directors of AARNet Pty Ltd during the financial year were:

Chairman - non-executive
Emeritus Professor Gerard Sutton AO*

Executive Directors
Mr Chris Hancock, CEO

Non-executive Directors
Dr Christine Burns
Professor John Dewar AO
Professor Annabelle Duncan (resigned 5 July 2019)
Mr Robert Fitzpatrick*
Professor Brigid Heywood (appointed 22 October 2019)
Mr Jeff Murray
Ms Fiona Rankin (appointed 25 June 2019)
Mr John Rohan*
Professor Deborah Terry AO
Emeritus Professor Mark Wainwright AM*
Dr David Williams

**Denotes independent director*

28. KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel compensation

The key management personnel are those who had authority and responsibility for planning, directing and controlling the activities of AARNet, directly or indirectly, during the year. The remuneration for key management personnel including directors is as follows:

	31 December 2019 $	31 December 2018 $
Short-term and long-term employee benefits	3,270,448	2,722,364
Post-employment benefits	407,842	335,417
	3,678,290	3,057,781

Transactions with key management personnel

Several directors (Mr J Murray, Dr C Burns and Ms F Rankin) are members of the Council of Australasian University Directors of Information Technology (CAUDIT) to which AARNet provides payroll bureau services. AARNet receives no consideration for this service.

Other directors represent, act for, or hold offices at certain AARNet shareholders and customers. AARNet provides services to these shareholders on arm's length terms.

29. REMUNERATION OF AUDITORS

PricewaterhouseCoopers

Audit and other assurance services

	2019 $	2018 $
Audit and other assurance services		
Audit and review of financial statements	225,000	217,500
Total remuneration for audit and other assurance services	225,000	217,500
Taxation services		
Taxation services	27,250	54,208
Other services		
Remuneration for advisory services	15,000	65,540
Total remuneration of PricewaterhouseCoopers	267,250	337,248

30. OTHER SIGNIFICANT ACCOUNTING POLICIES

New, revised or amending Accounting Standards and Interpretations adopted

AARNet has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- AASB 16 Leasing (AASB 16)
- AASB 1058 Income of Not-for-Profit Entities (AASB 1058)
- AASB 2018-1 Amendments to Australian Accounting Standards - Annual Improvements 2015-2017 Cycle

AARNet had to change its accounting policies and make certain retrospective adjustment following the adoption of AASB 16. The other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

AARNet has adopted AASB 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in note 8.

On adoption of AASB 16, AARNet recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 6.47%.

(i) Practical expedients applied

In applying AASB 16 for the first time, AARNet has used the following practical expedients permitted in the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

(ii) Measurement of lease liabilities

	31 December 2018 $
Opening lease and capacity commitments disclosed as at 31 December 2018	**121,648,225**
Less contracts not assessed as lease contracts	(48,305,672)
Less discounting using the lessee's incremental borrowing rate of at the date of initial application	(25,708,519)
Less low-value leases not recognised as a liability	(285,236)
Less short-term leases not recognised as a liability	(1,890)
Lease liability recognised as at 1 January 2019	**47,346,908**

	31 December 2019 $
Of which are:	
Current lease liabilities	1,888,545
Non-current lease liabilities	45,458,363
	47,346,908

(iii) Measurement of right-of-use assets

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

(iv) Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- Right-of-use assets - increase by $47,346,908
- Lease liabilities - increase by $47,346,908

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 Surplus.

Revenue recognition

The accounting policies for the group's revenue from contracts with customers are explained in Note 9.

Leases (in comparative period)

As explained above, AARNet has changed its accounting policy for leases where AARNet is the lessee. The new policy is described in note 8 and the impact of the change on the balance sheet is noted above.

Until 31 December, 2018, leases of property, plant and equipment where AARNet, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the Statement of Surplus over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that AARNet will obtain ownership at the end of the lease term.

AARNet may, as described in note 21, enter into arrangements which are considered off-setting finance leases. Such leases are considered to be settled immediately after coming into effect with the result that no finance cost, or finance income is recognised, and no finance liability or receivable remains outstanding. Assets acquired under such arrangements are depreciated over the shorter of the asset's useful life or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to AARNet as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Surplus on a straight-line basis over the period of the lease.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the Australian Taxation Office (ATO). In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables (except accrued expenses) are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the Balance Sheet.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

Investments and other financial assets

The accounting policies for the group's revenue from investments and other financial assets are explained in Note 10.e group's revenue from investments and other financial assets are explained in Note 10.

31. EVENTS OCCURRING AFTER THE REPORTING PERIOD

In February and March 2020 the COVID-19 virus began to spread throughout Australia. AARNet, following directions issued by the Commonwealth and state governments, and in line with practices adopted by many other businesses, instituted a number of responses to assist in slowing the spread of the virus through the community, and to reduce the health risks to our employees, customers, suppliers and other groups with which we work and interact.

The potential impact of the COVID-19 virus on AARNet's future operations and financial position is difficult to forecast. A key factor will be the length of time over which businesses will be required to operate without unfettered access to their workplaces.

The financial impacts of the COVID-19 virus are also difficult to quantify. AARNet now expects to see benefits in 'Administration - Telecommunications' section of the Statement of Surplus but these are likely to be more than offset by additional costs in 'Telecommunication expenses'.

Volatility in investment markets resulting from the COVID-19 outbreak may also impact AARNet during 2020 and may reduce the investment income that AARNet would otherwise receive and also reduce the value of our financial instruments and assets portfolio. Since the end of the financial year:

- AARNet's fixed interest investments have declined by some 3.5% or approximately $1.8m. AARNet does not intend to sell any of these investments prior to maturity and, absent a default by an issuer, expects to recover most of this value over the period until each security matures.
- AARNet's equity investments (for which AARNet holds a smaller value), have declined by 31.1% or just under $3.0m. AARNet does not expect to sell any of these investments in the foreseeable future, but to avoid realising any of these losses, the value of these securities would need to recover before the investment is disposed of.

Similar volatility in foreign exchange markets has resulted in the Australia dollar depreciating against the US Dollar throughout the early part of 2020. Without any reversal of this currency movement across the remainder of 2020, AARNet would expect higher costs for equipment and services denominated in USD but would also expect these additional costs to be substantially offset by gains on our foreign exchange hedging instruments and holdings of foreign currency.

Despite this, AARNet does not see a change in its commitments and contingencies and expects to continue investing during 2020 in its domestic fibre network and in the JGA South submarine cable system.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 10 to 34 are in accordance with the Australian Charities and Not-for-profits Commission Act 2012, including:

(i) complying with Accounting Standards and other mandatory professional reporting requirements, and

(ii) giving a true and fair view of the entity's financial position as at 31 December 2019 and of its performance for the year ended on that date, and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of Directors.

Emeritus Professor MS Wainwright AM	Mr JF Rohan
Director	Director

Sydney

8th April 2020

Independent auditor's report

To the members of AARNet Pty Limited

Our opinion

In our opinion:

The accompanying financial report of AARNet Pty Limited (the Company) is in accordance with Division 60 of the *Australian Charities and Not-for-profits Commission (ACNC) Act 2012*, including:

(a) giving a true and fair view of the Company's financial position as at 31 December 2019 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards - Reduced Disclosure Requirements and Division 60 of the *Australian Charities and Not-for-profits Commission Regulation 2013*.

What we have audited

The financial report comprises:

- the balance sheet as at 31 December 2019
- the statement of surplus for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2019, but does not include the financial report and our auditor's report thereOur opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards - Reduced Disclosure Requirements and the *Australian Charities and Not-for-profits Commission (ACNC) Act 2012* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

Scott Walsh
Partner

Sydney
8 April 2020

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