2014

annual report

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aarnet

2014 has been an outstanding year for AARNet

A message from the Chair & CEO

This Annual Report marks AARNet's 26th year of operation as the National Research and Education Network for Australia. It has been yet another very successful year for AARNet and we commend to you the enclosed Directors Report and a snapshot of our achievements for the financial year ending December 2014.

AARNet has a continuing sense of purpose that sets it apart from the general telecommunications sector and that is to build vital research and education enabling infrastructure for generations of Australian Scientists and Educators, all of whom depend on AARNet to collaborate with their communities around the world. Operationally we again achieved outstanding levels of network availability and strategically our focus has been on building national fibre assets. With the assistance of funding from the National Research Network ("NRN") Program, an initiative of the Australian Government, specifically the Education Investment Fund, we added some 30,000 pair/kms to the network. 2014 continued the rollout of the 4th generation of the network "AARNet4". AARNet is most fortunate to have some of Australia's most skilled network engineers and talented professionals who have had the foresight to invest wisely in long term sustainable infrastructure and the knowledge to equip a world class terabit capable national network.

By virtue of its geographical place in the world international connectivity is equally important to Australia. New Zealand became an International partner, we upgraded our capacity to Asia and also our research links to the USA. This year saw the formation of the Global Research and Education CEO Forum, a group of executive leaders from the 15 leading research and education nations around the world with a common mission to address the challenges faced by the international community with respect to data networking and associated services. It is essential to have Australia included in the long term planning for a Global Network Architecture one of the CEO Forums key anchor projects. It is also vital to continue the development of new products and solutions in order to deliver leading edge technology to the ever growing collaborations of students, educators, researchers and support staff across our customer base and to their partners across the world.

The success of these services above the network layer has been dominated by our shift to the Cloud, with products either developed in-house or with the key Cloud provider platforms. Zoom, a video web-conferencing platform, hosted and supported by AARNet in Australia has led the charge for rapid adoption across the sector. In addition to this, more than 18,000 Australian researchers have benefited from our Cloudstor offering, an AARNet developed product for large file transfer and storage services, which has also now been adopted by 38 country NREN's across the Globe.

On behalf of the Board of Directors, our Executive Management and the Staff of AARNet we would like to thank our Shareholders for their support and every member of the AARNet community for his or her contribution throughout the year. Our sincere thanks to Professor Michael Barber from Flinders University, Mr Marc Bailey from Macquarie University, Mr Peter Nikoletatos from the Australian National University and Dr Ian Tebbett from Monash University all of whom retired from the Board during the year. A special acknowledgement must go to Mr Oliver Barrett an Independent Director who also retired from the Board having served continuously for more than 20 years. We welcomed Mr Chris Bridge, Queensland University of Technology, Mr Jeff Murray, University of Tasmania, Professor Deborah Terry, Curtin University and Dr Dave Williams, CSIRO, during the year.

Finally AARNet would like to thank the Commonwealth Government for its continued support and we look forward to engaging with all of our customers and partners in the year ahead.

Professor Gerard Sutton AO (Chair)

Mr Chris Hancock (CEO)

Financial Highlights – A Strong Financial Position

Growth in Non-Shareholder Revenue provides increased Diversity of Funding

	MEMBER SUBSCRIPTIONS	OTHER REVENUE
2014	52.5%	47.5%
2009	72.0%	28.0%

Percentage of total income represented by Members' Subscriptions.

Cost of Off-Net (Commodity) Traffic reduces annually average of 19.4%

2009

$5.00

per Gb

2014

$1.70

per Gb

Member's traffic has grown annually by

47%

Members' Subscriptions limited to 2% annual increase

2%

Annual average increase in traffic (GB received from all sources) over 5 years 2009–2014 = 46.8% pa.

Annual average increase of member subscriptions = 2.13% pa over 5 years 2009–2014.

$77.3m

committed to future operations

Operational Performance

Outstanding network performance
99.989%
AVAILABILITY

Commonwealth funding contributes
$25.9million
to network infrastructure (2012-2014)

30,000
pair Kms of fibre added to the network

International Capacity (SXTransPORT) reaches
40 Gbps

40%
growth in domestic peering and content delivery

A4 increases national transmission capacity by
900%
(80x100Gbps)

Top trends – Substantial growth in above the network services

International collaboration gathers momentum

NZ AARNet

AARNet Partners with New Zealand for international network connectivity.

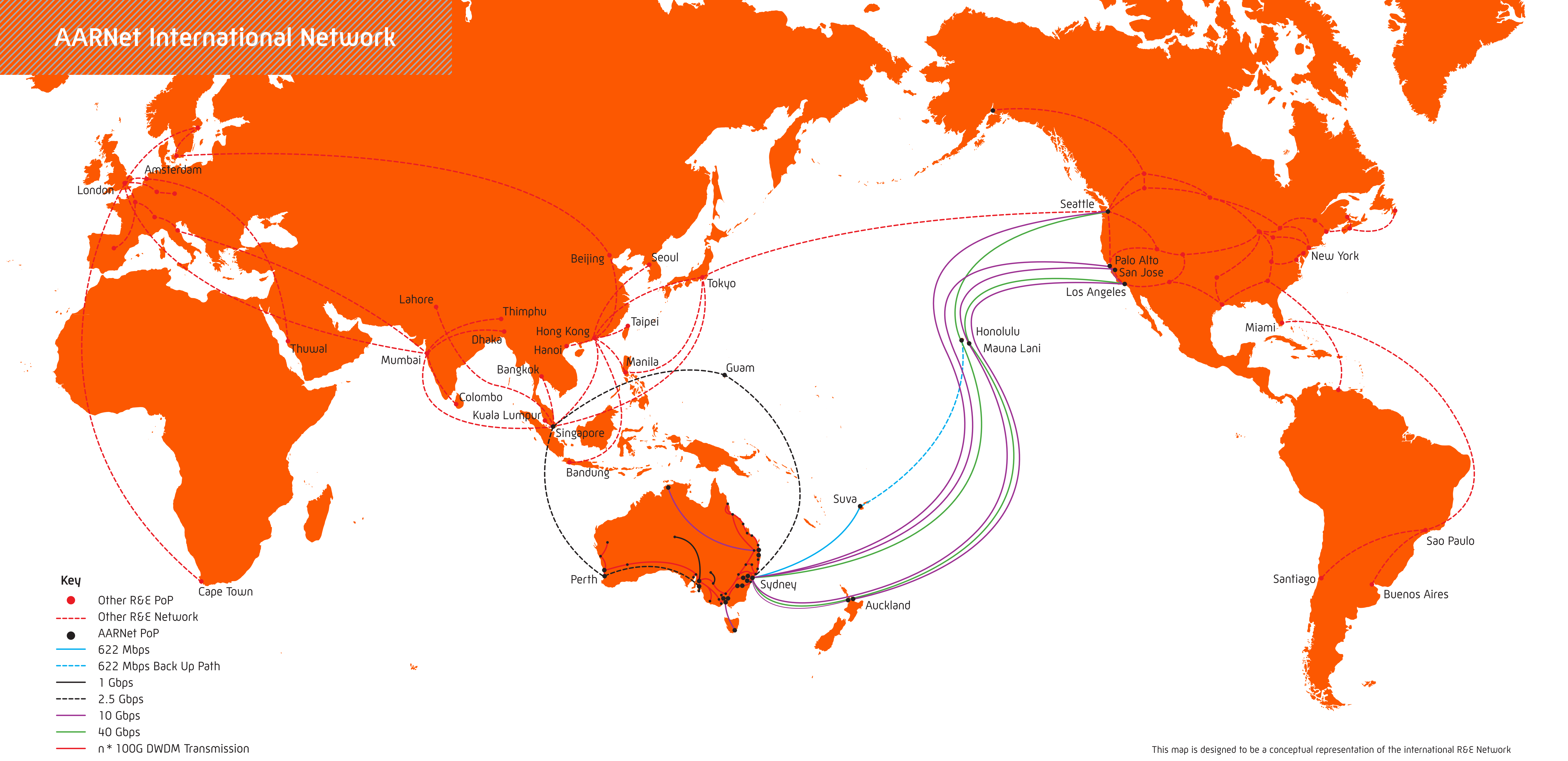
Substantial growth in Video conferencing

1,200,000

1.2million minutes of video conferencing minutes in 2014 of which Zoom accounted for more than half.

eduroam expands its footprint both nationally and internationally

AARNet International Network



This map is designed to be a conceptual representation of the international R&E Network

AARNet National Network

AARNet Pty Ltd Financial Report 2014

for the year ended 31 December 2014

ABN 54 084 540 518

Contents

Your Directors present their report on the Company, AARNet Pty Limited ("AARNet"), for the year ended 31 December 2014.

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

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

Mr CM Hancock (Chief Executive Officer)

Professor L Kristjanson

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

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

Professor IR Young AO

Professor MN Barber was a director of the Company from the beginning of the financial year until his retirement on 5 May 2014.

Mr M Bailey was a director of the Company from the beginning of the financial year until his resignation on 4 March 2014.

Mr OJ Barrett (member of the Audit, Finance and Risk Committee) was a director of the Company from the beginning of the financial year until his resignation on 10 October 2014.

Mr P Nikoletatos was a director of the Company from the beginning of the financial year until his resignation on 4 June 2014.

Dr I Tebbett was a director of the Company from the beginning of the financial year until his resignation on 12 December 2014.

The following persons were appointed as directors of the Company during the financial year and served during the remainder of that year:

Mr CM Bridge (appointed 5 May 2014)

Mr J Murray (appointed 4 June 2014)

Professor D Terry (appointed 5 May 2014)

Dr DF Williams (appointed 1 January 2014).

Principal activities

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

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

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

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

Other activities

In addition, AARNet:

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

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

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

Dividends

AARNet's constitution prohibits the payment of dividends or other distributions to its shareholders. Accordingly, no dividends have been paid, declared or recommended either during the financial year or in the period since that year ended (2013: nil).

Review of operations

Network Performance

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

(a) average network availability at 99.989% was above target (99.95%) and higher than 2013 (99.97%); and

(b) the volume of traffic carried across the network increased by 54.5% (2013: 49.8%).

The growth in traffic experienced in 2014 is part of a long-term trend. Over the five years to 2014 traffic growth has averaged 52.5% per annum. The bulk of this growth stems from the increased usage by AARNet's Members (Member traffic has grown at an average annual rate of 47.7% over the same period).

Despite this significant and sustained growth in Members' traffic, Members' subscriptions (inclusive of On-Net, Off-Net, Peering and Excess Traffic charges) have only increased at an annualised rate of 2.6% over the same five year period. This has provided increasing value for money for Members.

Traffic for non-member Customers has grown at a faster rate (99.6% per annum) but from a much smaller base. This growth reflects both increased usage across the non-member Customer base plus an increase in the number of Customers using the network. In 2014 non-member Customers accounted for 18.9% of total traffic.

The growth in non-member traffic and related revenues (see discussion below) allows AARNet to realise valuable economies of scale, which ultimately benefit Members and non-member Customers alike.

Network Expansion

Over recent years AARNet has made significant investments in infrastructure and equipment to expand the reach and capability of the network. Much of this investment was assisted by funding from the National Research Network ("NRN") Program, an initiative of the Australian Government conducted as part of the Super Science Initiative and financed from the Education Investment Fund (see further under "Contributions and Other Incomes", below).

During 2014 AARNet made significant investments in the extension of AARNet's fibre "rings" in Perth, Brisbane and Sydney; and the deployment of infrastructure and equipment supporting the RDSI facilities (Research Data Storage Initiative).

In addition, the NRN program has enabled AARNet to renegotiate arrangements with a supplier to convert a service supplying capacity to the Sunshine Coast and North Queensland from a 1 x 10 Gb/s wavelength a n x 100Gb/s service while also extending the term of the service until 2030.

Federal funding for such projects greatly assists AARNet and its Members.

During 2014, AARNet continued the rollout of AARNet4, the next generation of technology on which the AARNet network will be based. This project, which began in 2013, involves a technology refresh across most of the AARNet network.

During 2014 several further Members were connected to AARNet4 and the rate at which Members and other Customers are migrated to AARNet4 should accelerate in 2015.

AARNet also established two new points-of-presence in New Zealand during 2014 enabling connections to REANNZ, the national research and education network of New Zealand.

Other Services

AARNet provides a range of additional services for Members and non-members alike. One of the most promising services launched in 2014 is Zoom, web-conferencing/ video conferencing service made available in conjunction with Zoom Video Communications Inc. AARNet host and operates the Zoom servers with the AARNet network supporting Zoom traffic as on-net traffic and providing performance benefits.

AARNet's Enterprise Services team completed a range of projects during 2014 including a significant assignment where they assisted a Member to successfully migrate their data centre to a co-location facility.

Subscriptions and Service Revenues

AARNet's Members pay a subscription fee for use of the AARNet network. The subscription covers on-net and off-net traffic, with a traffic allowance applying to a certain subset of off-net traffic ("metered traffic").

During 2014 Members' subscription fees were only 1.9% higher than in 2013.

In addition, certain Members chose to upgrade or expand the access links between their facilities and AARNet, and several Members also exceeded their off-net traffic allowance and incurred additional Excess Traffic Charges. Even with the effect of these additional charges, the total fees paid by Members to access and use AARNet's network was only 2.9% higher in 2014 than in 2013 (as shown in the table below).

In contrast, Members' traffic (both on-net and off-net) grew by 42.4% during 2014.

	2014 $	2013 $	Increase
Members: Subscription, Traffic and Access	40,682,114	39,533,075	2.9%
Non-Member: Subscription, Traffic and Access	8,795,862	6,841,306	28.6%
Other Services	9,052,383	7,889,244	14.7%
Telecommunications Revenue	58,530,359	54,263,625	7.9%

AARNet again experienced significant growth in subscription, traffic and access revenues from non-members. In 2014 this revenue increased by 28.6% reflecting the increased number of non-Member customers and the associated traffic (discussed earlier).

Growth in other telecommunications services (available to both Member and non-members) rose by over $1m in 2014 representing a 14.7% increase.

Infrastructure Revenues

Revenue from infrastructure construction activities of $2,524,030 was substantially higher than the previous year (2013: $1,009,677) reflecting higher activity on Member and customer infrastructure projects. Partly, this reflects a wind-down in activity on projects funded by the National Research Network Program referred to earlier.

Infrastructure Service fees also rose, reflecting growth in the number and value of infrastructure facilities and fibre assets being used by Members and non-members.

Contributions from National Research Network Program and Other Incomes

In 2014 AARNet received a total of $7,619,132 in National Research Network funding. This brings the total received over the years 2012-2014 to over $25.9m. These contributions are employed by AARNet to fund construction of infrastructure or to acquire and install equipment, which together extend the reach and capacity of the network and the services AARNet is able to provide, for the benefit of Members and non-members alike.

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

The receipt of these funds and the manner in which they are accounted for as income has a significant impact on AARNet's financial results. This effect is shown below.

During 2013 AARNet began making applications to those states and territories in which it employs personnel for exemption from payroll tax. These applications resulted in refunds of payroll tax received during 2014 of $370,439 (2013: $1,093,799). No further refunds of this type are anticipated.

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

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

During 2014 the Australian Dollar depreciated against the United States Dollar with the result that AARNet recorded an accounting gain on the hedging arrangements it had in place. This gain amounted to $ 941,542 (2013: $2,040,658).

Together, the items referred to in this section represent a substantial part of the surplus AARNet has recorded in recent years, as shown below:

	2014 $	2013 $	2012 $
NRN Contributions taken to income	7,619,132	10,784,771	7,505,320
Costs associated with NRN Projects immediately expensed		(875,083)	-
Payroll Tax Refunds	370,439	1,093,799	-
Gain/(Loss) on foreign currency contracts	941,542	2,040,658	(1,112,599)
Aggregate Effect	8,931,113	13,044,145	6,392,721

Telecommunication and Other Expenses

Telecommunications expenses increased by 7.8% to $17,876,256 (2013: $16,581,731) The main factor contributing to this increase was additional maintenance costs on new equipment installed under the AARNet4 project (discussed earlier). In addition, during the period until all Members and customers have migrated to AARNet4, residual maintenance costs on AARNet3 equipment will continue, this was also a factor behind the cost increase in 2014.

Other items contributing to the increase in telecommunications costs were:

(a) the increase in traffic carried by AARNet;

(b) the depreciation of the Australian Dollar which increased USD denominated costs including the cost of international capacity and the cost of traffic from international carriers;

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

Telecommunications Depreciation and Amortisation charges increased by some 4% over 2013. The increase was principally due to depreciation on new equipment installed as part of AARNet4, however this was offset to some extent by a reduction in amortisation on AARNet's rights to use international traffic capacity. During 2014 AARNet renegotiated a payment schedule with its principal supplier of international capacity and that same supplier advised AARNet that it had extended the expected life of its international cable system. Both these events allowed AARNet to recognise lower amortisation charges in 2014 than in 2013.

Despite the significantly increased revenue in relation to Infrastructure Construction (see above) the related Infrastructure Project Construction Costs were only marginally higher than in 2013. This was largely due to the inclusion in 2013 of the cost of equipment purchased for a NRN Project – ownership of this equipment passed to third parties and was therefore immediately expensed (see table above). The income related to these costs is shown, in 2013, as part of the Contributions from the National Research Network Program.

Accumulated Surplus and Reserves

In 2014 AARNet recorded a surplus (Net Income) of $19,837,343 (2013: $22,036,190).

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

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

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

AARNet intends to use these funds to:

(a) finance investments in:

  (i) infrastructure and equipment to expand the reach and capability of AARNet's network; and

  (ii) technology to enhance the delivery of services AARNet delivers to Members and Customers.

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

(c) defray part of the significant financial commitments in respect of non-cancellable operating leases (principally rights to use the traffic paths of fibre cable systems) which, at year end, exceeded $77m (refer note 2 to the financial statements).

During 2014, AARNet drew on these accumulated funds to make a significant payment against the outstanding commitments for rights to use international traffic paths as part of renegotiating a payment schedule with a supplier (see comments above in relation to Amortisation Charges).

Net Assets

Net assets at 31 December 2014 were $150,363,824 (2013: $130,346,199). The increase represents the Net Income for 2014 plus the change in value of available-for-sale financial assets during 2014.

Significant changes in the state of affairs

Except for the matters discussed under the heading "Review of Operations" there were no significant changes in the Company's state of affairs during the financial year ended 31 December 2014.

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 2014 that has significantly affected or may significantly affect:

(a) AARNet's operations in future financial years;

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

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

Likely developments and expected results of operations

AARNet expects that the rate of growth in network traffic will continue at significant levels during 2015, reflecting the historical trends experienced by the company.

Environmental regulation

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

Insurance for Officers

During the financial year, AARNet paid a premium of $16,925 (2013: $17,266) in respect of liability insurance for the company's Directors and Officers. The liabilities insured against are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the Directors and Officers in their capacity as Directors and Officers of AARNet, and any other payments arising from liabilities incurred by the Officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the Directors or Officers or the improper use by the Directors or Officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to AARNet. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

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

Agreement to indemnify Officers

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

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

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

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

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

Auditor

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

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

Emeritus Professor GR Sutton AO
Director

Mr CM Hancock
Director

Melbourne
25th March 2015

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Auditor's Independence Declaration

As lead auditor for the audit of AARNet Pty Ltd for the year ended 31 December 2014, 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

25 March 2015

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Income statement

For the year ended 31 December 2014

	Notes	31 December 2014 $	31 December 2013 $
Telecommunications revenue		58,530,359	54,263,625
Infrastructure service fees		4,227,801	3,129,644
Infrastructure project construction revenue		2,524,030	1,009,677
Total services revenue		65,282,190	58,402,946
Other revenue:			
Interest		2,068,067	2,469,603
Dividends		301,222	124,681
Gain on foreign currency contracts	4	941,542	2,040,658
Payroll tax refund	4	370,439	1,093,799
Other income		826,651	477,013
Total other revenue		4,507,921	6,205,754
Contributions – National Research Network Program	4	7,619,132	10,784,771
Total revenue and income		77,409,243	75,393,471
Telecommunications expenses		(17,876,256)	(16,581,731)
Depreciation and amortisation – Telecommunications	5	(13,829,068)	(13,309,374)
Employee benefits expense – Telecommunications		(10,287,230)	(9,922,105)
Administration – Telecommunications		(5,248,414)	(4,326,929)
Infrastructure project construction		(3,655,759)	(3,466,316)
Depreciation and amortisation – Infrastructure projects	5	(4,317,317)	(3,351,159)
Employee benefits expense – Infrastructure Development Group		(1,785,468)	(1,788,305)
Administration – Infrastructure Development Group		(474,858)	(432,308)
Other expenses		(97,530)	(179,054)
Total expenses		(57,571,900)	(53,357,281)
Net income		19,837,343	22,036,190

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

Statement of comprehensive income

For the year ended 31 December 2014

	Notes	31 December 2014 $	31 December 2013 $
Net income for the year		19,837,343	22,036,190
Other comprehensive income			
Items that may be reclassified to net income			
Movement in the fair value of available-for-sale financial assets		180,283	379,329
Other comprehensive income for the year, net of tax		180,283	379,329
Total comprehensive income for the year		20,017,626	22,415,519
Total comprehensive income for the year is attributable to:			
Ultimate beneficiaries of AARNet Pty Ltd	22	20,017,626	22,415,519

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

Balance sheet For the year ended 31 December 2014

	Notes	31 December 2014	31 December 2013
ASSETS		$	$
Current assets			
Cash and cash equivalents	7	16,719,742	26,243,557
Receivables	8	35,995,844	18,512,863
Derivative financial instrument		1,329,377	479,724
Accrued income	9	2,027,846	1,656,830
Held-to-maturity investments	10	16,497,592	9,412,596
		72,570,401	56,305,570
Total current assets		72,570,401	56,305,570
Non-current assets			
Receivables	11	72,979	83,518
Available-for-sale financial assets	12	10,205,217	10,454,346
Held-to-maturity investments	13	15,932,039	9,121,072
Derivative financial instrument		211,754	507,737
Other financial assets- Non-controlling investment in Smart Services CRC Pty Ltd		1	1
Property, plant and equipment	14	69,511,721	60,637,932
Intangible assets	15	70,985,536	66,171,543
Total non-current assets		166,919,247	146,976,149
Total assets		239,489,648	203,281,719
LIABILITIES			
Current liabilities			
Payables	16	12,840,393	6,136,692
Provisions	18	2,388,768	2,277,210
Other liabilities		101,533	87,419
Income in advance	17	46,679,814	46,183,958
		62,010,508	54,685,279
Total current liabilities		62,010,508	54,685,279
Non-current liabilities			
Income in advance	21	26,434,346	17,740,408
Provisions	19	680,970	509,833
Total non-current liabilities		27,115,316	18,250,241
Total liabilities		89,125,824	72,935,520
Net assets		150,363,824	130,346,199
EQUITY			
Contributed equity	22	39,039	39,039
Reserves		657,888	477,606
Retained earnings	23	149,666,897	129,829,554
Capital and reserves attributable to owners of AARNet Pty Ltd		150,363,824	130,346,199
Total equity		150,363,824	130,346,199

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

Statement of changes in equity

For the year ended 31 December 2014

	31 December 2014 $	31 December 2013 $
Total equity at the beginning of the financial year	130,346,199	107,930,680
Changes in the fair value of available-for-sale financial assets, net of tax	180,283	379,329
Net income for the year	19,837,343	22,036,190
Total recognised income and expense for the year	20,017,626	22,415,519
Total equity at the end of the financial year	150,363,825	130,346,199

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

Statement of cash flows

For the year ended 31 December 2014

	Notes	31 December 2014 $	31 December 2013 $
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		73,822,041	92,402,495
Payments to suppliers and employees (inclusive of goods and services tax)		(42,330,295)	(46,925,572)
		31,491,746	45,476,923
Interest paid		(1,001)	(79)
Net cash inflow from operating activities	26	31,490,745	45,476,844
Cash flows from investing activities			
Payments for property, plant and equipment		(14,752,741)	(31,873,884)
Payments for intangible assets		(15,100,317)	(20,853,821)
Payments for available-for-sale financial assets		(1,772,968)	(6,682,372)
Payments for held-to-maturity investments		(40,072,792)	(4,124,126)
Proceeds from sale of available-for-sale financial assets		2,234,024	1,210,708
Proceeds from held-to-maturity investments		26,134,125	7,500,000
Dividends received		282,711	130,488
Interest received		2,025,054	2,400,369
Proceeds from sale of property, plant and equipment		8,344	-
Net cash (outflow) from investing activities		(41,014,560)	(52,292,638)
Net (decrease) in cash and cash equivalents		(9,523,815)	(6,815,794)
Cash and cash equivalents at the beginning of the financial year		26,243,557	33,059,351
Cash and cash equivalents at end of year	7	16,719,742	26,243,557

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

1 Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. AARNet Pty Ltd is a not-for-profit entity for the purpose of preparing the financial statements.

(i) New and amended standards adopted

AARNet has not applied any standards or amendments for first time in this reporting period.

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

(ii) Historical cost convention

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

(iii) Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Revenue recognition

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

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

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

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

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

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

(d) Income tax

AARNet is exempt from income tax under Section 50-5 of the Income Tax Assessment Act 1997.

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

(h) Trade receivables

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

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

(i) Investments and other financial assets

Classification

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

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting period which are classified as non-current assets. Loans and receivables are included in 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 of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the end of the reporting period. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long-term.

Recognition and derecognition

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

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

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

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

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

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

(i) Assets carried at amortised cost

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

(ii) Assets classified as available-for-sale

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

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

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

(j) Derivatives and hedging activities

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

AARNet has entered into forward exchange contracts which are economic hedges for foreign currencies to be traded at a future date but do not satisfy the requirements for hedge accounting.

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

(k) Fair value estimation

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

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to AARNet for similar financial instruments.

(l) Property, plant and equipment

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

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

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

> Leasehold improvements	10 years
> Office equipment	3 years
> Leased communication assets	5 – 6 years
> Leased office equipment	3 years
> Communication assets	3 – 20 years
> Software	2 – 3 years

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

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

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

(m) Intangible assets

AARNet's intangible assets are indefeasible rights to use (IRU) capacity of traffic paths, which have been amortised from the date they were available for service and will continue to be amortised over the period of the right, which varies from 10 to 28 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 liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

(p) Goods and Services Tax (GST)

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

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

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

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

(q) Provisions

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

(r) Comparative figures

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

(s) New accounting standards and interpretations

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and service. The AASB has also issued an equivalent standard. The Company is still evaluating the impact of the new rules on its revenue recognition.

2 Commitments

(a) Expenditure and capital commitments

	31 December 2014 $	31 December 2013 $
Within one year	8,848,606	4,537,450
Later than one year but not later than five years	1,028,628	2,798,020
Later than five years	412,003	601,511
	10,289,237	7,936,981

(b) Lease commitments: AARNet as lessee

	31 December 2014 $	31 December 2013 $
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	14,573,739	13,908,766
Later than one year but not later than five years	28,319,347	34,733,706
Later than five years	34,416,546	32,538,522
Commitments not recognised in the financial statements	77,309,632	81,180,994

3 Critical accounting estimates and judgements

Critical accounting estimates and assumptions

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

(i) Useful life of intangible assets

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

(ii) Useful life of assets

AARNet is an owner of a significant amount of assets and infrastructure. Estimates are made as to the useful life of these assets which can affect the amount of depreciation and amortisation expense during the year.

4 Other Income and NRN Contributions

Included in Other Income are the following significant amounts: Payroll Tax Refund $370,439 (2013: $1,093,799), Gain on Foreign Currency Contracts: $941,541 (2013: gain of $2,040,658).

During 2013 the Company began to apply to the states and territories in which it operates for exemption from payroll tax. The amount shown in other income represents the refunds received from those jurisdictions that granted exemption and provided refunds of taxes previously paid.

The company hedges a significant proportion of its exposure to foreign currency movements (refer note 6) and does not apply hedge accounting; note 1(j) sets out the accounting policy adopted with respect to derivatives and hedging activities. During 2014 movements in the Australian dollar produced a gain on the hedging instruments held during and as at the end of the year of $941,541.

In addition, the Company benefited again during 2014 from receipts under the National Research Network Program (an initiative of the Australian Government conducted as part of the Super Science Initiative). Although the funds received under this program are expended on construction of network infrastructure, equipment and related activities, the receipts are accounted for as a contribution and recognised as income (refer note 1(c)). The amount of such income recognised in 2014 was $7,619,132 (2013: $10,784,771).

These amounts are not the only material or variable components of Net Income recognised by the Company in 2014 or 2013. They do represent a significant component of the Net Income recorded by the Company during 2014 and 2013, and are also a material factor in the increase in Net Income in those years compared to earlier years.

5 Expenses

	Notes	31 December 2014 $	31 December 2013 $
Depreciation			
Office equipment		573,237	830,560
Leasehold improvements		185,118	188,698
Communication assets		7,027,921	4,519,752
Software		73,785	57,222
Leased communication assets		-	555,807
Total Depreciation	14	7,860,061	6,152,039
Amortisation			
Intangibles - Indefeasible Rights to Use traffic paths		10,286,324	10,508,494
Total amortisation		10,286,324	10,508,494
Total depreciation and amortisation		18,146,385	16,660,533
Finance costs			
Interest and finance charges paid/payable		1,001	79
Foreign exchange losses		-	9,075
Loss on sale of available-for-sale financial assets		20,871	128,318
Loss on disposal of assets		-	1,002
Amortised interest expense		75,658	49,655
Rental expense relating to operating leases			
Minimum lease payments - premises		1,110,173	1,016,550
Superannuation expense		1,497,960	1,386,596

6 Financial risk management

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

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

(a) Market risk

(i) Foreign exchange risk (currency risk)

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

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

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

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

At year end, AARNet held USD0.06m (AUD0.08m) in USD denominated bank accounts and EUR0.1m (AUD0.15m) in a EUR denominated bank account as part of its strategy to minimise the financial effects of foreign currency fluctuations. Through the Audit, Finance & Risk Committee, AARNet's Board monitors the company's hedging strategy on a continuing basis.

Sensitivity

At 31 December 2014, 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 $277,000 lower/$227,000 higher (2013: $256,000 lower/$209,000 higher), mainly as a result of foreign exchange losses/gains on translation of USD and EUR cash balance and derivative financial instruments. 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 2014, 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 $165,000 lower/higher (2013: $255,000 lower/higher), as a result of lower/higher interest income from cash and cash equivalents. Total equity would have changed by the same amounts.

Held-to-maturity investments

At 31 December 2014, 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 $238,000 lower/higher (2013: $116,000 lower/higher) as a result of lower/higher interest income from held-to-maturity investments. Equity would have changed by the same amounts.

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

Sensitivity

Available-for-sale financial assets are comprised of equities and bonds listed on the ASX and hybrid investments. At 31 December 2014, had the ASX uniformly been -/+1% lower/higher with all other variables held constant, Total Comprehensive Income for the year would have been $102,000 lower/higher (2013: $105,000 lower/higher) as a result of lower/higher income from available-for-sale financial assets.

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

		Interest rate risk				Foreign exchange risk				Other price risk			
		-100bps		+100bps		-10%		+10%		-1%		+1%	
At 31 December 2014	Carrying amount	Profit	Other Equity	Profit	Other Equity	Profit	Other Equity	Profit	Other Equity	Profit	Other Equity	Profit	Other Equity
	$	$	$	$	$	$	$	$	$	$	$	$	$
Financial assets													
Cash and cash equivalents	16,719,742	(164,874)	(164,874)	164,874	164,874	(36,224)	(36,224)	29,638	29,638	-	-	-	-
Accounts receivable	33,152,192	-	-	-	-	-	-	-	-	-	-	-	-
Held-to-maturity investments, term deposits	11,000,000	(110,000)	(110,000)	110,000	110,000	-	-	-	-	-	-	-	-
Held-to-maturity investments, floating rate notes	12,795,000	(127,950)	(127,950)	127,950	127,950	-	-	-	-	-	-	-	-
Available-for-sale financial assets	10,205,217	-	-	-	-	-	-	-	-	(102,052)	(102,052)	102,052	102,052
Derivative financial instrument	1,541,130	-	-	-	-	(171,237)	(171,237)	140,103	140,103	-	-	-	-
Accrued income	2,052,782	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities													
Trade payables	5,207,888	-	-	-	-	(69,482)	(69,482)	56,849	56,849	-	-	-	-
Other liabilities	5,086,802	-	-	-	-	-	-	-	-	-	-	-	-
Total increase/ (decrease)		(402,824)	(402,824)	402,824	402,824	(276,943)	(276,943)	226,590	226,590	(102,052)	(102,052)	102,052	102,052

Summarised sensitivity analysis (continued)

		Interest rate risk				Foreign exchange risk				Other price risk			
		-100bps		+100bps		-10%		+10%		-1%		+1%	
At 31 December 2013	Carrying amount $	Profit $	Other Equity $	Profit $	Other Equity $	Profit $	Other Equity $	Profit $	Other Equity $	Profit $	Other Equity $	Profit $	Other Equity $
Financial assets													
Cash and cash equivalents	26,243,557	(254,677)	(254,677)	254,677	254,677	(85,933)	(85,933)	70,309	70,309	-	-	-	-
Accounts receivable	15,638,632	-	-	-	-	-	-	-	-	-	-	-	-
Held-to-maturity investments, term deposits	5,124,125	(51,241)	(51,241)	51,241	51,241	-	-	-	-	-	-	-	-
Held-to-maturity investments, floating rate notes	6,500,000	(65,000)	(65,000)	65,000	65,0000	-	-	-	-	-	-	-	-
Available-for-sale financial assets	10,454,346	-	-	-	-	-	-	-	-	(104,543)	(104,543)	104,543	104,543
Other assets	109,877												
Derivative financial instrument	987,461	-	-	-	-	(109,718)	(109,718)	89,769	89,769	-	-	-	-
Accrued income	1,656,830	-	-	-	-	-	-	-	-	-	-	-	-
Financial liabilities													
Trade payables	3,590,388	-	-	-	-	(60,097)	(60,097)	49,170	49,170	-	-	-	-
Other liabilities	3,214,461	-	-	-	-	-	-	-	-	-	-	-	-
Total increase/ (decrease)		(370,918)	(370,918)	370,918	370,918	(255,748)	(255,748)	209,248	209,248	(104,543)	(104,543)	104,543	104,543

(b) Credit risk

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

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

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

(c) Liquidity risk

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

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

(d) Fair value measurements

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

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

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

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

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

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

The following table presents the company's assets and liabilities measured and recognised at fair value at 31 December 2014 and 31 December 2013

31 December 2014	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Derivative financial instrument	-	1,541,130	-	1,541,130
Available-for-sale financial assets				
Equity securities	4,159,625	-	-	4,159,625
Bonds	6,045,592	-	-	6,045,592
Total assets	10,205,217	1,541,130	-	11,746,347

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

The fair value of financial instruments traded in active markets (such as available-for-sale financial assets) is based on quoted market prices at the end of the reporting period. These instruments are included in level 1.

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

7 Current assets – Cash and cash equivalents

	31 December 2014 $	31 December 2013 $
Current assets		
Cash at bank and in hand (AUD)	10,843,439	19,489,926
Cash at bank (USD and EUR)	232,334	773,401
Deposits at call - all denominated in AUD	5,643,969	5,980,230
	16,719,742	26,243,557

(a) Cash at bank and on hand

Cash at bank and on hand are held at interest rates varying between 0.00% and 2.35% (2013: 0.03% and 2.40%). During the year, cash at bank and on hand is transferred to or from term deposits to meet liquidity requirements.

(b) Deposits at call

Interest bearing deposits at call attracted interest rates between 2.50% and 3.81% (2013: 2.35% and 4.65%). These deposits have an average maturity of 199 days.

(c) Bank guarantee and credit facilities

AARNet has a $650,000 Bank Guarantee Facility provided by the National Australia Bank. AARNet has provided bank guarantees for AARNet leased offices. AARNet had an unsecured credit card facility totalling $200,000 during the year.

8 Current assets – Receivables

	31 December 2014 $	31 December 2013 $
Trade receivables	33,152,192	15,638,633
Other debtors	-	109,877
Prepayments	2,843,652	2,764,353
	35,995,844	18,512,863

As at 31 December 2014, trade receivables of $1,151,907 (2013: $69,839) were past due but not impaired or considered uncollectable. These amounts have been outstanding for more than 90 days. These relate to a number of customers for whom there is no history of default.

(a) Other debtors

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

(b) Fair value

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

9 Current assets – Accrued income

	31 December 2014 $	31 December 2013 $
Current assets		
Infrastructure projects	767,587	378,595
Other	889,395	935,940
Interest on cash and cash equivalents and held-to-maturity investments	370,864	342,295
	2,027,846	1,656,830

10 Current assets – Held-to-maturity investments

	31 December 2014 $	31 December 2013 $
Bonds	4,497,592	5,288,471
Term deposits	12,000,000	4,124,125
	16,497,592	9,412,596

11 Non-current assets – Receivables

	31 December 2014 $	31 December 2013 $
Prepayments	72,979	83,518

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

	31 December 2014 $	31 December 2013 $
Non-current assets		
Bonds	6,045,592	6,438,304
Equity securities	4,159,625	4,016,042
	10,205,217	10,454,346

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

	31 December 2014 $	31 December 2013 $
Bonds	11,432,039	8,121,072
Term deposits	4,500,000	1,000,000
	15,932,039	9,121,072

14 Non-current assets – Property, plant and equipment

	Leasehold improvements	Office equipment	Leased communication assets	Communication assets	Software	Total
	$	$	$	$	$	$
At 1 January 2013						
Cost or fair value	1,995,255	3,740,674	16,078,594	49,759,529	815,234	72,389,286
Accumulated depreciation	(1,043,978)	(2,545,424)	(15,522,787)	(15,421,618)	(713,161)	(35,246,968)
Net book amount	951,277	1,195,250	555,807	34,337,911	102,073	37,142,318
Year ended 31 December 2013						
Opening net book amount	951,277	1,195,250	555,807	34,337,911	102,073	37,142,318
Additions	24,823	381,370	-	29,242,462	-	29,648,655
Disposals	-	-	-	(1,002)	-	(1,002)
Depreciation charge	(188,698)	(830,560)	(555,807)	(4,519,752)	(57,222)	(6,152,039)
Closing net book amount	787,402	746,060	-	59,059,619	44,851	60,637,932
At 31 December 2013						
Cost or fair value	2,020,078	4,116,610	16,078,594	78,881,719	815,234	101,912,235
Accumulated depreciation	(1,232,676)	(3,370,550)	(16,078,594)	(19,822,100)	(770,383)	(41,274,303)
Net book amount	787,402	746,060	-	59,059,619	44,851	60,637,932
Year ended 31 December 2014						
Opening net book amount	787,402	746,060	-	59,059,619	44,851	60,637,932
Additions	35,420	427,531	-	16,088,318	184,145	16,735,414
Disposals	-	(1,564)	-	-	-	(1,564)
Depreciation charge	(185,118)	(573,237)	-	(7,027,921)	(73,785)	(7,860,061)
Closing net book amount	637,704	598,790	-	68,120,016	155,211	69,511,721
At 31 December 2014						
Cost	2,055,498	4,514,288	16,078,594	94,925,964	999,379	118,573,723
Accumulated depreciation	(1,417,794)	(3,915,498)	(16,078,594)	(26,805,948)	(844,168)	(49,062,002)
Net book amount	637,704	598,790	-	68,120,016	155,211	69,511,721

(a) Assets in the course of construction

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

	31 December 2014	31 December 2013
	$	$
Communication assets	15,447,154	18,004,434
Office equipment	49,444	46,428
Total assets in the course of construction	15,496,598	18,050,862

15 Non-current assets – Intangible assets

	Indefeasible right to use capacity of traffic path $	Total $
At 1 January 2013		
Total payments	99,903,621	99,903,621
Accumulated amortisation on a straight line basis	(44,009,692)	(44,009,692)
Net book amount	55,893,929	55,893,929
Year ended 31 December 2013		
Opening net book amount	55,893,929	55,893,929
Additions	20,786,108	20,786,108
Amortisation charge	(10,508,494)	(10,508,494)
Closing net book amount	66,171,543	66,171,543
Total payments	120,689,727	120,689,727
Accumulated amortisation on a straight line basis	(54,518,184)	(54,518,184)
Net book amount	66,171,543	66,171,543
Year ended 31 December 2014		
Opening net book amount	66,171,543	66,171,543
Additions	15,100,317	15,100,317
Amortisation charge	(10,286,324)	(10,286,324)
Closing net book amount	70,985,536	70,985,536
At 31 December 2014		
Cost	135,790,044	135,790,044
Accumulated amortisation	(64,804,508)	(64,804,508)
Net book amount	70,985,536	70,985,536

During the year, additions to intangible assets totalled $15,100,317. These additions were the result of recognising further payments for Indefeasible Rights to Use traffic paths.

16 Current liabilities – Payables

	31 December 2014 $	31 December 2013 $
Current liabilities		
Trade payables and other accruals	12,840,393	6,136,692

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

17 Current liabilities – Income in advance

	31 December 2014 $	31 December 2013 $
Infrastructure projects	11,951,032	12,630,362
Other	4,245,001	4,703,976
Infrastructure service fees	3,368,247	2,024,412
Subscriptions	27,115,534	26,825,208
	46,679,814	46,183,958

18 Current liabilities – Provisions

	31 December 2014 $	31 December 2013 $
Employee benefits	2,388,768	2,277,210

19 Non-current liabilities – Provisions

	31 December 2014 $	31 December 2013 $
Employee benefits	441,766	299,088
Make good on leased premises	239,204	210,745
	680,970	509,833

(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 $
2014		
Non-current liabilities - Provisions		
Carrying amount at start of year	210,745	210,745
Increase (decrease) in provision recognised	28,459	28,459
Carrying amount at end of year	239,204	239,204

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

20 Non-current liabilities – Retirement benefit obligations

Superannuation plan

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

As at 30 June 2014, the assets of the DBD in aggregate were estimated to be $271 million above vested benefits, after allowing for various reserves. The vested benefits are benefits which are not conditional upon continued membership (or any factor other than leaving the service of the participating institution) and include the value of indexed pensions being provided by the DBD.

As at 30 June 2014 the assets of the DBD in aggregate were estimated to be $2,071 million above accrued benefits, after allowing for various reserves. The accrued benefits have been calculated as the present value of expected future benefit payments to members and indexed pensioners which arise from membership of UniSuper up to the reporting date.

The vested benefit and accrued benefit liabilities were determined by the Fund's actuary, using the actuarial demographic assumptions outlined in their report on the actuarial investigation of the DBD as at 30 June 2014. The financial assumptions used were:

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

Assets have been included at their net market value; that is, allowing for realisation costs.

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

Clause 34 was initiated following the 31 December 2008, 30 June 2011, 30 June 2012 and 30 June 2013 actuarial investigations.

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

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

21 Non-current liabilities – Income in advance

	31 December 2014 $	31 December 2013 $
Infrastructure service fees	20,162,449	11,757,123
Infrastructure projects	2,448,800	2,692,057
Other deferred income	3,823,097	3,291,228
	26,434,346	17,740,408

22 Contributed equity

	31 December 2013 Shares	31 December 2013 Shares	31 December 2014 $	31 December 2014 $
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 2013	Opening balance	78	39,039
31 December 2013	Balance	78	39,039
31 December 2014	Balance	78	39,039

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

23 Reserves and retained earnings

Retained earnings

Movements in retained earnings were as follows:

	31 December 2014 $	31 December 2013 $
Balance 1 January	129,829,554	107,793,364
Net profit for the year	19,837,343	22,036,190
Balance 31 December	149,666,897	129,829,554

24 Key management personnel disclosures

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

(i) Chairman – non-executive

Emeritus Professor GR Sutton AO

(ii) Executive Directors

Mr CM Hancock, CEO

(iii) Non-executive Directors

Professor MN Barber (retired 5 May 2014)
Mr M Bailey (resigned 4 March 2014)
Mr OJ Barrett Independent Director (resigned 10 October 2014)
Professor L Kristjanson
Mr P Nikoletatos (resigned 4 June 2014)
Mr JF Rohan Independent Director
Dr I Tebbett (resigned 12 December 2014)
Emeritus Professor MS Wainwright AM Independent Director
Professor IR Young AO
Dr DF Williams (appointed 1 January 2014)
Mr CM Bridge (appointed 5 May 2014)
Mr J Murray (appointed 4 June 2014)
Professor D Terry (appointed 5 May 2014)

Key management personnel compensation

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

	31 December 2014 $	31 December 2013 $
Short-term employee benefits	1,921,608	1,883,616
Post-employment benefits	245,451	241,733
	2,167,059	2,125,349

Transactions with key management personnel

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

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

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

25 Remuneration of auditors

(a) PricewaterhouseCoopers

(i) Audit and other assurance services

	2014 $	2013 $
Audit and other assurance services		
Audit and review of financial statements	201,900	196,500
Other assurance services		
Audit of regulatory returns	9,500	9,000
Audit of special purpose financial reports	25,500	27,500
Total remuneration for audit and other assurance services	236,900	233,000
Taxation services		
Taxation services	39,797	3,500
Total remuneration of PricewaterhouseCoopers	276,697	236,500

(ii) Other services

Total remuneration of PricewaterhouseCoopers	276,697	236,500

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

	31 December 2014 $	31 December 2013 $
Net income for the year	19,837,343	22,036,190
Depreciation and amortisation	18,146,385	16,660,533
Dividend income	(301,222)	(124,681)
Interest received	(2,025,054)	(2,400,369)
Net (gain)/loss on sale of available-for-sale financial assets	(31,645)	(16,011)
Net amortised interest expense	42,703	11,144
Net (gain) loss on sale of assets	(6,780)	1,002
Decrease (increase) in trade receivables	(17,403,682)	(1,686,682)
Decrease (increase) in accrued income	(352,505)	1,895,206
Decrease (increase) in prepayments	(68,760)	(1,346,592)
Decrease (increase) in derivative financial instruments	(553,670)	(2,040,659)
Increase (decrease) in trade payables	4,721,029	(1,130,808)
Increase (decrease) in other operating liabilities	14,114	31,857
Increase (decrease) in provisions	282,695	484,715
Increase (decrease) in income received in advance	9,189,794	13,101,999
Net cash inflow (outflow) from operating activities	31,490,746	45,476,844

Directors' declaration 31 December 2014

In the Directors' opinion:

(a) the financial statements and notes set out on pages 08 to 27 are in accordance with the *Corporations Act 2001*, including:

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

  (ii) giving a true and fair view of the entity's financial position as at 31 December 2014 and of its performance for the year ended on that date, and

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

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

Emeritus Professor GR Sutton AO
Director

Mr CM Hancock
Director

Melbourne
25th March 2015

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

For the year ended 31 December 2014

pwc

Report on the financial report

We have audited the accompanying financial report of AARNet Pty Ltd (the company), which comprises the balance sheet as at 31 December 2014, 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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:

(a) the financial report of AARNet Pty Ltd 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 2014 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

Rosalie Wilkie
Partner

PricewaterhouseCoopers

25 March 2015

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“What differentiates AARNet is its terabit national network and international connectivity; it drives Australia's research and teaching outcomes.”

Chris Hancock CEO

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