AARNet Pty Ltd Financial Report 2013

for the year ended 31 December 2013

ABN 54 084 540 518

Contents

Your Directors present their report on the Company, AARNet Pty Limited ("AARNet"), for the year ended 31 December 2013.

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

Emeritus Professor GR Sutton AO (Chair of the Board and Chair of the Nomination and Remuneration Committee)

Professor MN Barber

Mr OJ Barrett (Deputy Chair of the Board and member of the Audit, Finance and Risk Committee)

Mr CM Hancock (Chief Executive Officer)

Professor L Kristjanson

Mr P Nikoletatos (Chair of the AARNet Advisory Committee)

Mr JF Rohan (Chair of the Audit, Finance and Risk Committee and member of the Nomination and Remuneration Committee)

Dr I Tebbett

Emeritus Professor MS Wainwright AM (member of the Audit, Finance and Risk Committee)

Professor IR Young AO

Mr N Poole (member of the Nomination and Remuneration Committee) was a director of the Company from the beginning of the financial year until his resignation on 31 December 2013.

Mr M Bailey was a director of the Company from 30 April 2013 until his resignation on 4 March 2014.

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 network services to its shareholders ("Members") and to other relevant organisations ("Customers"). Services are provided in accordance with the AARNet Access Policy in order that Members and 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) makes representations to all levels of government on policy, legislation and programs to improve the telecommunications facilities and services available to its Members and Customers;

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

(c) facilitates the construction of connections (fibre tails) to the AARNet backbone and between campuses and other locations to facilitate services for Members and 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 (2012: nil).

Review of operations

Network Performance

During the year AARNet's network services again provided high levels of performance and availability. In particular:

(a) the volume of traffic carried across the network increased by 49.8% (2012: also 49.8%);

(b) Average network availability at 99.97% was above target (99.95%) and higher than 2012 (99.94%). Nevertheless, there were a small number of outages in sectors of the network where diverse (redundant) links were not provided, due to the disproportionate cost involved, and this lowered availability in those sectors.

Over the five years up to and including 2013 traffic for Members and Customers combined has grown at an annualised rate of 51.9% per annum. Within this, traffic for Members only has grown by an annualised rate of 49.3% per annum over the same period.

Despite this significant and sustained growth in Members' traffic, Members' subscriptions have, over the same period, only increased at an annualised rate of 3.96% per annum. In 2013, Member's Subscriptions were only 2.75% higher than the previous year. This has provided increasing value for money for Members and Customers.

Network Expansion

During 2013 AARNet made significant investments in infrastructure and equipment to expand the reach and capability of the network. Much of this investment was assisted by funding from the National Research Network ("NRN") Program, an initiative of the Australian Government conducted as part of the Super Science Initiative and financed from the Education Investment Fund.

In particular, AARNet completed lighting the optical fibre between Adelaide and Perth which provided a significant boost to the capacity available between the east and west coasts of the country. Other significant projects included the extension of AARNet's fibre "rings" in Perth, Brisbane and Sydney; investment in additional fibre infrastructure in regional Queensland and Western Australia; and the deployment of infrastructure and equipment supporting the RDSI program (Research Data Storage Initiative). Federal funding for these projects is a significant investment by the federal government and is of enormous value to AARNet and its Members.

During 2013, AARNet also began to rollout AARNet4, the next generation of technology on which the AARNet network will be based. This project, which has been in planning for several years, will involve a technology refresh across the most of the AARNet network.

Several million dollars were invested in AARNet4 during 2013 and significant investments will be required for another three to four years. While the project is still at an early stage, an important milestone was achieved on 31 December 2013 when the first customer traffic began being transported across AARNet 4.

Subscriptions and Service Revenues

Subscriptions from Members, net of early payment discounts, for 2013 totalled $37,025,250 (2012: $36,517,401). The growth in subscriptions represents an increase of just 1.4%.

Six members exceeded their off-net traffic quota during 2013 and incurred excess traffic charges. After including these charges the increase in member subscriptions was 2.75%. In contrast, Members' traffic (both on-net and off-net) grew at a rate of 43.5% during 2013.

Revenue from all telecommunications services, including Members' subscriptions, Customers' charges and all other services, for 2013 was $57,393,269 (2012: $52,162,437), an increase of 10%. AARNet experienced significant growth in revenues from Customers and in non-subscription revenues from Members (for the delivery of virtual circuits and services supplied over infrastructure developed by AARNet).

Revenue from infrastructure construction activities of $1,009,677 was marginally lower than the $1,187,741 recorded in 2012. In both 2012 and 2013 AARNet's Infrastructure Development Group devoted considerable resource and effort to projects funded by the National Network Research Program referred to earlier. The funds under this program are accounted for as Contributions (see further below) and not as revenues from infrastructure projects.

Contributions and Other Incomes

During 2013 AARNet received contributions in respect of the National Research Network Program of $10,784,771 (2012: $7,505,320). These contributions are employed by AARNet to fund construction of infrastructure or to acquire and install equipment, which together extend the reach and capacity of the network and the services AARNet is able to provide, for the benefit of Members and Customers alike.

Being a non-for-profit organisation, AARNet must take these contributions into income even though the funds concerned may be expended on the acquisition of assets which are capitalised and not immediately expensed.

The receipt of these funds and the manner in which they are accounted for as income has a significant impact on AARNet's financial results (see further below).

During 2013 AARNet began making applications to those states and territories in which it employs personnel, for exemption from payroll tax. Some jurisdictions have assessed these applications, granted AARNet an exemption from payroll tax and refunded taxes previously paid. In 2013 these refunds totalled $1,093,799 (2012: nil).

Some jurisdictions have yet to determine whether to grant AARNet an exemption. Due to the lack of certainty that any further exemptions will be granted AARNet has not recognised any amounts beyond those received in 2013 as income.

AARNet has significant contractual commitments requiring it to make foreign currency denominated payments (mainly in United States Dollars) for international transmission capacity. These commitments extend for periods in excess of five years and are included in those referred to in note 2 to the financial statements.

In order to manage the exposure to exchange rate fluctuations with respect to these commitments (and other payments required in foreign currencies), AARNet arranges forward foreign currency purchases with its bankers and maintains holdings of foreign currency balances. These arrangements are discussed in note 6 to the financial statements.

During 2013 the Australian Dollar depreciated against the United States Dollar with the result that AARNet recorded an accounting gain on the hedging arrangements it had in place. This gain amounted to $2,040,658 (2012: loss of $1,112,599).

Together, these various items represent a substantial part of the surplus AARNet recorded in 2013 and 2012 as shown below:

	2013 $	2012 $
NRN Contributions taken to income	10,784,771	7,505,320
Costs associated with NRN Projects immediately expensed	(875,083)	-
Payroll Tax Refunds	1,093,799	-
Gain/(Loss) on foreign currency contracts	2,040,658	(1,112,599)
Aggregate Effect	13,044,145	6,392,721

Telecommunication and Other Expenses

Telecommunications expenses reduced from $18,683,932 in 2012 to $16,581,731 (equivalent to a reduction of 11.3%). This was driven by:

(a) a new and advantageous, but limited term, agreement with a key supplier for the carriage of traffic between AARNet and the general internet; and

(b) costs paid to a third party to access capacity on that party's network for the benefit of certain AARNet customers – these costs are directly recovered from the customers concerned.

Excluding the effect of these two items, telecommunications costs were 7.1% higher than in 2012 and this was principally due to the cost of international transmission capacity (including the cost of upgraded capacity in 2012 being used for a full year in 2013).

Depreciation and Amortisation costs were significantly higher than in 2012. This was driven by increased investments in capacity, both domestically and internationally. Key domestic investments included the project to light the route between Adelaide to Perth (referred to earlier) while the increased international costs flows from the additional trans-Pacific capacity which commenced in 2012 but was amortised for a full year during 2013.

Employee benefits expenses, both generally and in relation to infrastructure construction projects, increased during 2013 with part of the increase due to higher staffing levels than in 2012 (with persons recruited during 2012 receiving a full year's salary, on-costs and entitlements during 2013).

Infrastructure Project Costs were significantly higher than in 2012 with much of the increase due to equipment purchased for a NRN Project – ownership of this equipment will pass to third parties and was therefore immediately expensed.

Accumulated Surplus and Reserves

In 2013 AARNet recorded a surplus (Net Income) of $22,036,190 (2012: $15,339,470). Surpluses earned in recent years, aided by conservative financial management, have been accumulated into significant reserves of cash and investments.

In the Board's view, it is necessary and prudent for AARNet to aim to generate a surplus in order that:

(a) AARNet can meet its outstanding contracted commitments which exceeded $81m at year end (refer note 2 to the financial statements); and

(b) Fund investments in network capability and services;

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.

During 2013, AARNet drew on these accumulated resources to fund the initial investments in AARNet4 and also to make a significant payment against outstanding contractual commitments to a key supplier of international capacity.

Surpluses earned in recent years, aided by conservative financial management, have therefore been accumulated into significant holdings of cash and investments.

AARNet also intends to use the accumulated funds during 2014 and later years to:

(a) Finance further investments in infrastructure and equipment to expand the reach and capability of AARNet's network;

(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 fibre cable systems).

Net Assets

Net assets at 31 December 2013 were $130,346,199 (2012: $107,930,680). The increase represents the Net Income for 2013 plus the change in value of available-for-sale financial assets during 2013.

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 2013.

Matters subsequent to the end of the financial year

Except for matters discussed under the heading "Review of operations" and for the potential exemption from payroll tax discussed below, no other matter or circumstance has arisen since 31 December 2013 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

AARNet expects that the rate of growth in network traffic will continue at significant levels during 2014, reflecting the historical trends experienced by the company.

AARNet has applied for exemption from payroll tax in all of the states and territories where it employs personnel. Some of these jurisdictions have granted an exemption and provided refunds of taxes previously paid. While there is no certainty that any of the remaining applications will be successful, if exemptions were to be granted by these other jurisdictions, AARNet would benefit from a significant reduction in employment related costs and may also receive significant refunds of taxes previously paid.

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 $17,266 (2012: $17,424) 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

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

Melbourne
26th March 2014

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Auditor's Independence Declaration

As lead auditor for the audit of AARNet Pty Ltd for the year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Rosalie Wilkie
Partner
PricewaterhouseCoopers

Sydney
26 March 2014

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Income statement

For the year ended 31 December 2013

	Notes	31 December 2013 $	31 December 2012 $
Telecommunications revenue		54,263,625	50,246,881
Infrastructure service fees		3,129,644	1,915,556
Infrastructure project construction revenue		1,009,677	1,187,741
Total services revenue		58,402,946	53,350,178
Other revenue:			
Interest		2,469,603	2,858,252
Dividends		124,681	197,977
Gain on foreign currency contracts	4	2,040,658	-
Payroll tax refund	4	1,093,799	-
Other income		477,013	443,044
Total other revenue		6,205,754	3,499,273
Contributions - National Research Network Program	4	10,784,771	7,505,320
Total revenue and income		75,393,471	64,354,771
Telecommunications expenses		(16,581,731)	(18,683,932)
Depreciation and amortisation - Telecommunications	5	(13,309,374)	(9,455,545)
Employee benefits expense - Telecommunications		(9,922,105)	(8,947,843)
Administration - Telecommunications		(4,326,929)	(4,909,499)
Infrastructure project construction		(3,466,316)	(1,836,242)
Depreciation and amortisation - Infrastructure projects	5	(3,351,159)	(1,680,768)
Employee benefits expense - Infrastructure Development Group		(1,788,305)	(1,755,499)
Administration - Infrastructure Development Group		(432,308)	(511,079)
Loss on foreign currency contracts	4	-	(1,112,599)
Other expenses		(179,054)	(122,295)
Total expenses		(53,357,281)	(49,015,301)
Net income		22,036,190	15,339,470

The above income statement should be read in conjunction with the accompanying notes.

Statement of comprehensive income

For the year ended 31 December 2013

	Notes	31 December 2013 $	31 December 2012 $
Net income for the year		22,036,190	15,339,470
Other comprehensive income			
Items that may be reclassified to net income			
Movement in the fair value of available-for-sale financial assets		379,329	293,742
Other comprehensive income for the year, net of tax		379,329	293,742
Total comprehensive income for the year		22,415,519	15,633,212
Total comprehensive income for the year is attributable to:			
Ultimate beneficiaries of AARNet Pty Ltd	22	22,415,519	15,633,212

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Balance sheet as at 31 December 2013

	Notes	31 December 2013	31 December 2012
ASSETS		$	$
Current assets			
Cash and cash equivalents	7	26,243,557	33,059,351
Receivables	8	18,512,863	15,431,241
Held-to-maturity investments	9	9,412,596	7,502,412
Accrued income	10	1,656,830	3,555,365
Derivative financial instrument		479,724	-
Total current assets		56,305,570	59,548,369
Non-current assets			
Receivables	11	83,518	131,866
Available-for-sale financial assets	12	10,454,346	4,589,821
Held-to-maturity investments	13	9,121,072	14,418,274
Other financial assets - Non-controlling investment in Smart Services CRC Pty Limited		1	1
Property, plant and equipment	14	60,637,932	37,142,318
Intangible assets	15	66,171,543	55,893,929
Derivative financial instrument		507,737	-
Total non-current assets		146,976,149	112,176,209
Total assets		203,281,719	171,724,578
LIABILITIES			
Current liabilities			
Payables	16	6,136,692	9,560,443
Income in advance	17	46,183,958	34,130,317
Other liabilities		87,419	55,562
Provisions	18	2,277,210	1,888,215
Derivative financial instrument		-	485,233
Total current liabilities		54,685,279	46,119,770
Non-current liabilities			
Provisions	19	509,833	414,113
Income in advance	21	17,740,408	16,692,050
Derivative financial instrument		-	567,965
Total non-current liabilities		18,250,241	17,674,128
Total liabilities		72,935,520	63,793,898
Net assets		130,346,199	107,930,680
EQUITY			
Contributed equity	22	39,039	39,039
Reserves		477,606	98,277
Retained earnings	23	129,829,554	107,793,364
Capital and reserves attributable to owners of AARNet Pty Ltd		130,346,199	107,930,680
Total equity		130,346,199	107,930,680

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 31 December 2013

	31 December 2013 $	31 December 2012 $
Total equity at the beginning of the financial year	**107,930,680**	92,297,468
Changes in the fair value of available-for-sale financial assets, net of tax	379,329	293,742
Total comprehensive income for the year	22,036,190	15,339,470
Total recognised income and expense for the year	**22,415,519**	15,633,212
Total equity at the end of the financial year	**130,346,199**	107,930,680

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

Statement of cash flows

For the year ended 31 December 2013

	Notes	31 December 2013 $	31 December 2012 $
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		92,402,495	71,637,845
Payments to suppliers and employees (inclusive of goods and services tax)		(46,925,572)	(42,212,090)
		45,476,923	29,425,755
Interest paid		(79)	(19)
Net cash inflow from operating activities	26	**45,476,844**	29,425,736
Cash flows from investing activities			
Payments for property, plant and equipment		(31,873,884)	(14,290,640)
Payments for intangible assets		(20,853,821)	(10,198,574)
Payments for available-for-sale financial assets		(6,682,372)	(1,734,633)
Payments for held-to-maturity investments		(4,124,126)	(4,575,837)
Proceeds from sale of available-for-sale financial assets		1,210,708	1,251,619
Proceeds from held-to-maturity investments		7,500,000	3,480,000
Dividends received		130,488	165,787
Interest received		2,400,369	2,910,566
Net cash (outflow) from investing activities		**(52,292,638)**	(22,991,712)
Net cash inflow from financing activities		**-**	-
Net (decrease) increase in cash and cash equivalents		**(6,815,794)**	6,434,024
Cash and cash equivalents at the beginning of the financial year		33,059,351	26,625,327
Cash and cash equivalents at end of year	7	**26,243,557**	33,059,351

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

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the entity AARNet Pty Ltd.

(a) 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 *Corporations Act 2001*. AARNet Pty Ltd is a not-for-profit entity for the purpose of preparing the financial statements.

(i) New and amended standards adopted

AARNet has applied the following standards and amendments for first time in their annual reporting period commencing 1 January 2013:

- AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13. The adoption of AASB 13 only affected the disclosures in the notes to the financial statements.
- AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011). The impact of AASB 119 is not expected to be significant.
- AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income. The adoption of AASB 2011-9 only affected the disclosures in the notes to the financial statements.

(ii) Early adoption of standards

AARNet has not early adopted any standards that have been issued but are not yet effective.

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and contributed assets at fair value, and the recording of held-to-maturity financial assets at amortised cost.

(iv) Critical accounting estimates

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) 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 income statement.

(c) Revenue recognition

Revenue from the provision of telecommunications services is recognised upon delivery of the services to the users.

Infrastructure construction revenue for projects where the infrastructure becomes the property of the customer is recognised in accordance with the percentage of completion method unless the outcome cannot be reliably estimated. Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as revenue to the extent of costs incurred.

Revenue for projects which involve the construction of infrastructure and the subsequent delivery of services across that infrastructure, where the infrastructure becomes the property of AARNet (unless the project involves contributions of assets) is recognised over the period of the agreement for the provision of those telecommunications services. We refer to this style of arrangement as a Service Agreement.

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.

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

Amounts disclosed as revenue are net of any discounts allowed and taxes paid. Funds received in advance of the revenue recognition point, are recorded as a liability as income in advance.

(d) Income tax

AARNet is exempt from income tax under Section 50-5 of the Income Tax Assessment Act 1997. AARNet's tax status was subject to review by the ATO during 2008, and its tax exempt status was confirmed.

(e) 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 income statement 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 is depreciated over the

(e) Leases (continued)

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.

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 income statement on a straight-line basis over the period of the lease.

(f) Impairment of assets

Assets that are subject to depreciation or amortisation are reviewed for 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.

(g) Cash and cash equivalents

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, 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, and bank overdrafts.

(h) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment of trade receivables is established when there is objective evidence that AARNet will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement in other expenses.

(i) Investments and other financial assets

Classification

AARNet classifies its financial assets in the following categories: loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in current receivables (note 8) and other non-current receivables (note 11) in the balance sheet.

(ii) Held-to-maturity investments

Held-to-maturity investments 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 held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held-to-maturity financial assets 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.

(iii) Available-for-sale financial assets

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. 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. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long-term.

Recognition and derecognition

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.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

Measurement
At initial recognition, AARNet measures a financial asset at its fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets are subsequently carried at fair value.

Impairment
AARNet assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(i) Assets carried at amortised cost

If a held-to-maturity investment 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.

(ii) Assets classified as available-for-sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in profit or loss.

Impairment losses on equity instruments that were recognised in profit or loss are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

(j) Derivatives and hedging activities

Derivatives are initially recognised at fair value 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.

These contracts are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity. Any changes in fair values are taken to the income statement immediately.

(k) Fair value estimation

The fair value of financial assets and financial liabilities are estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. 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.

(l) Property, plant and equipment

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.

Property, plant and equipment is depreciated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, 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.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(f)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(m) Intangible assets

AARNet's intangible assets are indefeasible rights to use (IRU) capacity of traffic paths, which have been amortised from the date they were available for service and will continue to be amortised over the period of the right, which varies from 15 to 20 years. These are considered operating leases, and additions represent amounts paid as per the lease agreement.

(n) Trade and other payables

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

(o) Employee benefits

(i) 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 other payables 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.

(ii) Other long-term employee benefit obligations

The liability for leave entitlements or other employee benefits which are not expected to be settled within 12 months after the end of the period in which the employees render the related service is 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 on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(p) 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.

(q) Provisions

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.

(r) Comparative figures

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

(s) New accounting standards and interpretations

Other than the new standards adopted per note 1 (a), there are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current reporting period.

2 Commitments

(a) Expenditure commitments

	31 December 2013 $	31 December 2012 $
Within one year	4,537,450	11,937,524
Later than one year but not later than five years	2,798,020	4,471,209
Later than five years	601,511	741,543
	7,936,981	17,150,276

(b) Lease commitments: AARNet as lessee

	31 December 2013 $	31 December 2012 $
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	13,908,766	11,792,264
Later than one year but not later than five years	34,733,706	50,576,303
Later than five years	32,538,522	41,214,051
Commitments not recognised in the financial statements	81,180,994	103,582,618

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

AARNet makes 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 an 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.

(iii) *Assets at fair value*

AARNet carries its available-for-sale financial assets at fair value with changes in the fair value recognised in reserves. It obtains market valuations at least annually.

4 Other Income and NRN Contributions

Included in Other Income are the following significant amounts: Payroll Tax Refund $1,093,799 (2012: Nil), Gain on Foreign Currency Contracts: $2,040,658 (2012: loss of $1,122,599).

During 2013 the Company began to apply to the states and territories in which it operates for exemption from payroll tax. The last of these applications was lodged after the end of the financial year. The amount shown in other income represents the refunds received during 2013 from those jurisdictions that granted exemption and provided refunds of taxes previously paid.

The company hedges a significant proportion of its exposure to foreign currency movements (refer note 6) and does not apply hedge accounting; note 1(j) sets out the accounting policy adopted with respect to derivatives and hedging activities. During 2013 movements in the Australian dollar produced a gain on the hedging instruments held during and as at the end of the year of $2,040,658. This amount represents a net improvement of $3,163,257 over the equivalent item recorded in 2012.

In addition, the Company benefited again during 2013 from receipts under the National Research Network Program (an initiative of the Australian Government conducted as part of the Super Science Initiative). Although the funds received under this program are expended on construction of network infrastructure, equipment and related activities, the receipts are accounted for as a contribution and recognised as income (refer note 1(c)). The amount of such income recognised in 2013 was $10,784,771 (2012: $7,505,320).

These amounts are not the only material or variable components of Net Income recognised by the Company in 2013 or 2012. They do represent a significant component of the Net Income recorded by the Company during 2013 and are also a material factor in the increase in Net Income recorded in 2013 over 2012.

5 Expenses

	31 December 2013 $	31 December 2012 $
Depreciation		
Office equipment	830,560	946,446
Leasehold improvements	188,698	162,994
Communication assets	4,519,752	2,748,072
Software	57,222	68,936
Leased communication assets	555,807	573,085
Total depreciation	6,152,039	4,499,533
Amortisation		
Intangibles - Indefeasible Rights to Use traffic paths	10,508,494	6,636,781
Total amortisation	10,508,494	6,636,781
Total depreciation and amortisation	16,660,533	11,136,314
Finance costs		
Interest and finance charges paid/payable	79	19
Foreign exchange losses	9,075	94,864
Loss on available-for-sale financial assets	128,318	72,235
Loss on disposal of assets	1,002	1,923
Amortised interest expense	49,655	48,118
Rental expense relating to operating leases		
Minimum lease payments - premises	1,016,550	956,594
Superannuation expense	1,386,596	1,206,938

6 Financial risk management

AARNet's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. AARNet's overall risk management program focuses on liquidity and seeks to minimise potential adverse effects on the financial performance of AARNet. AARNet uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures. AARNet uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and aging analysis for credit risk.

Risk management is carried out by the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) under policies approved by the Board of Directors. The CEO and CFO identify, evaluate and hedge financial risks in close co-operation with AARNet's operating management. Through the Audit, Risk & Finance Committee, the Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk and the use of derivative financial instruments.

(a) Market risk

(i) Foreign exchange risk (currency risk)

AARNet operates internationally and is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the US dollar (USD), and to a smaller extent, to the Euro (EUR).

AARNet holds foreign currency and enters into forward exchange contracts to manage foreign exchange risk.

Foreign exchange risk arises from future committed expenditure. The risk is measured using sensitivity analysis and cash flow forecasting.

AARNet's risk management policy is to hedge at least 60% of anticipated short-term cash flows (mainly for the purchase of capacity from the US) in USD. AARNet currently has monthly requirements in excess of USD0.5m, primarily for the purchase of capacity from the US to Australia and for equipment purchases. These requirements are expected to rise over time.

At year end, AARNet held USD0.39m (AUD0.44m) in USD denominated bank accounts and EUR0.22m (AUD0.34m) in a EUR denominated bank account as part of its strategy to minimise the financial effects of foreign currency fluctuations. Through the Audit, Finance & Risk Committee, AARNet's Board monitors the company's hedging strategy on a continuing basis.

Sensitivity

At 31 December 2013, had the AUD weakened/strengthened by 10% against the USD and the EUR with all other variables held constant, AARNet's net income for the year would have been $256,000 lower/$209,000 higher [2012: $189,000 lower/$287,000 higher], mainly as a result of foreign exchange losses/gains on translation of USD and EUR denominated cash at bank. Equity would have changed by the same amounts as net income had the AUD weakened/strengthened by 10% against the USD.

(ii) Cash and held-to-maturity investments (interest rate risk)

Cash

AARNet's exposure to changes in interest rates is to the extent of its cash at bank and on deposit. At 31 December 2013, if interest rates had changed by -/+1% (100 basis points) from year-end rates with all other variables held constant, Net Income for the year would have been $255,000 lower/higher (2012: $321,000 lower/higher), as a result of lower/higher interest income from cash and cash equivalents. Total equity would have changed by the same amounts.

Held-to-maturity investments

At 31 December 2013, if interest rates had changed by -/+1% (100 basis points) from year-end rates with all other variables held constant, Net Income for the year would have been $116,000 lower/higher (2012: $140,000) as a result of lower/higher interest income from held-to-maturity investments. Equity would have changed by the same amounts.

(iii) Available-for-sale assets (price risk)

Available-for-sale financial assets are comprised of equities and bonds listed on the ASX and hybrid investments. At 31 December 2013, had the ASX uniformly been -/+1% lower/higher with all other variables held constant, Total Comprehensive Income for the year would have been $105,000 lower/higher (2012: $46,000) as a result of lower/higher income from available-for-sale financial assets.

6 Financial risk management (continued)

(a) Market risk (continued)

Summarised sensitivity analysis

The following table summarises the sensitivity of the AARNet's financial assets and financial liabilities to interest rate risk, foreign exchange risk and other price risk.

		Interest rate risk				Foreign exchange risk				Other price risk			
		-100bps		+100bps		-10%		+10%		-1%		+1%	
31 December 2013	Carrying amount $	Profit $	Other Equity $	Profit $	Other Equity $	Profit $	Other Equity $	Profit $	Other Equity $	Profit $	Other Equity $	Profit $	Other Equity $
Financial assets													
Cash and cash equivalents	26,243,557	(254,677)	(254,677)	254,677	254,677	(85,933)	(85,933)	70,309	70,309	-	-	-	-
Accounts receivable	15,638,632	-	-	-	-	-	-	-	-	-	-	-	-
Held-to-maturity investments, term deposits	5,124,125	(51,241)	(51,241)	51,241	51,241	-	-	-	-	-	-	-	-
Held-to-maturity investments, floating rate notes	6,500,000	(65,000)	(65,000)	65,000	65,000	-	-	-	-	-	-	-	-
Available-for-sale financial assets	10,454,346	-	-	-	-	-	-	-	-	(104,543)	(104,543)	104,543	104,543
Other assets	109,877	-	-	-	-	-	-	-	-	-	-	-	-
Accrued income	1,656,830	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial instrument	987,461	-	-	-	-	(109,718)	(109,718)	89,769	89,769	-	-	-	-
Financial liabilities													
Trade payables	3,590,388	-	-	-	-	(60,097)	(60,097)	49,170	49,170	-	-	-	-
Other liabilities	3,214,461	-	-	-	-	-	-	-	-	-	-	-	-
Total increase/ (decrease)		(370,918)	(370,918)	370,918	370,918	(255,748)	(255,748)	209,248	209,248	(104,543)	(104,543)	104,543	104,543

6 Financial risk management (continued)

(a) Market risk (continued)

Summarised sensitivity analysis (continued)

		Interest rate risk				Foreign exchange risk				Other price risk			
		-100bps		+100bps		-10%		+10%		-1%		+1%	
31 December 2012	Carrying amount $	Profit $	Equity $	Profit $	Equity $	Profit $	Equity $	Profit $	Equity $	Profit $	Equity $	Profit $	Equity $
Financial assets													
Cash and cash equivalents	33,059,344	(320,992)	(320,992)	320,992	320,992	(43,656)	(43,656)	167,538	167,538	-	-	-	-
Accounts receivable	13,804,672	-	-	-	-	-	-	-	-	-	-	-	-
Held-to-maturity investments, term deposits	5,000,000	(50,000)	(50,000)	50,000	50,000	-	-	-	-	-	-	-	-
Held-to-maturity investments, floating rate notes	9,000,000	(90,000)	(90,000)	90,000	90,000	-	-	-	-	-	-	-	-
Available-for-sale financial assets	2,111,825	-	-	-	-	-	-	-	-	(45,898)	(45,898)	45,898	45,898
Other assets	147,279	-	-	-	-	-	-	-	-	-	-	-	-
Accrued income	3,555,365	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities													
Derivative financial instrument	1,053,197	-	-	-	-	117,053	117,053	(95,771)	(95,771)	-	-	-	-
Trade payables	5,648,516	-	-	-	-	(28,512)	(28,512)	23,328	23,328	-	-	-	-
Other liabilities	4,249,931	-	-	-	-	-	-	-	-	-	-	-	-
Total increase/ (decrease)		(460,992)	(460,992)	460,992	460,992	44,885	44,885	95,095	95,095	(45,898)	(45,898)	45,898	45,898

6 Financial risk management (continued)

(b) Credit risk

Credit risk arises from AARNet's holdings of cash and cash equivalents, term deposit, corporate bonds and loan notes, shares, hybrid securities and derivative financial instruments. Further credit risk arises from credit exposures to customers in the form of outstanding receivables and committed transactions.

In terms of bank deposits and derivative financial instruments, AARNet deals principally with major Australian banks. In terms of investments in equities, hybrid loan notes and bonds, AARNet has an approved investment policy which stipulates minimum ratings or other criteria for investment funds. Investments in such securities also follow recommendations from a licensed investment advisor.

AARNet's principal customers are Australian Universities and the CSIRO, who are also its shareholders. Other non-shareholder customers are typically government funded or partially government funded institutions. AARNet also minimises credit risk by invoicing for services in advance for a significant portion of its income.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash available to meet the needs of the business.

Management monitors rolling forecasts of AARNet's liquidity on the basis of expected cash flow. AARNet's Board periodically considers longer range financial forecasts (5+ years) provided to the Board during the normal course of its deliberations. The Board also considers the expenditure commitments disclosed in note 2.

(d) Fair value measurements

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

- Available-for-sale financial assets; and
- Derivative financial instruments.

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

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The following table presents the company's assets and liabilities measured and recognised at fair value at 31 December 2013 and 31 December 2012:

6 Financial risk management (continued)

(d) Fair value measurements (continued)

31 December 2013	Notes	Level 1	Level 2	Level 3	Total
		$	$	$	$
Assets					
Derivative financial instrument		-	987,461	-	987,461
Available-for-sale financial assets					
Equity securities	12	4,016,042	-	-	4,016,042
Bonds	12	6,438,304	-	-	6,438,304
Total assets		10,454,346	987,461	-	11,441,807

31 December 2012	Notes	Level 1	Level 2	Level 3	Total
		$	$	$	$
Assets					
Available-for-sale financial assets					
Equity securities	12	2,111,826	-	-	2,111,826
Debt securities	12	2,477,995	-	-	2,477,995
Total assets		4,589,821	-	-	4,589,821
Liabilities					
Derivative financial instrument		-	1,053,198	-	1,053,198
Total liabilities		-	1,053,198	-	1,053,198

The fair value of financial instruments traded in active markets (such as available-for-sale financial assets) is 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) is 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.

7 Current assets – Cash and cash equivalents

	31 December 2013 $	31 December 2012 $
Cash at bank and in hand (AUD)	19,489,926	18,564,814
Cash at bank (USD and EUR)	773,401	994,031
Deposits at call - all denominated in AUD	5,980,230	13,500,506
	26,243,557	33,059,351

(a) Cash at bank and on hand

Cash at bank and on hand are held at interest rates varying between 0.03% and 2.40% (2012: 0.05% and 3.60%). During the year, cash at bank and on hand is transferred to term deposits to meet liquidity requirements.

(b) Deposits at call

Interest bearing deposits at call attracted interest rates between 2.35% and 4.65% (2012: 3.50% and 6.00%). These deposits have an average maturity of 66 days.

(c) Bank guarantee and credit facilities

AARNet has a $2,000,000 Bank Guarantee Facility provided by the National Australia Bank. AARNet has provided bank guarantees for $239,380 for the AARNet Sydney office, $84,977 for the AARNet Brisbane office, and $60,000 for the AARNet Melbourne office. AARNet had an unsecured credit card facility totalling $200,000 during the year.

8 Current assets – Receivables

	31 December 2013 $	31 December 2012 $
Trade receivables	15,638,633	13,804,672
Other debtors	109,877	147,279
Prepayments	2,764,353	1,479,290
	18,512,863	15,431,241

As at 31 December 2013, trade receivables of $69,839 (2012: $0) were 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.

(a) Other debtors

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

(b) Fair value

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

9 Current assets – Held-to-maturity investments

	31 December 2013 $	31 December 2012 $
Bonds	5,288,471	2,502,412
Term deposits	4,124,125	5,000,000
	9,412,596	7,502,412

10 Current assets – Accrued income

	31 December 2013 $	31 December 2012 $
Infrastructure projects	378,595	2,921,447
Other	935,941	351,208
Interest on cash and cash equivalents and held-to-maturity investments	342,295	282,710
	1,656,830	3,555,365

11 Non-current assets – Receivables

	31 December 2013 $	31 December 2012 $
Other debtors	-	109,877
Prepayments	83,518	21,989
	83,518	131,866

12 Non-current assets – Available-for-sale financial assets

	31 December 2013 $	31 December 2012 $
Equity securities	4,016,042	2,111,826
Bonds	6,438,304	2,477,995
	10,454,346	4,589,821

13 Non-current assets – Held-to-maturity investments

	31 December 2013 $	31 December 2012 $
Bonds	8,121,072	13,418,274
Term deposits	1,000,000	1,000,000
	9,121,072	14,418,274

14 Non-current assets – Property, plant and equipment

	Leasehold improvements $	Office equipment $	Leased communication assets $	Communication assets $	Software $	Total $
At 1 January 2012						
Cost or fair value	1,935,241	3,582,279	16,078,594	30,272,289	695,265	52,563,668
Accumulated depreciation	(880,984)	(1,600,114)	(14,949,702)	(12,673,546)	(644,225)	(30,748,571)
Net book amount	1,054,257	1,982,165	1,128,892	17,598,743	51,040	21,815,097
Year ended 31 December 2012						
Opening net book amount	1,054,257	1,982,165	1,128,892	17,598,743	51,040	21,815,097
Additions	60,014	161,454	-	19,487,240	119,969	19,828,677
Disposals	-	(1,923)	-	-	-	(1,923)
Depreciation charge	(162,994)	(946,446)	(573,085)	(2,748,072)	(68,936)	(4,499,533)
Closing net book amount	951,277	1,195,250	555,807	34,337,911	102,073	37,142,318
At 31 December 2012						
Cost or fair value	1,995,255	3,740,674	16,078,594	49,759,529	815,234	72,389,286
Accumulated depreciation	(1,043,978)	(2,545,424)	(15,522,787)	(15,421,618)	(713,161)	(35,246,968)
Net book amount	951,277	1,195,250	555,807	34,337,911	102,073	37,142,318
Year ended 31 December 2013						
Opening net book amount	951,277	1,195,250	555,807	34,337,911	102,073	37,142,318
Additions	24,823	381,370	-	29,242,462	-	29,648,655
Disposals	-	-	-	(1,002)	-	(1,002)
Depreciation charge	(188,698)	(830,560)	(555,807)	(4,519,752)	(57,222)	(6,152,039)
Closing net book amount	787,402	746,060	-	59,059,619	44,851	60,637,932
At 31 December 2013						
Cost	2,020,078	4,116,610	16,078,594	78,881,719	815,234	101,912,235
Accumulated depreciation	(1,232,676)	(3,370,550)	(16,078,594)	(19,822,100)	(770,383)	(41,274,303)
Net book amount	787,402	746,060	-	59,059,619	44,851	60,637,932

(a) Assets in the course of construction

The carrying amounts of the assets disclosed above include the following expenditure recognised in relation to property, plant and equipment which is in the course of construction:

	31 December 2013 $	31 December 2012 $
Communication assets	18,004,434	12,050,048
Office equipment	46,428	-
Total assets in the course of construction	18,050,862	12,050,048

15 Non-current assets – Intangible assets

	Indefeasible right to use of capacity of traffic path $	Total $
At 1 January 2012		
Total payments	89,637,333	89,637,333
Accumulated amortisation on a straight line basis	(37,372,911)	(37,372,911)
Net book amount	52,264,422	52,264,422
Year ended 31 December 2012		
Opening net book amount	52,264,422	52,264,422
Additions	10,266,288	10,266,288
Amortisation charge	(6,636,781)	(6,636,781)
Closing net book amount	55,893,929	55,893,929
Total payments	99,903,621	99,903,621
Accumulated amortisation on a straight line basis	(44,009,692)	(44,009,692)
Net book amount	55,893,929	55,893,929
Year ended 31 December 2013		
Opening net book amount	55,893,929	55,893,929
Additions	20,786,108	20,786,108
Amortisation charge	(10,508,494)	(10,508,494)
Closing net book amount	66,171,543	66,171,543
At 31 December 2013		
Cost	120,689,727	120,689,727
Accumulated amortisation on a straight line basis	(54,518,184)	(54,518,184)
Net book amount	66,171,543	66,171,543

During the year, additions to intangible assets totalled $20,786,108. These additions were the result of recognising further payments for Indefeasible Rights to Use traffic paths.

16 Current liabilities – Payables

	31 December 2013 $	31 December 2012 $
Trade payables and other accruals	6,136,692	9,560,443

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

17 Current liabilities – Income in advance

	31 December 2013 $	31 December 2012 $
Infrastructure projects	12,630,362	6,080,427
Other	4,703,976	1,052,335
Infrastructure service fees	2,024,412	2,566,038
Subscriptions	26,825,208	24,431,517
	46,183,958	34,130,317

18 Current liabilities – Provisions

	31 December 2013 $	31 December 2012 $
Employee benefits	2,277,210	1,888,215

19 Non-current liabilities – Provisions

	31 December 2013 $	31 December 2012 $
Employee benefits	299,088	197,702
Make good on leased premises	210,745	216,411
	509,833	414,113

(a) Movements in provisions

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

	Make good on leased premises $	Total $
2013		
Non-current liabilities – Provisions		
Carrying amount at start of year	216,411	216,411
Reduction in provision recognised	(5,666)	(5,666)
Carrying amount at end of year	210,745	210,745

	Make good on leased premises $	Total $
2012		
Non-current liabilities – Provisions		
Carrying amount at start of year	219,443	219,443
Reduction in provision recognised	(3,032)	(3,032)
Carrying amount at end of year	216,411	216,411

20 Non-current liabilities – Retirement benefit obligations

Superannuation plan

Contributions for certain of AARNet's employees are held by the UniSuper Defined Benefit Division (the DBD) which is a defined benefit plan under Superannuation Law, but is considered to be a defined contribution plan under Accounting Standard AASB 119.

As at 30 June 2013, the assets of the DBD in aggregate were estimated to be $691 million in deficiency of vested benefits ($770 million after allowing for various reserves). The vested benefits are benefits which are not conditional upon continued membership (or any factor other than leaving the service of the participating institution) and include the value of indexed pensions being provided by the DBD.

As at 30 June 2013 the assets of the DBD in aggregate were estimated to be $861 million above accrued benefits ($782 million after allowing for various reserves). The accrued benefits have been calculated as the present value of expected future benefit payments to members and indexed pensioners which arise from membership of UniSuper up to the reporting date.

The vested benefit and accrued benefit liabilities were determined by the Fund's actuary, Russell Employee Benefits, using the actuarial demographic assumptions outlined in their report dated 14 November 2013. The financial assumptions used were:

	Vested benefits p.a.	Accrued benefits p.a.
Gross of tax investment return - DBD pensions	6.10%	7.80%
Gross of tax investment return - commercial rate indexed pensions	3.70%	3.70%
Net of tax investment return - non pensioner members	5.50%	7.00%
Consumer Price Index	2.75%	2.75%
Inflationary salary increases long-term	3.75%	3.75%

Assets have been included at their net market value i.e. allowing for realisation costs.

Clause 34 of the UniSuper Trust Deed provides a mechanism for reducing members' benefits, if after initially falling below specified threshold levels, and after a period of at least four years, the Accrued Benefit Index (ABI) and the Vested Benefit Index (VBI) are below those thresholds (100% and 95% respectively).

At 30 June 2013 the VBI was 94.7% and the ABI was 106.0%. As a result of the VBI being less than 95% at 30 June 2013, the monitoring process set out in Clause 34 has been commenced. The Clause 34 process was also initiated following the report on the actuarial investigation as at 31 December 2008, 30 June 2011 and 30 June 2012.

Following the end of the monitoring period commenced in relation to the 31 December 2008 actuarial investigation, the UniSuper Limited Board made a decision not to reduce accrued benefits but to reduce the rate at which benefits accrue in respect of the DBD membership after 1 January 2015.

AARNet is not legally obliged to make additional contributions to the DBD in respect of any deficiency within the DBD. Accordingly, no provision has been made in AARNet's accounts for any potential shortfall in the DBD.

21 Non-current liabilities – Income in advance

	31 December 2013 $	31 December 2012 $
Infrastructure service fees	11,757,123	10,153,415
Infrastructure projects	2,692,057	2,935,315
Other deferred income	3,291,228	3,603,320
	17,740,408	16,692,050

22 Contributed equity

	31 December 2013 Shares	31 December 2012 Shares	31 December 2013 $	31 December 2012 $
Fully paid	78	78	39,039	39,039
	78	78	39,039	39,039

(a) Movements in ordinary share capital

Date	Details	Number of shares	$
1 January 2012	Opening balance	78	39,039
31 December 2012	Balance	78	39,039
31 December 2013	Balance	78	39,039

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

Retained earnings

Movements in retained earnings were as follows:

	31 December 2013 $	31 December 2012 $
Balance 1 January	107,793,364	92,453,894
Net profit for the year	22,036,190	15,339,470
Balance 31 December	129,829,554	107,793,364

24 Key management personnel disclosures

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

(i) *Chairman – non-executive*
Emeritus Professor GR Sutton AO, Independent Director

(ii) *Executive Directors*
Mr C Hancock, CEO

(iii) *Non-executive Directors*
Professor MN Barber
Mr M Bailey (appointed 30 April 2013)
Mr OJ Barrett, Independent Director
Professor L Kristjanson
Mr P Nikoletatos
Mr N Poole (resigned 31 December 2013)
Mr JF Rohan, Independent Director
Dr I Tebbett
Emeritus Professor MS Wainwright AM, Independent Director
Professor IR Young AO

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 2013 $	31 December 2012 $
Short-term employee benefits	1,883,616	1,731,422
Post-employment benefits	241,733	176,996
	2,125,349	1,908,418

Transactions with key management personnel

A director, Emeritus Professor MS Wainwright AM, is Chair of Smart Services CRC Pty Ltd. AARNet owns one share and makes in-kind contributions to this company. The CEO, Mr C Hancock, is also a Director of this company.

A director, Mr P Nikoletatos, is Vice President of the Council of Australian University Directors of Information Technology (CAUDIT) to which AARNet provides payroll bureau services. AARNet receives no consideration for this activity.

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

25 Remuneration of auditors

(a) PricewaterhouseCoopers

	2013 $	2012 $
Audit and other assurance services		
Audit and review of financial statements	196,500	192,900
Other assurance services		
Audit of regulatory returns	9,000	8,750
Audit of special purpose financial reports	27,500	22,700
Total remuneration for audit and other assurance services	233,000	224,350
Taxation services		
Taxation services	3,500	29,850
Other services		
Other	-	5,195
Total remuneration of PricewaterhouseCoopers	236,500	259,395

26 Reconciliation of net income to net cash inflow from operating activities

	31 December 2013 $	31 December 2012 $
Net income for the year	22,036,190	15,339,470
Depreciation and amortisation	16,660,533	11,136,313
Dividend income	(124,681)	(197,977)
Interest received	(2,400,369)	(2,910,567)
Net (gain)/loss on sale of available-for-sale financial assets	(16,011)	(25,504)
Net amortised interest expense	11,144	48,119
Net (gain) loss on sale of non-current assets	1,002	1,923
Decrease (increase) in trade receivables	(1,686,682)	99,220
Decrease (increase) in accrued income	1,895,206	(2,201,262)
Decrease (increase) in prepayments	(1,346,592)	85,584
Increase (decrease) in derivative financial instruments	(2,040,659)	1,112,599
Increase (decrease) in trade payables	(1,130,808)	833,576
Increase (decrease) in other operating liabilities	31,857	(59,086)
Increase (decrease) in provisions	484,715	454,110
Increase (decrease) in income received in advance	13,101,999	5,709,218
Net cash inflow (outflow) from operating activities	45,476,844	29,425,736

Directors’ declaration 31 December 2013

In the Directors’ opinion:

(a) the financial statements and notes set out on pages 7 to 27 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

  (ii) giving a true and fair view of the entity’s financial position as at 31 December 2013 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 C Hancock
Director

Melbourne
26th March 2014

Independent auditor's report to the members of AARNet Pty Ltd

For the year ended 31 December 2013

pwc

Report on the financial report

We have audited the accompanying financial report of AARNet Pty Ltd (the company), which comprises the balance sheet as at 31 December 2013, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility 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 *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion, the financial report of AARNet Pty Ltd is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the company's financial position as at 31 December 2013 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards including the Australian Accounting Interpretations and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

Rosalie Wilkie
Partner

Sydney
26 March 2014

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