AARNet Pty Ltd Financial Report 2011

for the year ended 31 December 2011

ACN 084 540 518

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Your Directors present their report on the Company, AARNet Pty Limited ("AARNet"), for the year ended 31 December 2011.

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

Mr K Adams
Professor MN Barber
Mr OJ Barrett (Deputy Chair of the Board and Chair of the Audit Committee)
Mr C Hancock (Chief Executive Officer)
Mr P Nikoletatos
Mr N Poole (member of the Remuneration Committee)
Professor MS Wainwright AM

The following persons were directors of AARNet for part of the financial year:

Mr JF Kropp (Chair of the Audit Committee and member of the Remuneration Committee) was a director from the beginning of the financial year until his resignation on 17 May 2011.

Associate Professor R Constantine was a director from the beginning of the financial year until his resignation on 24 August 2011.

The following persons were Directors of AARNet from the beginning of the financial year until their resignations on 31 December 2011:

Professor RD Terrell AO (Chair of the Board and Chair of the Remuneration Committee)
Professor AD Robson AM
Professor IC Goulter (member of the Audit and the Remuneration Committees).

Mr JF Rohan (member of the Audit Committee) was appointed a director on 8 June 2011 and continues in office at the date of this report. Mr P Campbell was appointed a director on 24 August 2011 and continues in office at the date of this report.

The following persons were appointed as Directors of AARNet on 1 January 2012 and continue in office at the date of this report:

Professor G Sutton (Chair of the Board and the Remuneration Committee since appointment)
Professor L Kristjanson
Professor I Young

Principal activities

AARNet is a not for profit, large 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 organisations ("Associates"). Services are provided in accordance with the AARNet Access Policy in order that Members and Associates 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;

(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 that will improve the telecommunications facilities and services available to its Members;

(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 to the AARNet backbone for Members and Associates.

Dividends – AARNet

No dividends have been paid, declared or recommended either during the financial year or in the period since that year ended (2010: nil). AARNet's constitution prohibits the payment of dividends or other distributions to its shareholders.

Review of operations

During the year AARNet's network services again met the company's targets for availability and performance. In particular:

(a) The volume of traffic carried across the network increased by 41.3%;

(b) Network availability at 99.977% remained above target (99.95%).

AARNet's Infrastructure Development Group continued to deploy network infrastructure for AARNet's Members.

Overall, AARNet's service revenues (for delivery of telecommunications services and infrastructure projects) for 2011 were $57,811,785 (2010: $54,670,856). Within this total, Telecommunications Revenues were $49,653,668 (2010: $45,087,459). The increase from 2010 results principally from fees paid to a third party to use further traffic capacity on that party's fibre cable system. AARNet paid these fees and recovered the costs from certain Members and, as a result of this recovery, the fee is included in both Telecommunications Revenue and Telecommunications Expenses. Without this fee, the increase in Telecommunications Revenue for the year would have been in the order of 2%.

Revenue from Infrastructure Development Projects declined to $8,158,117 (2010: $9,583,397). The principal reason for this decline was a large project undertaken during 2011 on a pass through basis (whereby AARNet directly recovered the costs of the project from the customer concerned and invoiced separately for its own costs and charges). The costs recovered from the customer were netted against the costs incurred on the project; consequently project revenue for the year was lower than it would otherwise have been.

Despite netting these costs and revenues (which also reduced project construction costs) there was an 8% increase in Infrastructure Project Construction Costs to $2,942,158 (2010: $2,725,118) such that projects completed in 2011 earned a lower margin than those completed in 2010.

Telecommunications expenses increased to $18,862,753 in 2011 (2010: $14,579,169). The cost of the establishment fees paid to the party referred to above account for most of this increase. Excluding the effect of those fees, telecommunications costs rose by 4%, a faster rate than the related revenues.

Employee benefits expenses, both generally and in relation to infrastructure construction projects, increased during 2011 with part of the increase due to higher staffing levels both in 2011 and 2010 (with persons recruited during 2010 receiving a full year's salary, on-costs and entitlements during 2011).

Depreciation and Amortisation costs totalled $9,683,695 in 2011 (2010: $10,345,705) with the reduction principally due to certain high value leased assets becoming fully depreciated (while remaining in use) and lower amortisation in respect of the rights to use international traffic paths; the latter mostly due to the effect of a stronger Australian dollar.

AARNet's investments contributed $2,427,089 in interest (net of amortised interest expense) in 2011 (2010 $1,979,411) and $53,795 in dividends (2010: nil) which reflects steps taken to generate enhanced returns on the company's investment reserves (see further below).

In addition, AARNet received certain items of equipment (principally used to operate telepresence services) with a fair value of $1,019,153. Being a not-for-profit company AARNet is required to recognise the fair value of these assets as income and to record an asset of equivalent value, which is then depreciated over the assessed useful life of the assets.

Trading Surplus

Although AARNet is a not-for-profit company, it has earned a surplus (Net Income) in the past and this year generated Net Income of $12,433,039 (2010: $13,451,548). Surpluses earned by AARNet:

(a) cannot (by virtue of the terms of AARNet's constitution) be distributed to the shareholders; and

(b) are retained within the company to fund expansions in the reach and capability of AARNet's network (including periodic major technology refresh investments).

In the board's view, AARNet should generally aim to generate Net Income so that investments in network capability and the services AARNet provides can be funded without calling on the Members to contribute further equity to the company.

AARNet's Net Income is derived from three principal areas which can broadly be described as:

(i) provision of internet, advanced network services and ancillary services;

(ii) delivery of infrastructure;

(iii) returns on invested funds and other non-operating items.

The income generated from the second and third of these items ("delivery of infrastructure" and "returns on invested funds and other non-operating items") tends to be more variable than the income generated by the first area.

Earnings from Infrastructure Construction Projects depend on AARNet's Members or other parties being willing to fund the construction of infrastructure. It is difficult for AARNet to predict the level of such activity, particularly over the longer term, however the value of projects completed during both 2011 and 2010 were significant.

The contribution of infrastructure construction projects to Net Income (measured as Infrastructure project construction revenue less Infrastructure project construction costs and the related employee benefits and administration expenses) was $940,659 (2010: $3,030,651). The lower contribution in 2011 reflects the lower margins earned on key projects completed during the year.

Earnings from invested funds depend on both the amount of funds AARNet has available to invest as well as the rates of return available in investment markets. AARNet earned interest and dividends totalling $2,480,884 (after allowing for amortised interest expense) during 2011 (2010: $1,979,411). The funds AARNet holds for investment are at historically high levels and future investment income may not be sustained at this level (see the comments under the heading "Cash Reserves and Investments", below).

In addition, AARNet benefited in 2011 from certain suppliers contributing equipment to AARNet at no cost. AARNet is a not-for-profit company and is therefore required to recognise this contribution as income. The fair value of assets recorded as such contribution in 2011 was $1,019,153 (2010: nil).

In summary, AARNet generated a surplus in 2011, but a significant portion of that surplus derived from activities other than the provision of network and ancillary services to AARNet's Members.

Strategic Direction

During 2011 AARNet continued to pursue the objectives set out in the Strategic Plan developed during 2010, including the following four areas of strategic focus:

(a) Building and operating Australia's advanced research and education network;

(b) Delivering a roadmap for future connectivity;

(c) Developing applications and services that add value to customers; and

(d) Growing the research and education community.

Cash Reserves and Investments

Over the last several years AARNet has increased its cash reserves as a result of accumulated surpluses and through conservative financial management. These funds have been accumulated in order to finance a significant program of expenditure expected to operate for the next 4-5 years.

The program is designed to meet the projected growth in demand for AARNet services from Members and, in particular, to:

(a) increase the capacity of the network both within Australia and on key international routes in order to serve the growing needs of Members;

(b) increase the reach of the AARNet network within Australia;

(c) maintain the quality of network services and the level of network availability provided to Members.

Commencing in 2012, AARNet plans to increase capital expenditure on network facilities, equipment and rights to use traffic paths on fibre cable systems in order to meet these objectives.

In addition, AARNet has significant financial commitments in respect of non-cancellable operating leases (principally rights to use the traffic paths of fibre cable systems) which, at year end, exceeded $60m (refer note 2 to the financial statements).

During the year the board appointed a financial advisor to assist management in administering AARNet's cash reserves. The board took this step with the aim of enhancing returns on the funds the company holds in order to maximise the value of future network investments that the cash reserves will support. Consequently, during the year, AARNet reduced the level of cash deposits held and began to hold securities (such as corporate bonds, hybrid securities and shares) that it had not previously held.

All investment returns, along with the underlying investment funds are earmarked for re-investment in AARNet's network and in the development and operation of services for Members and Affiliates.

Net Assets

Net assets at 31 December 2011 were $101,317,946 (2010: $89,080,372). The increase represents the Net Income for 2011 plus the change in value of available-for-sale financial assets during 2011.

Significant changes in the state of affairs

There were no significant changes in the state of affairs which have arisen since 31 December 2011 or since that have significantly affected or may significantly affect the results of those operations or the state of affairs in subsequent years.

Matters subsequent to the end of the financial year

Since the end of the financial year AARNet has entered into an agreement to acquire significant further international transit capacity. This capacity will enable AARNet to support the continued rapid growth in international telecommunications traffic generated by AARNet's customers.

Except for the agreement referred to above and the matters discussed under the heading "Review of Operations", no other matter or circumstance has arisen since 31 December 2011 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 the rate of growth in network traffic will continue at significant levels during 2012. The international capacity referred to above is likely to be brought into service during 2012 as part of the necessary network enhancements to support this growth.

Expenditure on AARNet's network (including the network investment program and the investment in additional international capacity referred to earlier) is expected to exceed the cash generated from operations during 2012. Consequently, AARNet expects to draw on the cash reserves and investments it holds to fund a proportion of this expenditure with the result that a lower value of cash and investments is expected at the end of 2012.

Environmental regulation

AARNet's operations are not adversely affected by any significant environmental regulation. Nonetheless, the Company is proactively addressing wider environmental concerns, in particular monitoring and managing its carbon footprint.

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 $17,265 (2010: $16,000) 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 (other than 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.

OJ Barrett
Director

C Hancock
Director

Adelaide
27 March 2012

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Auditor's Independence Declaration

As lead auditor for the audit of AARNet Pty Limited for the year ended 31 December 2011, 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.

This declaration is in respect of AARNet Pty Limited during the period.

Rosalie Wilkie

Rosalie Wilkie
Partner
PricewaterhouseCoopers

Brisbane
27 March 2012

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This financial report covers AARNet as an individual entity. The financial report is presented in the Australian currency.

AARNet Pty Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

AARNet Pty Limited
Building 9, Banks Street
Yarralumla ACT 2600

A description of the nature of AARNet's operations and its principal activities is included in the directors' report on pages 2 to 5, which is not part of this financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to AARNet. All press releases, financial reports and other information are available on our website:

www.aarnet.edu.au

For queries in relation to our reporting please call (02) 6222 3568 or e-mail accounts@aarnet.edu.au

Income statement

For the year ended 31 December 2011

	Notes	**31 December 2011 $**	31 December 2010 $
Telecommunications revenue	4	**49,653,668**	45,087,459
Infrastructure project construction revenue	4	**8,158,117**	9,583,397
Total services revenue	4	**57,811,785**	54,670,856
Other revenue:			
Interest	4	**2,448,766**	1,979,411
Other income	4	**198,034**	370,237
Dividends	4	**53,795**	-
Total - Other revenue		**2,700,595**	2,349,648
Contributed income			
Contributions - assets donated		**1,019,153**	-
Total revenue and income		**61,531,533**	57,020,504
Telecommunications expenses		**(18,862,753)**	(14,579,169)
Depreciation and amortisation - Telecommunications	5	**(9,683,695)**	(10,345,705)
Employee benefits expense		**(7,413,295)**	(5,966,735)
Administration		**(5,801,683)**	(5,962,894)
Infrastructure project construction		**(2,942,158)**	(2,725,118)
Depreciation and amortisation - Infrastructure projects	5	**(2,468,252)**	(2,488,915)
Employee benefit expense - Infrastructure Development Group		**(1,353,320)**	(887,118)
Administration - Infrastructure Development Group		**453,728)**	(451,595)
Other expenses		**(119,610)**	(161,707)
Total expenses		**(49,098,494)**	(43,568,956)
Net income		**12,433,039**	13,451,548

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

Statement of comprehensive income

For the year ended 31 December 2011

	31 December 2011 $	31 December 2010 $
Net income for the year	12,433,039	13,451,548
Movement in the fair value of available-for-sale financial assets	(195,465)	-
Other comprehensive income for the year, net of tax	(195,465)	-
Total comprehensive income for the year	12,237,574	13,451,548
Total comprehensive income for the year is attributable to:		
Owners of AARNet Pty Ltd	12,237,574	13,451,548

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

Balance sheet

as at 31 December 2011

	Notes	31 December 2011 $	31 December 2010 $
ASSETS			
Current assets			
Cash and cash equivalents	7	26,625,328	45,546,978
Trade receivables	8	15,610,140	13,859,539
Held-to-maturity investments	9	1,975,601	-
Accrued income	10	1,321,913	4,174,839
Derivative financial instruments		59,401	-
Total current assets		45,592,383	63,581,356
Non-current assets			
Receivables	11	137,771	463,839
Available-for-sale financial assets	12	3,787,561	-
Held-to-maturity investments	13	18,897,366	-
Other financial assets – Non-controlling investment in Smart Services CRC Pty Limited		1	1
Property, plant and equipment	14	21,815,097	20,312,601
Intangible assets	15	52,264,422	47,480,087
Total non-current assets		96,902,218	68,256,528
Total assets		142,494,601	131,837,884
LIABILITIES			
Current liabilities			
Payables	16	3,121,117	5,988,016
Income in advance	17	29,547,433	27,228,366
Other liabilities		114,648	49,776
Interest bearing liabilities	18	-	1,425,692
Provisions	19	1,463,629	1,239,062
Derivative financial instruments		-	289,857
Total current liabilities		34,246,827	36,220,769
Non-current liabilities			
Provisions	21	384,589	278,579
Income in advance	23	6,545,239	6,258,164
Total non-current liabilities		6,929,828	6,536,743
Total liabilities		41,176,655	42,757,512
Net assets		101,317,946	89,080,372
EQUITY			
Contributed equity	24	39,039	39,039
Reserves	25	(195,465)	-
Retained earnings	25	101,474,372	89,041,333
Capital and reserves attributable to equity holders of AARNet		101,317,946	89,080,372
Total equity		101,317,946	89,080,372

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

Statement of changes in equity

For the year ended 31 December 2011

	Notes	31 December 2011 $	31 December 2010 $
Total equity at the beginning of the financial year		89,080,372	75,628,824
Changes in the fair value of available-for-sale financial assets, net of tax	25	(195,465)	-
Total comprehensive income for the year		12,433,039	13,451,548
Total recognised income and expense for the year		12,237,574	13,451,548
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transaction costs	24	-	-
Total equity at the end of the financial year		101,317,946	89,080,372

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

Cash flow statement

For the year ended 31 December 2011

	Notes	31 December 2011 $	31 December 2010 $
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		73,619,279	65,036,693
Payments to suppliers and employees (inclusive of goods and services tax)		(51,119,665)	(34,446,871)
		22,499,614	30,589,822
Interest paid		(106,984)	(237,759)
Net cash inflow (outflow) from operating activities	28	22,392,630	30,352,063
Cash flows from investing activities			
Payments for property, plant and equipment		(7,267,902)	(6,996,682)
Payments for intangible assets		(10,763,761)	(13,678,859)
Payments for available-for-sale financial assets		(4,371,605)	-
Payments for held-to-maturity investments		(23,894,644)	-
Proceeds from available-for-sale financial assets		334,203	-
Proceeds from held-to-maturity investments		3,000,000	-
Dividends received		53,795	-
Interest received		3,021,327	1,177,087
Net cash (outflow) inflow from investing activities		(39,888,588)	(19,498,454)
Cash flows from financing activities			
Payments of finance lease liabilities		(1,425,692)	(2,000,464)
Net cash outflow from financing activities		(1,425,692)	(2,000,464)
Net (decrease)/increase in cash and cash equivalents		(18,921,650)	8,853,145
Cash and cash equivalents at the beginning of the financial year		45,546,978	36,693,833
Cash and cash equivalents at the end of the year	7	26,625,328	45,546,978

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

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001* as applicable for not-for-profit entities.

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

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 contibuted assets at fair value, and the recording of held-to-maturity financial assets at amortised cost.

Critical accounting estimates
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying AARNet'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 the delivery of the services to users. Revenue is measured at the fair value of the consideration received or receivable and brought to account on an accruals basis, each month. Amounts disclosed as revenue are net of any discounts allowed and taxes paid. Where cash received is in advance of the revenue recognition point, this cash is recorded as a liability as income in advance.

Interest income from cash and cash equivalents is recognised in the income statement as it accrues.

Infrastructure project construction revenue in respect of Regional Connect Agreements 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.

Infrastructure project construction and installation revenue in respect of Service Agreements, where AARNet owns the fibre asset created, is recognised in full at the point where the service is available for use by the customer.

Dividends are recognised as revenue when the right to receive payment is established.

Contributed assets are recognised at fair value when title and control of the asset passes.

(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 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 cash flow statement presentation purposes, 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 doubtful debts. 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 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 trade and other receivables (note 8) and other debtors (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 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.

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 the 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 costs 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 group of financial assets is impaired. A financial asset or 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 and loss is removed from equity and recognised in profit and loss.

1 Summary of significant accounting policies (cont.)

Impairment losses on equity instruments that were recognised in profit and loss are not reversed through profit and 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 are stated at historical cost less depreciation for all assets except contributed assets which are stated at fair value. 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 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 each reporting date.

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 which is 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 GST except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of the acquisition of the asset or as part of an 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) New accounting standards and interpretations

AARNet has assessed the impact of new accounting standards and interpretations and did not identify any significant impact.

2 Commitments

(a) Expenditure commitments

	31 December 2011 $	31 December 2010 $
Commitments in relation to expenditure contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	6,681,109	11,360,540
Later than one year but not later than five years	3,010,568	1,820,333
Later than five years	77,000	108,000
	9,768,677	13,288,873

(b) Lease commitments – AARNet as lessee

(i) Non-cancellable operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	18,640,971	21,142,069
Later than one year but not later than five years	33,389,208	41,659,639
Later than five years	15,993,570	20,065,279
Commitments not recognised in the financial statements	68,023,749	82,866,987

(ii) Finance leases

AARNet leased various communication assets. The finance leases expired in 2011. AARNet has exercised an option to acquire the leased assets.

	31 December 2011 $	31 December 2010 $
Within one year	-	1,530,899
Future finance charges	-	(105,207)
Recognised as a liability	-	1,425,692
Total lease liabilities	-	1,425,692
Current (note 18)	-	1,425,692
Non-current (note 20)	-	-

The weighted average interest rate implicit in the leases is 5.83%.

All commitments shown are net of goods and services tax.

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 Directors have assumed in the ordinary course of business that AARNet's customers will continue to use AARNet's services into the foreseeable future.

(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) Infrastructure projects completion

AARNet estimates the percentage of each project complete at the Balance Sheet date and allocates revenues and expenses accordingly.

(iv) 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.

AARNet carries contributed assets at fair value. Fair value is based on management's estimate of the likely price it would have had to pay to acquire such assets supported by evidence where available from the relevant vendor.

4 Revenue

	31 December 2011 $	31 December 2010 $
Services revenue		
Telecommunications revenue	49,653,668	45,087,459
Infrastructure project construction revenue	8,158,117	9,583,397
	57,811,785	54,670,856
Other revenue		
Interest	2,448,766	1,979,411
Other income	198,034	370,237
Dividends	53,795	-
	2,700,595	2,349,648
	60,512,380	57,020,504

5 Expenses

	31 December 2011 $	31 December 2010 $
Depreciation		
Office equipment	776,666	524,162
Leasehold improvements	175,741	130,842
Communication assets	3,110,148	2,582,417
Software	90,915	150,062
Leased communication assets	2,019,051	2,822,509
Total depreciation	6,172,521	6,209,992
Amortisation		
Intangibles - Indefeasible Rights to Use traffic paths	5,979,426	6,624,628
Total amortisation	5,979,426	6,624,628
Total depreciation and amortisation	12,151,947	12,834,620
Finance costs		
Interest and finance charges paid/payable	1,777	120,110
Foreign exchange losses	523,160	585,538
Loss (gain) on forward exchange contracts	(316,308)	265,214
Loss on sale of available-for-sale financial assets	54,376	-
Loss on disposal of assets	41,780	41,597
Amortised interest expense	21,677	-
Rental expense relating to operating leases: Minimum lease payments - premises	768,892	701,842
Superannuation expense	1,099,704	838,011

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 and foreign exchange risks and ageing 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 units. 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 USD, and to a smaller extent, to the EUR.

AARNet holds foreign currency and enters into foreign 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 50% of anticipated short-term cash flows (mainly for the purchase of capacity from the US) in USD. AARNet currently has monthly commitments in excess of USD750,000, primarily for the purchase of capacity from the USA to Australia. At period end, AARNet held USD1.14M (AUD1.12M) in USD denominated bank accounts and EUR0.03M (AUD0.04M) in a EUR denominated bank account as part of its strategy to minimise the financial effects of foreign currency fluctuations. AARNet's Board monitors the company's hedging strategy on a continuing basis.

Sensitivity

At 31 December 2011, 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 $14,000 higher/$251,000 higher (2010: $64,000 lower/$46,000 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 2011, 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 $151,903 lower/higher (2010: $446,000 lower/higher), as a result of higher/lower interest income from cash and cash equivalents. The 2010 sensitivity is higher as a greater value was held in cash securities in that year. Total equity would have changed by the same amounts.

Held-to-maturity investments

At 31 December 2011, 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 $114,000 lower/higher (2010: $nil) as a result of higher/lower interest income from held-to-maturity investments. Equity would have changed by the same amounts. No held-to-maturity investments were held in 2010.

Borrowings

AARNet's finance leases are at a fixed rate and it has no other borrowings.

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

Available-for-sale financial assets are comprised predominately of equities listed on the ASX. At 31 December 2011, had the ASX uniformly been -/+1% higher/lower with all other variables held constant, Total Comprehensive Income for the year would have been $37,876 higher/lower (2010: $nil) as a result of higher/lower income from available-for-sale financial assets. No available-for-sale financial assets were held in 2010.

(iv) Summarised sensitivity analysis

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

6 Financial risk management (cont.)

		Interest rate risk				Foreign exchange risk				Other price risk			
		-100bps		+100bps		-10%		+10%		-1%		+1%	
31 December 2011	Carrying amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	$	$	$	$	$	$	$	$	$	$	$	$	$
Financial assets													
Cash and cash equivalents	26,625,327	(151,903)	(151,903)	151,903	151,903	9,098	9,098	255,062	255,062	-	-	-	-
Accounts receivable	13,976,509	-	-	-	-	-	-	-	-	-	-	-	-
Held-to-maturity investments	11,400,000	(114,000)	(114,000)	114,000	114,000	-	-	-	-	-	-	-	-
Available-for-sale financial assets	3,787,561	-	-	-	-	-	-	-	-	(37,876)	(37,876)	37,876	37,876
Other assets	150,752	-	-	-	-	-	-	-	-	-	-	-	-
Accrued income	1,321,913	-	-	-	-	-	-	-	-	-	-	-	-
Derivative financial instruments	59,401	-	-	-	-	6,170	6,170	(5,049)	(5,049)	-	-	-	-
Financial liabilities													
Trade payables	1,447,613	-	-	-	-	2,307	2,307	(1,888)	(1,888)	-	-	-	-
Other liabilities	1,505,213	-	-	-	-	-	-	-	-	-	-	-	-
Total increase/ (decrease)		(265,903)	(265,903)	265,903	265,903	17,575	17,575	248,125	248,125	(37,876)	(37,876)	37,876	37,876

Finance leases are at fixed interest rates and so are not subject to movements above.

6 Financial risk management (cont.)

		Interest rate risk				Foreign exchange risk				Other price risk			
		-100bps		+100bps		-10%		+10%		-1%		+1%	
31 December 2010	Carrying amount	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity	Profit	Equity
	$	$	$	$	$	$	$	$	$	$	$	$	$
Financial assets													
Cash and cash equivalents	45,546,978	(446,271)	(446,271)	446,271	446,271	(127,205)	(127,205)	106,240	106,240	-	-	-	-
Accounts receivable	11,920,804	-	-	-	-	-	-	-	-	-	-	-	-
Other assets	71,235	-	-	-	-	-	-	-	-	-	-	-	-
Accrued income	4,174,839	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities													
Derivative financial instruments	289,857	-	-	-	-	27,102	27,102	(30,527)	(30,527)	-	-	-	-
Trade payables	3,044,323	-	-	-	-	36,451	36,451	(29,824)	(29,824)	-	-	-	-
Other liabilities	2,943,693	-	-	-	-	-	-	-	-	-	-	-	-
Total increase/ (decrease)		(446,271)	(446,271)	446,271	446,271	(63,652)	(63,652)	45,889	45,889	-	-	-	-

Finance leases are at fixed interest rates and so are not subject to movements above.

6 Financial risk management (cont.)

(b) Credit risk

Credit risk arises from AARNet's holdings of cash and cash equivalents, term deposits, 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, hybrids 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 partly government funded institutions. AARNet seeks to minimise credit risk by invoicing for services in advance for a significant portion of its income.

AARNet also trades with other participants in the telecommunications industry. Receivables in respect of these transactions may be significant, but the total value due in respect of such transactions is typically much smaller than the amounts due from AARNet's main customers.

(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 considers longer range financial forecasts (to 31 December 2015) and these are 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

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

As of 1 January 2010, AARNet Pty Ltd has adopted the amendment to AASB 7 Financial Instruments: Disclosures which 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 (as prices) or indirectly (derived from prices) (level 2),and

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

AARNet holds available-for-sale financial assets and forward exchange contracts which are valued at fair value under level 1 and level 2 methodology respectively.

7 Current assets – Cash and cash equivalents

	31 December 2011 $	31 December 2010 $
Cash at bank and in hand (AUD)	6,433,202	4,989,221
Cash at bank (USD and EUR)	1,160,097	1,177,708
Deposits at call – all denominated in AUD	19,032,029	39,380,049
	26,625,328	45,546,978

(a) Cash at bank and on hand

Cash at bank and on hand are held at interest rates varying between 0.05% and 4.13%. (2011: 0.15% and 2.65%). During the year, cash at bank and on hand is transferred to term deposits.

(b) Deposits at call

The deposits are bearing floating interest rates between 4.25% and 6.00% (2010: 4.25% and 6.00%). These deposits have an average maturity of 79 days.

(c) Bank guarantee and credit facilities

AARNet has a $2,000,000 Bank Guarantee Facility provided by the National Australia Bank (NAB). AARNet has provided Guarantees by Bank Facility 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

Trade receivables	13,976,509	11,920,804
Other debtors	150,752	71,235
Prepayments	1,482,879	1,867,500
	15,610,140	13,859,539

As of 31 December 2011, trade receivables of $1,293,526 (2010: $909,945) were past due but not impaired. The 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 2011 $	31 December 2010 $
Bonds	895,601	-
Term deposits	1,080,000	-
	1,975,601	-

10 Current assets – Accrued Income

	31 December 2011 $	31 December 2010 $
Infrastructure projects	428,551	2,158,971
Other	558,338	1,108,283
Interest on cash and cash equivalents and held-to-maturity investments	335,024	907,585
	1,321,913	4,174,839

11 Non-current assets – Receivables

	31 December 2011 $	31 December 2010 $
Other debtors	33,787	101,778
Prepayments	103,984	362,061
	137,771	463,839

(a) Fair values

The fair value of non-current receivables is materially the same as their carrying amounts.

(b) Credit risk

There is no concentration of credit risk with respect to current and non-current receivables, as AARNet has a small number of low credit risk customers. See note 6.

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

	31 December 2011 $	31 December 2010 $
Equity securities	1,805,261	-
Bonds	1,982,300	-
	3,787,561	-

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

	31 December 2011 $	31 December 2010 $
Bonds	17,397,366	-
Term deposits	1,500,000	-
	18,897,366	-

14 Non-current assets – Property, plant and equipment

	Leasehold improvements	Office equipment	Leased communication assets	Leased office equipment	Communication assets	Software	Total
	$	$	$	$	$	$	$
At 1 January 2010							
Cost	1,372,655	1,658,449	14,966,979	111,254	26,240,701	665,422	45,015,460
Accumulated depreciation	(704,767)	(816,416)	(10,108,142)	(111,254)	(13,134,029)	(438,158)	(25,312,766)
Net book amount	667,888	842,033	4,858,837	-	13,106,672	227,264	19,702,694
Year ended 31 December 2010							
Opening net book amount	667,888	842,033	4,858,837	-	13,106,672	227,264	19,702,694
Additions	419,901	754,710	-	-	5,622,132	64,753	6,861,496
Disposals	-	(41,597)	-	-	-	-	(41,597)
Depreciation charge	(130,842)	(524,162)	(2,822,509)	-	(2,582,417)	(150,062)	(6,209,992)
Closing net book amount	956,947	1,030,984	2,036,328	-	16,146,387	141,955	20,312,601
At 31 December 2010							
Cost	1,700,997	1,854,433	14,966,979	-	25,709,785	695,265	44,927,459
Accumulated depreciation	(744,050)	(823,449)	(12,930,651)	-	(9,563,398)	(553,310)	(24,614,858)
Net book amount	956,947	1,030,984	2,036,328	-	16,146,387	141,955	20,312,601

	Leasehold improvements	Office equipment	Leased communication assets	Communication assets	Software	Total
	$	$	$	$	$	$
Year ended 31 December 2011						
Opening net book amount	956,947	1,030,984	2,036,328	16,146,387	141,955	20,312,602
Additions	314,830	1,727,846	1,111,615	4,562,503	-	7,716,795
Disposals	(41,780)	-	-	-	-	(41,780)
Depreciation charge	(175,741)	(776,666)	(2,019,051)	(3,110,148)	(90,915)	(6,172,520)
Closing net book amount	1,054,257	1,982,165	1,128,892	17,598,743	51,040	21,815,097
At 31 December 2011						
Cost	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

15 Non-current assets – Intangible assets

	Indefeasible right to use capacity of traffic path $	Total $
At 1 January 2010		
Total payments	65,448,558	65,448,558
Accumulated amortisation on a straight line basis	(24,768,857)	(24,768,857)
Net book amount	40,679,701	40,679,701
Year ended 31 December 2010		
Opening net book amount	40,679,701	40,679,701
Additions	13,425,014	13,425,014
Amortisation charge	(6,624,628)	(6,624,628)
Closing net book amount	47,480,087	47,480,087
At 31 December 2010		
Total payments	78,873,572	78,873,572
Accumulated amortisation on a straight line basis	(31,393,485)	(31,393,485)
Net book amount	47,480,087	47,480,087
Year ended 31 December 2011		
Opening net book amount	47,480,087	47,480,087
Additions	10,763,761	10,763,761
Amortisation charge	(5,979,426)	(5,979,426)
Closing net book amount	52,264,422	52,264,422
At 31 December 2011		
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

During the year, additions to intangible assets totalled $10,763,761. These additions were the result of recognising further payments for Indefeasible Rights to Use traffic paths.

16 Current liabilities – Payables

	31 December 2011 $	31 December 2010 $
Trade payables and accruals	3,121,117	5,988,016

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

17 Current liabilities – Income in advance

	31 December 2011 $	31 December 2010 $
Infrastructure projects	6,703,653	6,661,718
Other	1,194,305	832,526
Subscriptions	21,649,475	19,734,122
	29,547,433	27,228,366

18 Current liabilities – Interest bearing liabilities

	31 December 2011 $	31 December 2010 $
Secured		
Lease Liabilities	-	1,425,692

19 Current liabilities – Provisions

Employee benefits	1,463,629	1,239,062

20 Non-current liabilities – Interest bearing liabilities

Secured Maturity analysis

2011	Over 1 to 2 years $	Over 2 to 3 years $	Over 3 to 4 years $	Over 4 to 5 years $	Weighted average interest rate %
Lease liabilities (notes 2, 18 & 20)	–	–	–	–	–

2010	1 year or less $	Over 2 to 3 years $	Over 3 to 4 years $	Over 4 to 5 years $	Total $	Weighted average interest rate %
Lease liabilities (notes 2, 18 & 20)	1,425,692	-	-	-	1,425,692	5.8

21 Non-current liabilities – Provisions

	31 December 2011 $	31 December 2010 $
Employee benefits	165,146	104,125
Make good on leased premises	219,443	174,454
	384,589	278,579

(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 $
2011		
Non-current liabilities – Provisions		
Carrying amount at start of year	174,454	174,454
Additional provision recognised	44,989	44,989
Carrying amount at end of year	219,443	219,443

	Make good on leased premises $	Total $
2010		
Non-current liabilities – Provisions		
Carrying amount at start of year	168,409	168,409
Additional provision recognised	6,045	6,045
Carrying amount at end of year	174,454	174,454

22 Non-current liabilities – Retirement benefit obligations

(a) 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 2011 the assets of the DBD in aggregate were estimated to be $906.5 million in deficiency of vested benefits. 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 2011 the assets of the DBD in aggregate were estimated to be $426.7 million in excess of accrued benefits. 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 9 November 2011 on the actuarial investigation of the DBD as at 30 June 2011. The financial assumptions used were:

22 Non-current liabilities – Retirement benefit obligations (cont.)

	Vested benefits p.a.	Accrued benefits p.a.
Gross of tax investment return	7.25%	8.50%
Net of tax investment return	6.75%	8.00%
Consumer Price Index	2.75%	2.75%
Inflationary salary increases short term (2 years)	5.00%	5.00%
Inflationary salary increases long term	3.75%	3.75%

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

The Defined Benefit Division as at 30 June 2011 is therefore in an "unsatisfactory financial position" as defined by SIS Regulation 9.04. An "unsatisfactory financial position" for a defined benefit fund is defined when 'the value of the assets of the Fund is inadequate to cover the value of the liabilities of the Fund in respect of benefits vested in the members of the Fund'. The Actuary and the Trustee have followed the procedure required by Section 130 of the SIS Act when funds are found to be in an unsatisfactory financial position.

The actuary currently believes, in respect of the long-term financial condition of the Fund, that assets as at 30 June 2010, together with current contribution rates, are expected to be sufficient to provide for the current benefit levels for both existing members and anticipated new members if experience follows the "best estimate" assumptions.

Clause 34 was initiated following the December 2008 actuarial investigation and it has been initiated following the 30 June 2011 actuarial investigation.

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.

23 Non-current liabilities – Income in advance

	31 December 2011 $	31 December 2010 $
Infrastructure projects	3,178,572	2,622,164
Other	3,366,667	3,636,000
	6,545,239	6,258,164

24 Contributed equity

	31 December 2011 Shares	31 December 2010 Shares	31 December 2011 $	31 December 2010 $
Fully paid	78	78	39,039	39,039
	78	78	39,039	39,039

Movements in ordinary share capital:

Date	Details	Number of shares	$
1 January 2010	Opening balance	78	39,039
31 December 2010	Balance	78	39,039
1 January 2011	Opening balance	78	39,039
31 December 2011	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.

25 Retained earnings

Retained earnings

Movements in retained earnings were as follows:

	31 December 2011 $	31 December 2010 $
Balance 1 January	89,041,333	75,589,785
Net income for the year	12,433,039	13,451,548
Balance 31 December	101,474,372	89,041,333

26 Key management personnel and related party disclosures

(a) Directors

The following persons were Directors of AARNet during the financial year:

(i) Chairman – non-executive
Professor RD Terrell AO (resigned 31 December 2011)

(ii) Executive Directors
C Hancock, CEO

(iii) Non-executive Directors
Mr KBR Adams

Professor MN Barber

Mr OJ Barrett

Mr P Campbell (appointed 24 August 2011)

Associate Professor R Constantine (resigned 24 August 2011)

Professor IC Goulter (resigned 31 December 2011)

Mr JF Kropp (resigned 17 May 2011)

Mr P Nikoletatos

Mr N Poole

Mr JF Rohan (appointed 8 June 2011)

Professor AD Robson AM (resigned 31 December 2011)

Professor MS Wainwright AM

(b) Key management personnel

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 2011 $	31 December 2010 $
Short-term employee benefits	1,784,850	1,325,731
Post-employment benefits	162,635	144,887
	1,947,485	1,470,618

(c) Other transactions with key management personnel

A director, Prof M Wainwright, is Chair of Smart Services CRC Limited. AARNet owns one share and makes in-kind contributions to this company. In 2011, Mr C Hancock was appointed a Director of this company.

A director, Mr P Nikoletatos, is Deputy 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.

A director, Mr OJ Barrett, is a consultant in the firm Minter Ellison Lawyers. Minter Ellison has provided legal services to AARNet for several years on normal arm's length commercial terms and conditions.

	31 December 2011 $	31 December 2010 $
Amounts recognised as expense		
Legal fees	461,027	605,579

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

27 Remuneration of auditors

(a) Audit services

PricewaterhouseCoopers Australian firm		
Audit of financial reports	187,000	188,085
Other services		
Audit of regulatory returns	8,500	8,250
Agreed upon procedures audit	-	9,000
Audit of special purpose reports	17,900	-
Accounting advice	15,000	-
Total remuneration for audit and other services	228,400	205,335
Taxation services		
Tax compliance services, including review of Company's income tax status	-	4,000
Other services		
Other	7,395	7,162
Total remuneration of PricewaterhouseCoopers Australia	235,795	216,497

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

	31 December 2011 $	31 December 2010 $
Net income for the year	12,433,039	13,451,548
Depreciation and amortisation	12,151,947	12,834,620
Contribution income	(1,019,153)	-
Dividend income	(53,795)	-
Interest received	(3,021,327)	(1,177,087)
Net (gain)/loss on sale of available-for-sale financial assets	54,376	-
Amortised interest expense	21,677	-
Net (gain) loss on sale of non-current assets	41,780	41,597
Decrease (increase) in trade debtors	(2,067,231)	119,983
Decrease (increase) in accrued income	2,852,926	(3,330,658)
Decrease (increase) in prepayments	642,698	(1,335,044)
Increase (decrease) in derivative financial instruments	(349,258)	265,214
Increase (decrease) in trade creditors	(2,251,651)	2,876,050
Increase (decrease) in other operating liabilities	64,872	41,280
Increase (decrease) in provisions	285,588	243,216
Increase (decrease) in income received in advance	2,606,142	6,321,344
Net cash inflow (outflow) from operating activities	22,392,630	30,352,063

Directors' declaration 31 December 2011

In the directors' opinion:

(a) the financial statements and notes set out on pages 7 to 25 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 AARNet's financial position as at 31 December 2011 and of the performance for the financial year ended on that date.

(b) there are reasonable grounds to believe that AARNet 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 the directors.

MR OJ Barrett	**C Hancock**
Director	Director

Adelaide
27 March 2012

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

For the year ended 31 December 2011

pwc

Report on the financial report

We have audited the accompanying financial report of AARNet Pty Limited (the company), which comprises the balance sheet as at 31 December 2011, and the income statement, the 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. These Auditing 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.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with 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 Limited is in accordance with the *Corporations Act 2001*, including:

(*i*) giving a true and fair view of the company's financial position as at 31 December 2011 and of its performance for the year ended on that date; and

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Rosalie Wilkie

Rosalie Wilkie
Partner

Brisbane
27 March 2012

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