Annual Financial Report (in AUD)

2012

APNIC

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Statement of Financial Position

	Year-End 2012	% of Total	Year-End 2011	% change from 31/12/2011
CURRENT ASSETS				
Cash/ Term deposits	14,496,780	58%	**9,048,267**	60%
Receivables	933,777	4%	**1,077,330**	-13%
Others	536,268	2%	**604,933**	-11%
TOTAL CURRENT ASSETS	**15,966,824**	**63%**	**10,730,530**	**49%**
NON-CURRENT ASSETS				
Other financial assets	1,150,123	5%	**986,920**	17%
Property, plant and equipment	8,012,422	32%	**8,436,968**	-5%
Deferred tax assets/ liabilities	78,492	0%	**60,985**	29%
TOTAL NON-CURRENT ASSETS	**9,241,036**	**37%**	**9,484,874**	**-3%**
TOTAL ASSETS	**25,207,861**	**100%**	**20,215,404**	**25%**
CURRENT LIABILITIES				
Payables	1,685,736	7%	**445,677**	278%
Provisions	1,145,960	5%	**1,190,748**	-4%
Unearned revenue	7,567,408	30%	**7,171,080**	6%
TOTAL LIABILITIES	**10,399,104**	**41%**	**8,807,506**	**18%**
EQUITY				
Share capital	1.00	0%	**1.00**	0%
Reserves other financial assets investment *	107,535	0%	**(43,085)**	350%
Retained earnings	14,701,221	58%	**11,450,982**	28%
TOTAL EQUITY	**14,808,757**	**59%**	**11,407,898**	**30%**
TOTAL LIABILITIES & EQUITY	**25,207,861**	**100%**	**20,215,404**	**25%**

Note:

* Reserves on other financial assets investment – This balance is due to the revaluation of our investment in unit trusts and is based on the market valuation as at the end of December 2012. These investments are re-valued on a quarterly basis.

Notes to the 2012 Balance Sheet

The total asset position for APNIC as at the end of December 2012 has increased by 25% when compared to the position at the end of 2011. The major factors causing the variance are:

- Cash – the increase is due to the continued growth in revenue and the ongoing expense savings resulting from the building acquisition. Cash includes amounts held in the operating account and short-term deposits of up to 12 months.
- Payables – the increase is due to the receipt of the grant funds related to the Seed Alliance Project that are yet to be paid out to grant recipients.

Statement of Income

Expenses

These reports include the final audited accounts for the year ended December 2012. The full year 2012 figures are compared to the figures for the same period for 2011 and the approved budget for 2012.

EXPENSES (AUD)	2012	2011	Variance %	Budget 2012	*Budget Variation*	*Budget Variation %*
Bank charges	**132,080**	102,974	28%	***116,000***	*16,080*	*14%*
Communication expenses	**440,762**	385,819	14%	***444,768***	*(4,006)*	*-1%*
Computer expenses *	**551,362**	397,535	39%	***573,812***	*(22,450)*	*-4%*
Depreciation expense *	**816,998**	875,273	-7%	***900,000***	*(83,002)*	*-9%*
Doubtful debt expenses	**27,099**	12,808	112%	***25,000***	*2,099*	*8%*
ICANN contract fee	**321,655**	284,889	13%	***310,000***	*11,655*	*4%*
Income tax expense *	**(17,506)**	(74,074)	-76%	***150,000***	*(167,506)*	*-112%*
Insurance expense	**126,673**	120,236	5%	***128,600***	*(1,927)*	*-1%*
Meeting and training expenses*	**191,561**	398,014	-52%	***490,400***	*(298,839)*	*-61%*
Membership fees	**68,392**	54,261	26%	***70,400***	*(2,008)*	*-3%*
Miscellaneous expenses	**3**	1,695	-100%	***1,000***	*(997)*	*-100%*
Office operating expenses *	**249,930**	275,653	-9%	***239,445***	*10,485*	*4%*
Postage & delivery	**28,493**	32,842	-13%	***34,500***	*(6,007)*	*-17%*
Printing & photocopy *	**38,115**	37,515	2%	***67,600***	*(29,485)*	*-44%*
Professional fees *	**939,882**	605,124	55%	***900,350***	*39,532*	*4%*
Recruitment expense	**99,574**	123,485	-19%	***101,000***	*(1,426)*	*-1%*
Rent and Outgoings *	**(12,562)**	28,133	-145%		*(12,562)*	*0%*
Salaries and personnel expenses *	**8,145,433**	7,203,720	13%	***8,245,603***	*(100,170)*	*-1%*
Sponsorship and Publicity expenses *	**270,696**	293,035	-8%	***346,000***	*(75,304)*	*-22%*
Staff training/conference expenses	**151,386**	107,752	40%	***159,313***	*(7,927)*	*-5%*
Translation expenses	**11,928**	10,297	16%	***15,000***	*(3,072)*	*-20%*
Travel expenses *	**1,822,239**	1,576,246	16%	***2,412,358***	*(590,119)*	*-24%*
TOTAL EXPENSES	**14,404,193**	**12,853,232**	**12%**	***15,731,149***	***(1,326,956)***	***-8%***

Revenue

REVENUE (AUD)	2012	2011	Variance %	Budget 2012	*Budget Variation*	*Budget Variation %*
IP Resource application fees *	**2,232,250**	1,530,500	46%	***989,103***	*1,243,147*	*126%*
Interest income *	**583,052**	395,591	47%	***412,000***	*171,052*	*42%*
Membership fees	**14,361,213**	12,968,291	11%	***13,952,067***	*409,146*	*3%*
Non-members fees	**227,966**	198,425	15%	***219,069***	*8,896*	*4%*
Reactivation and Transfer fees*	**54,816**	25,200	118%	***27,390***	*27,426*	*100%*
Sundry income *	**199,063**	298,657	-33%	***858,907***	*(659,844)*	*-77%*
Foreign exchange gain/(loss)	**(3,929)**	**57**	-6998%	***0***	*(3,929)*	*0%*
TOTAL REVENUE	**17,654,431**	**15,416,721**	**15%**	***16,458,536***	***1,195,895***	***7%***

Operating Surplus/ Deficit

REVENUE and EXPENSES (AUD)	2012	2011	Variance %	Budget 2012	*Budget Variation*	*Budget Variation %*
Total Revenue	**17,654,431**	15,416,721	15%	**16,458,536**	*1,195,895*	*7%*
Total Expenses	**14,404,193**	12,853,232	12%	**15,731,149**	*(1,326,956)*	*-8%*
OPERATING SURPLUS/(DEFICIT)	**3,250,239**	**2,563,490**	**27%**	**727,387**	***2,522,851***	***347%***

Notes on the Statement of Income

The major factors causing the variance between the actual and budget are related to the increased growth in Member revenue, predominately increased activity in new membership and an increase in the revenue from initial resource application fees. The majority of planned initiatives for cost recovery training were not completed in 2012, so income and expenses related to this initiative is minimal in 2012. Further details on variations include:

(1) **Expenses**

- **Computer Expenses** – There are a number of computer related expenses that were planned for 2012 that were not incurred due to deferral of some projects, and pausing other projects pending analysis of further options.
- **Depreciation Expenses** – Due to the deferral of Capital Expenditure planned for 2012, the Depreciation expenses were less than budgeted.
- **Income Tax Expenses –** APNIC received a deferred tax credit relating to the tax effect of the allocation of expenses between Member and Non Member based on the mutuality principle. Income tax expenses were forecast at around $47k, but actuals ended up being a credit of $18K
- **Meeting & Training Expenses** – Meeting and training expenses are significantly below budget. The budget included an allowance for $120k for catering and venue expenses for the planned increase in training activities that were largely unspent. Actual costs of catering, venue and equipment hire for the APNIC meetings were much lower than budgeted.
- **Office Operating Expenses** – Expenditure on maintenance for the office planned for December was deferred until 2013.
- **Printing and Photocopy** – Due to staffing changes in 2012 some costs originally associated with staff activity, including office signage, were contracted out, and the costs were accounted as Professional Fees.
- **Professional Fees** – There have been a number of changes during 2012 relating to professional fees. We have engaged contracted services for communications and graphic design, components of which were not included in APNIC's Operational Plan at the start of the year. A revised event management system and a new office VOIP system have been deferred pending further analysis. The APNIC History Project and the CRM were not completed in 2012, as originally forecast. Planned expenditure for R&D initiatives in cooperation with the RIPE NCC, as reported in the November 2012 Financial Report, was unable to proceed in 2012.
- **Rent and outgoings** – The lease commitment for the Milton office was finalised by end of 2012. The final costs to complete the lease surrender were less than the provision made in 2010.
- **Salaries and personnel expenses** – Total expenditure on salary and wages was closely aligned to the 2012 budget forecast.

- **Sponsorship and Publicity Expenses** – Contribution for the IGF meeting was lower than budgeted. Other savings in Gifts/Promotional material for APNIC meetings and other events were realized through the year
- **Travel Expenses** in the budget included an annual amount of $593k relating to cost recovery training; this initiative has not been significantly implemented in 2012. Final costs for 2012 were around $100k below the revised forecast provided in the November 2012 Financial Report, as travel activity reduced sharply in December.

(2) **Revenue**

- **IP Resource application fees** – Growth in new membership in 2012 has been strong, resulting in a variance of $1.2M when compared to the budget.
- **Interest Income** – The increased cash flow from the growth of Member Income and strong returns for cash investments has resulted in higher than anticipated Interest income.
- **Membership Fees** – Increasing growth in membership has resulted in a positive variance to budget of around $400k. During 2012, APNIC's membership growth exceeded the conservative estimates used in the budget submission.
- **Reactivation and Transfer Fees** – Transfer fees for 2012 amounted to $11.6k, while the original estimates for 2012 were approximately $30k.
- **Sundry Income** in the budget included an amount of $593k relating to cost recovery training income; very little income for this initiative has been incurred during 2012.

APNIC Reserve

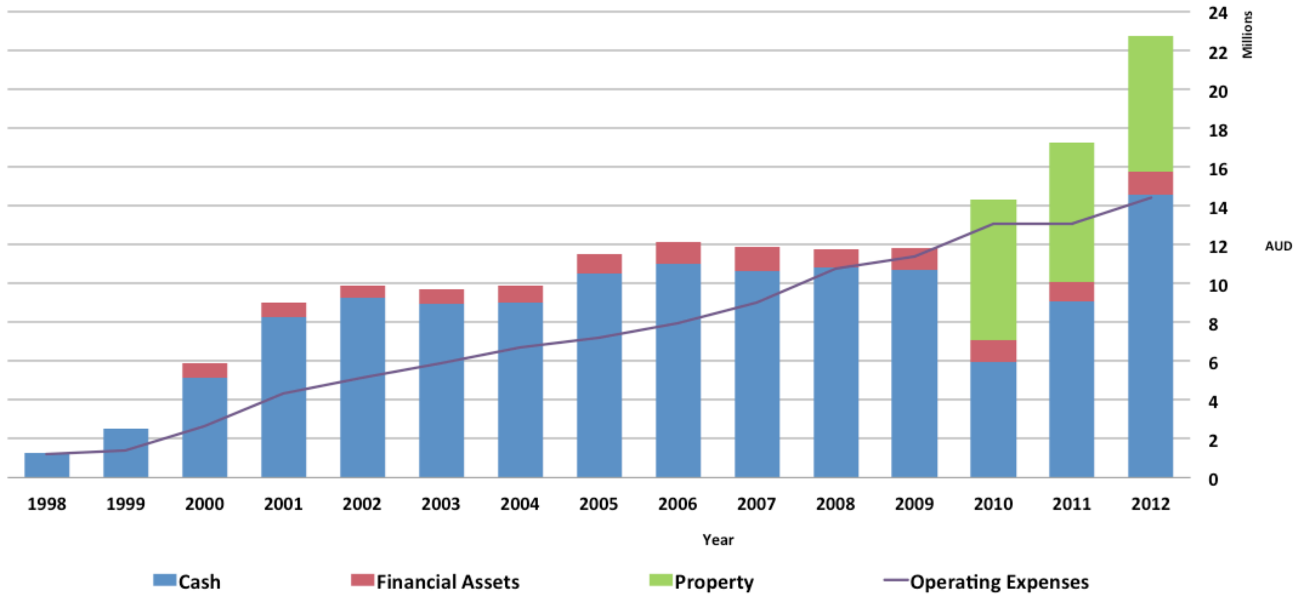
Cash Flow Statement

This report shows the draft cash flow status for the year as at the end of December.

Accounts	Amount
Operating Activities	
Net Income	3,250,239
Adjustments to Profit/(Loss)	
Accounts Receivable	130,383
Other Current Asset	57,638
Accounts Payable	(48,755)
Sales Tax Payable	(9,813)
Other Current Liabilities	1,635,147
Total Adjustments to Profit/(Loss)	**1,764,599**
Total Operating Activities	**5,014,838**
Investing Activities	
Fixed Asset	424,546
Other Asset	(163,202)
Total Investing Activities	**261,344**
Financing Activities	
Long Term Liabilities	21,706
Other Equity	150,620
Total Financing Activities	**172,326**
Net Change in Cash for Period	**5,448,508**
Cash at Beginning of Period	**9,048,272**
Cash at End of Period	**14,496,780**

APNIC Capital Reserve

The APNIC Reserve is continuously diversified between Cash Investments, Managed Funds, and Property (APNIC Office). At the end of December, APNIC held $14m in cash reserves, $1m in managed fund investments, and $7m was invested in the APNIC Property. The following chart tracks the value and the allocation of these reserves over time and also tracks the operating expenses for each year for comparison:



Membership

Membership Statistics

At the end of December 2012, APNIC had a total of 3,593 Members serving 52 economies.

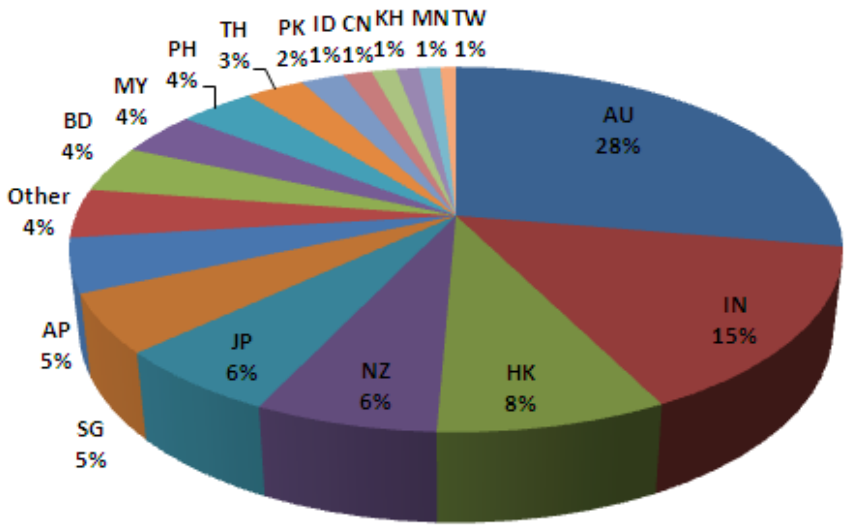
Membership by Category

The table below provides progressive membership data and the percentage in each membership category for the total membership from the year 2006 to 2012. This table shows that strong membership growth has continued in 2012, averaging 54 new members each month.

Membership	2006	2007	2008	2009	2010	2011	2012
Extra Large	9	9	12	13	16	21	**20**
Very Large	21	27	30	31	33	41	**45**
Large	70	77	92	106	141	145	**144**
Medium	210	231	251	276	324	378	**402**
Small	658	765	813	823	867	970	**1114**
Very Small	261	304	345	472	637	817	**1021**
Associate	133	171	312	449	503	575	**847**
TOTAL	**1362**	**1584**	**1855**	**2170**	**2521**	**2947**	**3593**
New	298	349	443	478	507	615	**891**
Close	93	127	172	163	156	189	**245**
Net Gain	**205**	**222**	**271**	**315**	**351**	**426**	**646**
Average Monthly Net Gain	17	19	23	26	29	36	**54**

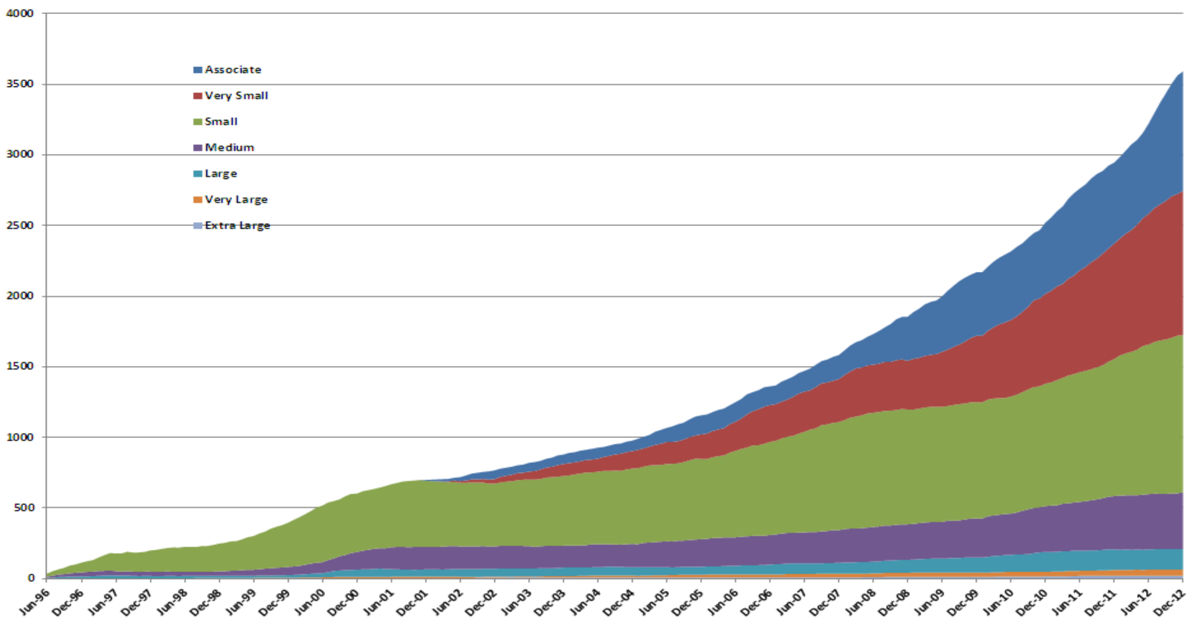
Membership by Economy

The following chart illustrates the APNIC membership distribution by economy.



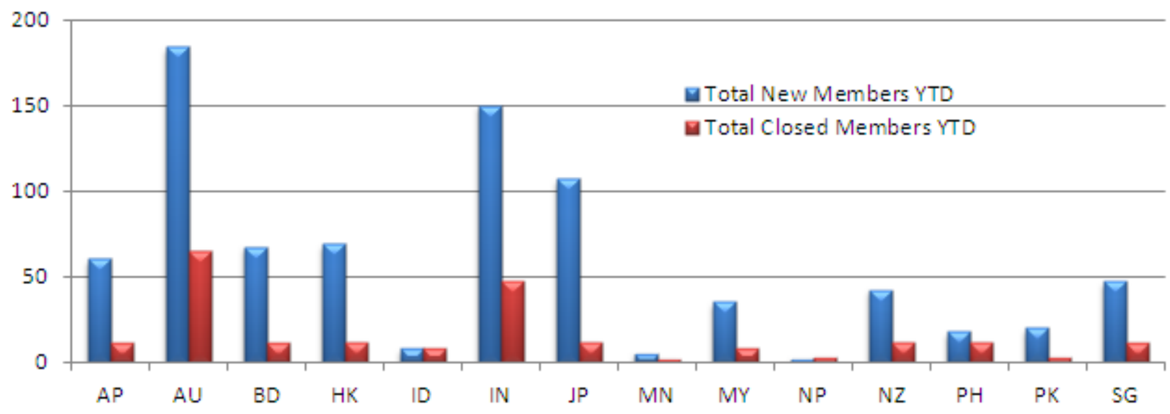
Membership Growth

Graph below illustrates APNIC membership growth in various tiers.

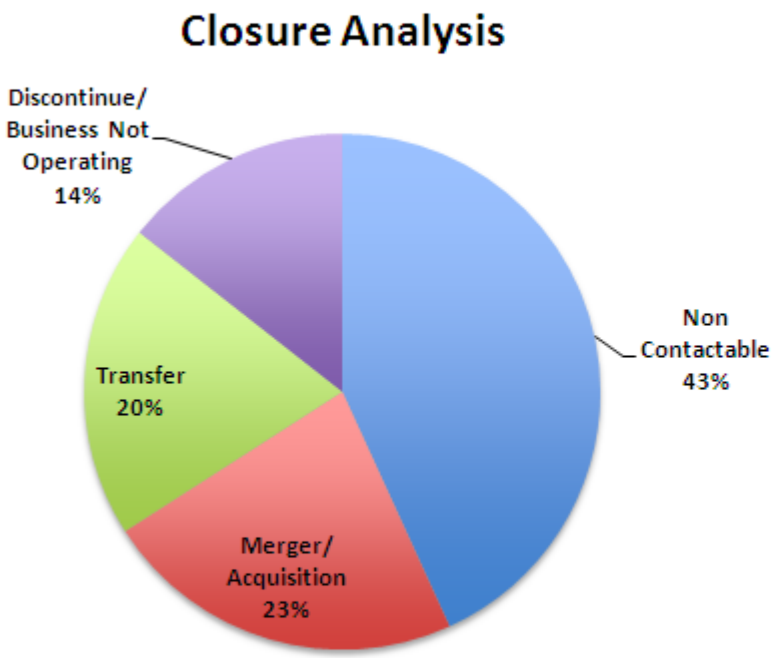


Year-to-Date Membership Movement by Economy

The graph below illustrates new and closed membership movement by economy in 2012. Australia has the highest in new and closed Members.



The chart below gives analysis for the accounts closure. The majority of the closures are due to non-contactable overdue accounts. 57% of the accounts closures are where resource holding are returned to APNIC.


Closure Analysis
Discontinue/ Business Not Operating 14%
Non Contactable 43%
Transfer 20%
Merger/ Acquisition 23%

APNIC Pty Ltd
ABN: 42 081 528 010

Special Purpose Financial Report
31 December 2012

DIRECTOR'S REPORT

Your director presents his report on the Company for the year ended 31 December 2012.

Director
The following person was a director of APNIC Pty Ltd during the whole of the financial year and up to the date of this report:

Paul Byron Wilson

Principal activities
The Company's principal activity during the year was to act as a non-profit internet registry organisation for the Asia-Pacific region.

There were no significant changes in the nature of the activities of the Company during the year.

Dividends - APNIC Pty Ltd
The Company does not pay or declare dividends due to its non-profit status as determined by its constituent documents.

Review of operations
The operating profit after income tax amounted to $3,250,240 (2011: $2,563,488).

Significant changes in the state of affairs
There were no significant changes in the state of affairs of the Company during the financial year ended 31 December 2012.

Matters subsequent to the end of the financial year
There have been no matters of significance subsequent to the end of the year.

Likely developments and expected results of operations
Information on likely developments in the company's operations and the expected results of operations have not been included in this report because the director believes it would be likely to result in unreasonable prejudice to the company.

Environmental regulation
The Company is not subject to significant environmental regulation.

Shares under option
No shares of APNIC Pty Ltd were issued under option at the date of this report.

Insurance of officers
During the financial year, the Company paid a premium of $23,800 (2011: $23,800) to insure the director, officeholders (including executive council) and staff of the Company.

The liabilities insured are costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company.

Proceedings on behalf of the company
No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 3.

Paul Byron Wilson
Director

8 February 2013

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Auditor's Independence Declaration to the Director of APNIC Pty Ltd

In relation to our audit of the financial report of APNIC Pty Ltd for the financial year ended 31 December 2012 to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Ric Roach
Partner
8 February 2013

Liability limited by a scheme approved
under Professional Standards Legislation

APNIC Pty Ltd

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	*2012* *$*	*2011* *$*
Revenue from continuing operations	2	17,134,213	15,142,717
Other income	3	595,635	416,085
Expenses			
Net foreign exchange (loss)/gain		(3,929)	57
Communications and meeting expenses		(591,889)	(739,960)
Computer expenses		(551,362)	(397,535)
Contributions to ICANN		(321,655)	(284,889)
Depreciation expense		(816,998)	(875,274)
Employee benefits expense		(8,296,820)	(7,434,958)
Insurance		(126,673)	(120,236)
(Loss)/gain on disposal of fixed assets		(3,258)	1,087
Membership fees		(67,357)	(54,261)
Occupancy expenses		(303,197)	(250,351)
Professional fees		(939,882)	(605,124)
Travel expenses		(1,822,239)	(1,576,246)
Other expenses		(651,855)	(731,698)
Profit before income tax		3,232,734	2,489,414
Income tax benefit		17,506	74,074
Profit from continuing operations	15(b)	**3,250,240**	**2,563,488**
Other comprehensive income			
Net fair value gain/(loss) on available for sale financial assets	15(a)	150,620	(171,088)
Other comprehensive income for the year, net of tax		150,620	(171,088)
Total comprehensive income for the year		**3,400,860**	**2,392,400**
Total comprehensive income attributed to APNIC Pty Ltd		**3,400,860**	**2,392,400**

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

APNIC Pty Ltd

Statement of Financial Position

AS AT 31 DECEMBER 2012

	Notes	2012 $	2011 $
ASSETS			
Current assets			
Cash and cash equivalents	4(a)	614,385	677,044
Short-term deposits	4(b)	12,978,745	8,371,223
Restricted cash	5	903,650	-
Trade and other receivables	6	933,777	1,077,330
Current tax receivables		48,892	112,811
Other current assets	7	536,267	604,932
Total current assets		16,015,716	10,843,340
Non-current assets			
Property, plant and equipment	9	8,012,422	8,436,968
Deferred tax assets		128,071	103,877
Available-for-sale financial assets	8	1,150,123	986,920
Total non-current assets		9,290,616	9,527,765
Total assets		25,306,332	20,371,105
LIABILITIES			
Current liabilities			
Trade and other payables	10	1,456,080	333,850
Unearned income	12	7,652,440	7,171,037
Provisions	11	1,157,245	1,200,280
Total current liabilities		10,265,765	8,705,167
Non-current liabilities			
Provisions	13	182,231	215,149
Deferred tax liabilities		49,579	42,892
Total non-current liabilities		231,810	258,041
Total liabilities		10,497,575	8,963,208
Net Assets		14,808,757	11,407,897
Equity			
Contributed equity	14	1	1
Reserves	15(a)	107,535	(43,085)
Retained profits	15(b)	14,701,221	11,450,981
Total equity		14,808,757	11,407,897

The above statement of financial position should be read in conjunction with the accompanying notes.

APNIC Pty Ltd

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2012

	2012 *$*	*2011* *$*
Total equity at the beginning of the financial year	11,407,897	9,015,497
Changes in the fair value of available-for-sale financial assets, net of tax	150,620	(171,088)
Profit for the year	3,250,240	2,563,488
Total recognised income and expense for the year	3,400,860	2,392,400
Total equity at the end of the financial year	**14,808,757**	11,407,897

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

APNIC Pty Ltd

Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2012

	Notes	*2012* *$*	*2011* *$*
Cash flows from operating activities			
Receipts from customers		19,366,814	16,282,229
Payments to suppliers and employees		(15,051,949)	(12,738,321)
Interest received		560,701	324,020
Income tax received		64,006	213,744
Net cash inflow from operating activities	18	4,939,572	4,081,672
Cash flows from investing activities			
Placements of short-term deposits		(4,607,522)	(3,332,341)
Payments for property, plant and equipment		(398,143)	(921,439)
Proceeds from sale of property, plant and equipment		2,434	940
Net cash outflow from investing activities		(5,003,231)	(4,252,840)
Net decrease in cash and cash equivalents		(63,659)	(171,168)
Cash and cash equivalents at beginning of year		677,044	848,076
Effects of exchange rate changes on cash and cash equivalents		1,000	136
Cash and cash equivalents at end of year	4(a)	614,385	677,044

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

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report was authorised for issue by a director's resolution dated 8 February 2013.

(a) Basis of preparation

In the director's opinion, the Company is not a reporting entity because there are no users dependent on general purpose financial reports.

This is a special purpose financial report that has been prepared at the request of the Executive Council for the interest of APNIC members and to comply with the *Corporations Act 2001* requirements to prepare and distribute a financial report to the members and must not be used for any other purpose. The director has determined that the accounting policies adopted are appropriate to meet the needs of the members.

The requirements of Accounting Standards and other financial reporting requirements in Australia do not have mandatory applicability to APNIC Pty Ltd because it is not a "reporting entity". However, the director has determined that in order for the financial report to give a true and fair view of the company's performance, cash flows and financial position, the requirements of Accounting Standards and other professional reporting requirements relating in Australia to the measurement and recognition of assets, liabilities, revenues, expenses and equity should be complied with.

Accordingly, the director has prepared the financial report in accordance with Accounting Standards and other professional reporting requirements in Australia with the following exceptions in relation to disclosures:

AASB 7	Financial Instruments: Disclosures;
AASB 112	Income Taxes;
AASB 116	Property, Plant and Equipment;
AASB 124	Related Party Disclosures;
AASB 132	Financial Instruments: Presentation;
AASB 136	Impairment of Assets; and
AASB 137	Provisions, Contingent Liabilities and Contingent Assets.

The financial report is prepared on a going concern basis in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

(b) Foreign currency translation

(i) Functional and presentation currency
The financial statements are presented in Australian dollars, which is APNIC Pty Ltd's functional and presentation currency.

(ii) Transactions and balances
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 statement of comprehensive income, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Revenue is recognised for the major business activities as follows:

(i) Member fees
Member fees are recognised on an accrual basis over the period of membership.

(ii) Interest Income
Interest income is recognised as control of a right to receive consideration for the provision of, or investment in, assets has been attained.

(d) Income tax

The income tax expense or benefit for the period is the tax payable on the current period's taxable income based on the national income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is recognised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to recognise those temporary differences and losses.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to recognised the asset and settle the liability simultaneously.

(e) Cash and cash equivalents

For cash flow statement presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

(f) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

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 the company 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 recognised, 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 statement of comprehensive income in other expenses.

(g) Impairment of assets

Assets 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.

Notes to the Financial Statements

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Investments and other financial assets

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

The units in the managed investment funds are classified as "available-for-sale" financial assets and are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the statement of comprehensive income as gains and losses from investment securities.

Fair value

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Impairment

The Company assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists 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 the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments classified as available-for-sale are not reversed through the statement of comprehensive income.

(i) Property, plant and equipment

Acquisition

Items of property, plant and equipment are recorded at cost.

Property related assets include land, buildings, fixtures & fittings, furniture and office equipment.

Depreciation

Items of property, plant and equipment acquired prior to 1 January 2000 are depreciated over their estimated useful lives.

Plant and equipment	20 – 40%	reducing balance
Office furniture and fittings	20 – 50%	reducing balance
Computer equipment	20 – 40%	reducing balance

APNIC assets acquired after 1 January 2000 are depreciated on a straight line basis over their expected useful life, as follows:

Plant and equipment	5 – 40%
Office furniture and fittings	5 – 20%
Buildings	2.5%
Computer equipment	5 – 40%

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income. When revalued assets are sold, it is company policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(j) Trade and other payables

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

Notes to the Financial Statements

(k) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, bonus, annual leave, time of in lieu and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date 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 reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Notes to the Financial Statements

		2012 $	2011 $
2	**REVENUE**		
	Membership fees	14,361,213	12,968,291
	Non-membership fees	227,966	198,425
	IP resource application fees	2,232,250	1,530,500
	Member reactivation fees	43,200	16,200
	Non-member reactivation fees	-	9,000
	Other revenue	269,584	420,301
		17,134,213	15,142,717
3	**OTHER INCOME**		
	Interest	583,053	395,591
	Investment distribution income	12,582	20,494
		595,635	416,085
4	**CURRENT ASSETS – CASH AND SHORT TERM DEPOSITS**		
(a)	**Cash and cash equivalents**		
	Petty cash	400	400
	Cash in bank	613,985	676,644
	Total	614,385	677,044
(b)	**Short-term deposits**	12,978,745	8,371,223

Cash and cash equivalents have a term of three months or less, while short-term deposits have maturities ranging from 6 months to a year.

		2012 $	2011 $
5	**CURRENT ASSETS – RESTRICTED CASH**		
	Restricted cash in bank	903,650	-

Restricted cash in bank represents grant monies that the company is expected to award to grantees under the Seed Alliance program (refer also to Note 10).

		2012 $	2011 $
6	**CURRENT ASSETS - TRADE AND OTHER RECEIVABLES**		
	Trade receivables	959,617	1,090,000
	Provision for doubtful receivables	(25,840)	(12,670)
		933,777	1,077,330
7	**CURRENT ASSETS – OTHER CURRENT ASSETS**		
	Prepayments	351,199	316,832
	Interest receivable	164,848	142,496
	Prepaid taxes	18,343	18,430
	Deposits	1,872	42,985
	Sundry receivables	-	84,184
	Other assets	5	5
		536,267	604,932

Notes to the Financial Statements

	2012 $	2011 $
8 NON-CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS		
Units in managed investment funds - at fair value	1,150,123	986,920

9 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Computer equipment $	Property Related Assets $	Total $
Year ended 31 December 2011			
Opening net book amount	1,163,651	7,227,005	8,390,656
Additions	641,541	282,718	924,259
Disposals	(2,071)	(602)	(2,673)
Depreciation	(633,682)	(241,592)	(875,274)
Closing net book amount	1,169,439	7,267,529	8,436,968
At 31 December 2011			
Cost	4,441,114	7,670,418	12,111,532
Accumulated depreciation	(3,271,675)	(402,889)	(3,674,564)
Net book amount	1,169,439	7,267,529	8,436,968
Year Ended 31 December 2012			
Opening net book amount	1,169,439	7,267,529	8,436,968
Additions	337,479	60,664	398,143
Disposals	(1,703)	(3,988)	(5,691)
Depreciation	(588,921)	(228,077)	(816,998)
Closing net book amount	916,294	7,096,128	8,012,422
At 31 December 2012			
Cost	4,396,771	7,715,511	12,112,282
Accumulated depreciation	(3,480,477)	(619,383)	(4,099,860)
Net book amount	916,294	7,096,128	8,012,422

Notes to the Financial Statements

	2012 $	2011 $
10 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES		
Grants payable	903,650	-
Trade payables	214,944	165,808
Accrued expenses	322,209	142,952
Goods and services tax (GST) payable – net	15,277	25,090
	1,456,080	333,850

Grants payable pertains to grant monies that the company is expected to award to grantees under the Seed Alliance program (refer also to Note 5).

11 CURRENT LIABILITIES – PROVISIONS

	2012 $	2011 $
Employee benefits – annual leave	540,989	424,791
Employee benefits – long service leave	430,862	366,982
Employee benefits – Bonus provision	144,624	111,870
Employee benefits – Time in lieu leave	40,770	35,719
Onerous lease	-	198,886
Make good provision	-	62,032
	1,157,245	1,200,280

The onerous lease provision comprises the operating lease payments of the previous office space which are considered as onerous by the director. The operating lease was discharged in 2012.

12 CURRENT LIABILITIES – UNEARNED INCOME

	2012 $	2011 $
Unearned membership fees	7,567,407	7,171,080
Deferred grant revenue	85,033	(43)
	7,652,440	7,171,037

13 NON-CURRENT LIABILITIES – PROVISIONS

	2012 $	2011 $
Employee benefits – long service leave	182,231	160,525
Onerous lease	-	54,624
	182,231	215,149

	2012 No. of Shares	2011 No. of Shares	2012 $	2011 $
14 CONTRIBUTED EQUITY				
Fully paid share capital	1	1	1	1

Notes to the Financial Statements

		2012 $	2011 $
15	**RESERVES AND RETAINED PROFITS**		
(a)	**Reserves**		
	Available-for-sale financial asset revaluation reserve	107,535	(43,085)
	Movements in available-for-sale financial asset revaluation reserve were as follows::		
	Balance 1 January	(43,085)	128,003
	Fair value gain/(loss), net of tax	150,620	(171,088)
	Balance 31 December	107,535	(43,085)
(b)	**Retained profits**		
	Movements in retained profits were as follows:		
	Balance at 1 January	11,450,981	8,887,493
	Net profit for the year	3,250,240	2,563,488
	Balance at 31 December	14,701,221	11,450,981

		2012 $	2011 $
16	**REMUNERATION OF AUDITORS**		
	Amounts received or due and receivable by Ernst & Young		
	Audit of financial reports and other audit work under the *Corporations Act 2001*	32,500	31,500
	Other services	-	-
	Total remuneration for assurance services	32,500	31,500

		2012 $	2011 $
17	**COMMITMENTS AND CONTINGENCIES**		
(a)	**Operating leases**		
	Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
	Within one year	-	198,886
	Later than one year but not later than five years	-	54,624
		-	253,510

The operating lease commitment covering the previous office space has been recognised as an onerous contract in the prior year (refer note 11 and 13). The lease agreement was discharged in 2012.

Notes to the Financial Statements

18 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOWS FROM OPERATING ACTIVITIES

	2012 $	2011 $
Profit after tax for the year	3,250,240	2,563,488
Depreciation and amortisation	816,998	875,274
Loss (gain) on disposal of property, plant and equipment	3,258	(1,087)
Investment distribution income	(12,582)	(20,494)
Net exchange differences affecting cash and cash equivalents	(1,000)	(136)
Change in operating assets and liabilities:		
(Increase)/Decrease in restricted cash	(903,650)	66,891
(Increase)/Decrease in trade and other debtors	143,553	(11,436)
(Increase)/Decrease in interest receivables	(22,352)	(71,571)
(Increase)/Decrease in deposits and prepayments	90,930	(106,213)
Increase/(Decrease) in trade and other creditors	1,266,896	(82,456)
Increase/(Decrease) in provision for onerous contract	(253,510)	(476,375)
Increase/(Decrease) in unearned income	481,359	1,096,866
Increase/(Decrease) in provision for employee entitlements	32,933	109,251
(Increase)/Decrease in deferred tax assets	(24,194)	(95,609)
(Increase)/Decrease in prepaid taxes	87	224,565
Increase/(Decrease) in income tax payable	63,919	(10,821)
Increase/(Decrease) in deferred tax liabilities	6,687	21,535
Net cash inflows from operating activities	4,939,572	4,081,672

19 SUBSEQUENT EVENTS

There were no subsequent events that occurred after 31 December 2012 up to the date of this report.

Director's Declaration

In accordance with a resolution of the director of APNIC Pty Ltd, I state that:

In the opinion of the director:

(a) the financial statements and notes of the company are 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 2012 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards to the extent set out in Note 1 and Corporations Regulations 2001; 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.

Paul Byron Wilson
Director

Brisbane
8 February 2013

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

We have audited the accompanying financial report, being a special purpose financial report of APNIC Pty Ltd, which comprises the statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and cash flows statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Director's responsibility for the financial report

The director of the company is responsible for the preparation of the financial report and has determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members.

The director's responsibility also includes such internal controls as the director determines are necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, 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 controls relevant to the entity's preparation of the financial report that gives a true and fair view 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the director, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the director of the company a written Auditor's Independence Declaration, a copy of which is included in the director's report.

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Opinion

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

a. giving a true and fair view of the company's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

b. complying with Australian Accounting Standards to the extent described in Note 1, and the *Corporations Regulations 2001*.

Basis of accounting

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the director's financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.

Ernst & Young

Ernst & Young

Ric Roach
Partner
Brisbane
8 February 2013

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Disclaimer on additional financial information

The additional financial information, being the attached Operating Statement, has been compiled by the management of APNIC Pty Ltd.

No audit or review has been performed by us and accordingly no assurance is expressed.

To the extent permitted by law, we do not accept liability for any loss or damage which any person, other than APNIC Pty Ltd may suffer arising from any negligence on our part. No person should rely on the additional financial information without having an audit or review conducted.

Ernst & Young

Ernst & Young
Brisbane
8 February 2013

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APNIC Pty Ltd

Operating Statement

FOR THE YEAR ENDED 31 DECEMBER

	2012 $	*2011* $
INCOME		
Membership fees	14,361,213	12,968,291
Non-membership fees	227,966	198,425
IP resource application fees	2,232,250	1,530,500
Interest income	583,053	395,591
ISIF grant received	71,487	142,138
Reactivation fees	43,200	16,200
Other revenue	210,679	307,657
Total	17,729,848	15,558,802
Less Expenses		
Administration expenses (refer schedule)	14,497,114	13,069,388
Total expenses	14,497,114	13,069,388
Net Trading Income	3,232,734	2,489,414
INCOME FROM ORDINARY ACTIVITIES BEFORE INCOME TAX	3,232,734	2,489,414

This operating statement does not form part of the audited financial report.

APNIC Pty Ltd

Operating Statement

FOR THE YEAR ENDED 31 DECEMBER

	2012 $	*2011* $
SCHEDULE OF ADMINISTRATION EXPENSES		
Salaries and wages	6,475,343	5,606,394
Travel	1,822,239	1,576,246
Depreciation	816,998	875,274
Superannuation contributions – employees	612,597	543,545
Employees' entitlements	591,674	622,075
Computer costs – other	551,362	397,535
Professional fees – consulting	444,339	333,188
Communication expenses	440,762	385,819
Payroll tax	356,367	325,152
ICANN	321,655	284,889
Professional fees – R&D	249,447	111,759
Staff training	151,386	107,752
Meeting expenses	151,127	354,142
Professional fees – legal	140,707	92,317
Bank charges – general	132,080	102,974
Insurance – other	126,673	120,236
Donations	118,217	138,453
Office expenses	110,572	151,995
Recruitment	99,574	123,485
Gifts and promotions	78,475	69,133
Sponsorship fees	74,005	85,449
Professional fees – accountancy/management	72,889	28,366
ISIF grant expense	71,487	142,138
Membership fees	67,357	54,261
Staff amenities	63,112	56,995
Electricity	52,608	60,180
Printing and stationery	49,112	37,515
Cleaning	39,876	33,188
Fringe benefits tax	36,689	36,861
Deductible entertainment	35,522	29,927
Auditor's remuneration fees	32,500	31,500
Postage	28,493	32,842
Doubtful debts	27,099	12,808
Repairs and maintenance	22,536	14,515
Rent and make good	(12,562)	28,134
Translation expenses	11,928	10,297
Books and periodicals	10,083	17,335
Worker's compensation	9,652	12,697
Equipment hire	4,909	13,945
Foreign exchange loss/gain	3,929	(57)
Loss (gain) on sale of fixed assets	3,258	(1,087)
Administration fees	1,035	1,173
Professional fees – project management	-	7,994
Miscellaneous expenses	3	49
Total expenses	14,497,114	13,069,388

This operating statement does not form part of the audited financial report.

Closing Report to the Executive Council for the Year Ended 31 December 2012

APNIC Pty Ltd

Ernst & Young

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6 February 2013

The Executive Council
APNIC Pty Ltd
6 Cordelia Street
South Brisbane QLD 4001

ATTN: Paul Wilson

Private and confidential

Dear Paul

We have completed our audit of APNIC Pty Ltd ("APNIC" or "the Company") for the year ended 31 December 2012.

Subject to the resolution of the outstanding matters outlined in Section 4, we confirm that we are in a position to issue an unqualified audit opinion on the financial statements in the form that appears in Appendix A.

This report is intended solely for the use of the Executive Council and senior management, and should not be used for any other purpose nor given to any other party without our prior written consent.

We would like to thank your staff for the assistance provided to us during the engagement.

I look forward to the opportunity of discussing with you any aspects of this report or any others issues arising from our work.

Yours faithfully

Ric Roach
Partner

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Overview

Status of the audit

We have completed the audit of the special purpose financial report of APNIC Pty Ltd ("APNIC" or "the Company") for the financial year ended 31 December 2012.

- Our audit was performed in accordance with Australian Auditing Standards in order to provide reasonable assurance that the financial report is free of material misstatement.
- Subject to the resolution of the outstanding matters outlined at Section 4 of this report, we anticipate issuing an unqualified audit opinion (refer Appendix A).
- Materiality was assessed at $170,000, representing approximately 1% of APNIC's revenue for the 2012 financial year.
- Listed in Section 2 are the adjusted audit differences noted during the course of the audit. All differences identified that were assessed as material, have been adjusted by management.
- Ernst & Young's independence has been confirmed by all team members and a draft Auditor's Independence Declaration has been included in this report (refer Appendix B).

Significant accounting and auditing matters

We have identified the following matters for consideration by the Board of Directors prior to adopting the financial report:

- Accounting for revenue recognition;
- Valuation of investment in managed funds;
- Impairment of land and buildings;
- Accounting for taxes; and
- Provision for long service leave.

Please refer to the detailed discussion at Section 1 on each of these matters. We request you review these and other audit and accounting matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues;
- You concur with the resolution of the issues; and
- There are no further significant issues you are aware of to be considered before the financial report is finalised.

Internal control environment

Our review of the company's system of internal controls is carried out to assist us in expressing an opinion on the accounts of APNIC as a whole. This work is not primarily directed towards the discovery of weaknesses or the detection of fraud or other irregularities (other than those which would influence us in forming that opinion) and should not therefore be relied upon to show that no other weaknesses exist.

We note that no issues in relation to the internal control environment have come to our attention to report to you.

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1. Significant areas of audit focus

Our role as auditor requires a thorough assessment of audit risk across APNIC's business. This includes discussion with management, an assessment of prior year issues, remaining abreast of your business and continuously looking forward at changes on the horizon and their impact on the business.

Revenue Recognition

Risks:

- Inappropriate recognition of revenue given fees are generally received from members in advance of the membership period or services being provided.

Summary of Matter:

- APNIC management tracks revenue by member and the period of membership and brings revenue to account over that period. We noted no errors with revenue recognition.
- We have reviewed debtor receipts subsequent to year end and overdue debtors against which management has made provision of $25,840 for non-recovery. We accept management's position that the level of provision appears adequate.

Valuation of Investment in Managed Funds

Risks:

- Inappropriate valuation of investments in accordance with accounting standards.

Summary of Matter:

- APNIC held investments in managed funds aggregating approximately $1.15m as at 31 December 2012. These equity instruments have been classified as available for sale securities in accordance with AASB 139, *Financial Instruments - Recognition and Measurement.*
- The market value of these investments increased by $151k in the current year. The change in market value has been recorded as an increase in the investments account with a corresponding increase to the available for sale investment revaluation reserve account.

EY's Perspective:

- As part of our audit procedures, we confirmed the balances directly with the fund managers who provide the fair value of the investments as at year-end. We relied on the valuation as determined by the fund managers.
- Management has recognised the increase in market value of the available for sale investments in equity. We concur with this treatment.
- We noted that no deferred taxes have been calculated on the revaluation reserve, which had a balance of $107,535 (cr) at year-end. We proposed an adjusting entry to recognise the corresponding deferred tax liability of $32,261.

Impairment of Land and Buildings

Risk:

- A decline in property market conditions could result in the carrying value of land and buildings being in excess of the market value.

Summary of matter:

- Though APNIC management has not obtained any formal valuation of the South Brisbane property, it does not consider there to be any indicators of impairment based on recent sales activity in the surrounding area not indicating any decline in value, various development activity in the surrounding area possibly contributing to increased demand and market value, the land value having increased from $2.1m to $3.0m in the latest Brisbane City Council rates notice, and appropriate depreciation charges having been levied on the building carrying value. Management advises there are no plans to indicate APNIC will not remain in and continue to operate from the premises. We accept management's position that there are no indicators of impairment.

Accounting for Taxes

Risk:

- APNIC applies the mutuality principle in calculating income taxes which effectively results in the majority of APNIC's income and expenditure not being assessable/deductible for income tax. This is a self-assessment process. There is a risk this principle does not continue to apply to APNIC beyond 30 June 2012 and hence the company should account for increased levels of income tax payable.

Summary of matter:

- APNIC received a Private Binding Ruling ("PBR") issued by the ATO confirming that the mutuality principle applied to APNIC for the years ended 30 June 2011 and 2012. KPMG, APNIC's tax advisers, have advised in a letter dated 7 January 2013 "...the PBR only covered the period to 30 June 2012 due to the ATO undertaking a review of the application of the mutuality principle, with the outcome of that review potentially impacting on whether, in the ATO's view, the mutuality principle correctly applied to entities such as APNIC. .. In discussions with the ATO since 30 June 2012, the ATO has confirmed the position that until a new interpretation is issued by the ATO on the application of the mutuality principle, APNIC will have a reasonably arguable position to continue to apply the mutuality principle provided the current factual basis is not materially different to the factual basis on which the earlier PBRs were issued."
- KPMG further states in its letter "...Having regard to the above comments, in our view, it is appropriate for APNIC to apply the mutuality principle, on a self-assessment basis, in calculating its Australian tax obligations in the period post 30 June 2012."
- We are not aware of any changes in factual basis of the APNIC entity or its business.
- We accept management's position to apply the mutuality principle for the period to 31 December 2012 as being a reasonable position based on known facts at this time.

Provision for Employee Long Service Leave

Risk:

- Inappropriate current/non-current classification of long service leave provision.

Summary of matter:

- As at 31 December 2012, APNIC's long service leave provision had a balance of $613k. The current and non-current portion of this provision totalled $465k and $148k, respectively.
- AASB 119 *Employee Benefits* states that an entity is required to recognise a liability when an employee has provided service in exchange for employee benefits to be paid in the future, such as long service leave. Long service leave may fall in one of the following categories:
  - An 'unconditional' legal entitlement to payment arises after a qualifying period of service (i.e., 10 years); accumulation of long service leave entitlement continues after this point, until the leave is taken.
  - A 'conditional' entitlement exists in certain circumstances and a legal entitlement to pro rata payment in lieu of long service leave arises (sometimes only after a qualifying period of service); and,
  - Under a 'pre-conditional' entitlement, no legal entitlement to any payment or leave exists before the accumulation of the period of service necessary to qualify for the entitlement described above.
- For purposes of financial statement presentation, the portion of the long service leave that is unconditional should be presented as current, with the residual balance being presented as non-current.

Audit findings:

- We noted that management calculates the current portion of its long service leave as the total entitlement of all employees with service terms of 9 years and above. Using the convention above, we noted an overstatement in the current portion of long-service leave of around $33k, which is equal to the entitlement of employees who have served between 9 and 10 years. We proposed a reclassification entry to reflect the appropriate amount of current and non-current long service leave provision in the accounts. This balance sheet re-classification has been made by APNIC management.

2. Audit Adjustments

2.1 Summary of adjusted differences

Account	Balance sheet Impact DR/CR $	Income statement impact DR (CR) $
DR Provision for long service leave - current	33,953	
CR Provision for long service leave - non-current	(33,953)	
To adjust current portion of long service leave provision		

2.2 Summary of unadjusted differences

Account	Balance sheet Impact DR/CR $	Income statement impact DR (CR) $
DR Asset revaluation reserve	32,261	
CR Deferred tax liability	(32,261)	
To recognise deferred taxes on the revaluation reserve		

3. Independence

We confirm that we have complied with the *Corporations Act 2001*, and in our professional judgment, the engagement team and the Firm are independent.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Executive Council consider the facts of which you are aware and come to a view. Should you have any specific matters that you wish to discuss, please contact us.

4. Outstanding Items

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

- Update of subsequent events to the date of signing our audit report;
- Board of Directors adoption and signing of the financial statements;
- Receipt of signed management representation letter (due at time of signing the financial statements).

Appendices

Appendix A: Draft Audit Report

Appendix B: Draft Auditor's Independence Declaration

Appendix A Draft Audit Report

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

We have audited the accompanying financial report, being a special purpose financial report of APNIC Pty Ltd, which comprises the statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and cash flows statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Director's responsibility for the financial report

The director of the company is responsible for the preparation of the financial report and has determined that the basis of preparation described in Note 1 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the members.

The director's responsibility also includes such internal controls as the director determines are necessary to enable the preparation of a financial report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, 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 controls relevant to the entity's preparation of the financial report that gives a true and fair view 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the director of the company a written Auditor's Independence Declaration, a copy of which is included in the director's report.

Opinion

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

a. giving a true and fair view of the company's financial position as at 31 December 2012 and of its performance for the year ended on that date; and

b. complying with Australian Accounting Standards to the extent described in Note 1, and the *Corporations Regulations 2001*.

Basis of accounting

Without modifying our opinion, we draw attention to Note 1 to the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the director's financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose.

Ernst & Young

Ric Roach
Partner
Brisbane
8 February 2013

Appendix B Draft Auditor's Independence Declaration

Auditor's Independence Declaration to the Director of APNIC Pty Ltd

In relation to our audit of the financial report of APNIC Pty Ltd for the financial year ended 31 December 2012 to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ric Roach
Partner
8 February 2013

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