Annual Financial Report

(in AUD)

2013

APNIC

Table of Contents

1 Statement of Financial Position **3**

1.1 Notes to Financial Position 3

2 Statement of Income **4**

2.1 Expenses 4

2.2 Revenue 5

2.3 Operating Surplus/ Deficit 6

3 APNIC Reserve **7**

3.1 Cash Flow Statement 7

3.2 APNIC Capital Reserve 7

3.3 APNIC Investment policy 8

3.4 Basic Defence Interval Ratio 8

4 Membership **9**

4.1 Membership Statistics 9

4.2 Membership by Category 9

4.3 Membership by Economy 9

4.4 Membership Growth 10

4.5 Year-to-Date Membership Movement by Economy 11

4.6 India Membership NIR Transfer Analysis 12

Table of Figures

Figure 3.1 Reserve 8

Figure 4.1 Membership by Economy 9

Figure 4.2 Monthly Growth Analysis 10

Figure 4.3 Total membership 10

Figure 4.4 New and Closed Members Analysis 11

Figure 4.5 Closure Analysis 11

Table of Tables

Table 1 Statement of Financial Position 3

Table 2 Expenses 4

Table 3 Revenue 5

Table 4 Operating Surplus/ Deficit 6

Table 5 Cash Flow Statement 7

Table 6 Membership by Category 9

Table 7 India Membership Analysis 12

1 Statement of Financial Position

	Year-End 2013	% of Total	Year-End 2012	% Change from 31/12/2012
CURRENT ASSETS				
Cash/ Term deposits	6,002,531	34%	14,496,780	-59%
Receivables	935,741	5%	933,777	0%
Others	538,735	3%	585,160	-8%
TOTAL CURRENT ASSETS	**7,477,007**	**42%**	**16,015,716**	**-53%**
NON-CURRENT ASSETS				
Available-for-sale financial assets	13,736,690	77%	1,150,123	1094%
Deferred tax assets	127,006	1%	128,071	-1%
Property, plant and equipment	8,000,431	45%	8,012,422	0%
TOTAL NON-CURRENT ASSETS	**21,864,127**	**123%**	**9,290,616**	**135%**
TOTAL ASSETS	**29,341,134**	**165%**	**25,306,332**	**16%**
CURRENT LIABILITIES				
Payables	2,084,629	12%	1,456,080	43%
Provisions	1,202,792	7%	1,157,245	4%
Unearned revenue	7,880,508	44%	7,652,440	3%
TOTAL CURRENT LIABILITIES	**11,167,929**	**63%**	**10,265,765**	**9%**
NON-CURRENT LIABILITIES				
Deferred tax liabilities	81,187	0%	49,579	64%
Provisions	265,723	1%	182,231	46%
TOTAL NON-CURRENT LIABILITIES	**346,910**	**2%**	**231,810**	**50%**
TOTAL LIABILITIES	**11,514,839**	**65%**	**10,497,575**	**10%**
NET ASSETS	**17,826,296**	**100%**	**14,808,757**	**20%**
EQUITY				
Share capital	1	0%	1	0%
Reserves other financial assets investment	141,571	1%	107,535	32%
Retained earnings	17,684,724	99%	14,701,221	20%
TOTAL EQUITY	**17,826,296**	**100%**	**14,808,757**	**20%**

Table 1 Statement of Financial Position

1.1 Notes to Financial Position

The Statement of Financial Position shows that APNIC's net position has increased by 20% compared to the end of 2012. A key points worth noting is:

- The new investment policy commenced implementation in September. As recommended by the new Investment Manager, existing managed funds were liquidated and proceeds from the sale of these funds and term deposits that matured were transferred to the new investment portfolio. Details of the investment of APNIC's capital reserve are explained in more detail in section 3 below.

2 Statement of Income

This is the final audited annual financial statement for year 2013. The 12 months of 2013 actual figures are compared to the 2012 actuals, and to the 2013 budget.

2.1 Expenses

EXPENSES (AUD)	2013	2012	Variance %	Budget 2013	*Budget Variation to Budget*	*Budget Variation*
Bank charges	**138,337**	132,080	5%	***136,000***	*2,337*	*2%*
Communication expenses	**490,600**	440,762	11%	***531,416***	*(40,816)*	*-8%*
Computer expenses	**548,748**	551,362	0%	***637,160***	*(88,412)*	*-14%*
Depreciation expense	**753,032**	816,998	-8%	***894,609***	*(141,577)*	*-16%*
Doubtful debt expenses	**30,990**	27,099	14%	***26,000***	*4,990*	*19%*
ICANN contract fee	**136,732**	321,655	-57%	***310,000***	*(173,268)*	*-56%*
Income tax expense	**(96,166)**	(17,506)	449%	***60,000***	*(156,166)*	*-260%*
Insurance expense	**126,751**	126,673	0%	***131,850***	*(5,099)*	*-4%*
Meeting and training expenses	**332,819**	191,561	74%	***352,550***	*(19,731)*	*-6%*
Membership fees	**48,294**	68,392	-29%	***54,641***	*(6,347)*	*-12%*
Miscellaneous expenses	**(376,729)**	3	-100%	***0***	*(376,729)*	*0%*
Office operating expenses	**300,757**	249,930	20%	***289,420***	*11,337*	*4%*
Postage & delivery	**45,269**	28,493	59%	***33,047***	*12,222*	*37%*
Printing & photocopy	**36,586**	38,115	-4%	***45,605***	*(9,019)*	*-20%*
Professional fees	**1,246,373**	939,882	33%	***1,154,775***	*91,598*	*8%*
Recruitment expense	**89,472**	99,574	-10%	***100,000***	*(10,528)*	*-11%*
Rent & outgoings	**0**	(12,562)	-100%	***0***	*0*	*0%*
Salaries and personnel expenses	**8,298,111**	8,145,433	2%	***8,671,800***	*(373,689)*	*-4%*
Sponsorship and publicity expenses	**319,623**	270,696	18%	***335,500***	*(15,877)*	*-5%*
Staff training/conference expenses	**163,053**	151,386	8%	***164,000***	*(947)*	*-1%*
Translation expenses	**15,255**	11,928	28%	***30,000***	*(14,745)*	*-49%*
Travel expenses	**1,937,230**	1,822,239	6%	***2,030,182***	*(92,952)*	*-5%*
TOTAL EXPENSES	**14,585,138**	**14,404,193**	**1%**	***15,988,555***	***(1,403,417)***	***-9%***

Table 2 Expenses

Notes to Expenses:

The actual expenses incurred are less than the original budget approved for 2013, the major variances are explained below:

- **Computer Expenses** ended 2013 below budget. A number of planned activities were not completed in 2013 such as; the Document Management system, the CMS upgrade, and some projects such as the ERP have reduced in cost due to rationalising licenses.
- **Depreciation expenses** tracked consistently below budget as a result of the timing of capital expenditure during the year.
- **ICANN contract fees** were below budget due to the calculation of the APNIC portion of the NRO contribution being much lower than in 2012. The budget was based on APNIC's share of this fee being consistent with previous years. This represents a saving of $173k against budget.
- **Income tax expenses** ended in a credit position due to APNIC receiving a tax refund from previous years in relation to foreign exchange losses.
- **Miscellaneous expenses** included the recognition of income of AUD $376k related to the liquidation of managed funds in September, these were transacted as part of the new Investment policy implementation plan.
- **Professional fees** were greater than the budget primarily due to the use of consultants to undertake work that is offset by savings in Salary & Wages below.
- **Salary and personnel expenses** ended below the budget; this was a result of the delay in recruitment for approved roles and where replacing existing staff took longer than planned. Some planned appointments did not proceed as they were no longer considered strategic and were replaced with consultants. Graphic design works that used to be done by 2 full-time staff are now completely outsourced.
- **Travel Expenses** ended the year lower than budget reflecting the strong competitive market for fares and the strong Australian Dollar in the earlier part of the year.

2.2 Revenue

REVENUE (AUD)	2013	2012	Variance %	Budget 2013	*Budget Variation to Budget*	*Budget Variation*
IP Resource application fees	**1,420,625**	2,232,250	-36%	***1,457,750***	*(37,125)*	*-3%*
Investment income	**585,522**	595,635	-2%	***607,000***	*(21,478)*	*-4%*
Membership fees	**15,074,781**	14,361,213	5%	***15,045,828***	*28,953*	*0%*
Non-members fees	**240,225**	227,966	5%	***230,000***	*10,225*	*4%*
Reactivation fees	**37,050**	43,200	-14%	***35,100***	*1,950*	*6%*
Transfer fees	**61,339**	11,616	428%	***75,000***	*(13,661)*	*-18%*
Sundry income	**115,132**	186,481	-38%	***244,500***	*(129,368)*	*-53%*
Foreign exchange gain/(loss)	**33,968**	**(3,929)**	-964%	***0***	*33,968*	*0%*
TOTAL REVENUE	**17,568,641**	**17,654,431**	**0%**	***17,695,178***	***(126,537)***	***-1%***

Table 3 Revenue

Notes to Revenue:

- **IP Resource application fees** – Application fees finished below budget in 2013 and significantly below the previous year. Changes to the Fee schedule in March reduced this fee by 50%.
- **Investment Income –** Interest and investment income have been combined in this category to reflect the new investment policy. Interest Income finished below budget as a result of the fall in retail deposit rates during the year. The new Investment policy was implemented in September, and will see investment returns split between income and capital growth. Interest, Dividends and Coupons paid will appear in the statement of income as revenue, where any capital growth in investments will appear in the statement of financial position.
- **Membership fees** – Membership fees were as planned despite the high number of membership transfers to the Indian NIR, which was well compensated by the strong membership growth.
- **Sundry Income –** Budgeted cost recovery training and engineering assistance was well below budget, with very little income from engineering assistance being received during 2013. This initiative will be thoroughly reviewed in 2014.

2.3 Operating Surplus/ Deficit

REVENUE and EXPENSES (AUD)	2013	2012	Variance %	Budget 2013	*Budget Variation to Budget*	*Budget Variation*
Total Revenue	**17,568,641**	17,654,431	0%	***17,695,178***	(126,537)	*-1%*
Total Expenses	**14,585,138**	14,404,193	1%	***15,988,555***	(1,403,417)	*-9%*
OPERATING SURPLUS	**2,983,503**	**3,250,239**	**-8%**	***1,706,623***	**1,276,880**	***75%***

Table 4 Operating Surplus/ Deficits

3 APNIC Reserve

3.1 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	2,983,503
Adjustments to Profit/(Loss)	
Accounts Receivable	155,107
Other Current Asset	(158,475)
Accounts Payable	193,114
Sales Tax Payable	(20,360)
Other Current Liabilities	809,910
Total Adjustments to Profit/(Loss)	**979,296**
Total Operating Activities	**3,962,799**
Investing Activities	
Fixed Asset	11,991
Other Asset	(12,586,567)
Total Investing Activities	**(12,574,576)**
Financing Activities	
Long Term Liabilities	83,492
Other Equity	34,036
Total Financing Activities	**117,527**
Net Change in Cash for Period	**(8,494,249)**
Cash at Beginning of Period	**14,496,780**
Cash at End of Period	**6,002,531**

Table 5 Cash Flow Statement

3.2 APNIC Capital Reserve

The APNIC Reserve is diversified between Cash Investments, the Investment Portfolio, and Property (APNIC Office). At the end of December 2013, APNIC maintained $6.0M in cash reserves, $13.7M has been invested in the Credit Suisse investment portfolio, and $6.8M maintained in the APNIC Property. Figure 3.1 below tracks the value and the allocation of these reserves over time and also tracks the operating expenses for each year for comparison:

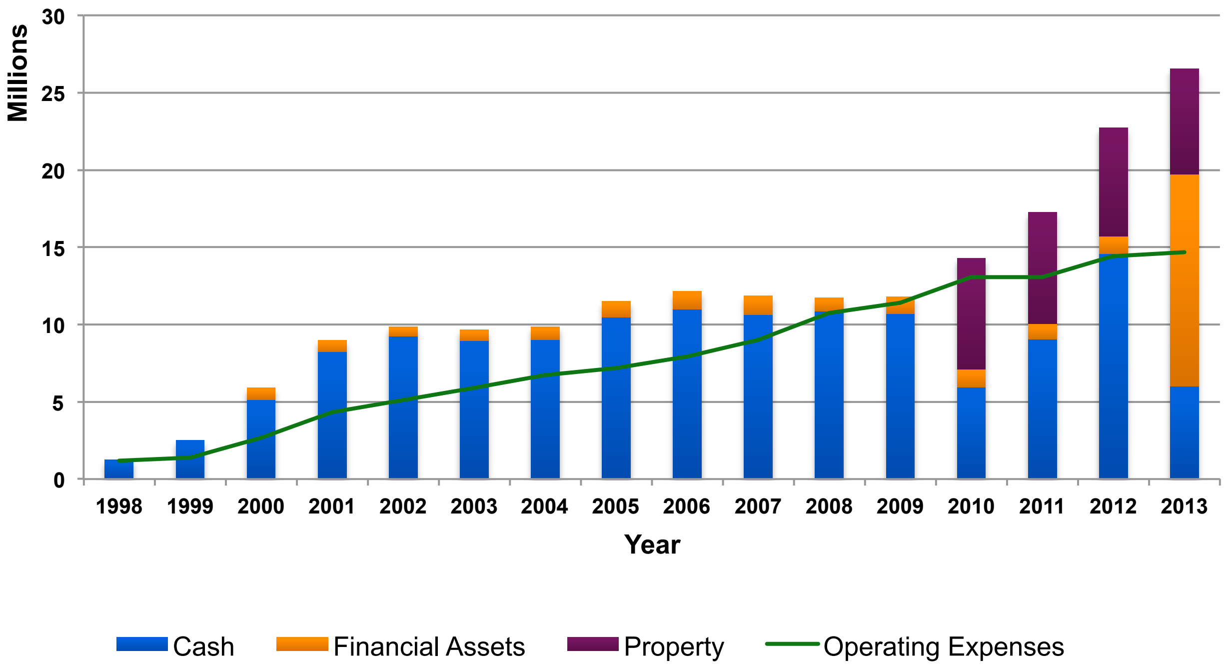

Figure 3.1 Reserve

3.3 APNIC Investment policy

The APNIC investment policy as approved by the EC at the August meeting was fully implemented by the end of November. A total amount of $13.5M fund has been transferred to Credit Suisse investment management account. Please refer to the attached investment report for the status of $13.5M fund's portfolio.

3.4 Basic Defence Interval Ratio

The Defence Interval Ratio is a high level indicator used to measure the number of days that APNIC could operate without requiring access to reserves invested in APNIC's property and other fixed assets.

Total Current and Financial Assets	$21,213,697
Daily Operating Expenses	$39,959
Basic Defence Interval Ratio	17.45 Months

4 Membership

4.1 Membership Statistics

As aat the end of December 2013, APNIC had a total of 4,051 Members serving 53 economies.

4.2 Membership by Category

The table below provides progressive membership data for the past six years. Strong membership growth continued in 2013, with an average increase of 43 new members per month.

Membership	2008	2009	2010	2011	2012	2013
Extra Large	12	13	16	21	20	**20**
Very Large	30	31	33	41	45	**43**
Large	92	106	141	145	144	**147**
Medium	251	276	324	378	402	**392**
Small	813	823	867	970	1114	**1198**
Very Small	345	472	637	817	1021	**1294**
Associate	312	449	503	575	788	**957**
TOTAL	1855	**2170**	**2521**	**2947**	**3534**	**4051**
New	443	478	507	615	832	**813**
Close	172	163	156	189	245	**296**
Net Gain	**271**	**315**	**351**	**426**	**587**	**517**
Average Monthly Net Gain	**23**	**26**	**29**	**36**	**49**	**43**

Table 6 Membership by Category

4.3 Membership by Economy

Figure 4.1 illustrates the APNIC membership distribution by economy.

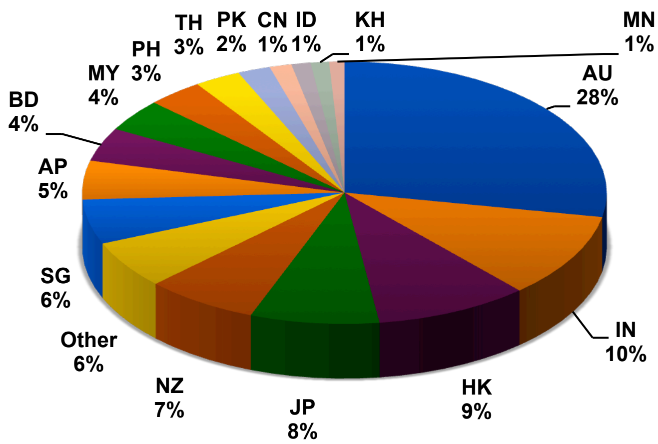

Figure 4.1 Membership by Economy

4.4 Membership Growth

APNIC membership monthly movements are illustrated at Figure 4.2 below. Membership growth budgeted for 2013 has been incorporated in this graph to track monthly growth against monthly budget growth.

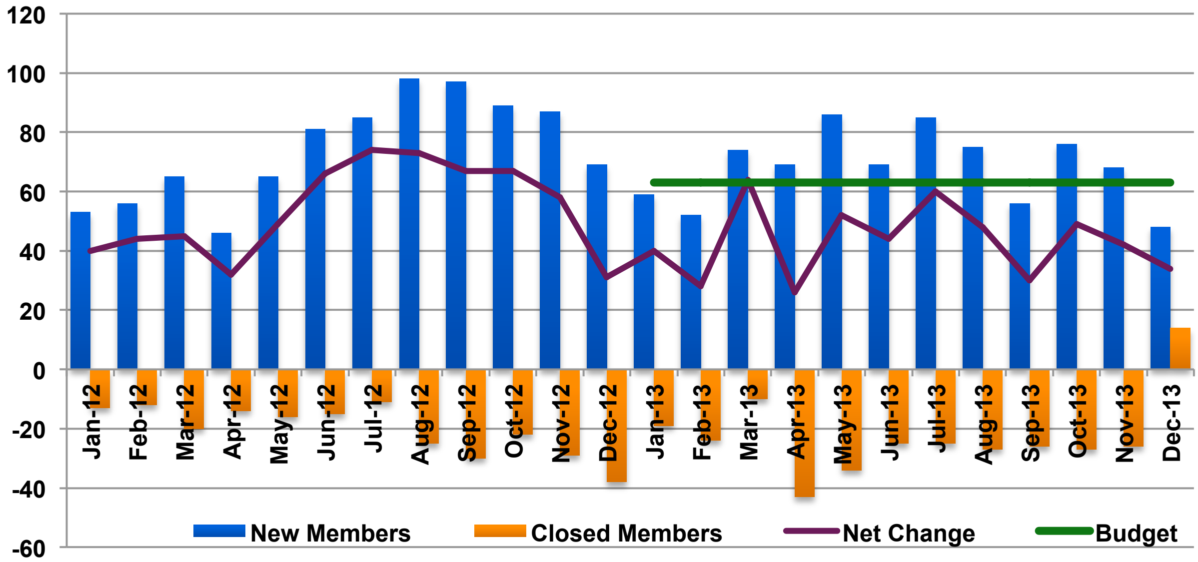

Figure 4.2 Monthly Growth Analysis

Figure 4.3 below illustrates APNIC membership growth by membership tier:

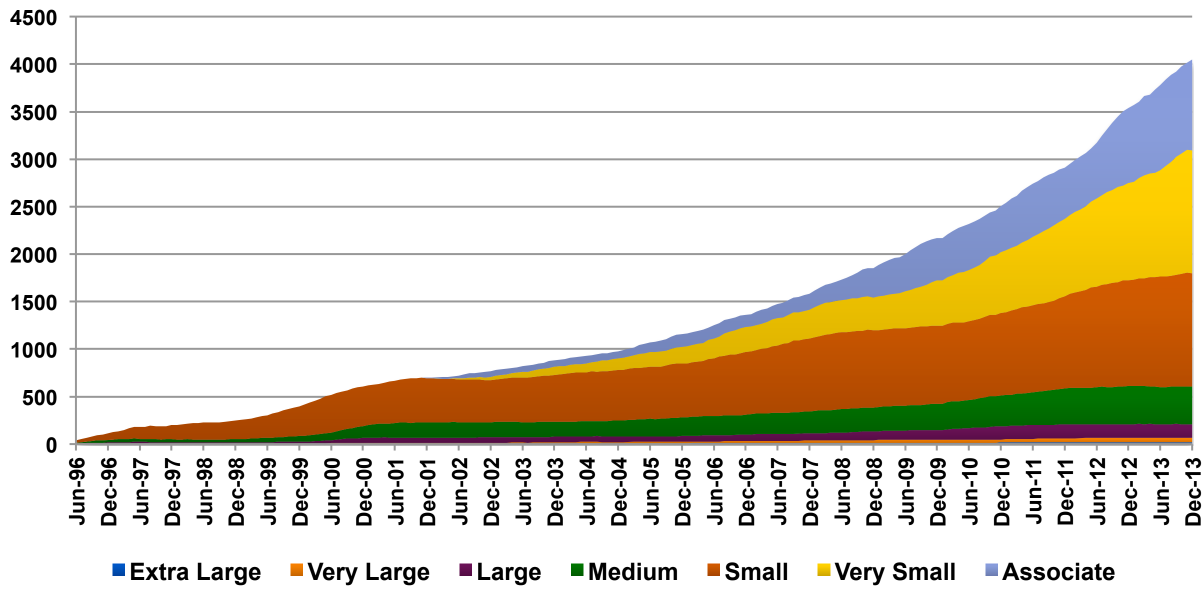

Figure 4.3 Total membership

4.5 Year-to-Date Membership Movement by Economy

Figure 4.4 below shows new and closed membership movement by economy during 2013.

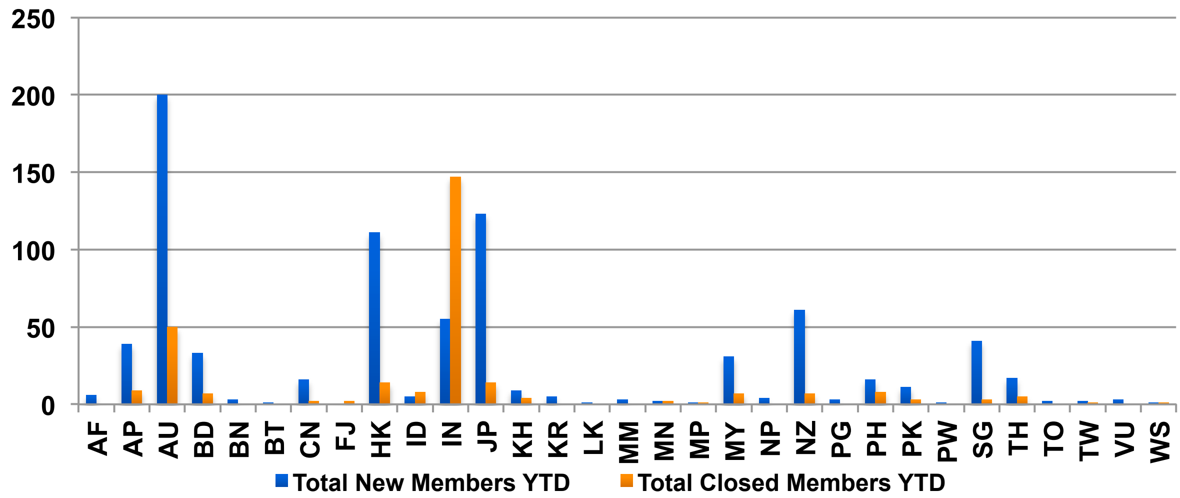

Figure 4.4 New and Closed Members Analysis

Figure 4.5 below provides an analysis of the Membership closures as at the end of December. 51% of the closures are due to account transfers to NIRs, whilst 34% of the account closures relate to accounts closed due to the failure to establish contact or where the business is no longer operating and resource holdings are returned to APNIC.

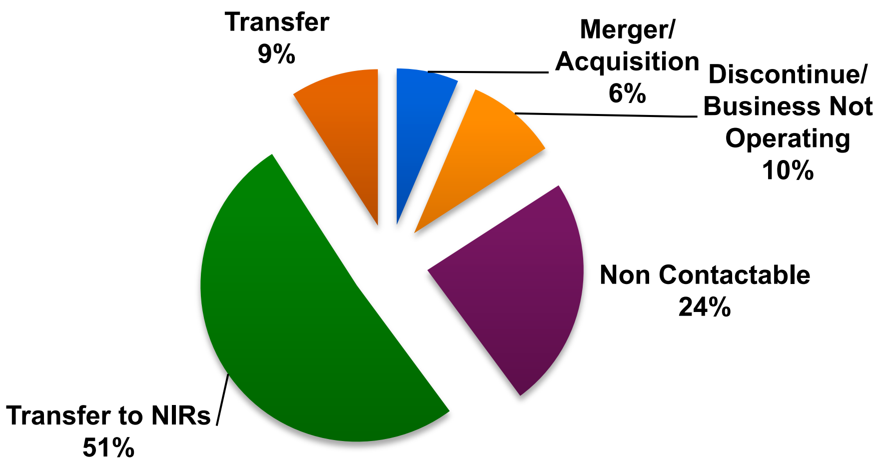

Figure 4.5 Closure Analysis

4.6 India Membership NIR Transfer Analysis

By the end of December 2013, the APNIC membership had 152 account closures from the Indian economy, 143 of these are due to transfers to IRINN. The remaining were closed due to non-payment or discontinued APNIC membership. There were 511 Indian members as at the end of 2012, and the 2013 budget assumed that around 25% of these members, i.e. 129 would transfer to IRINN during 2013.

The table below provides analysis of India Memberships transferred to the NIR, and the revenue impact in 2013.

India Membership	2013	Budget 2013	Budget Variance	2013 Revenue Impact (AUD)
Extra Large	0	***1***	-1	$0
Very Large	2	***3***	-1	-$35,739
Large	8	***6***	2	-$65,068
Medium	14	***11***	3	-$51,828
Small	44	***30***	14	-$74,140
Very Small	51	***51***	0	-$39,117
Associate	24	***27***	-3	-$8,100
TOTAL	**143**	***129***	**14**	**-$273,992**
			Budget 2013	***-$225,000***
			Variance	**-$48,992**

Table 7 India Membership NIR Transfer Analysis

C. 2013 Audited Financial Statement

APNIC Pty Ltd
ABN: 42 081 528 010

Special Purpose Financial Report
31 December 2013

DIRECTOR'S REPORT

Your director presents his report on the Company for the year ended 31 December 2013.

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 $2,983,503 (2012: $3,250,240).

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 2013.

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 (2012: $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

10 February 2014

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com

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 2013, 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
10 February 2014

APNIC Pty Ltd

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	*2013* *$*	*2012* *$*
Revenue from continuing operations	2	17,689,071	17,134,213
Other income	3	965,062	595,635
Expenses			
Net foreign exchange gain/(loss)		33,968	(3,929)
Communications and meeting expenses		(754,507)	(591,889)
Computer expenses		(548,748)	(551,362)
Contributions to ICANN		(136,732)	(321,655)
Depreciation expense		(753,032)	(816,998)
Employee benefits expense		(8,461,166)	(8,296,820)
Insurance		(126,751)	(126,673)
Loss on disposal of fixed assets		(7,747)	(3,258)
Membership fees		(47,031)	(67,357)
Occupancy expenses		(369,070)	(303,197)
Professional fees		(1,246,372)	(939,882)
Travel expenses		(1,937,230)	(1,822,239)
Other expenses		(1,412,378)	(651,855)
Profit before income tax		2,887,337	3,232,734
Income tax benefit		96,166	17,506
Profit from continuing operations	16(b)	**2,983,503**	**3,250,240**
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Net fair value gain on available-for-sale financial assets	16(a)	34,036	150,620
Other comprehensive income for the year, net of tax		34,036	150,620
Total comprehensive income for the year		**3,017,539**	**3,400,860**
Total comprehensive income attributed to APNIC Pty Ltd		**3,017,539**	**3,400,860**

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 2013

	Notes	*2013* *$*	*2012* *$*
ASSETS			
Current assets			
Cash and cash equivalents	4(a)	943,980	614,385
Short-term deposits	4(b)	3,814,795	12,978,745
Restricted cash	5	1,243,756	903,650
Trade and other receivables	6	935,740	933,777
Current tax receivables		-	48,892
Other current assets	7	538,735	536,267
Total current assets		7,477,006	16,015,716
Non-current assets			
Property, plant and equipment	9	8,000,431	8,012,422
Deferred tax assets		127,006	128,071
Available-for-sale financial assets	8	13,736,690	1,150,123
Total non-current assets		21,864,127	9,290,616
Total assets		29,341,133	25,306,332
LIABILITIES			
Current liabilities			
Trade and other payables	10	2,084,628	1,456,080
Unearned income	12	7,880,508	7,652,440
Provisions	11	1,202,791	1,157,245
Total current liabilities		11,167,927	10,265,765
Non-current liabilities			
Provisions	13	265,723	182,231
Deferred tax liabilities		81,187	49,579
Total non-current liabilities		346,910	231,810
Total liabilities		11,514,837	10,497,575
Net assets		**17,826,296**	**14,808,757**
Equity			
Contributed equity	15	1	1
Reserves	16(a)	141,571	107,535
Retained profits	16(b)	17,684,724	14,701,221
Total equity		**17,826,296**	**14,808,757**

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 2013

	2013 $	2012 $
Total equity at the beginning of the financial year	14,808,757	11,407,897
Changes in the fair value of available-for-sale financial assets, net of tax – Note 16(a)	34,036	150,620
Profit for the year	2,983,503	3,250,240
Total recognised income and expense for the year	3,017,539	3,400,860
Total equity at the end of the financial year	**17,826,296**	**14,808,757**

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 2013

	Notes	*2013* *$*	*2012* *$*
Cash flows from operating activities			
Receipts from customers		19,039,340	18,378,131
Grants received	14	1,031,673	988,683
Payments to suppliers, employees and grantees		(16,871,025)	(15,051,949)
Interest received		643,500	560,701
Income tax received		118,422	64,006
Net cash flows from operating activities	19	3,961,910	4,939,572
Cash flows from investing activities			
Redemption (placements) of short-term deposits		9,163,950	(4,607,522)
Payments for property, plant and equipment		(751,006)	(398,143)
Proceeds from disposal of property, plant and equipment		2,982	2,434
Redemption of available-for-sale financial assets		1,427,249	-
Purchase of available-for-sale financial assets		(13,500,000)	-
Net cash flows from investing activities		(3,656,825)	(5,003,231)
Net increase (decrease) in cash and cash equivalents		305,085	(63,659)
Cash and cash equivalents at beginning of year		614,385	677,044
Effects of exchange rate changes on cash and cash equivalents		24,510	1,000
Cash and cash equivalents at end of year	4(a)	**943,980**	**614,385**

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 10 February 2014.

(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. New or amended accounting standards have not had an impact on the financial statements.

(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. Member fees received in advance of the service being provided are classified as unearned income. Application and reactivation fees are recognised at the time the service is provided and the fee has been earned.

(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 distress 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 obtaining independent valuation statements or 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.

(l) Grants

Grant monies are recognised as a liability when the grant is received. It is recognised as income in the statement of comprehensive income over the periods necessary to match the grant on a systematic basis to the expenses or grantee payments that it is intended to compensate.

Notes to the Financial Statements

		2013 $	2012 $
2	**REVENUE**		
	Membership fees	15,074,781	14,361,213
	Non-membership fees	240,225	227,966
	IP resource application fees	1,420,625	2,232,250
	Member reactivation fees	31,050	43,200
	Non-member reactivation fees	6,000	-
	Grant revenue	742,731	71,487
	Other revenue	173,659	198,097
		17,689,071	17,134,213
3	**OTHER INCOME**		
	Interest	546,252	583,052
	Investment distribution income	39,269	12,582
	Realisation of available-for-sale financial assets (Note 16a)	334,821	-
	Capital gains from redemption of available-for-sale financial assets	41,908	-
	Others	2,812	-
		965,062	595,634

4 CURRENT ASSETS – CASH AND SHORT TERM DEPOSITS

		2013 $	2012 $
(a)	**Cash and cash equivalents**		
	Petty cash	400	400
	Cash in bank	943,580	613,985
	Total	943,980	614,385
(b)	**Short-term deposits**	3,814,795	12,978,745

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.

5 CURRENT ASSETS – RESTRICTED CASH

	2013 $	2012 $
Restricted cash in bank	1,243,756	903,650

Restricted cash in bank represents grant monies that the company is expected to award to grantees under the Seed Alliance program, and corresponds to the balance of grant payable per Notes 10 and 14.

6 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	2013 $	2012 $
Trade receivables	804,510	959,617
Provision for doubtful receivables	(56,831)	(25,840)
	747,679	933,777
Sundry receivables	188,061	-
	935,740	933,777

Notes to the Financial Statements

		2013 $	2012 $
7	**CURRENT ASSETS – OTHER CURRENT ASSETS**		
	Prepayments	454,151	351,199
	Interest receivable	67,600	164,848
	Prepaid taxes	16,979	18,343
	Deposits	-	1,872
	Other assets	5	5
		538,735	536,267
8	**NON-CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS**		
	Units in managed investment funds – at fair value	13,736,690	1,150,123

9 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	Computer equipment $	*Property Related Assets* $	*Total* $
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
Year Ended 31 December 2013			
Opening net book amount	916,294	7,096,128	8,012,422
Additions	661,096	89,911	751,007
Disposals	(3,067)	(6,899)	(9,966)
Depreciation	(536,050)	(216,982)	(753,032)
Closing net book amount	1,038,273	6,962,158	8,000,431
At 31 December 2013			
Cost	3,231,874	7,788,845	11,020,719
Accumulated depreciation	(2,193,601)	(826,687)	(3,020,288)
Net book amount	1,038,273	6,962,158	8,000,431

Notes to the Financial Statements

	2013 $	2012 $
10 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES		
Grants payable (Note 14)	1,243,756	903,650
Trade payables	497,927	214,944
Accrued expenses	351,748	322,209
Goods and services tax payable/(receivable) – net	(8,803)	15,277
	2,084,628	1,456,080
11 CURRENT LIABILITIES – PROVISIONS		
Employee benefits – annual leave	562,262	540,989
Employee benefits – long service leave	453,829	430,862
Employee benefits – bonus provision	141,884	144,624
Employee benefits – time in lieu leave	44,816	40,770
	1,202,791	1,157,245
12 CURRENT LIABILITIES – UNEARNED INCOME		
Unearned membership fees	7,810,665	7,567,407
Deferred grant revenue (Note 14)	69,843	85,033
	7,880,508	7,652,440
13 NON-CURRENT LIABILITIES – PROVISIONS		
Employee benefits – long service leave	265,723	182,231
	265,723	182,231

14 GRANT AGREEMENTS

The company entered into various grant agreements with the Swedish International Cooperation Agency (SIDA) and the International Research Development Centre (IDRC) to undertake various activities and projects in connection with the Seed Alliance program, which aims to contribute to the development of the information societies in the Asia-Pacific, Africa and Latin America by funding research projects and by rewarding and recognising innovative approaches in the use of information technology for development. Under the agreements, the company is entitled to receive grant monies from SIDA and IDRC to be used in these projects.

The balance of the unspent grant monies as at 31 December are as follows:

	2013 $	2012 $
Grants payable (Note 10)	1,243,756	903,650
Deferred grant revenue (Note 12)	69,843	85,033
Total	1,313,599	988,683

Notes to the Financial Statements

14 GRANT AGREEMENTS (continued)

The movements in the unspent grant monies received under each grant agreement are as follows:

	ISIF ICT Grant Fund	*ISIF IDRC Project Admin Fund*	*ISIF IDRC IGF Project Admin Fund*	*ISIF SIDA Contribution Fund*	*Total*
Opening balance	218,032	185,033	-	585,618	988,683
Grant monies received	32,757	104,047	69,324	825,545	1,031,673
Grant monies paid/spent	(128,760)	(99,518)	(53,867)	(460,586)	(742,731)
Reimbursements	-	-	-	35,974	35,974
Closing balance	122,029	189,562	15,457	986,551	1,313,599

	2013 No. of Shares	*2012 No. of Shares*	*2013 $*	*2012 $*
15 CONTRIBUTED EQUITY				
Fully paid share capital	1	1	1	1

	2013 $	*2012 $*
16 RESERVES AND RETAINED PROFITS		
(a) Reserves		
Available-for-sale financial asset revaluation reserve	141,471	107,535
	141,571	107,535
Movements in available-for-sale financial asset revaluation reserve were as follows::		
Balance, 1 January	107,535	(43,085)
Fair value gain, net of tax – previous investments	227,286	150,620
Realisation of previous investments upon redemption (realised in profit or loss)	(334,821)	-
Fair value gain, net of tax – new investments	141,571	-
Net changes in fair value	34,036	150,620
Balance, 31 December	141,571	107,535
(b) Retained profits		
Movements in retained profits were as follows:		
Balance at 1 January	14,701,221	11,450,981
Net profit for the year	2,983,503	3,250,240
Balance at 31 December	17,684,724	14,701,221

Notes to the Financial Statements

	2013 $	2012 $

17 REMUNERATION OF AUDITORS

	2013 $	2012 $
Amounts received or due and receivable by Ernst & Young		
Audit of financial reports and other audit work under the *Corporations Act 2001*	33,500	32,500
Other services	-	-
Total remuneration for assurance services	33,500	32,500

18 COMMITMENTS AND CONTINGENCIES

There were no commitments and contingencies existing as at 31 December 2013. The operating lease commitment covering the previous office space, which has been recognised as an onerous contract in prior years, was discharged in 2012.

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

	2013 $	2012 $
Profit after tax for the year	2,983,503	3,250,240
Non-cash adjustments:		
Depreciation	753,032	816,998
Loss on disposal of property, plant and equipment	7,747	3,258
Realisation of available-for-sale financial assets	(376,729)	-
Investment distribution income	(43,142)	(12,582)
Net exchange differences affecting cash and cash equivalents	(24,510)	(1,000)
(Increase)/Decrease in operating assets:		
Restricted cash	(340,106)	(903,650)
Trade and other debtors	186,098	143,553
Interest receivables	97,248	(22,352)
Deposits and prepayments	(289,142)	90,930
Deferred tax assets	1,065	(24,194)
Income tax receivable	48,892	63,919
Prepaid taxes	1,364	87
Increase/(Decrease) in operating liabilities:		
Trade and other creditors	625,808	1,266,896
Provision for onerous contract	-	(253,510)
Unearned income	228,068	481,359
Provision for employee entitlements	131,779	32,933
Deferred tax liabilities	(29,065)	6,687
Net cash flows from operating activities	3,961,910	4,939,572

20 SUBSEQUENT EVENTS

There were no subsequent events that occurred after 31 December 2013 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 2013 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
10 February 2014

Building a better working world

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com

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 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the director's 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.

Building a better working world

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 2013 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

10 February 2014

Building a better working world

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com

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
10 February 2014

APNIC Pty Ltd

Operating Statement

FOR THE YEAR ENDED 31 DECEMBER

	2013 $	*2012* $
INCOME		
Membership fees	15,074,781	14,361,213
Non-membership fees	240,225	227,966
IP resource application fees	1,420,625	2,232,250
Interest income	546,252	583,053
ISIF grant received	742,731	71,487
Reactivation fees	37,050	43,200
Realisation of available-for-sale financial assets	376,729	-
Net foreign exchange gains	33,968	-
Other revenue	215,740	210,679
Total	18,688,101	17,729,848
Less Expenses		
Administration expenses (refer schedule)	15,800,764	14,497,114
Total expenses	15,800,764	14,497,114
INCOME FROM ORDINARY ACTIVITIES BEFORE INCOME TAX	**2,887,337**	**3,232,734**

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

APNIC Pty Ltd

Operating Statement

FOR THE YEAR ENDED 31 DECEMBER

	2013 *$*	*2012* *$*
SCHEDULE OF ADMINISTRATION EXPENSES		
Salaries and wages	6,866,676	6,475,343
Travel	1,937,230	1,822,239
Professional fees – consulting	1,036,569	444,339
Depreciation	753,032	816,998
Superannuation contributions – employees	643,147	612,597
Computer costs – other	548,748	551,362
Communication expenses	490,600	440,762
ISIF grant expense	390,808	71,487
Payroll tax	369,253	356,367
Employees' entitlements	320,183	591,674
Meeting expenses	263,907	151,127
Sponsorship fees	175,844	74,005
Staff training	163,053	151,386
FIRE grant expense	150,882	-
FRIDA grant expense	147,173	-
Bank charges – general	138,337	132,080
ICANN	136,732	321,655
Office expenses	135,967	110,572
Professional fees – legal	129,088	140,707
Insurance – other	126,751	126,673
Recruitment	89,472	99,574
Professional fees – accountancy/management	80,715	72,889
Donations	80,579	118,217
Gifts and promotions	63,200	78,475
Electricity	58,978	52,608
Printing and stationery	53,888	49,112
IDRC grant expense	53,867	-
Staff amenities	51,876	63,112
Membership fees	47,031	67,357
Postage	45,269	28,493
Cleaning	40,536	39,876
Equipment hire	34,492	4,909
Repairs and maintenance	34,432	22,536
Deductible entertainment	34,421	35,522
Fringe benefits tax	33,959	36,689
Doubtful debts	30,990	27,099
Translation expenses	15,255	11,928
Worker's compensation	13,019	9,652
Loss on sale of fixed assets	7,747	3,258
Books and periodicals	5,796	10,083
Administration fees	1,262	1,035
Professional fees – R&D	-	249,447
Rent and make good	-	(12,562)
Net foreign exchange losses	-	3,929
Miscellaneous expenses	-	3
Total expenses	15,800,764	14,497,114

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

D. Auditor's Report

Closing Report to the Executive Council for the Year ended 31 December 2013

APNIC Pty Ltd

Building a better
working world

Ernst & Young
111 Eagle Street
Brisbane QLD 4000 Australia
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333
Fax: +61 7 3011 3100
ey.com/au

20 February 2014

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 2013.

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

Highlights

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 2013. ► 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 $339,000, representing approximately 2% of APNIC’s revenue for the 2013 financial year. ► Shown in Section 2 is the unadjusted audit difference noted during the course of the audit. ► 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 your consideration prior to adopting the financial report: ► Accounting for the redemption of managed investment funds; ► Valuation of managed investment funds; ► Revenue recognition; ► Grants; ► Impairment of land and buildings; and ► Accounting for income taxes. 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. No issues in relation to the internal control environment have come to our attention to report to you.

Contents

Highlights ... i

1. Significant areas of audit focus ... 1

2. Audit Adjustments ... 5

3. Independence ... 6

4. Outstanding Items ... 7

Appendices ... 8

Appendix A Draft Audit Report ... 9

Appendix B Draft Auditor's independence Declaration ... 11

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.

Accounting for the redemption of managed investment funds

Risk:

- Inappropriate accounting for the redemption of managed funds

Insight:

- APNIC's investment portfolio has been managed by MLC and Goldman Sachs in previous years. These equity instruments have been accounted for as available-for-sale financial assets, which means that changes in the fair value are recorded through equity as a reserve, in accordance with AASB 139 ***Financial Instruments: Recognition and Measurement.***
- In September FY2013, APNIC changed its fund manager to Credit Suisse. As part of this process, APNIC redeemed its previous investments for a total consideration of $1.43m, which was based on the fair value of the instruments at the redemption date. The original cost of the investments was $1.38m.
- Impairment write downs were previously expensed to the profit and loss in 2008 totalling $335k. Since 2009 to the date of sale, the increase in investment fair value (i.e., unrealised gain) has been credited to a fair value reserve within equity in the balance sheet. Upon sale of the investments, this cumulative unrealised accounting gain of $377k has been transferred and recognised in the 2013 profit.
- For income tax assessment purposes, the losses recognised in 2008 are offset against the 2013 gain. This results in an assessable gain for income tax of $42k, summarised as follows:

Non-assessable fair value gains at time of redemption	$335k
Assessable capital gains from redemption*	$42k
Total accounting gain recognised in the P&L	$377k

* Calculated as the difference between the proceeds from redemption ($1.43m) and original cost of investments ($1.38m).

EY's Perspective:

- We reviewed the journal entries posted by management and noted that they have appropriately flushed through the balance of the reserve from equity to profit and loss, in accordance with AASB 139.
- We also noted in the tax calculation prepared by KPMG that only the $42k capital gain was treated as assessable income, which appears reasonable. We note that $335k, which was treated as non-assessable, corresponds to the fair value loss put through the P&L (instead of equity) in 2008 which was treated as non-deductible at the time.

Valuation of managed investment funds

Risk:

- Inappropriate valuation of investments in accordance with accounting standards.

Insight:

- As discussed in the previous paragraph, APNIC amended their investment strategy during the year by changing their fund manager to Credit Suisse. In September 2013, funds within the term deposit accounts and previously managed investment accounts were transferred into the Credit Suisse investment portfolio. These funds have been invested across a range of investments including shares, cash, cash equivalents and other alternative investments.
- As at 31 December 2013, the balance of investments managed by Credit Suisse amounted to $13.7m. These equity instruments have been classified as available-for-sale financial assets in accordance with AASB 139***.***
- The fair value of these investments increased by $202k as at 31 December 2013, which has been recorded within an equity reserve account.

EY's Perspective:

- As part of our audit procedures, we confirmed the balances directly with Credit Suisse who provide the fair value of the investments as at year-end. We relied on the valuation as determined by Credit Suisse.
- Management has recognised the increase in market value of the available for sale investments in equity. We concur with this treatment. We also note from the tax calculation prepared by KPMG that a deferred tax liability of $61k (i.e., 30% of the $202k gain) has been appropriately recognised within the reserve.

Revenue recognition

Risk:

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

Insight:

- APNIC management tracks revenue by member and the period of membership and brings revenue to account over that membership period. We noted no errors with revenue recognition when we performed our testing procedures.

EY's Perspective:

- We have reviewed debtor receipts subsequent to year end and overdue debtors against which management has made provision of $56,831 for non-recovery. We accept management's position that the level of provision is adequate.

Grants

Risk:

- Inappropriate recognition of/accounting for grants received from SIDA and ISIF.

Insight

- APNIC currently has the following grant agreements in place during the year:
  (1) Swedish International Development Cooperation Agency (SIDA) for a total contribution value of up to SEK10,510,000;
  (2) International Development Research Centre (IDRC) for research support grant of CAD 74.9k;
  (3) IDRC for the "Alliance for Information Society Innovations" project for a maximum grant of CAD 418k;
  (4) IDRC and others for Information Society Innovation Fund Asia (ISIF) for a total contribution of AU$200k;
- In accordance with AASB 1004 ***Contributions,*** income arising from the contribution of an asset to the entity shall be recognised when all of the following conditions have been satisfied: (1) the entity obtains control of the contribution or the right to receive the contribution; (2) it is probable that the economic benefits comprising the contribution will flow to the entity; and (3) the amount of the contribution can be measured reliably.
- We reviewed the grant agreements which specifically disclosed the conditions under which the grant monies are to be used. We noted that the grant monies are intended either for redistribution to selected grantees, or used to recompense APNIC's expenditures that are allowable per the agreements.

EY's Perspective:

- We note that when grant monies are received, a liability is recognised as APNIC has not met the first condition stated in AASB 1004 to recognise grant income. As noted above, APNIC effectively does not gain control over the grant monies received as these have to be spent under conditions specified by the grant agreements. We concur with this accounting treatment.
- We agreed grant monies received and paid to bank statements and did not note any material exceptions.
- We also note that grant income is recognised only when the allowable expense are carried out by APNIC. We concur with this accounting treatment.

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.

Insight:

- Though APNIC management has not obtained any formal valuation of the South Brisbane property, management does not consider there to be any indicators of impairment based on: (1) recent sales activity in the surrounding area not

Impairment of land and buildings (con't)

indicating any decline in value; (2) the land valuation remaining at $3.0m in the latest Brisbane City Council rates notice; and (3) 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.

EY's Perspective:

- We accept management's position that there are no indicators of impairment.

Accounting for income 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 mutuality 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.

Insight:

- In the prior year, APNIC consulted with KPMG, its tax advisers regarding the continued application of the mutuality principle for periods beyond 30 June 2012, as the most recent private binding ruling (PBR) obtained by APNIC only covered up to 30 June 2012. KPMG concluded that it is still appropriate to be applied on the basis that "until a new interpretation is issued by ATO on the application of the mutuality principle, APNIC will have a reasonably arguable position to continue to apply the mutuality principle provided that the current factual basis is not materiality different to the factual basis on which earlier private binding rulings were issued."
- No public announcement has been made by the ATO to date. APNIC reconfirmed their position regarding the continued application of the mutuality principle with KPMG, who confirmed in a letter dated 6 January 2014 that it is appropriate for APNIC to continue to apply the mutuality principle for the period ended 31 December 2013. KPMG also states that this can continue up until the time any announcement is made by the ATO on the future application of the mutuality principle, and that at the time of any future announcement, APNIC will need to review the application of the mutuality principle.

EY's Perspective:

- We accept management's position to apply the mutuality principle for the period to 31 December 2013 as being a reasonable position based on known facts at this time.

2. Audit Adjustments

2.1 Summary of unadjusted differences

The following differences have been identified during the course of our audit and have not been considered material by management or by us for adjustment:

Account	**(Under)/Over Statement Of net assets**	**(Under) / Over Statement of Profit**
	AU$	**AU$**
Dr Provision for long service leave (current)	988	
Dr Provision for long service leave (non-current)	19,485	
Cr Employee benefits expense		(20,473)

The adjustment arose from the difference in the discount rates used per management's calculation and per EY's recalculation. We also note that management used a consistent discount rate to calculate the present value of the long service leave provision without taking into consideration the length of the employees' service. We recommend that management take this into account as the discount rates vary accordingly of the number of years of service.

2.2 Summary of adjusted differences

There were no adjusted differences during the year.

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:

Item	Actions to resolve	Responsibility
Subsequent events	► Update of subsequent events to the date of signing the audit opinion	► EY/Management
Financial statements	► Final review by audit partner and by management ► Director to adopt and sign the financial statements	► EY/Management ► Director
Management representation letter	► Receipt of signed management representation letter (due at the time of signing the financial statements)	► Management

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 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the director's 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.

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 2013 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
10 February 2014

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 2013, 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
10 February 2014

Ernst & Young

Assurance | Tax | Transactions | Advisory