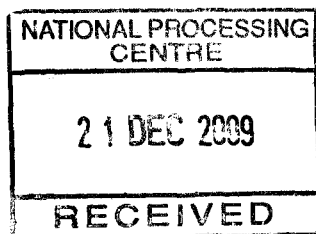




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Sun Microsystems (NZ) Limited

Annual Report
for the year ended 30 June 2009



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Corporate Information

DIRECTORS

Andrew Goodlace
Vaidyanathan Radhakrishnan
Siong Koon Sim
Bradley Vollmer

REGISTERED OFFICE

10 Viaduct Harbour Avenue
Auckland

PRINCIPAL PLACE OF BUSINESS

Auckland
Wellington

SOLICITORS

Simpson Grierson

BANKERS

ASB Bank

AUDITORS

Ernst & Young

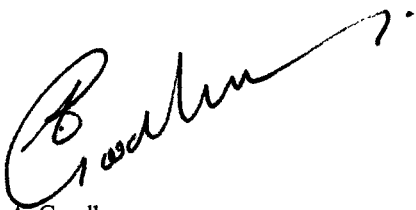
Annual Report

For the year ended 30 June 2009:

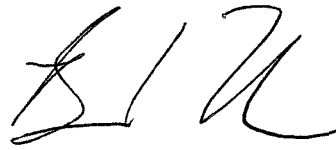
The Board of Directors present their Annual Report including the financial statements of the Company for the year ended 30 June 2009 and the auditor's report thereon.

The shareholders of the Company have exercised their right under section 211 (3) of the Companies Act 1993 and unanimously agreed that this Annual Report need not comply with any of paragraphs (a), and (e) to (j) of section 211 (1) of the Act.

For and behalf of the Board.



A. Goodlace
Director



B. Vollmer
Director

Auckland
10 December 2009

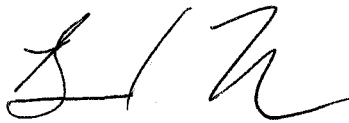
Balance Sheet

AT 30 JUNE 2009	Note	2009 \$	2008 \$
Current assets			
Cash and cash equivalents		9,197,386	9,654,961
Trade and other receivables	5	37,209,709	45,264,286
Inventories	6	12,039,253	9,966,077
Income tax receivable	3	3,360,998	3,373,658
Other	7	666,749	222,076
Total current assets		62,474,095	68,481,058
Non current assets			
Plant and equipment	8	491,953	545,829
Deferred tax assets	3	2,477,041	2,577,473
Other	9	-	768,708
Total non current assets		2,968,994	3,892,010
Total assets		65,443,089	72,373,068
Current liabilities			
Trade and other payables	10	24,359,542	30,779,053
Provisions	11	2,070,498	2,386,503
Deferred revenue		20,037,104	23,641,951
Redeemable preference shares	12	1,000,000	1,000,000
Total current liabilities		47,467,144	57,807,507
Non current liabilities			
Provisions	13	509,515	676,914
Deferred revenue		10,375,922	6,678,451
Other		117,774	117,774
Total non current liabilities		11,003,211	7,473,139
Total liabilities		58,470,355	65,280,646
Net assets		6,972,734	7,092,422
Equity			
Contributed equity	14	200	200
Share based reserve	15	663,760	487,828
Retained earnings	16	6,308,774	6,604,394
Total equity		6,972,734	7,092,422

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

For and on behalf of the Board, who authorise the issue of these financial statements on 10 December 2009.


A. Goodlace
Director


B. Vollmer
Director

Income Statement

FOR THE YEAR ENDED 30 JUNE 2009	Note	2009 \$	2008 \$
Revenue		68,673,674	74,670,570
Cost of sales		(45,958,796)	(52,128,914)
Gross profit		22,714,878	22,541,656
Other income		-	312,870
Bad and doubtful debts		54,500	(59,502)
Consulting and marketing		(742,585)	(866,581)
Depreciation and amortisation		(215,713)	(285,487)
Employee and other administrative costs		(20,135,999)	(13,609,578)
Occupancy expense		(1,218,409)	(1,168,632)
Travel and entertainment		(732,506)	(1,022,294)
Profit/(loss) before income tax		(275,835)	5,842,452
Income tax expense	3	(19,786)	(1,998,062)
Profit/(loss) after income tax		(295,620)	3,844,390

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

Statement of Changes in Equity

	Ordinary Shares \$	Employee Equity Benefits Reserve \$	Retained Earnings \$	Total \$
At 1 July 2007	200	310,365	18,228,612	18,539,177
Profit for the year	-	-	3,844,390	3,844,390
Share based payments	-	177,463	-	177,463
Dividend paid	-	-	(15,468,608)	(15,468,608)
At 30 June 2008	200	487,828	6,604,394	7,092,422
Profit/(loss) for the year	-	-	(295,620)	(295,620)
Share based payment	-	175,932	-	175,932
At 30 June 2009	200	663,760	6,575,971	6,972,734

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

Notes to the Financial Statements

For the year ended 30 June 2009

1. Corporate information

The financial statements of Sun Microsystems (NZ) Limited for the year ended 30 June 2009 were authorised in accordance with a resolution of the directors on 10 December 2009.

Sun Microsystems (NZ) Limited is a company limited by shares incorporated and domiciled in New Zealand. The ultimate parent of Sun Microsystems (NZ) Limited is Sun Microsystems Inc.

The nature of the operations and principal activities of the Company are the provision of network computing infrastructure solutions that include computer systems, software, storage and services.

2. Summary of significant accounting policies

(a) Basis of preparation

The financial statements have been prepared in accordance with generally accepted accounting practice in New Zealand (NZ GAAP) and the requirements of the Companies Act 1993 and the Financial Reporting Act 1993. The financial statements have also been prepared on a historical costs basis.

The financial statements are presented in New Zealand dollars.

Differential Reporting

The Company qualifies for differential reporting as it is not publicly accountable and there is no separation between the owners and the governing body. The Company has taken advantage of all differential reporting exemptions, except for:

- the exemption available in NZ IAS 18 Revenue that permits qualifying entities to recognise revenue and expenses on a GST inclusive basis; and
- the exemption available in NZ IAS 21 The Effects of Changes in Foreign Exchange Rates that permits qualifying entities to translate foreign currency transactions at the settlement rate.

(b) Statement of compliance

The financial statements have been prepared in accordance with NZ GAAP. They comply with New Zealand equivalents to International Financial Reporting Standards (NZ IFRS), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities that qualify for and apply differential reporting concessions.

Accounting standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2009. These are not expected to have any material impact on the Company's financial report in subsequent periods.

Notes to the Financial Statements

For the year ended 30 June 2009

2. Summary of significant accounting policies (continued)

(c) Foreign currency translation

(i) *Functional and presentation currency*

Both the functional and presentation currency of Sun Microsystems (NZ) Limited is New Zealand dollars (\$).

(ii) *Transactions and balances*

Transactions in foreign currencies are converted to local currency at the rate of exchange ruling at the date of the transaction.

Amounts payable by and to the Company that are outstanding at balance date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial year.

All exchange differences arising on settlement or re-statement are brought to account in determining the profit or loss for the financial year. Transaction costs, premiums and discounts on forward currency contracts are deferred and amortised over the life of the contract.

(d) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and is stated at nominal value.

(e) Trade and other receivables – refer Note 5

Trade receivables, which generally have 30 day terms, are initially recognised at invoice amount less an allowance for impairment.

Financial difficulties of the debtor and default payments are considered objective evidence of impairment.

Receivables from related parties are recognised and carried at the nominal amount due.

(f) Inventories – refer Note 6

Inventories are valued at the lower of cost and net realisable value. The cost of inventory includes the purchase price and any freight or duty incurred in obtaining the inventory.

Costs incurred in bringing each product to its present location and condition are accounted for on a first in first out basis. A layering model is used to calculate the amortisation of spares inventory, which is applied on a straight line basis and commences in the month after purchase at 20% per annum.

The net change to spares inventory cost for each month is used by the layering model to calculate the applicable amortisation expense. Decreases in spares inventory due to scrap, shrinkage or physical inventory adjustments will be applied on a first in, first out basis.

Notes to the Financial Statements

For the year ended 30 June 2009

2. Summary of significant accounting policies (continued)

(g) Plant and equipment – refer Note 8

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis at rates calculated to allocate the cost less estimated residual value at the end of the useful lives of the assets, or recoverable amount, against revenue over their estimated useful lives. Major depreciation periods are:

	2009	2008
Leasehold improvements	the lease term	the lease term
Plant and equipment	1.5 to 5 years	1.5 to 5 years

(h) Leases – refer Note 19

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

The Company leases certain plant and equipment and buildings.

Operating lease payments, where the lessor effectively retains substantially all the risks and benefits of ownership of the leased items, are included in the determination of the operating result in equal instalments over the lease term.

The cost of improvements to leasehold property is capitalised, disclosed as leasehold improvements and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

(i) Impairment of assets

Sun Microsystems (NZ) Limited conducts an annual internal review of asset values where the carrying values of assets are reviewed for impairment, with the recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. 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 inflows that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

Notes to the Financial Statements

For the year ended 30 June 2009

2. Summary of significant accounting policies (continued)

(j) Trade and other payables – refer Note 10

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for the goods and services received.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

(k) Provisions and employee benefits – refer Note 11 and Note 13

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation

(i) *Employee benefits*

A provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include annual leave and long service leave.

Liabilities arising in respect of employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

Employee benefit expenses arising in respect of the following categories:

- wages and salaries, non-monetary benefits, long service leave and other leave benefits; and
- other types of employee benefits,

are recognised against profits on a net basis in their respective categories.

Contributions made to the superannuation fund by the company are charged against the Income Statement.

(ii) *Warranty*

The warranty provided on products sold is accrued at the time of sale and is reduced over the term of the warranty period.

A provision for warranty is recognised for all products under warranty at the reporting date based on sales volume and past experience of the level of repairs and returns.

Notes to the Financial Statements

For the year ended 30 June 2009

2. Summary of significant accounting policies (continued)

(l) Share based payment transactions – refer Note 18

(i) *Equity settled transactions*

The Company provides benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for share or rights over shares (equity-settled transactions).

There are currently three plans in place to provide these benefits:

- the Employee Stock Purchase Plan (ESPP)
- the Share Option scheme; and
- the Restricted Stock Unit (RSU) Incentive Plan.

The cost of these equity-settled transactions with employees (for awards granted after 7 November 2002 that were unvested at 1 July 2006) is measured by reference to the fair value of the equity instruments at the date at which they are granted.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the income statement is the product of:

- (i) the grant date fair value of the award;
- (ii) the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- (iii) the expired portion of the vesting period.

The charges to the income statement for the period is the cumulative amounts as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

(m) Contributed equity – refer Note 14

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

(n) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Specific recognition criteria must be met before revenue is recognised. This is as follows:

- persuasive evidence of an arrangement exists;
- delivery has occurred or services have been rendered; and
- the seller's price is fixed and determinable; and
- collectability is reasonably assured.

For software revenue recognition, where the sale involves multiple elements, for example maintenance, each element of the sale must be identified and recognised separately using fair values.

Interest income is recognised as interest accrues using the effective interest method.

Notes to the Financial Statements

For the year ended 30 June 2009

2. Summary of significant accounting policies (continued)

(o) Income tax – refer Note 3

Current tax assets and liabilities from the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute these amounts are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of the assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary difference and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(p) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Balance Sheet.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Notes to the Financial Statements

For the year ended 30 June 2009

	2009 \$	2008 \$
3. Income tax		
(a) Income tax expense		
The major components of income tax expense are:		
<i>Income Statement</i>		
<i>Current income tax</i>		
Current year income tax charge	6,579	1,544,166
Adjustment in respect of current income tax of previous years	25,450	(276,619)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(12,243)	472,768
Restatement of deferred tax asset for change in tax rate	-	257,747
Income tax expense reported in the income statement	<u>19,786</u>	<u>1,998,062</u>
(b) Numerical reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate		
<i>A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Company's applicable income tax rate is as follows:</i>		
Accounting profit/(loss) before tax from continuing operations	(275,834)	5,842,452
At the Company's statutory tax rate of 30% (2008: 33%)	(82,750)	1,928,009
Adjustments in respect of current income tax of previous years	25,450	(276,619)
Adjustment due to permanent differences	77,086	88,925
Adjustment in respect of the deferred tax asset of previous years	-	257,747
Aggregate income tax expense	<u>19,786</u>	<u>1,998,062</u>

Notes to the Financial Statements

For the year ended 30 June 2009

3. Income tax (continued)

Recognised deferred tax assets and liabilities

	2009 \$	2009 \$	2008 \$	2008 \$
	Current Income Tax	Deferred Income Tax	Current Income Tax	Deferred Income Tax
Opening balance	3,373,658	2,577,473	1,495,834	3,307,988
Charged to income	80,645	(100,432)	(1,267,547)	(730,515)
Other payments/(refunds)	(93,305)	-	3,145,371	-
Closing balance	3,360,998	2,477,041	3,373,658	2,577,473

Tax expense in income statement	19,786	1,998,062
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Amounts recognised in balance sheet:

Deferred tax assets	2,477,041	2,577,473
Deferred tax liabilities	-	-
	<u>2,477,041</u>	<u>2,577,473</u>

The reduction in the corporate tax rate from 33% to 30% for the 2009 tax year has been taken into account in calculating the carrying value of deferred tax as at 30 June 2008 and 30 June 2009.

	Balance Sheet	
	2009 \$	2008 \$
Deferred income tax at 30 June relates to the following		
(i) <i>Deferred tax assets</i>		
Foreign currency balances	-	36,514
Accumulated amortisation: spares	2,056,674	1,923,599
Accumulated depreciation: plant & equipment	93,304	148,100
Accruals and provisions	327,063	469,260
Gross deferred tax assets	<u>2,477,041</u>	<u>2,577,473</u>
Set off of deferred tax liabilities	-	-
Net deferred tax assets	<u>2,477,041</u>	<u>2,577,473</u>
(ii) <i>Deferred tax liabilities</i>		
Foreign currency balances	-	-
Gross deferred tax liabilities	-	-
Set-off of deferred tax assets	-	-
Net deferred tax liabilities	-	-

Notes to the Financial Statements

For the year ended 30 June 2009

	2009	2008
	\$	\$
4. Dividends paid		
(a) Recognised amounts		
<i>Declared and paid during the year:</i>		
• Dividends on ordinary shares (\$1,531.55 per share)	-	153,155
• Dividends on convertible redeemable preference shares (\$1,531.55 per share)	-	15,315,453
	-	<u>15,468,608</u>
(b) Imputation credit balance		
The amount of imputation credits available for the subsequent financial year are:		
• Balance at beginning of the year	10,862,371	15,641,971
• Imputation credits attached to dividend paid during the year	-	(4,889,112)
• Income tax payments during the year	66,854	269,671
• Income tax refunds during the year	-	(160,159)
• Balance at the end of the year	10,929,225	10,862,371
(c) Dividend withholding payments account		
• Balance at the beginning of the year	-	-
• Foreign dividend withholding payments tax paid	-	2,729,754
• Dividend withholding payments credits attached to dividend paid	-	(2,729,754)
• Balance at the end of the year	-	-
5. Current assets – trade and other receivables		
Trade debtors	19,962,837	27,411,963
Less provision for doubtful debts	(7,435)	(62,711)
	<u>19,955,402</u>	<u>27,349,252</u>
Intercompany receivables	<u>17,254,307</u>	<u>17,915,034</u>
	<u><u>37,209,709</u></u>	<u><u>45,264,286</u></u>

Notes to the Financial Statements

For the year ended 30 June 2009

	2009 \$	2008 \$
6. Current assets – inventories		
Inventories – finished goods (at cost)	7,996,122	7,245,194
Spares (at cost)	10,898,712	9,132,880
Provision for amortisation	<u>(6,855,581)</u>	<u>(6,411,997)</u>
	<u>4,043,131</u>	<u>2,720,883</u>
Total inventories at lower of cost and net realisable value	<u><u>12,039,253</u></u>	<u><u>9,966,077</u></u>

7. Current assets – other

Prepayments	<u>666,749</u>	222,076
	<u><u>666,749</u></u>	<u><u>222,076</u></u>

8. Non-current assets – plant and equipment

	Cost \$	Accumulated Depreciation \$	2009 Book Value \$
Plant and equipment	3,034,360	(2,945,148)	89,212
Leasehold improvements	<u>2,054,964</u>	<u>(1,652,223)</u>	<u>402,741</u>
	<u>5,089,324</u>	<u>(4,597,370)</u>	<u>491,953</u>

	Cost \$	Accumulated Depreciation \$	2008 Book Value \$
Plant and equipment	4,534,444	(4,455,345)	79,099
Leasehold improvements	<u>1,952,193</u>	<u>(1,485,463)</u>	<u>466,730</u>
	<u>6,486,637</u>	<u>(5,940,808)</u>	<u>545,829</u>

Notes to the Financial Statements

For the year ended 30 June 2009

	2009	2008
	\$	\$

9. Non current assets – other

Security deposits	-	768,708
	-	768,708

10. Current liabilities – trade and other payables

Trade payables	1,050,444	709,286
Goods and services tax (GST)	1,167,070	2,638,373
Other creditors and accruals	2,876,021	2,219,228
Intercompany payables	19,266,007	25,212,166
	<u>24,359,542</u>	<u>30,779,053</u>

11. Current liabilities - provisions

Employee benefits	1,459,619	1,831,634
Warranty provision	610,879	554,869
	<u>2,070,498</u>	<u>2,386,503</u>

Notes to the Financial Statements

For the year ended 30 June 2009

	2009	2008
	\$	\$

12. Current liabilities – redeemable preference shares

Redeemable preference shares

10,000 shares at \$100 per share	1,000,000	1,000,000
	<u>1,000,000</u>	<u>1,000,000</u>

Redeemable preference shares are redeemable for \$100 per share on 28 June 2016, or such earlier date at the election of the holder on the holder giving not less than 30 days written notice to the company.

The rights attaching to the shares are:

- to vote on a poll at a meeting of the company on any resolution except in relation to a poll where each share has 100 votes;
- an equal share in the distribution of the surplus assets of the company;
- preferential as to return of paid-up amount on winding up; and
- entitlement to a non cumulative dividend as may be declared by the directors at their sole discretion.

13. Non-current liabilities - provisions

Employee benefits	351,102	446,322
Warranty provision	158,413	230,592
	<u>509,515</u>	<u>676,914</u>

14. Shareholders' funds

Share capital

200 ordinary shares of \$1 each, issued and fully paid	200	200
Total shareholders' funds	<u>200</u>	<u>200</u>

Ordinary shares have no par value.

Ordinary shareholders hold the right to:

- vote on a poll at a meeting of the company on any resolution;
- equal shares in dividends to extent declared; and
- an equal share in the distribution of the surplus assets of the company.

Notes to the Financial Statements

For the year ended 30 June 2009

	2009	2008
	\$	

14. Shareholders's funds (continued)

Capital management

When managing capital, management's objective is to ensure that entity continues as a going concern as well as to maintain optimal returns to shareholders and benefit for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

15. Reserves

Share based payments reserve	<u>663,760</u>	<u>487,828</u>
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Movement in share based payment reserve

	\$
As at 1 July 2007	310,365
Share based payments	<u>177,463</u>
At 30 June 2008	487,828
Share based payments	<u>175,932</u>
At 30 June 2009	<u>663,760</u>

16. Retained earnings

Retained earnings at the beginning of the period	6,604,394	18,228,612
Net profit/(loss) attributable to members of Sun Microsystems (NZ) Ltd	(295,620)	3,844,390
Dividends paid	-	<u>(15,468,608)</u>
Retained earnings at the end of the period	<u>6,308,774</u>	<u>6,604,394</u>

Notes to the Financial Statements

For the year ended 30 June 2009

17. Related parties

(a) Ultimate parent

Sun Microsystems (NZ) Limited is a subsidiary of Sun Microsystems of California Inc, a company incorporated in the United States of America. The ultimate controlling entity is Sun Microsystems Inc, a company incorporated in the United States of America.

Sun Microsystems Australia Pty Limited holds 99% of ordinary shares in Sun Microsystems (NZ) Limited, but does not control the company. Sun Microsystems of California Inc. holds 10,000 redeemable preference shares which entitles the holder to voting rights equivalent to the voting rights of the ordinary shares held by Sun Microsystems Australia Pty Limited.

(b) Transactions with related parties

The following related party transactions occurred during the year:

- Purchases made under normal commercial terms and conditions aggregating \$29,758,650 (2008: \$38,348,545). These transactions were undertaken with Sun Microsystems Inc, the ultimate parent entity.
- Service fees for back office and administrative support paid under normal commercial terms and conditions to the value of \$7,652,631 (2008: \$7,003,837). These fees were paid to Sun Microsystems Australia Pty Limited, a subsidiary of Sun Microsystems of California Inc.
- Service fees for customer technical IT support paid under normal commercial terms and conditions to the value of \$200,133 (2008: \$57,695). These fees were paid to Sun Microsystems India Private Ltd, a subsidiary of Sun Microsystems of California Inc.
- Service fees for employee technical IT support paid under normal commercial terms and conditions to the value of \$110,897 (2008: \$214,610). These fees were paid to Sun Microsystems PTE Ltd, a subsidiary of Sun Microsystems of California Inc.
- Service fees for APAC HQ sales support paid under normal commercial terms and conditions to the value of \$811,137 (2008: \$498,878). These fees were paid to Sun Microsystems PTE Ltd, a subsidiary of Sun Microsystems of California Inc.
- Service fees for APAC HQ sales support paid under normal commercial terms and conditions – nil value (2008: \$16,667). These fees were paid to Sun Microsystems (China) Co. Ltd, a subsidiary of Sun Microsystems of California Inc.
- Interest income for the provision of long term funding paid under normal terms and conditions to the value of \$1,550,903 (2008: \$2,050,565). This interest income was received from Sun Microsystems International B.V, a subsidiary of Sun Microsystems Inc. The interest rate was 6.37% (2008: 10.18%)

Aggregate amounts payable at 30 June 2008 to related parties in the wholly owned group: \$19,266,006 (2008: \$25,212,166).

Aggregate amounts receivable at 30 June 2008 from related parties in the wholly owned group: \$17,254,307 (2008: \$17,915,034).

No related party debts have been written off or forgiven during the year.

Notes to the Financial Statements

For the year ended 30 June 2009

18. Share based payments

(a) Recognised share-based payments expenses

The expense recognised for employee services received during the year is shown in the table below:

	2009	2008
	\$	\$
Expense arising from equity-settled share-based payment transactions	175,932	177,463
Total expense arising from share-based payment transactions	175,932	177,463

The share-based payment plans are described below. There have been no cancellations or modifications to any of the plans during 2009 and 2008.

(b) Types of share-based payment plans

Employee Share Purchase Plan (ESPP)

The ESPP enables employees to purchase Sun Microsystems Inc ordinary shares by payroll deductions. Every 6 months (1 May, 30 November) the money held is used to purchase shares in Sun Microsystems Inc on the open market. The employees pay 85% of cost and Sun Microsystems (NZ) Limited contributes the remaining 15%. Any monies not used in the 6 monthly share purchase are refunded to the employees and then the provision commences again the following month. The ESPP has no external funding.

The fully paid shares purchased by the employees hold the same voting rights as other issued ordinary shares.

Share Option Scheme

The Share Option scheme is a discretionary program whereby selected employees are awarded the contractual right to purchase shares of Sun Microsystems Inc. common stock within a defined period of time at a fixed price set on a specific date.

Share option awards are time based, vesting 20% on each annual anniversary of the grant date over five years. Stock options generally expire eight years from the date of grant.

Unvested stock options expire immediately upon an employee's termination from the Company.

Restricted Stock Units (RSU) scheme

The RSU scheme is a discretionary program whereby selected employees are awarded the right to receive shares of Sun Microsystems Inc. common stock. This right includes the restriction from selling or transferring the stock for a specified period of time.

RSU awards are time based and vest evenly over a four or five year period from the grant date.

The Company has the right to cancel any unvested shares if the employee's employment terminates before the restriction period ends.

Notes to the Financial Statements

For the year ended 30 June 2009

18. Share based payments (continued)

(c) Summaries of shares and options granted

Employee Share Purchase Plan (ESPP)

During the year ended 30 June 2009 employees of the Company purchased:

- 3,934 shares at the purchase price of US\$7.65 per share. These shares had a fair market value of US\$9.00 per share.
- 9,942 shares at the purchase price of US\$3.91 per share. These shares had a fair market value of US\$4.60 per share.

Share Option Scheme

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year:

	2009 No.	2009 WAEP	2008 No.	2008 WAEP
Outstanding at the beginning of the year	23,776	US\$14.84	29,756	US\$15.14
Granted during the year	-	-	-	-
Forefeited during the year	(7,349)	US\$16.14	(4,135)	US\$16.63
Exercised during the year	-	-	(1,845)	US\$15.64
Expired during the year	-	-	-	-
Outstanding at the end of the year	16,427	US\$14.26	23,776	US\$14.84
Exercisable at the end of the year	14,228	US\$14.49	15,072	US\$11.63

Notes to the Financial Statements

For the year ended 30 June 2009

18. Share based payments (continued)

The outstanding balance as at 30 June 2009 is represented by:

- 1,787 options over ordinary shares in Sun Microsystems Inc granted 21 May 2003 with an exercise price of US\$16.80 each. These shares vest 20% over five years.
- 4,880 options over ordinary shares in Sun Microsystems Inc granted 13 November 2003 with an exercise price of US\$16.83 each. These shares vest 20% over five years.
- 500 options over ordinary shares in Sun Microsystems Inc granted 14 January 2004 with an exercise price of US\$21.84 each. These shares vest 20% over five years.
- 250 options over ordinary shares in Sun Microsystems Inc granted 10 March 2004 with an exercise price of US\$17.40 each. These shares vest 20% over five years.
- 500 options over ordinary shares in Sun Microsystems Inc granted 18 May 2004 with an exercise price of US\$15.00 each. These shares vest 20% over five years.
- 616 options over ordinary shares in Sun Microsystems Inc granted 17 September 2004 with an exercise price of US\$15.76 each. These shares vest 20% over five years.
- 50 options over ordinary shares in Sun Microsystems Inc granted 28 April 2005 with an exercise price of US\$13.76 each. These shares vest 20% over five years.
- 5,719 options over ordinary shares in Sun Microsystems Inc granted 12 May 2005 with an exercise price of US\$9.16 each. These shares vest 20% over five years.
- 1,250 options over ordinary shares in Sun Microsystems Inc granted 28 July 2005 with an exercise price of US\$15.40 each. These shares vest 20% over five years.
- 875 options over ordinary shares in Sun Microsystems Inc granted 27 April 2006 with an exercise price of US\$19.80 each. These shares vest 20% over five years.

Restricted Stock Units (RSU) scheme

The following table illustrates the number of, and movements in, restricted stock units during the year:

	2009	2008
	No.	No.
Outstanding at the beginning of the year	21,660	15,810
Granted during the year	3,150	10,325
Forfeited during the year	(4,940)	(4,475)
Exercised during the year	(7,394)	-
Expired during the year	-	-
Outstanding at the end of the year	12,746	21,660
Exercisable at the end of the year	-	-

Notes to the Financial Statements

For the year ended 30 June 2009

18. Share based payments (continued)

The outstanding balance as at 30 June 2009 is represented by:

- 1,500 RSU over ordinary shares in Sun Microsystems Inc granted 28 July 2005. These shares vest 50% in two tranches within a five year period from the grant date.
- 749 RSU over ordinary shares in Sun Microsystems Inc granted 25 January 2006. These shares vest 50% in two tranches within a five year period from the grant date.
- 405 RSU over ordinary shares in Sun Microsystems Inc granted 27 February 2006. These shares vest 50% in two tranches within a five year period from the grant date.
- 1,890 RSU over ordinary shares in Sun Microsystems Inc granted 2 November 2006. These shares vest 50% in two tranches within a five year period from the grant date.
- 600 RSU over ordinary shares in Sun Microsystems Inc granted 31 January 2007. These shares vest 50% in two tranches within a five year period from the grant date.
- 375 RSU over ordinary shares in Sun Microsystems Inc granted 31 July 2007. These shares vest 50% in two tranches within a five year period from the grant date.
- 3,732 RSU over ordinary shares in Sun Microsystems Inc granted 14 November 2007. These shares vest 25% in four tranches within a four year period from the grant date.
- 450 RSU over ordinary shares in Sun Microsystems Inc granted 30 April 2008. These shares vest 25% in four tranches within a four year period from the grant date.
- 225 RSU over ordinary shares in Sun Microsystems Inc granted 30 July 2008. These shares vest 25% in four tranches within a four year period from the grant date.
- 1,500 RSU over ordinary shares in Sun Microsystems Inc granted 4 November 2008. These shares vest 25% in four tranches within a four year period from the grant date.
- 1,050 RSU over ordinary shares in Sun Microsystems Inc granted 28 January 2009. These shares vest 25% in four tranches within a four year period from the grant date.

(d) Weighted average remaining contractual life

Share Option Scheme

The weighted average remaining contractual life for the share options outstanding as at 30 June 2009 is 0.49 years (2008: 1.17 years).

Restricted Stock Unit (RSU) Scheme

The weighted average remaining contractual life for the unvested restricted stock units as at 30 June 2009 is 2.76 years (2008: 3.51 years).

(e) Range of exercise price

Share Option Scheme

The range of exercise prices for options outstanding at the end of the year was US\$9.16 – US\$21.84 (2008: US\$9.16 – US\$21.84).

Notes to the Financial Statements

For the year ended 30 June 2008

18. Share based payments (continued)

(f) Weighted average fair value

Share Option Scheme

No share options were granted during the year ended 30 June 2009 (2008: nil).

Restricted Stock Units (RSU) Scheme

Restricted stock units granted during the year ended 30 June 2009 had a weighted average fair value of \$5.42 (2008: \$19.65)

(g) Option pricing model

No share options were granted during the year ended 30 June 2009 (2008: nil). When granted the fair value of the equity settled share options granted is estimated using the Black-Scholes model

	2009	2008
	\$	\$
<hr/>		
19. Commitments		
Lease expenditure commitments		
<i>Operating leases (non cancellable)</i>		
Not later than one year	317,057	316,213
Later than one year and not later than five years	677,660	959,051
Later than 5 years	-	35,666
	<hr/>	<hr/>
Aggregate lease expenditure contracted for at balance sheet date	994,717	1,310,930
	<hr/>	<hr/>

20. Events after the balance sheet date

On the 20 April 2009, Oracle Corporation (Oracle) and Sun Microsystems Inc. (Sun) entered into a definitive agreement for Oracle to acquire 100% of the shares of Sun. Sun Microsystems Inc. is the ultimate parent entity of Sun Microsystems (NZ) Limited.

Sun's stockholders approved the transaction on 16 July 2009. The U.S. Department of Justice approved Oracle's proposed acquisition of Sun on 20 August 2009. The acquisition is now pending approval from the European Commission and is expected to be finalised during the year ending 30 June 2010.

Apart from the proposed Oracle acquisition, no matter, item, transaction or event of a material or unusual nature has occurred between 30 June 2009 and the date of this report that, in the opinion of the directors of the Company, has or may significantly affect the operations of the entity, the date and the results of those operations, or the state of affairs of the entity at year end or in future financial years.

Notes to the Financial Statements

For the year ended 30 June 2009

	2009	2008
	\$	\$

21. Auditors' remuneration

The auditor of Sun Microsystems (NZ) Limited is Ernst & Young.

Amounts received or due and receivable by auditors for:

Auditing accounts	10,000	10,000
Other services	-	-
	<u>10,000</u>	<u>10,000</u>

Auditor's Report

To the Shareholders of Sun Microsystems (NZ) Limited

We have audited the financial statements on pages 5 to 27. The financial statements provide information about the past financial performance of the company and its financial position as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 8 to 13. This report is made solely to the company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Directors' Responsibilities

The directors are responsible for the preparation of financial statements which comply with generally accepted accounting practice in New Zealand and give a true and fair view of the financial position of the company as at 30 June 2009 and of its financial performance for the year ended on that date.

Auditor's Responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the directors and report our opinion to you.

Basis of Opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the directors in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with generally accepted auditing standards in New Zealand. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Other than in our capacity as auditor we have no relationship with, or interest in, the company.

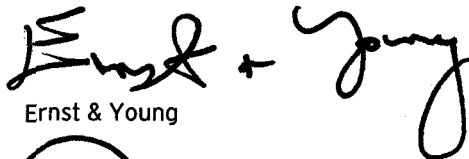
Unqualified Opinion

We have obtained all the information and explanations we have required.


In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records; and
- the financial statements on pages 5 to 27:
 - comply with generally accepted accounting practice in New Zealand; and
 - give a true and fair view of the financial position of the company as at 30 June 2009 and its financial performance for the year ended on that date.

Our audit was completed on 10 December 2009 and our unqualified opinion is expressed as at that date.



Ernst & Young



David Simmonds
Partner

Sydney

10 December 2009

10 December 2009

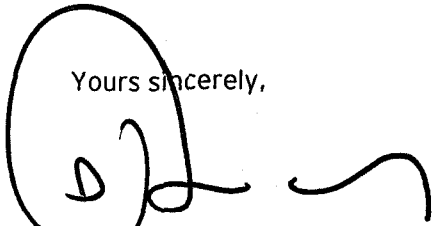
Registrar of Companies
PO Box 5771
Auckland

Dear Sir

I, David Simmonds of Ernst & Young (Sydney, Australia) am a member of the Institute of Chartered Accountants in Australia (ICAA) and my membership no. is 258545.

Our firm was responsible for the audit of Sun Microsystems (NZ) Limited and I was the signing partner on that engagement.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'D. Simmonds', written over a large, hand-drawn oval.

David Simmonds
Partner
Ernst & Young