AARNet Pty Ltd Financial Report and Directors' Report 2018

for the year ended 31 December 2018

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 2018.

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 Annabelle Duncan

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

Mr Chris Hancock
Chief Executive Officer

Mr Jeff Murray

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

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

Dr David Williams

Mr Chris Bridge was a director from the commencement of the financial year until his resignation on 27 June 2018.

Professor John Dewar was appointed a director on 23 March 2018, 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 connections (fibre tails) to the AARNet backbone and between 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 (2017: nil).

REVIEW OF OPERATIONS

Traffic Growth and Network Performance

For over ten years, AARNet has experienced very significant growth in the traffic carried across the network. For the five years up to an including 2018, traffic delivered to AARNet's Members has grown at an average compound rate of 33.1% pa.

Even with this significant growth in traffic, the amounts paid by Members for the carriage of this traffic, in the form of subscriptions, access and traffic charges, grew by an average of only 0.5% pa over the same five-year period.

AARNet also provides services for a range of non-member customers across the research and education sector. Including traffic delivered to these organisations, traffic delivered has grown at an average compound rate of 57.2% over the five years to 2018.

Even with the growth in traffic across the network, AARNet again provided high levels of network performance and availability. For 2018 average network availability was 99.92% which was slightly lower than the level achieved in 2017 (99.95%). The reduction was due to prolonged outages experienced on a submarine cable between Australia and Singapore operated by a third party; excluding the effect of those outages the level of availability would have been 99.99%.

Network Expansion

During 2018 AARNet continued to invest to upgrade the capacity of the AARNet network and to expand the geographic reach of the network's fibre footprint.

Overall spending on communication assets (including network infrastructure and equipment) was $27,343,926 during the year which was substantially higher than the $13,574,599 invested in 2017 (refer to note 20 to the financial statements).

The increased investment reflected AARNet's participation in two significant submarine cable ventures (Indigo and JGA) as well as continued investment in AARNet's domestic fibre footprint.

Indigo Consortium

AARNet is a member of the Indigo consortium which is currently constructing a submarine optic fibre cable to provide capacity between Sydney and Perth as well as Perth to Singapore.

Indigo is scheduled to commence service during 2019 and, when it is commissioned, will provide AARNet with significantly enhanced capacity to connect with research networks in Asia as well as improved capacity and network resilience between the east and west coasts of Australia.

JGA South

AARNet is also a member of the JGA South consortium laying fibre between Sydney and Guam. Guam is a significant hub for telecommunications services and by participating in the construction and ownership of fibre between Sydney and Guam 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 2018 Members' subscription and related charges were only 0.5% higher than in 2017 despite the growth in Members' traffic discussed above. Included in Member's subscriptions for the first time in 2018 were charges for Third Party Users, agreed to as part of the latest AARNet Access Agreement between Members and AARNet. Without these charges, the growth in subscriptions would have been less than 0.2%.

	2018	2017	Increase
	$	$	
Members: Subscription, Traffic and Access	40,593,177	40,399,463	**0.5%**
Non-Member: Subscription, Traffic and Access	18,153,717	16,097,666	**12.8%**
Other Services	16,915,079	13,901,773	**21.7%**
Telecommunications Revenue	75,661,973	70,398,902	**7.5%**

Non-Member subscriptions continued to grow strongly with 2018 revenues up 12.8% on the previous year. This reflects continued growth in the number of non-member customers connected to the network.

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; Panopto a video recording, management and streaming service, which is used by many universities around the world as a teaching and research resource; and CloudStor, a service which is optimised for the storage and sharing of research data sets).

Revenue from these other services rose by 21.7% during 2018. AARNet's suite of video conferencing, video streaming 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 7.5% from 2017.

Infrastructure Revenues

Infrastructure establishment fees (income from the provision of new fibre infrastructure) grew by 13.6% in 2018 reflecting the value of infrastructure projects completed and brought into service – including projects which completed in the latter part of 2017 contributing a full year's revenue in 2018.

During the year, AARNet adopted a new accounting policy for recognising revenue flowing from these establishment fees. The new policy was adopted to conform with the requirements of a new accounting standard (AASB 15 – Revenue from Contracts with Customers). AASB15 requires AARNet to bring establishment fees into income over a longer period than under the previous policy. Consequently, the effect of the change was to reduce establishment fee income for both 2018 and 2017 compared to what would have applied under the previous policy. Details of the adoption of AASB15 are contained in note 29 to the financial statements.

	2018 $	2017 $	Increase
Infrastructure Establishment Fees	4,742,009	4,210,075	**12.6%**
Infrastructure Construction Revenue	1,280,109	1,829,763	**(30.0%)**
	6,022,118	6,039,838	**0.4%**

Revenues from infrastructure construction and allied activities (such as services to relocate infrastructure) reduced by 30.0%. 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 2018, this investment income totalled $3,125,896 (2017 $2,655,026) (see note 9 to the financial statements).

In 2018, AARNet also benefited from a significant gain on foreign currency contracts held to hedge against adverse movements in exchange rates. In 2018, a gain of $3,250,943 was recognised on these contracts compared to a loss of $2,336,325 in 2017 (see further discussion below).

Telecommunication Expenses

The largest category of operating costs, Telecommunication Expenses, was slightly higher than the costs incurred in the previous year. AARNet experienced increases in the costs of delivering new services (reflecting the growth in service income referred to earlier) but these were offset by savings in the cost of housing equipment in data centres and other premises operated by third parties.

Employee and Administration Costs

To support increasing the number of customers plus the ongoing infrastructure build and general growth in services and revenues, AARNet added staff to its service desk, infrastructure development and eResearch support teams across 2018.

Further personnel were also added to the product development and software support teams, in some cases replacing short term contractors and consultants. The additional resources support the development of new products, provide support for existing services and develop and deploy systems to support and streamline service delivery and other internal processes.

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 $19,510,012 in 2018 which was 8.9% higher than 2017 ($17,909,200).

The main factor behind this increase was the movement in the relative value of the Australian Dollar against the US Dollar over the course of the year. The Australian Dollar weakened across 2018 causing the contracted, but unpaid, US Dollar value of the international IRUs AARNet holds to increase when measured in Australian Dollars. Amortisation of the IRUs is calculated on the full value (including the unpaid portion) such that the declining dollar resulted in increased amortisation charges. (AARNet's hedging instruments recorded a gain offsetting much of the additional amortisation cost – see following section).

Finance Costs

AARNet has significant contractual commitments requiring it to make foreign currency denominated payments (mainly United States Dollars) for international transmission capacity (including the commitments for capacity under IRUs referred to in the previous section). These commitments, many of which extend for periods in excess of five years, are included in note 2(b) to the financial statements.

In order to hedge the exposure to exchange rate fluctuations with respect to these commitments (and other payments required in foreign currencies), AARNet arranges forward foreign currency purchases, purchases foreign currency options and maintains holdings of foreign currency balances. These arrangements are discussed in note 24 to the financial statements.

Across 2018, the Australian Dollar decreased in value relative to the United States Dollar with the effect that AARNet recorded a substantial gain on its hedging positions of $3,250,943 (see note 9 to the financial statements). This gain, as noted in the previous section, offset the increased amortisation of IRUs which arose from the same movement in the Australian Dollar. The gain recorded in 2018 was partly a reversal of the loss of $2,336,325 on foreign currency contracts recorded in 2017 (see note 10 to the financial statements).

ACCUMULATED SURPLUS AND RESERVES

In 2018 AARNet recorded a net surplus of $15,468,460 (2017: $9,524,132).

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 2017 and 2018 a significant portion of these funds were invested in:

- **i)** the Indigo and JGA consortia constructing high capacity submarine fibre infrastructure (as described earlier);
- **ii)** extensions and enhancements of 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:finance investments in:

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; and

c) defray part of the significant financial commitments in respect of non-cancellable operating leases (principally rights to use the traffic paths of cable systems operated by other telecommunication carriers) which, at year end, were $121.7m, refer note 2(b) to the financial statements.

NET ASSETS

Net assets at 31 December 2018 were $214,198,927 (2017: $199,567,835). The increase represents the surplus for 2018 plus the change in value of available-for-sale financial assets during 2018.

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 2018.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Except for matters discussed under the heading "Review of Operations", no other matter or circumstance has arisen since 31 December 2018 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

While the rate of traffic growth has slowed over recent years, AARNet expects network traffic will continue to grow at significant levels during 2019.

In addition, substantial investment in the Indigo and JGA submarine cable systems and in AARNet's domestic fibre network will continue during 2019. Indigo is expected to enter service in 2019 and will provide AARNet's Members and other users with a high capacity path to South East Asia and beyond.

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 $33,091 (2017: $30,274) 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 9 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 GR Sutton AO
Director

Mr CM Hancock
Director

Sydney

19rd March 2019

Auditor's Independence Declaration

As lead auditor for the audit of AARNet Pty Ltd for the year ended 31 December 2018, 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
19 March 2019

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STATEMENT OF SURPLUS

	Notes	2018 $	2017 $
Services revenue	8	**81,684,091**	76,438,740
Other revenue	9	**7,046,809**	3,469,645
Grants and contributions received	9	**403,189**	536,161
Total revenue		**89,134,089**	80,444,546
Telecommunications expenses		**(19,257,202)**	(18,964,895)
Depreciation and amortisation - Telecommunications	10	**(12,306,825)**	(10,294,042)
Employee benefits expense - Telecommunications		**(17,816,230)**	(15,469,888)
Administration - Telecommunications		**(10,000,233)**	(8,805,657)
Infrastructure project construction		**(2,837,920)**	(3,148,751)
Depreciation and amortisation - Infrastructure projects	10	**(7,203,185)**	(7,615,157)
Employee benefits expense - Infrastructure Development Group		**(3,226,181)**	(2,993,170)
Administration - Infrastructure Development Group		**(913,733)**	(657,143)
Other expenses (including finance costs)	10	**(104,120)**	(2,971,710)
Total expenses		**(73,665,629)**	(70,920,414)
Net surplus		**15,468,460**	9,524,132
Movement in the fair value of available-for-sale financial assets		**(837,368)**	239,659
Total comprehensive surplus for the year		**14,631,092**	9,763,791

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

BALANCE SHEET

	Notes	**31 December 2018** **$**	31 December 2017 $
ASSETS			
Current assets			
Cash and cash equivalents	11	**23,702,332**	23,566,326
Receivables	13	**51,997,349**	36,747,108
Derivative financial instruments	24	**834,915**	-
Accrued income	14	**797,885**	597,039
Financial instruments at amortised cost	16	**33,557,323**	35,500,000
Total current assets		**110,889,804**	96,410,473
Non-current assets			
Receivables	19	**214,195**	-
Financial assets at fair value through statement of changes in equity	18	**9,302,267**	12,825,223
Financial instruments at amortised cost	17	**38,192,198**	33,237,788
Derivative financial instruments	24	**485,492**	-
Other financial assets- Non-controlling investment in Smart Services CRC Pty Ltd		**-**	1
Property, plant and equipment	20	**107,615,408**	87,683,386
Indefeasible Rights to Use traffic paths	21	**67,448,514**	75,746,689
Total non-current assets		**223,258,074**	209,493,087
Total assets		**334,147,878**	305,903,560
LIABILITIES			
Current liabilities			
Payables	3	**11,929,419**	10,148,411
Derivative financial instruments	24	**-**	700,888
Provisions	6	**5,171,758**	4,738,680
Other liabilities		**326,746**	193,548
Income in advance	4	**56,311,337**	43,654,225
Total current liabilities		**73,739,260**	59,435,752
Non-current liabilities			
Income in advance	5	**45,468,827**	45,207,438
Derivative financial instruments	24	**-**	1,229,649
Provisions	7	**740,864**	462,886
Total non-current liabilities		**46,209,691**	46,899,973
Total liabilities		**119,948,951**	106,335,725
Net assets		**214,198,927**	199,567,835
EQUITY			
Contributed equity	22	**39,039**	39,039
Reserve (accumulated unrealised gain/loss on investments)	23	**(248,511)**	588,857
Retained earnings	23	**214,408,399**	198,939,939
Capital and reserves attributable to members of AARNet Pty Ltd		**214,198,927**	199,567,835
Total equity		**214,198,927**	199,567,835

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

STATEMENT OF CHANGES IN EQUITY

	2018 $	2017 $
Total equity at the beginning of the financial year	**199,567,835**	189,804,044
Changes in financial assets at fair value, net of tax	**(837,368)**	239,659
Net surplus for the year	**15,468,460**	9,524,132
Total recognised surplus and expense for the year	**14,631,092**	9,763,791
Total equity at the end of the financial year	**214,198,927**	199,567,835

The above statement of changes in equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

	Notes	2018 $	2017 $
Cash flows from operating activities			
Receipts from members and customers (inclusive of goods and services tax)		**91,861,883**	92,152,847
Payments to suppliers and employees (inclusive of goods and services tax)		**(63,609,595)**	(59,300,557)
		28,252,288	32,852,290
Net cash inflow from operating activities	12	**28,252,288**	32,852,290
Cash flows from investing activities		**(30,894,755)**	(17,406,467)
Payments for property, plant and equipment		**(30,894,755)**	(17,406,468)
Payments for Indefeasible Rights to Use traffic paths (intangible assets)		**-**	(192,335)
Payments for financial assets at fair value through statement of changes in equity		**(1,889,492)**	(4,222,870)
Payments for financial instruments at amortised cost		**(89,569,935)**	(101,375,661)
Proceeds from sale of financial assets at fair value through statement of changes in equity		**4,647,677**	3,229,342
Proceeds from financial instruments at amortised cost		**86,611,580**	89,425,000
Dividends received		**518,049**	553,833
Interest received		**2,460,594**	2,201,293
Proceeds from sale of property, plant and equipment		**-**	8,000
Net cash outflow from investing activities		**(28,116,282)**	(27,779,866)
Net increase/(decrease) in cash and cash equivalents		**136,006**	5,072,424
Cash and cash equivalents at the beginning of the financial year		**23,566,326**	18,493,902
Cash and cash equivalents at end of year	11	**23,702,332**	23,566,326

The above statement of cash flows should be ready in conjunction with the accompanying notes.

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 changes in equity, 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 2018 $	31 December 2017 $
Within one year	**26,154,945**	20,496,787
Later than one year but not later than five years	**8,746,604**	8,746,604
Later than five years	**102,600**	148,238
	32,923,342	29,391,629

(b) Lease and capacity commitments: AARNet as lessee

	31 December 2018 $	31 December 2017 $
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**10,714,908**	7,451,125
Later than one year but not later than five years	**50,107,150**	47,068,560
Later than five years	**60,826,167**	66,195,834
Commitments not recognised in the financial statements	**121,648,225**	120,715,519

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 $ 906,363 (2017: $1,064,584).

3. CURRENT LIABILITIES - PAYABLES

	31 December 2018 $	31 December 2017 $
Current liabilities		
Trade payables	**3,795,181**	2,855,890
Other payables	**8,134,238**	7,292,521
	11,929,419	10,148,411

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 2018 $	31 December 2017 $
Infrastructure establishment fees	**18,085,038**	11,581,080
Other deferred income	**1,271,242**	1,296,242
Infrastructure service fees	**7,359,282**	5,986,271
Subscriptions	**29,595,775**	24,790,632
	56,311,337	43,654,225

Accounting Policy

The Accounting Policy for Income in Advance is described in note 8.

5. NON-CURRENT LIABILITIES - INCOME IN ADVANCE

	31 December 2018 $	31 December 2017 $
Infrastructure establishment fees	**42,262,308**	41,445,565
Infrastructure projects	**1,475,755**	1,719,016
Other deferred income	**1,730,764**	2,042,857
	45,468,827	45,207,438

Accounting Policy

The Accounting Policy for Income in Advance is described in note 8.

6. CURRENT LIABILITIES - PROVISIONS

	31 December 2018 $	31 December 2017 $
Employee benefits	**5,171,758**	4,619,539
Make good provision	**-**	119,141
	5,171,758	4,738,680

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 2018 $	31 December 2017 $
Employee benefits	**303,961**	342,823
Make good on leased premises	**436,903**	120,063
	740,864	462,886

Movements in provisions

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

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**

2017	Make good on leased premises $
Non-current liabilities - Provisions	
Carrying amount at start of year	239,204
Decrease in provision recognised	(119,141)
Carrying amount at end of year	120,063

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. SERVICE REVENUE

	2018 $	2017 $
Telecommunications		
Members: Subscription, Traffic and Access	**40,593,177**	40,399,463
Non-Member: Subscription, Traffic and Access	**18,153,717**	16,097,666
Other Services	**16,915,079**	13,901,773
	75,661,973	70,398,902
Infrastructure & service agreements		
Infrastructure Establishment Fees	**4,742,009**	4,210,075
Infrastructure Project Construction	**1,280,109**	1,829,763
	81,684,091	76,438,740

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
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**

	Teleco-Members	Teleco-Non-Member	Teleco-Other Services	Infra Establishment Fees	Infra Project Construction	Total
2017						
At a point in time	-	-	-	-	1,829,763	1,829,763
Over time	40,399,463	16,097,666	13,901,773	4,210,075	-	74,608,977
Total	40,399,463	16,097,666	13,901,773	4,210,075	1,829,763	76,438,740

b) Assets and liabilities related to contracts with customers

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

	31 December 2018 $	31 December 2017 $
Current Liabilities- Income in Advance in relation to:		
Infrastructure Establishment Fees	**18,085,038**	11,581,080
Other Deferred Income	**1,271,242**	1,296,242
Infrastructure Service Fees	**7,359,282**	5,986,271
Subscriptions	**29,595,775**	24,790,632

	31 December 2018 $	31 December 2017 $
Non-Current Liabilities- Income in Advance in relation to:		
Infrastructure Establishment Fees	**42,262,308**	41,445,565
Infrastructure Projects	**1,475,755**	1,719,016
Other Deferred Income	**1,730,764**	2,042,857

(i) Significant changes in contract assets and liabilities

Contract liabilities for Infrastructure and service agreements have significantly increased due to an increase in establishment fees for new projects that have not been completed as at 31 December 2018. The increase of establishment fees billed for the year is $10,659,560 (2017: $4,733,813) 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 2018 $	31 December 2017 $
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Members: Subscription, Traffic and Access	**22,304,930**	24,352,521
Non-Members: Subscription, Traffic and Access	**3,103,862**	2,858,949
Other Services	**4,585,761**	3,359,629
Infrastructure Establishment Fees	**4,083,926**	3,831,242
Infrastructure Project Construction	**36,667**	36,667
Total Service Revenue	**34,115,146**	34,439,008
Other Revenue	**745,684**	281,254
Total Revenue	**34,860,830**	34,720,262

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 $60,347,346. The anticipated timing for revenue recognition of liabilities related to contracts with customers (including Infrastructure establishment fees) is as follows:

	31 December 2018 $	31 December 2017 $
Within one year	**56,311,337**	43,654,225
Later than one year but not later than five years	**16,935,177**	15,586,465
Later than five years	**28,533,650**	29,620,973
	101,780,164	88,861,663

Accounting Policy

Service revenues (derived from contracts with customers) have been accounted for under the new accounting standard, AASB15 Revenue from Contracts with Customers. The effects on both the current and comparative financial years are addressed under note 29, *Other significant accounting policies*, within these financial statements.

(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 service 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 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 within a common market.

(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.

9. OTHER REVENUE, GRANTS AND CONTRIBUTIONS RECEIVED

In 2018 and 2017 AARNet recorded significant amounts of Other Revenue, Grants Received and Other Contributions.

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

	2018 $	2017 $
Interest	**2,507,380**	2,126,636
Dividends	**618,516**	528,390
Gain on foreign currency contracts	**3,250,943**	-
Gain on financial assets at fair value through statement of changes in equity	**84,177**	225,594
Other income	**585,793**	589,025
Other Revenue	**7,046,809**	3,469,645
Grants and Contributions received	**403,189**	536,161

Gain on Foreign Currency Contracts

AARNet hedges a significant proportion of its exposure to foreign currency movements (refer note 24) and does not apply hedge accounting. The accounting policy adopted with respect to derivatives and hedging activities is described below. During 2018 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 $3,250,943 (2017: loss of $2,336,325 (refer note 10)).

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.

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 24 (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.

10. EXPENSES

		2018 $	2017 $
Depreciation			
Office equipment		**1,203,732**	817,034
Leasehold improvements		**627,276**	148,584
Communication assets		**9,326,292**	9,955,386
Software		**51,466**	66,391
Buildings		**3,071**	-
Total depreciation	20	**11,211,837**	10,987,393
Amortisation			
Intangibles - Indefeasible Rights to Use traffic paths	21	**8,298,175**	6,921,805
Total depreciation and amortisation		**19,510,012**	17,909,198
Other expenses (including finance costs)			
Loss on foreign currency contracts		**-**	2,336,325
Loss on foreign currency transactions		**102,589**	635,385
Loss on disposal of assets		**1,531**	-
Total other expenses		**104,120**	2,971,710
Rental expense relating to operating leases			
Minimum lease payments - premises		**1,619,850**	1,148,152
Superannuation expense		**2,333,695**	2,324,579

Accounting Policy

Depreciation and Amortisation

The accounting policy for depreciation and amortisation is described in notes 20 and 21 respectively.

11. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	31 December 2018 $	31 December 2017 $
Current assets		
Cash at bank and in hand (AUD)	**12,865,159**	9,685,550
Cash at bank (USD and EUR)	**2,265,361**	7,578,080
Deposits at call - all denominated in AUD	**8,571,812**	6,302,696
	23,702,332	23,566,326

Cash at bank and on hand

Cash at bank and on hand is held at interest rates varying between 0.00% and 1.36% (2016: 0.00% and 1.16%). 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 0.40% and 0.50% (2017: 0.50% and 0.60%).

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.

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

	31 December 2018 $	31 December 2017 $
Surplus for the year	**15,468,460**	15,472,662
Depreciation and amortisation	**19,510,012**	17,909,199
Dividend income	**(618,516)**	(528,390)
Interest received	**(2,460,594)**	(2,201,293)
Net gain on sale of investments	**(84,177)**	(225,594)
Net amortised interest income	**(41,798)**	(41,417)
Net loss/ (gain) on sale of assets	**1,531**	(8,000)
Write off of CRC share	**1**	-
Decrease/ (increase) in trade receivables	**(14,495,477)**	3,800,249
Decrease/ (increase) in accrued income	**(100,379)**	705,208
Decrease/ (increase) in prepayments and other debtors	**(968,959)**	20,337
Decrease/ (increase) in derivative financial instruments	**(3,250,944)**	2,336,325
Increase/ (decrease) in trade payables	**873,864**	(1,630,127)
Increase in other operating liabilities	**133,198**	9,240
Increase in provisions	**367,565**	1,086,923
Increase/(decrease) in income received in advance	**13,918,501**	(3,853,032)
Net cash inflow from operating activities	**28,252,288**	32,852,290

13. CURRENT ASSETS - RECEIVABLES

	31 December 2018 $	31 December 2017 $
Trade receivables	**48,212,007**	33,716,530
Provision for impairment of receivables	**(255,000)**	(255,000)
	47,957,007	33,461,530
Prepayments and Other Debtors	**4,040,342**	3,285,578
	51,997,349	36,747,108

Trade Receivables

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

At 31 December 2018, trade receivables included balances of $1,015,845 (2017: $95,599) 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 at fair value, 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.

14. CURRENT ASSETS - ACCRUED INCOME

	31 December 2018 $	31 December 2017 $
Current assets		
Infrastructure projects	**34,356**	49,042
Other	**267,467**	157,391
Accrued interest receivable	**496,062**	390,606
	797,885	597,039

15. FINANCIAL ASSETS AND INVESTMENTS

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

- Financial instruments at amortised cost (notes 16 and 17)
- Financial assets at fair value through statement of changes in equity (note 18)
- 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 statement of surplus. 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 statement of changes in equity

Financial assets at fair value through statement of changes in equity are held at fair value with gains and losses recognised in Statement of changes in equity. Debt or equity securities that are not held to maturity are recognised as financial assets at fair value through statement of surplus. 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 statement of changes in equity 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 statement of changes in equity 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 statement of changes in equity 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 statement of changes in equity are sold, the accumulated fair value adjustments recognised in Statement of changes in equity are reclassified to the Statement of 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 the Statement of Surplus 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 2018 and 31 December 2017:

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 statement of changes in equity				
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**

31 December 2017	Level 1 $	Level 2 $	Level 3 $	Total $
Assets				
Financial assets at fair value through statement of changes in equity				
Equity securities	5,901,795	-	-	5,901,795
Bonds	6,923,428	-	-	6,923,428
Total assets	**12,825,223**	**-**	**-**	**12,825,223**
Liabilities				
Derivative financial instruments	-	1,930,536	-	1,930,536
Total liabilities	**-**	**1,930,536**	**-**	**1,930,536**

The fair value of financial instruments traded in active markets (such as financial assets at fair value through statement of changes in equity) 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.

16. CURRENT ASSETS - FINANCIAL INSTRUMENTS AT AMORTISED COST

	31 December 2018 $	31 December 2017 $
Debt securities (fixed and floating rates)	**3,757,323**	1,000,000
Term deposits	**29,800,000**	34,500,000
	33,557,323	35,500,000

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.

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

	31 December 2018 $	31 December 2017 $
Debt securities (fixed and floating rates)	**38,192,198**	33,237,788

18. NON-CURRENT ASSETS - FINANCIAL ASSETS AT FAIR VALUE THROUGH STATEMENT OF CHANGES IN EQUITY

	31 December 2018 $	31 December 2017 $
Non-current assets		
Debt securities (fixed and floating rates)	**4,101,645**	6,923,428
Equity securities	**5,200,622**	5,901,795
	9,302,267	12,825,223

19. NON-CURRENT ASSETS - RECEIVABLES

	31 December 2018 $	31 December 2017 $
Prepayments	**214,195**	-

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

	Leasehold improvements $	Office equipment $	Communication assets $	Software $	Total $
At 1 January 2018					
Cost or fair value	2,426,981	5,818,235	139,026,289	1,107,765	148,379,270
Accumulated depreciation	(1,685,804)	(4,764,969)	(57,834,037)	(1,000,372)	(65,285,182)
Net book amount	**741,177**	**1,053,266**	**81,192,252**	**107,393**	**83,094,088**
Year ended 31 December 2018					
Opening net book amount	741,177	1,053,266	77,448,668	143,583	79,319,027
Additions	100,431	1,854,413	12,741,600	51,209	13,565,407
Depreciation charge	(148,584)	(817,034)	(9,955,386)	(66,391)	(10,987,395)
Closing net book amount	**693,024**	**2,090,645**	**84,811,465**	**88,252**	**87,683,386**
At 31 December 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**

	Buildings $	Leasehold improvements $	Office equipment $	Communication assets $	Software $	Total $
Year ended 31 December 2017						
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**

Communication Assets- Finance Leases

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

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 2018 $	31 December 2017 $
Communication assets	**34,931,114**	12,729,760
Office equipment	**1,601,048**	113,616
Leasehold improvements	**464,155**	-
Total assets in the course of construction	**36,996,317**	12,843,376

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 to use AARNet's fibre or infrastructure in return for receiving rights to 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 to 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 - 20 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.

21. NON-CURRENT ASSETS - INDEFEASIBLE RIGHTS TO USE TRAFFIC PATHS (INTANGIBLE ASSETS)

	Total $
At 1 January 2017	
Total payments	163,815,583
Accumulated amortisation on a straight line basis	(81,339,424)
Net book amount	82,476,159
Year ended 31 December 2017	
Opening net book amount	82,476,159
Additions	192,335
Amortisation charge	(6,921,805)
Closing net book amount	75,746,689
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
At 31 December 2018	
Cost	164,007,918
Accumulated amortisation	(96,559,404)
Net book amount	67,448,514

AARNet's intangible assets are indefeasible rights to 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 20.

22. CONTRIBUTED EQUITY

	31 December 2018 Shares	31 December 2017 Shares	**31 December 2018 $**	31 December 2017 $
Ordinary shares				
Fully paid ordinary shares	**78**	78	**39,039**	39,039

Movements in ordinary share capital

Date	Details	Number of shares	$
1 January 2017	Opening balance	78	39,039
31 December 2017	Balance	78	39,039
31 December 2018	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.

23. RETAINED EARNINGS AND RESERVE

Retained earnings

Movements in retained earnings were as follows:

	31 December 2018 $	31 December 2017 $
Balance 1 January	**198,939,939**	189,415,807
Surplus for the year	**15,468,460**	9,524,132
Balance 31 December	**214,408,399**	198,939,939

Reserve - accummulated unrealised gain/loss on investments

Movements in reserve were as follows:

	31 December 2018 $	31 December 2017 $
Balance 1 January	**588,857**	349,198
Changes in the fair value of available-for-sale financial assets	**(837,368)**	239,659
Balance 31 December	**(248,511)**	588,857

24. 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 USD1,479,782 (AUD2,100,239) in USD denominated bank accounts and EUR101,559 (AUD165,122) 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 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 (liabilities)	1,320,407	(146,712)	(146,712)	120,037	120,037
Trade payables	**(3,795,181)**	**201,382**	**201,382**	**(164,767)**	**(164,767)**

		-100 bps		+100 bps	
At 31 December 2017	Carrying amount $	Surplus $	Equity $	Surplus $	Equity $
Cash and cash equivalents	23,566,326	(842,009)	(842,009)	688,916	688,916
Trade Receivables	33,716,530	-	-	-	-
Derivative financial instruments (assets)	(1,930,536)	214,504	214,504	(175,503)	(175,503)
Trade payables	**(2,855,890)**	**2,285**	**2,285**	**(1,869)**	**(1,869)**

(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 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

Interest rate risk					
		-10%		+10%	
At 31 December 2017	Carrying amount $	Surplus $	Equity $	Surplus $	Equity $
Financial assets					
Cash and cash equivalents	23,566,326	(90,674)	(90,674)	159,882	159,882
Financial instruments at amortised cost, term deposits	34,500,000	(345,000)	(345,000)	345,000	345,000
Financial instruments at amortised cost, floating rate notes	34,237,788	(342,378)	(342,378)	342,378	342,378

(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 statement of changes in equity 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 2018	Carrying amount $	Surplus $	Equity $	Surplus $	Equity $
Financial assets					
Financial assets at fair value through statement of changes in equity	9,302,267	(93,023)	(93,023)	93,023	93,023

Other price risk					
		-1%		+1%	
At 31 December 2017	Carrying amount $	Surplus $	Equity $	Surplus $	Equity $
Financial assets					
Financial assets at fair value through statement of changes in equity	12,825,223	(128,252)	(128,252)	128,252	128,252

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.

Amounts recognised in Statement of Surplus

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 any of the following indicators were present:

- Significant financial difficulties for the debtor
- Probability that the debtor will enter bankruptcy or financial reorganisation, and
- 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.

25. 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 Director's 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 to 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 the amount of depreciation and amortisation expense during the year.

26. 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

Directors
Mr Chris Bridge
Dr Christine Burns
Professor John Dewar
Professor Annabelle Duncan
Mr Robert Fitzpatrick*
Mr Jeff Murray
Mr John Rohan*
Professor Deborah Terry
Emeritus Professor Mark Wainwright AM*
Dr David Williams

**Denotes independent director*

27. 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 2018 $	31 December 2017 $
Short-term and long-term employee benefits	**2,722,364**	2,533,016
Post-employment benefits	**335,417**	290,976
	3,057,781	2,823,992

Transactions with key management personnel

Several directors (Messrs CM Bridge, J Murray and Dr C Burns) are members of the Council of Australian University Directors of Information Technology (CAUDIT) to which AARNet provides payroll bureau services. AARNet receives no consideration for this service.

A director, Emeritus Professor MS Wainwright AM, is Chair of Smart Services CRC Pty Ltd. AARNet owned one share and made in-kind contributions to this company. During 2018, Smart Services CRC Pty Ltd applied for voluntary deregistration.

During 2017 a Director, Mr Robert Fitzpatrick provided consulting services to the company in return for remuneration of $54,750.

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.

28. REMUNERATION OF AUDITORS

PricewaterhouseCoopers

Audit and other assurance services

	2018 $	2017 $
Audit and other assurance services		
Audit and review of financial statements	**217,500**	211,000
Total remuneration for audit and other assurance services	**217,500**	211,000
Taxation services		
Taxation Services	**54,208**	112,389
Other services		
Remuneration for advisory services	**65,540**	69,030
Total remuneration of PricewaterhouseCoopers	**337,248**	392,419

29. 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 2018:

- AASB 9 Financial Instruments (AASB 9)
- AASB 15 Revenue from Contracts with Customers (AASB 15)

AARNet had to change its accounting policies and make certain retrospective adjustments following the adoption of AASB 9 and AASB 15.

a) Impact on the financial statements

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in note 29 (b) below, AASB 9 was generally adopted without restating comparative information.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Balance sheet (extract)	31 December 2017 as originally presented	AASB 15	31 December 2017 Restated	AASB 9	1 January 2018 Restated
Current Assets					
Held to Maturity Investments	35,500,000	-	35,500,000	(35,500,000)	-
Financial Assets at Amortised Cost	-	-	-	35,500,000	35,500,000
Non-Current Assets					
Available for sale Financial Assets	12,825,223	-	12,825,223	(12,825,223)	-
Fair Value Through Statement of Changes in Equity	-	-	-	12,825,223	12,825,223
Held to Maturity Investments	33,237,788	-	33,237,788	(33,237,788)	-
Financial Assets at Amortised Cost	-	-	-	33,237,788	33,237,788
Current Liabilities					
Income in advance- Infrastructure Establishment Fees	16,784,255	(5,203,175)	11,581,080	-	11,581,080
Income in advance- Other	1,369,742	(73,500)	1,296,242	-	1,296,242
Non-Current Liabilities					
Income in advance- Infrastructure Establishment Fees	19,243,926	22,201,639	41,445,565	-	41,445,565
Equity					
Retained Earnings	215,864,903	(16,924,964)	198,939,939	-	198,939,939

Balance sheet (extract)	31 December 2016 as originally presented	AASB 9	AASB 15	1 January 2017 Restated
Current Liabilities				
Income in advance- Infrastructure Establishment Fees	14,979,243	-	(5,089,608)	9,889,635
Non-Current Liabilities				
Income in advance- Infrastructure Establishment Fees	24,308,000	-	16,066,042	40,374,042
Equity				
Retained Earnings	200,392,241	-	(10,976,434)	189,415,807

Statement of Surplus (extract)	31 December 2017 as originally presented	AASB 9	AASB 15	31 December 2017 Restated	AASB 9	1 January 2017 Restated
Service Revenue						
Infrastructure Establishment Fees	10,158,603	-	(5,948,529)	4,210,074	-	4,210,074

b) AASB 9 Financial Instruments

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies and reclassifications to the amounts recognised in the financial statements. The new accounting policies are set out in note 15 above. In accordance with the transitional provisions in AASB 9, comparative figures have not been restated.

On 1 January 2018 (the date of initial application of AASB 9), AARNet's management has assessed which business models apply to the financial assets held by AARNet and has classified its financial instruments into the appropriate AASB 9 categories. The main effects resulting from this reclassification are as follows:

Financial assets 1 January 2018	Fair Value Profit or Loss	Available for Sale 2017	Held to Maturity	Amortised Cost
Reclassify Current Assets – Held to Maturity				
Investments to Financial Assets at Amortised Cost	-	-	(35,500,000)	35,500,000
Reclassify Non-Current Assets – Available for Sale Financial Assets to Financial Assets at Fair Value Through Profit or Loss	-	-	(35,500,000)	35,500,000
Reclassify Non-Current Assets - Held to Maturity	12,825,223	(12,825,223)	-	-
Investments to Financial Assets at Amortised Cost	-	-	(33,237,788)	33,237,788

c) AASB 15 Revenue from Contracts with Customers

AARNet has adopted AASB 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in AASB 15, AARNet has adopted the new rules retrospectively and has restated comparatives for the 2017 financial year. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 January 2018) and the beginning of the earliest comparative year (2017).

	AASB 118 carrying amount 31 Dec 2017	Reclassification	Remeasurements	AASB 15 carrying amount 1 January 2018
Current Liabilities - Income in Advance				
Infrastructure Establishment Fees	16,784,255	73,500	(5,276,675)	11,581,080
Other	1,369,742	(73,500)	-	1,296,242
Non-Current Liabilities- Income In Advance				
Infrastructure Establishment Fees	19,243,926	-	22,201,639	41,445,565

	AASB 118 carrying amount 31 Dec 2016	Reclassification	Remeasurements	AASB 15 carrying amount 1 January 2017
Current Liabilities - Income in Advance				
Infrastructure Establishment Fees	14,979,242	-	(5,203,176)	9,889,634
Other	-	-	-	-
Non-Current Liabilities- Income In Advance				
Infrastructure Establishment Fees	24,308,001	-	16,179,610	40,487,611

The impact on the group's retained earnings as at 1 January 2018 and 1 January 2017 is as follows:

	2018 $	2017 $
Opening retained earnings 1 January - AASB 9 (before restatement for AASB 15)	**215,864,903**	200,392,241
Increase in Non-Current Liabilities- Income in Advance-Infrastructure Establishment Fees	**(22,201,639)**	(16,066,042)
Decrease in Current Liabilities - Income in Advance - Infrastructure Establishment Fees	**5,203,175**	5,089,608
Decrease in Current Liabilities - Income in Advance - Other	**73,500**	-
Opening retained earnings 1 January - AASB 9 and AASB 15	**198,939,939**	189,415,807

(i) Accounting for Establishment Fees under AASB15

There has been a significant change with the accounting for establishment fees and represents all adjustments as shown within the tables above. Establishment fees consist of upfront payments used to cover the costs for establishing connections necessary to facilitate the transmission services. Prior to the implementation of AASB 15, establishment fees were recognised over the initial term of the contract. AASB 15 requires the consideration of the period of any options to extend the contact term providing that a material right exists that makes it probable that the customer will exercise the right for renewal. A material right will exist where there is a contractual right to extend the contract; and an establishment fee that was paid within the initial period of the contract, will not be payable again should the customer exercise the right to extend the contract.

In the absence of a material right to renew the contractual period, the establishment fee is recognised over the initial period, consistent with the prior accounting standard.

Where a material right exists, the period of recognition will either be a combination of all the extended periods permissable under the contract, or, if the contract provides for a continual roll over of the contractual term, revenue is recognised over the period of the estimated customer life. It should be noted that a material right must exist within the extended period that the establishment fee is recognised.

(ii) Presentation of assets and liabilities related to contracts with customers

There has been a reclassification between the contract liability Income in advance - Other and Income in advance - Infrastructure Establishment Fees in relation to a project that became ready for use. The amount was $73,500 as at 31 December, 2017 and nil as at 1 January, 2017. The classification is shown within the above table.

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 8.

Leases

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 20, 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.

Comparative figures

Comparative figures have been adjusted to conform to the presentation of the financial year, where required.

Investments and other financial assets

The accounting policies for the group's revenue from investments and other financial assets are explained in Note 8.

New Accounting Standards and Interpretations not yet mandatory or early adopted

For the annual reporting period ended 31 December, 2018, Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory have not been early adopted by AARNet. AARNet's assessment of the most relevant new or amended Accounting Standards and Interpretations are set out below.

AASB 16 Leases (AASB 16)

This standard is applicable to annual reporting periods commencing on or after 1 January 2019. The standard replaces AASB 117 Leases and for lessees will eliminate the classification of operating leases and finance leases. The new standard requires the lessee to recognise its leases in the Balance Sheet as an asset (the right to use the leased item) and a liability reflecting future lease payments. Depreciation of the leased asset and interest on lease liability will be recognised over the lease term.

AARNet will be applying AASB 16 from 1 January 2019.

AARNet (with assistance from engaged advisors) has completed a preliminary assessment on AASB 16 and is currently understanding the financial statement impact of this new standard. The key impacts identified to date are in respect to the recognition of operating leases as right of use assets and operating lease liabilities in Balance Sheet. AASB 16 effects the timing of lease expenses, with the amount of expense recognised at the beginning of the lease to be higher than under previous lease standards, resulting, for a particular lease, a decrease in Net Surplus in the early periods of the lease. The magnitude of the financial impacts on transition and on the comparative financial year is yet to be determined, as a result, at this time AARNet cannot make a reasonable quantitative estimate of the effects of the new standard.

DIRECTORS' DECLARATION

In the Directors' opinion:

(a) the financial statements and notes set out on pages 8 to 31 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 2018 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 GR Sutton AO
Director

Mr CM Hancock
Director

Sydney

19rd March 2019

Independent auditor's report

To the members of AARNet Pty Ltd

Our opinion

In our opinion:

The accompanying financial report of AARNet Pty Ltd (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 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards 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 2018
- 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* (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 2018, but does not include the financial report and our auditor's report thereon.

Our 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 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
19 March 2019

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