AARNet Financial Report 2010

for the year ended 31 December 2010

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Your Directors present their report on the Company, AARNet Pty Limited ("AARNet"), for the year ended 31 December 2010.

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

Professor RD Terrell AO, Chair of Board and Chair of Remuneration Committee
Mr OJ Barrett, Deputy Chair of the Board (additional responsibilities – Member of Audit Committee)
Mr K Adams
Professor M Barber
Associate Professor R Constantine
Professor I Goulter (additional responsibilities – Member of Audit and Remuneration Committees)
Mr C Hancock (Chief Executive Officer)
Mr JF Kropp (additional responsibilities – Chair of Audit Committee and Member of Remuneration Committee)
Mr N Poole
Professor A Robson AM

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

Mr NJ Roach, AO (additional responsibilities – Member of Audit Committee) – resigned on 6 April 2010.

Mr N Tate – resigned on 30 March 2010

Mr P Nikoletatos – appointed 31 May 2010.

Professor M Wainwright AM – appointed 15 June 2010.

Principal activities

AARNet is a not for profit, large proprietary company, in which 38 universities and the CSIRO have an equal shareholding. AARNet's principal activity is the provision of internet and advanced network services to the shareholders and other organisations that may be provided access in accordance with the AARNet Access Policy as amended from time to time in order that Members and other clients of AARNet:

(a) will be able to use AARNet's Internet and other telecommunications facilities and services to provide educational programs and undertake research activities in an efficient and cost effective manner;

(b) can undertake collaborative activities with other parties (both national and international) which are part of the mission of the AARNet Members, subject to the constraints of the regulatory environment.

Other activities

(a) making representations to all levels of government on policy, legislation and programs that will improve the telecommunications facilities and services available to its Members;

(b) participating in the design and deployment of advanced network infrastructure in partnership with network organisations in Australia and internationally, develop national and global research and education Networks; and

(c) facilitating the construction of connections to the AARNet backbone for customers.

Dividends – AARNet

No dividends have been paid, declared or recommended either during the financial year or in the period since that year ended. The terms of AARNet's constitution do not provide any authority to pay dividends.

Review of operations

Strategic Plan 2011 – 2015

The higher education environment is faced with some significant challenges with networking. As a result, during 2010, the AARNet Board approved a Strategic Plan for the next five year period to 2015. This Strategic Plan recognises the rapidly changing environment since the development of the previous Plan, as evidenced by the increasing requirements of AARNet's Members, the announcement of a National Broadband Network (NBN), increasing government focus on research collaboration, significant new research initiatives including the Synchrotron, the Square Kilometre Array (SKA), the eResearch Roadmap and the National Research Network Review programme. AARNet continues to pursue four areas of strategic focus. These are:

(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.

Capital management

Over the next five years, AARNet intends to undertake a significant infrastructure program, which will increase the reach and enhance the capacity of its network. AARNet has ongoing future capacity and expenditure commitments over the next five or more years of $96M as set out in Note 2 of the financial statements. To meet the projected growth in demand from both new initiatives and existing services, additional expenditure above these commitments in the order of $60M will be required. This capital development plan is to meet the direct ongoing needs of our Members during this period.

This presents a significant capital management challenge and the need for careful capital management, given the nature of AARNet's business model. The Board recognises that the Company's Members may be constrained from making direct capital contributions to AARNet over the next five years.

AARNet has built up its cash reserves over the past few years through conservative financial management. This $60M infrastructure program will be funded from these cash reserves and from future cash flows from operations. Including the $96M of existing commitments, this represents, on an annual basis, a doubling of the level of expenditure on equipment and capacity for the next 5 years. For example over the previous two years, AARNet has invested more than $38M of its cash resources on equipment and capacity links. This amount represents 65% of the net cash from operations over the past two years.

The combination of the new capital expenditure program of $60M plus the existing commitments of $96M will require stability in subscription revenues so as to generate the necessary cash flows from ongoing operations.

Traffic growth

In 2010, total traffic grew by more than 70% (2009: 49%) during the year, which is higher than the long term average growth rate. The major components of this traffic growth were the growth of 70% in unmetered traffic and on net traffic, which grew by 150% (2009: 127%). AARNet is able to deliver unmetered traffic due to the extensive peering arrangements it has with a number of content providers. Unmetered traffic now accounts for 70% of all traffic. AARNet continued and extended its "off peak" service, where traffic was unmetered between the hours of 8 pm to 8 am. In 2011, this off peak period has been extended from 5 pm to 9 am. Throughout the year, AARNet delivered its targeted network performance and availability and achieved all key performance indicators in this area.

Infrastructure construction

In addition to AARNet's core telecommunications activities, AARNet undertook infrastructure construction activities which after depreciation and amortisation charges, contributed $3.0M to net income (2009: loss of $0.7M), being revenue of $9.6M less construction costs of $2.7M, employee costs of $0.9M, administration costs of $0.5M and depreciation and amortisation charges of $2.5M. However, on a cash basis, AARNet aims to break even on this activity after taking into account the fibre asset created at cost of $4.3M but not recognised in the Income Statement.

Net Income

For the year ended 31 December 2010, AARNet's total revenues were $57.4M (2009: $50.7M) which included $9.6M from infrastructure project construction (2009: $5.5M). Net income for the year was $13.5M, an increase of $4.5M from the previous year. The increase in Net income was primarily due to:

i. $0.7M increase in the on net subscription due to increased member income from research, student and staff numbers;
ii. Telecommunications income from non member customers increased by $0.7M;
iii. Telecommunication expenses decreased by $1.3M, from $16.4M to $15.1M;
iv. Depreciation and amortisation expenses increased by ($2.3M);
v. Employee benefits expenses increased by ($0.9M);
vi. Other income increased by $1.3M; and
vii. Net income from infrastructure projects increased by $3.7M from ($0.7M) to $3.0M;

The contribution to net income from telecommunications and infrastructure projects is summarised below:

	31 December 2010 $
Telecommunications	10,420,897
Infrastructure Projects	3,030,651
	13,451,548

Subscriptions for Members in 2011 will remain at the same level as for the previous two years while the volume of traffic included in the off net subscription has doubled.

Net Assets

Net assets at 31 December were $89.1M, an increase of $13.5M in the year. AARNet now has significant cash at bank and on deposit ($45.5M), which assists AARNet to minimise increases in charges to Members while investing in new infrastructure and equipment to meet customer needs over the next 5 years.

Net cash flow from operations, including cash receipts for 2011 subscriptions was $31.5M (2009: $26.3M). Investment in infrastructure continues to place a heavy demand on AARNet's cash resources.

Significant changes in the state of affairs

There were no significant changes in the state of affairs which have arisen since 31 December 2010 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

Except for matters discussed under the heading 'Review of operations', no other matter or circumstance has arisen since 31 December 2010 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

It is expected that the rate of growth of total traffic volume will continue at approximately 60% in 2011. AARNet made arrangements for additional capacity in 2010 that will be sufficient to meet expected growth levels.

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.

Greenhouse gas and energy data reporting requirements
The information and communications technology sectors carbon footprint makes up approximately 2.7 per cent* of Australia's total carbon emissions. Accordingly, AARNet has calculated its greenhouse gas emissions and they are substantially below the threshold that are subject to the reporting requirements of either the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007. More than 90% of AARNet's carbon footprint relates to the electricity usage of the AARNet network infrastructure.

AARNet is committed to improving the efficient design and deployment of network and related server infrastructure to reduce its carbon footprint. AARNet's virtualisation efforts have continued, along with enabling advanced power saving features where virtualisation isn't appropriate. When combined with 'self-sparing' of hardware, where existing hardware is serviceable, reuseable and performing to requirements, AARNet has both actively reduced power consumption of its server fleet and reduced the carbon footprint by not purchasing new equipment where server equipment is still functional beyond its nominal lifecycle.

AARNet recognises the importance of helping its customers understand how carbon emissions can be reduced by the use of telecommunications networks. By promoting the use of videoconferencing through AARNet's National Video Conferencing Services (NVCS), AARNet is helping its customers improve efficiency, reduce travel costs, and reduce their environmental footprint. Significant growth in the use of videoconferencing via AARNet's NVCS has led to in excess of 10,000 hours of customer use at the end of 2010.

* "Carbon and Computer in Australia – The Energy Consumption and Carbon Footprint of ICT Usage in Australia in 2010" A report for the Australian Computer Society by Connection Research, April 2010

Insurance of Officers

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

During the financial year, AARNet paid a premium of $16,000 (2009: $16,000) to insure the Directors and Officers of the Company. The liabilities insured 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

During the financial year, the Board resolved to enter into a Deed of Indemnity with each of the directors of AARNet.

The indemnity relates to 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.

Professor RD Terrell AO
Director

C Hancock
Director

Sydney
30 March 2011

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Auditor's Independence Declaration

As lead auditor for the audit of AARNet Pty Limited for the year ended 31 December 2010, 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

30 March 2011

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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 1 to 4, 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 email accounts@aarnet.edu.au

Income Statement

For the year ended 31 December 2010

	Notes	31 December 2010 $	31 December 2009 $
Telecommunications revenue	4	43,967,792	42,359,389
Infrastructure project construction revenue	4	9,583,397	5,467,973
Total services revenue	4	53,551,189	47,827,362
Other revenue:			
TREN and NTREN revenue		619,667	1,113,032
Interest		1,979,411	1,079,242
Grant income		500,000	500,000
Other income		720,547	144,839
Total – Other revenue		3,819,625	2,837,113
Total revenue and income		57,370,814	50,664,475
Telecommunications expenses		(15,057,774)	(16,384,218)
Infrastructure project construction		(2,725,118)	(1,723,102)
Employee benefits expense		(5,926,685)	(5,020,874)
Depreciation and amortisation - Telecommunications	5	(10,345,705)	(8,057,721)
Depreciation and amortisation - Infrastructure projects	5	(2,488,915)	(3,412,655)
Administration		(5,874,649)	(5,660,482)
Employee benefit expense - Infrastructure Development Group		(887,118)	(769,375)
Administration - Infrastructure Development Group		(451,595)	(237,912)
Loss on disposal of assets		(41,597)	(11,630)
Finance costs	5	(120,110)	(361,793)
Total expenses		(43,919,266)	(41,639,762)
Net income (See footnote below)		13,451,548	9,024,713

*The increase in net income for the year of $4.5M was due to:

i. $0.7M increase in the on net subscription due to increased member income from research, student and staff numbers;
ii. Telecommunications income from non member customers increased by $0.7M;
iii. Telecommunication expenses decreased by $1.3M, from $16.4M to $15.1M;
iv. Depreciation and amortisation expenses increased by ($2.3M);
v. Employee benefits expenses increased by ($0.9M);
vi. Other income increased by $1.3M; and
vii. Net income from infrastructure projects increased by $3.7M from ($0.7M) to $3.0M.

Refer to the Directors report for more details.

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

Statement of comprehensive income

For the year ended 31 December 2010

	31 December 2010 $	31 December 2009 $
Net income for the year	13,451,548	9,024,713
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income for the period	13,451,548	9,024,713
Total comprehensive income for the year is attributable to:		
Owners of AARNet Pty Ltd	13,451,548	9,024,713

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

Balance sheet

as at 31 December 2010

	Notes	31 December 2010 $	31 December 2009 $
ASSETS			
Current assets			
Cash and cash equivalents	7	45,546,978	36,693,833
Trade receivables	8	13,859,539	12,918,336
Accrued income	9	4,174,839	844,181
Total current assets		63,581,356	50,456,350
Non-current assets			
Receivables	10	463,839	189,981
Other financial assets - Non controlling investment in Smart Services CRC Pty Limited		1	1
Property, plant and equipment	11	20,312,601	19,702,694
Intangible assets	12	47,480,087	40,679,701
Total non current assets		68,256,528	60,572,377
Total assets		131,837,884	111,028,727
LIABILITIES			
Current liabilities			
Payables	13	5,988,016	3,507,042
Income in advance	14	27,228,366	24,323,764
Other liabilities		49,776	8,496
Interest bearing liabilities	15	1,425,692	2,000,464
Provisions	16	1,239,062	1,014,922
Derivative financial instruments		289,857	24,643
Total current liabilities		36,220,769	30,879,331
Non-current liabilities			
Interest bearing liabilities	17	-	1,425,692
Provisions	18	278,579	253,458
Income in advance	20	6,258,164	2,841,422
Total non current liabilities		6,536,743	4,520,572
Total liabilities		42,757,512	35,399,903
Net assets		89,080,372	75,628,824
EQUITY			
Contributed equity	21	39,039	39,039
Retained earnings	22(a)	89,041,333	75,589,785
Capital and reserves attributable to equity holders of AARNet		89,080,372	75,628,824
Total equity		89,080,372	75,628,824

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

Statement of changes in equity

For the year ended 31 December 2010

	Notes	31 December 2010 $	31 December 2009 $
Total equity at the beginning of the financial year		75,628,824	66,604,111
Profit for the year		13,451,548	9,024,713
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transaction costs	21	-	-
Total equity at the end of the financial period		89,080,372	75,628,824

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 2010

	Notes	31 December 2010 $	31 December 2009 $
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		64,536,693	63,667,013
Payments to suppliers and employees (inclusive of goods and services tax)		(34,446,871)	(38,366,246)
		30,089,822	25,300,767
Government grant		500,000	500,000
Interest paid		(237,759)	(517,477)
Interest received		1,177,087	1,047,875
Net cash inflow (outflow) from operating activities	25	31,529,150	26,331,165
Cash flows from investing activities			
Payments for property, plant and equipment		(6,996,682)	(5,317,894)
Payments for intangible assets		(13,678,859)	(6,718,512)
Proceeds from sale of property, plant and equipment		-	372
Net cash (outflow) inflow from investing activities		(20,675,541)	(12,036,034)
Cash flows from financing activities			
Payments of finance lease liabilities		(2,000,464)	(3,117,276)
Net cash outflow from financing activities		(2,000,464)	(3,117,276)
Net increase in cash and cash equivalents		8,853,145	11,177,855
Cash and cash equivalents at the beginning of the financial year		36,693,833	25,515,978
Cash and cash equivalents at end of period	7	45,546,978	36,693,833

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 periods 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*.

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, financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

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 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.

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

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. Construction revenue in respect of Service Agreements, where AARNet owns the fibre asset created, is not recognised until the service is available for use by the customer. Installation revenue is recognised at fair value once the service is installed.

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

(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.

1 Summary of significant accounting policies (cont.)

(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) 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. The forward contracts do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately.

Forward exchange contracts
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.

(j) 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.

(k) Property, plant and equipment

Property, plant and equipment are 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 residual values, over their estimated useful lives, as follows:

> Office equipment	3 years
> Leased communication assets	5-6 years
> Leased office equipment	3 years
> Software	2-3 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.

(l) 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.

(m) 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.

(n) Employee benefits

(i) Wages and salaries and annual leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave 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 long service leave and annual leave 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

1 Summary of significant accounting policies (cont.)

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.

(o) 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.

(p) 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.

2 Commitments

(a) Expenditure commitments

	31 December 2010 $	31 December 2009 $
Commitments in relation to expenditure contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	11,360,540	5,904,081
Later than one year but not later than five years	1,820,333	2,079,017
Later than five years	108,000	64,000
	13,288,873	8,047,098

(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	21,142,069	13,424,857
Later than one year but not later than five years	41,659,639	37,733,575
Later than five years	20,065,279	14,176,196
Commitments not recognised in the financial statements	82,866,987	65,334,628

2 Commitments (cont.)

(ii) Finance leases

AARNet leases various communication assets with a total carrying amount of $1,425,692 (2009: $3,426,157) under finance leases expiring within one year. Under the terms of the leases, AARNet has the option to acquire the leased assets for a nominal amount on expiry of the leases.

	31 December 2010 $	31 December 2009 $
Commitments in relation to finance leases are payable as follows:		
Within one year	1,530,899	2,238,173
Later than one year but not later than five years	-	1,530,899
Minimum lease payments	1,530,899	3,769,072
Future finance charges	(105,207)	(342,916)
Recognised as a liability	1,425,692	3,426,156
Total lease liabilities	1,425,692	3,426,156
Representing lease liabilities:		
Current (note 15)	1,425,692	2,000,464
Non-current (note 17)	-	1,425,692
	1,425,692	3,426,156

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.

(a) 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) Recoverable amount of intangible assets

The Directors have assumed in the ordinary course of business that AARNet's customers will continue to use the service into the foresee-able 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.

4 Revenue

	31 December 2010 $	31 December 2009 $
Services revenue		
Telecommunications revenue	43,967,792	42,359,389
Infrastructure project construction revenue	9,583,397	5,467,973
	53,551,189	47,827,362
Other revenue		
TREN and NTREN revenue	619,667	1,113,032
Interest	1,979,411	1,079,242
Other income	720,547	144,839
Grant income	500,000	500,00
	3,819,625	2,837,113
	57,370,814	50,664,475

5 Expenses

	31 December 2010 $	31 December 2009 $
Depreciation		
Office equipment	524,162	353,890
Leasehold improvements	130,842	117,948
Communication assets	2,582,417	3,425,252
Software	150,062	178,528
Leased communication assets	2,822,509	2,551,977
Leased office equipment	-	33,943
Total depreciation	6,209,992	6,661,538
Amortisation		
Intangibles - IRU prepayments	6,624,628	4,808,839
Total amortisation	6,624,628	4,808,839
Total depreciation and amortisation	12,834,620	11,470,377
Finance costs		
Interest and finance charges paid/payable	120,110	361,793
Foreign exchange losses	585,538	1,146,479
Loss (gain) on forward exchange contracts	265,214	(90,809)
Rental expense relating to operating leases		
Minimum lease payments - premises	691,619	353,373
Superannuation expense	838,011	667,164

6 Financial risk management

AARNet's activities expose it to a variety of financial risks: market risk (including currency risk and cash flow interest rate 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 the Company. 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 Director of Finance and Administration (DFA) under policies approved by the Board of Directors. The CEO and DFA 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, use of derivative financial instruments.

(a) Market risk

(i) Foreign exchange 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.

Foreign exchange contracts are used 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 has been to hedge 50% of anticipated cash flows (mainly for the purchase of capacity from the US) in USD. AARNet currently has monthly commitments in excess of USD712,000, primarily for the purchase of capacity from the USA to Australia. At year end, AARNet held USD1.09M (AUD1.07M) in USD denominated bank accounts and EUR0.08M (AUD0.1M) 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 2010, 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 $64,000 lower/$46,000 higher (2009: $140,000 lower/$115,000 higher), mainly as a result of foreign exchange losses/gains on translation of USD and EUR denominated cash at bank. Net Income was marginally less sensitive to movements in the AUD/USD exchange rates in 2009 than 2008 because of the decreased amount of USD denominated cash on deposit. Equity would have changed by the same amounts as net income had the AUD weakened/strengthened by 10% against the USD.

(ii) Cash flow and fair value interest rate risk

At 31 December 2010, if interest rates had changed by -1/+1% (100 basis points) from the year end rates of 4.45% with all other variables held constant, net income for the year would have been $446,000 lower/higher (2009: $362,000 lower/higher), as a result of higher/lower interest income from cash and cash equivalents. Equity would have changed by the same amounts. AARNet's exposure to changes in interest rates is to the extent of its cash at bank and on deposit. AARNet's finance leases are at a fixed rate and it has no other borrowings.

(iii) 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.)

(a) Market risk (cont.)

31 December 2010	Carrying amount	Interest rate risk -100bps Profit	Interest rate risk -100bps Equity	Interest rate risk +100bps Profit	Interest rate risk +100bps Equity	Foreign exchange risk -10% Profit	Foreign exchange risk -10% Equity	Foreign exchange risk +10% Profit	Foreign exchange risk +10% 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									
Derivatives	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

31 December 2009	Carrying amount	Interest rate risk -100bps Profit	Interest rate risk -100bps Equity	Interest rate risk +100bps Profit	Interest rate risk +100bps Equity	Foreign exchange risk -10% Profit	Foreign exchange risk -10% Equity	Foreign exchange risk +10% Profit	Foreign exchange risk +10% Equity
Financial assets									
Cash and cash equivalents	36,693,833	(361,791)	(361,791)	361,791	361,791	(102,125)	(102,125)	83,557	83,557
Accounts receivable	12,060,010	-	-	-	-	-	-	-	-
Other assets	47,725	-	-	-	-	-	-	-	-
Accrued income	844,181	-	-	-	-	-	-	-	-
Financial liabilities									
Derivatives	24,643	-	-	-	-	(5,432)	(5,432)	4,445	4,445
Trade payables	1,276,545	-	-	-	-	-	-	-	-
Other liabilities	2,230,497	-	-	-	-	(32,724)	(32,724)	26,774	26,774
Total increase/ (decrease)		(361,791)	(361,791)	361,791	361,791	(140,281)	(140,281)	114,776	114,776

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 cash and cash equivalents, derivative financial instruments and deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions. For banks, only independently rated parties with a minimum rating of 'A' are accepted. If there is no independent rating, management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. AARNet's major customers are its shareholders, who are universities and the CSIRO. AARNet's other customers (who are not shareholders) are organisations of national significance, who are generally in receipt of government funding, in part or in full. AARNet further mitigates its credit risk by either invoicing customers yearly, or quarterly in advance, respectively, for more than 90% of its income.

AARNet's customers generally fall into two distinct groups with differing credit risk ratings. Members comprise of 93% of the accounts receivable balance and other educational institutions represent the remaining 7% of the balance. The credit risk of Members is minimal based upon historical evidence and for other educational institutions, the credit risk has also been historically low. See information in note 8.

(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.

The table below analyses AARNet's derivative financial liabilities. The gross settled derivative financial instruments are shown by relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contracted undiscounted cash flows.

Expected maturities of financial liabilities	Less than 6 months	Total
31 December 2010	$	$
Forward foreign exchange contracts		
Outflow	2,740,379	2,740,379
Inflow	(2,450,522)	(2,450,522)
	289,857	289,857
31 December 2009		
Forward foreign exchange contracts		
Outflow	1,801,600	1,801,600
Inflow	(1,776,957)	(1,776,957)
	24,643	24,643

(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 forward exchange contracts which are valued at fair value under level 2 methodology.

7 Current assets – Cash and cash equivalents

	31 December 2010 $	31 December 2009 $
Cash at bank and in hand (AUD)	4,989,221	9,985,984
Cash at bank (USD and EUR)	1,177,708	808,047
Deposits at call – all denominated in AUD	39,380,049	25,899,802
	45,546,978	36,693,833

(a) Cash at bank and on hand

Cash at bank and on hand are held at interest rates varying between 0.15% and 2.65% (2009: 0.20% and 1.25%). 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% (2009: 3.00% and 7.15%). These deposits have an average maturity of 130 days.

(c) Bank guarantee and credit facilities

AARNet has provided a $3,300,000 Guarantee by Bank Facility to the National Australia Bank (NAB) in respect of a data supply agreement. AARNet has provided Guarantees by Bank Facility to the NAB for $239,380 and $84,977 in respect of the lease of AARNet's Sydney and Brisbane offices. AARNet had an unsecured credit card facility totalling $200,000 during the year.

8 Current assets – Receivables

	31 December 2010 $	31 December 2009 $
Trade receivables	11,920,804	12,060,010
Other debtors	71,235	47,725
Prepayments	1,867,500	810,601
	13,859,539	12,918,336

As of 31 December 2010, trade receivables of $909,945 (2009: $655,308) 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) Interest rates and credit risk
Information concerning the interest rate and credit risk of both current and non-current receivables is set out in the non-current receivables note 10.

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

9 Current assets – Accrued Income

	31 December 2010 $	31 December 2009 $
Projects	2,158,971	161,818
Other	1,108,283	577,101
Interest	907,585	105,262
	4,174,839	844,181

10 Non-current assets – Receivables

	31 December 2010 $	31 December 2009 $
Other debtors	101,778	106,065
Prepayments	362,061	83,916
	463,839	189,981

(a) Fair values
The fair values and carrying values of non-current receivables are as follows:

	2010 $	2009 $
Other debtors	101,778	106,065
Prepayments	362,061	83,916
	463,839	189,981

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.

11 Non-current assets – Property, plant and equipment

	Leasehold improvements	Office equipment	Leased communication assets	Leased office equipment	Communication assets	Software	Total
	$	$	$	$	$	$	$
1 January 2009							
Cost	1,062,572	1,023,950	14,966,979	111,254	21,397,530	613,853	39,176,138
Accumulated depreciation	(586,819)	(466,072)	(7,556,165)	(77,311)	(9,713,881)	(259,629)	(18,659,877)
Net book amount	475,753	557,878	7,410,814	33,943	11,683,649	354,224	20,516,261
Year ended 31 December 2009							
Opening net book amount	475,753	557,878	7,410,814	33,943	11,683,649	354,224	20,516,261
Additions	310,083	638,417	-	-	4,859,905	51,568	5,859,973
Disposals	-	(372)	-	-	(11,630)	-	(12,002)
Depreciation charge	(117,948)	(353,890)	(2,551,977)	(33,943)	(3,425,252)	(178,528)	(6,661,538)
Closing net book amount	667,888	842,033	4,858,837	-	13,106,672	227,264	19,702,694
At 31 December 2009							
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
Period 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

During the year, additions to Non-current assets totalled $6,861,496. These additions included Office Equipment ($754,710), Software ($64,753), Communication Assets ($5,622,132) and Leasehold Improvements totalling ($419,901).

12 Non-current assets – Intangible assets

	Indefeasible right to use capacity of traffic path $	Total $
At 1 January 2009		
Total payments	58,476,200	58,476,200
Accumulated amortisation on a straight line basis	(19,960,018)	(19,960,018)
Net book amount	38,516,182	38,516,182
Year ended 31 December 2009		
Opening net book amount	38,516,182	38,516,182
Additions	6,972,358	6,972,358
Amortisation charge	(4,808,839)	(4,808,839)
Closing net book amount	40,679,701	40,679,701
At 31 December 2009		
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

During the year, additions to intangible assets totalled $13,425,014. These additions were the result of recognising payments for further capacity leases.

During the year the expiry date of certain IRU's were extended from 20 to 25 years, resulting in a revision of the useful life of the intangible asset. There was no net impact from the change on the current financial year. Assuming the assets are held until the end of their estimated useful lives, amortisation of the Company in future years in relation to these assets will be increased / (decreased) by the following amounts in each of the years ending 31 December 2011 ($1.645M); 2012-2019 ($1.463M); 2020 ($0.963M); 2021-2024 $2.928M and 2025 $2.590M.

13 Current liabilities – Payables

	31 December 2010 $	31 December 2009 $
Trade payables and accruals	5,988,016	3,507,042

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

14 Current liabilities – Income in advance

Projects	6,661,718	3,574,769
Other	832,526	726,913
Subscriptions	19,734,122	20,022,082
	27,228,366	24,323,764

15 Current liabilities – Interest bearing liabilities

Secured		
Lease Liabilities	1,425,692	2,000,464

16 Current liabilities – Provisions

Employee benefits	1,239,062	1,014,922

17 Non current liabilities – Interest bearing liabilities

Secured		
Lease liabilities (notes 2 and 15)	-	1,425,692

17 Non-current liabilities – Interest bearing liabilities (cont.)

(a) Financing arrangements

(b) Maturity analysis

2010	1 year or less $	Over 1 to 2 years $	Over 2 to 3 years $	Over 3 to 4 years $	Over 4 to 5 years $	Total $	Weighted average interest rate %
Lease liabilities (notes 2, 15 & 17)	1,425,692	-	-	-	-	1,425,692	5.8
2009							
Lease liabilities (notes 2, 15 & 17)	2,000,464	1,425,692	-	-	-	3,426,156	5.8

18 Non-current liabilities – Provisions

	31 December 2010 $	31 December 2009 $
Employee benefits	104,125	85,049
Make good on leased premises	174,454	168,409
	278,579	253,458

(a) Movements in provisions

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

2010	Make good on leased premises $	Total $
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
2009		
Non-current liabilities – Provisions		
Carrying amount at start of year	112,172	112,172
Additional provision recognised	56,237	56,237
Carrying amount at end of year	168,409	168,409

19 Non-current liabilities – Retirement benefit obligations

(a) Superannuation plan

Employees' funds are held with the UniSuper Defined Benefit Division (DBD) which is a defined benefit plan under Superannuation Law but, as a result of Clause 34 of the UniSuper Trust Deed, a defined contribution plan under Accounting Standard AASB 119.

The last actuarial investigation of the plan was completed on 12 June 2009 and was conducted as at 31 December 2008. The investigation was conducted by Mr Matthew Burgess (FIAA) and Ms Kate Maartensz (FIAA) of Russell Employee Benefits.

As at 30 June 2010 the assets of the DBD in aggregate were estimated to be $1,217M 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 CPI indexed pensions being provided by the DBD.

As at 30 June 2010, the assets of the DBD were estimated to be $312M in excess of accrued benefits. The accrued benefits have been calculated as the present value of expected future benefit payments to members and CPI 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 12 June 2009 on the actuarial investigation of the DBD as at 31 December 2008. The financial assumptions used were:

19 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	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 2010 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.

20 Non current liabilities – Income in advance

	31 Dec 2010 $	31 Dec 2009 $
Projects	2,622,164	2,841,422
Other	3,636,000	-
	6,258,164	2,841,422

21 Contributed equity

	31 Dec 2010 Shares	31 Dec 2009 Shares	31 Dec 2010 $	31 Dec 2009 $
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 2009	Opening balance	78	39,039
31 December 2009	Balance	78	39,039
1 January 2010	Opening balance	78	39,039
31 December 2010	Balance	78	39,039

22 Retained earnings

(a) Retained earnings
Movements in retained earnings were as follows:

	31 Dec 2010 $	31 Dec 2009 $
Balance 1 January	75,589,785	66,565,072
Net income for the year	13,451,548	9,024,713
Balance 31 December	89,041,333	75,589,785

23 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

(ii) Executive Directors
C Hancock, CEO

(iii) Non-executive Directors

Mr K Adams
Professor M Barber
Mr OJ Barrett
Associate Professor R Constantine
Professor I Goulter
Mr JF Kropp
Mr P Nikoletatos
Mr N Poole
Mr NJ Roach AO
Professor A Robson AM
Mr N Tate
Professor M 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 Dec 2010 $	31 Dec 2009 $
Short-term employee benefits	1,325,731	1,249,794
Post-employment benefits	144,887	133,811
	1,470,618	1,383,605

(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 acts as group employer. AARNet receives no consideration for this activity.

A director, Mr OJ Barrett, is a partner 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 Dec 2010 $	31 Dec 2009 $
Amounts recognised as expense		
Legal fees	437,546	441,980

24 Remuneration of auditors

(a) Audit services

	31 Dec 2010 $	31 Dec 2009 $
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports	188,085	169,046
Non-audit services		
Audit of regulatory returns	8,250	11,449
Agreed upon procedures audit	9,000	-
Total remuneration for audit and other services	205,335	180,495
Taxation services		
Tax compliance services, including review of Company's income tax status	4,000	-
Other services		
Other	7,162	40,166
Total remuneration of PricewaterhouseCoopers Australia	216,497	220,661

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

	31 Dec 2010 $	31 Dec 2009 $
Net income for the year	13,451,548	9,024,713
Depreciation and amortisation	12,834,620	11,470,377
Net (gain) loss on sale of non-current assets	41,597	11,630
Decrease (Increase) in trade debtors	119,983	5,761,850
Decrease (Increase) in accrued income	(3,330,658)	2,594,224
Decrease (Increase) in prepayments	(1,335,044)	(56,587)
Increase (decrease) in derivative financial instruments	265,214	(90,809)
Increase (decrease) in trade creditors	2,876,050	(3,490,155)
Increase (decrease) in other operating liabilities	41,280	(2,456)
Increase (decrease) in provisions	243,216	190,080
Increase (decrease) in income received in advance	6,321,344	918,298
Net cash inflow (outflow) from operating activities	31,529,150	26,331,165

Directors' declaration 31 December 2010

In the directors' opinion:

(a) the financial statements and notes set out on pages 6 to 21 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 2010 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.

Professor RD Terrell AO
Director

C Hancock
Director

Sydney
30 March 2011

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

For the year ended 31 December 2010

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 2010, 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 opinions.

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:

(a) giving a true and fair view of the company's financial position as at 31 December 2010 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

30 March 2011

Appendices

A. List of Shareholders

The Australian National University
The Commonwealth Scientific and Industrial Research Organisation
University of Canberra
Charles Sturt University
Macquarie University
Southern Cross University
The Australian Catholic University
The University of New England
The University of New South Wales
The University of Newcastle
The University of Sydney
University of Technology, Sydney
University of Western Sydney
University of Wollongong
Charles Darwin University
Bond University
Central Queensland University
Griffith University
James Cook University
Queensland University of Technology
The University of Queensland
University of Southern Queensland
University of the Sunshine Coast
The Flinders University of South Australia
The University of Adelaide
University of South Australia
University of Tasmania
Deakin University
La Trobe University
Monash University
RMIT University
Swinburne University of Technology
The University of Melbourne
University of Ballarat
Victoria University
Curtin University
Edith Cowan University
Murdoch University
The University of Western Australia

B. AARNET Staff (as at 31 December 2010)

Guido Aben
Mahmoud Abo-Elwafa
Chirag Bhatt
Michael Blue
Adam Binneweg
Steven Bong
Anne Bollinger
Jason Bordujenko
Cassie Byrne-Quinn
George Coburn
Nick Cross
Alex Dodson
Mark Eldridge
Bill Efthimiou
Rob Ewin
Doug Farmer
Ian Farquhar
Darren French
David Gampenov
Michael Groeneweg
Chris Hancock
Fern Hewitt
Frank Hua
Joan Hummer
Ergin Irmak
David Jericho
Robert Kearey
Leon Li
Maggie Luczynska
Stephen Maddocks
Will McGregor
Suneth Mendis
Warrick Mitchell
Bruce Morgan
Erin Mulgrue
Blake Murray
John Nicholls
Matthew Putland
Tim Rayner
Lee Ridge
Don Robertson
Brett Rosolen
James Sankar
Nick Stanton
Kate Stewart
Jamie Sunderland
Suzan Teber
Glen Turner
Michael Usher
Steve Walsh
Matt Webster
David Wilde
Edwin Wong
Ali Zonnoorian

C. Board of Directors as at 31 March 2011

Prof. Deane Terrell AO (Chair) Visiting Fellow The Australian National University

Mr Kent Adams Director, IT Services, James Cook University

Professor Michael Barber Vice Chancellor, Flinders University

Mr Oliver J. Barrett Partner, Minter Ellison

Assoc. Prof. Richard Constantine Chair, AARNet Advisory Committee

Prof. Ian Goulter Vice-Chancellor, Charles Sturt University

Mr Chris Hancock Chief Executive Officer, AARNet

Mr Jim Kropp Professional Director

Mr. Peter Nikoletatos IT Director, Curtin University

Mr Nigel Poole CSIRO

Professor Alan Robson Vice-Chancellor, University of Western Australia

Professor Mark Wainright Smart Services CRC Chairman, Chair of INTERSECT Ltd