2011 Audited Financial Report

APNIC Pty Ltd

ABN: 42 081 528 010

Special Purpose Financial Report
31 December 2011

DIRECTOR'S REPORT

Your director presents his report on the Company for the year ended 31 December 2011.

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 organization 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 $2,563,488 (2010: $250,556).

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 2011.

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 (2010: $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

9 February 2012

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Brisbane QLD 4000 Australia
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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 2011, 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
Brisbane
9 February 2012

APNIC Pty Ltd

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2011

	Notes	*2011* *$*	*2010* *$*
Revenue from continuing operations	2	15,142,717	13,003,206
Other income	3	416,085	446,079
Expenses			
Foreign exchange gain/(loss)		57	(18,471)
Communications & meeting expenses		(739,960)	(560,166)
Computer expenses		(397,535)	(328,583)
Contributions to ICANN		(284,889)	(321,172)
Depreciation expense		(875,274)	(788,869)
Employee benefits expense		(7,434,958)	(6,794,091)
Insurance		(120,236)	(116,824)
Gain (loss) on disposal of fixed assets		1,087	(254,386)
Membership fees		(54,261)	(53,663)
Occupancy expenses		(250,351)	(1,432,118)
Professional fees		(605,124)	(554,295)
Travel expenses		(1,576,246)	(1,404,527)
Other expenses		(731,698)	(635,865)
Profit / (Loss) before income tax		2,489,414	186,255
Income tax (expense)/benefit		74,074	64,301
Profit / (Loss) from continuing operations	15(b)	2,563,488	250,556
Other comprehensive income			
Net fair value gain/(loss) on available for sale financial assets	15(a)	(171,088)	(38,671)
Other comprehensive income for the period, net of tax		(171,088)	(38,671)
Total comprehensive income for the period		2,392,400	211,885
Total comprehensive income attributed to APNIC Pty Ltd		2,392,400	211,885

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 2011

	Notes	*2011* *$*	*2010* *$*
ASSETS			
Current assets			
Cash and cash equivalents	4	9,048,267	5,886,958
Restricted cash	5	-	66,891
Trade and other receivables	6	1,077,330	878,766
Other current assets	7	604,932	838,841
Total current assets		10,730,529	7,671,456
Non-current assets			
Property, plant and equipment	9	8,436,968	8,390,656
Deferred tax assets		60,985	-
Other financial assets	8	986,920	1,137,515
Total non-current assets		9,484,873	9,528,171
Total assets		20,215,402	17,199,627
LIABILITIES			
Current liabilities			
Trade and other payables	10	333,807	416,262
Unearned income		7,171,080	6,074,216
Current tax liabilities / (receivables)	12	(112,811)	(101,990)
Provisions	11	1,200,280	1,321,113
Total current liabilities		8,592,356	7,709,601
Non-current liabilities			
Deferred tax liabilities		-	13,089
Provisions	13	215,149	461,440
Total non-current liabilities		215,149	474,529
Total liabilities		8,807,505	8,184,130
Net Assets		11,407,897	9,015,497
Equity			
Contributed equity	14	1	1
Reserves	15(a)	(43,085)	128,003
Retained profits	15(b)	11,450,981	8,887,493
Total equity		11,407,897	9,015,497

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 2011

	2011	*2010*
	$	*$*
Total equity at the beginning of the financial year	9,015,497	8,803,612
Changes in the fair value of available-for-sale financial assets, net of tax	(171,088)	(38,671)
Profit (Loss) for the year	2,563,488	250,556
Total recognized income and expense for the year	**2,392,400**	**211,885**
Total equity at the end of the financial year	**11,407,897**	**9,015,497**

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 2011

	Notes	*2011* *$*	*2010* *$*
Cash flows from operating activities			
Receipts from customers		16,282,229	14,859,277
Payments to suppliers and employees		(12,738,321)	(12,227,309)
		3,543,908	2,631,968
Interest received		324,020	528,573
Income tax received (paid)		213,744	(76,925)
Net cash inflow from operating activities	18	4,081,672	3,083,616
Cash flows from investing activities			
Payments for property, plant and equipment		(921,439)	(7,829,216)
Proceeds from sale of property, plant and equipment		940	3,125
Net cash (outflow) inflow from investing activities		(920,499)	(7,826,091)
Net decrease in cash and cash equivalents		3,161,173	(4,742,475)
Cash and cash equivalents at beginning of year		5,886,958	7,201,988
Decrease in term deposits maturing in the next three months		-	3,417,206
Effects of exchange rate changes on cash and cash equivalents		136	10,239
Cash and cash equivalents at end of year	4	9,048,267	5,886,958

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 recognized for issue by a director's resolution dated 9February 2012.

(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: Disclosures and Presentation;
AASB 136	Impairment of Assets; and
AASB 137	Provisions, Contingent Liabilities and Contingent Assets.

The financial report is prepared 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 recognized 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 recognized for the major business activities as follows:

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

(ii) *Interest Income*
Interest income is recognized 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 recognized or the deferred income tax liability is settled.

Deferred tax assets are recognized for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to recognize 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 recognized 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 recognized 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 recognized, 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 recognized 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 recognized 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 recognized 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 recognized in profit or loss – is removed from equity and recognized in the statement of comprehensive income. Impairment losses recognized 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.

Property related assets:

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:

Property related assets:

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 recognized 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 recognized 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

		2011 $	2010 $
2	**REVENUE**		
	Membership income	12,968,291	10,199,249
	Non-membership income	198,425	149,382
	Per allocation fees	-	994,277
	IP resource application fees	1,530,500	1,373,986
	Reactivation fees	16,200	17,550
	Non-member reactivation fees	9,000	6,000
	Other revenue	420,301	262,762
		15,142,717	13,003,206
3	**OTHER INCOME**		
	Interest	395,591	397,689
	Investment distribution income	20,494	48,390
		416,085	446,079
4	**CURRENT ASSETS – CASH ASSETS**		
	Petty cash	400	400
	Cash at bank	676,674	847,676
	Short Term Deposits	8,371,223	5,038,882
		9,048,267	5,886,958
5	**CURRENT ASSETS – RESTRICTED CASH**		
	Cash at bank	-	66,891

Restricted cash at bank represents the remaining funds for the ISIF Grant program.

Notes to the Financial Statements

	2011	2010
	$	$

6 CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	2011 $	2010 $
Trade receivables	1,090,000	880,872
Provision for doubtful receivables	(12,670)	(2,106)
	1,077,330	878,766

7 CURRENT ASSETS – OTHER CURRENT ASSETS

	2011 $	2010 $
Goods and services tax (GST) receivables	-	187,127
Prepaid taxes	18,430	242,995
Other prepayments	316,832	243,537
Deposits	42,985	45,456
Sundry receivables	84,184	48,801
Interest receivable	142,496	70,925
Other assets	5	-
	604,932	838,841

8 NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	2011 $	2010 $
Units in managed investment funds - at fair value	986,920	1,137,515

Notes to the Financial Statements

9 NON-CURRENT ASSETS-PROPERTY, PLANT AND EQUIPMENT

	Computer equipment *$*	*Property Related Assets* *$*	*Total* *$*
Year ended 31 December 2010			
Opening net book amount	1,261,820	345,999	1,607,819
Additions	607,541	7,206,391	7,813,932
Make good provision	-	15,000	15,000
Disposals	(40,393)	(216,833)	(257,226)
Depreciation	(665,317)	(123,552)	(788,869)
Closing net book amount	1,163,651	7,227,005	8,390,656
At 31 December 2010			
Cost	3,852,010	7,391,505	11,243,515
Accumulated depreciation	(2,688,359)	(164,500)	(2,852,859)
Net book amount	1,163,651	7,227,005	8,390,656
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	12,111,531
Accumulated depreciation	(3,271,675)	(402,889)	(3,674,563)
Net book amount	1,169,439	7,267,529	8,436,968

10 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	2011 *$*	*2010* *$*
Trade payables	165,808	156,953
Accrued expenses	142,952	125,193
Goods and services tax (GST) payable	25,090	-
ISIF Grant	(43)	134,116
	333,807	416,262

Notes to the Financial Statements

	2011 $	2010 $
11 CURRENT LIABILITIES – PROVISIONS		
Make good provision	62,032	115,000
Onerous lease	198,886	408,741
Employee benefits – annual leave	424,791	443,431
Employee benefits – long service leave	366,982	353,941
Employee benefits – Bonus provision	111,870	-
Employee benefits – Time in lieu leave	35,719	-
	1,200,280	1,321,113

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

12 CURRENT LIABILITIES – CURRENT TAX LIABILITIES

	2011 $	2010 $
Income tax payable/(receivable)	(112,811)	(101,990)
	(112,811)	(101,990)

13 NON-CURRENT LIABILITIES – PROVISIONS

	2011 $	2010 $
Onerous lease	54,624	321,144
Employee benefits – long service leave	160,525	140,296
	215,149	461,440

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

14 CONTRIBUTED EQUITY

	2011 Shares	*2010 Shares*	*2011 $*	*2010 $*
(a) Share Capital				
Fully paid	1	1	1	1

15 RESERVES AND RETAINED PROFITS

	2011 $	*2010 $*
(a) Reserves		
Reserves – Available for Sale Investment Revaluation Reserve	(43,085)	128,003
	(43,085)	128,003
Movements:		
Reserves – Available for Sale Investment Revaluation Reserve		
Balance 1 January	128,003	166,674
Revaluation, net of tax	(171,088)	(38,671)
Balance 31 December	(43,085)	128,003

	2011 $	2010 $
15 RESERVES AND RETAINED PROFITS		
(b) Retained profits		
Movements in retained profits were as follows:		
Balance 1 January	8,887,493	8,636,937
Net profit (loss) for the year	2,563,488	250,556
Balance 31 December	11,450,981	8,887,493
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*	31,500	30,000
Other services	-	-
Total remuneration for assurance services	31,500	30,000
17 COMMITMENTS AND CONTINGENCIES		
(i) Operating leases		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	198,886	408,741
Later than one year but not later than five years	54,624	321,144
	253,510	729,885

The operating lease commitment has been recognised as onerous lease (refer note 11 and 13)

Notes to the Financial Statements

18 RECONCILLIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2011 $	2010 $
Profit (Loss) for the year	2,563,488	250,556
Depreciation and amortization	875,274	788,869
Provision for onerous lease	-	729,885
Net Profit(Loss) on sale of property, plant and equipment	(1,087)	254,385
Bad debts	-	2,106
Investment distribution income	(20,494)	(48,390)
Net exchange differences	(136)	(10,239)
Change in operating assets and liabilities:		
(Increase) Decrease in restricted cash	66,891	78,324
(Increase) Decrease in trade and other debtors	(22,000)	(381,015)
(Decrease) in provision for doubtful debts	10,564	(1,017)
(Increase) in interest receivables	(71,571)	130,884
(Increase) Decrease in deposits and prepayments	(106,213)	(91,097)
(Decrease) in trade and other creditors	(82,456)	(381,727)
Increase (Decrease) in GST payable	-	(140,041)
Decrease in provision for onerous contract	(476,375)	-
Increase (Decrease) in provision for unearned income	1,096,866	1,942,837
(Decrease) Increase in income tax payable	(10,821)	(127,660)
(Decrease) in deferred tax provisions	(74,074)	3,626
Increase (decrease) in prepaid taxes	224,565	
Increase in provision for employee entitlements	109,251	83,330
Net cash inflow from operating activities	4,081,672	3,083,616

19 SUBSEQUENT EVENTS

There were no subsequent events that occurred after 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 2011 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.

____
Director

Brisbane
09 February 2012

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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

Ric Roach
Partner
Brisbane
09 February 2012

APNIC Pty Ltd

Operating Statement

FOR THE YEAR ENDED 31 DECEMBER

	2011	*2010*
	$	*$*
INCOME		
Membership fees	12,968,291	10,199,249
Per allocation fees	-	994,277
IP resource application fee	1,530,500	1,373,986
Interest	395,591	397,689
Non-membership income	198,425	149,382
ISIF grant received	142,138	105,392
Reactivation fees	16,200	17,550
Other revenue	307,657	211,762
Total	15,558,802	13,449,287
Less Expenses		
Administration expenses (refer schedule)	13,069,388	13,263,032
Total expenses	13,069,388	13,263,032
Net Trading Income (Loss)	2,489,414	186,255
INCOME (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX	2,489,414	186,255

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

APNIC Pty Ltd

Operating Statement

FOR THE YEAR ENDED 31 DECEMBER

	2011	*2010*
	$	*$*
SCHEDULE OF ADMINISTRATION EXPENSES		
Salaries and wages	5,606,394	5,085,916
Travel	1,576,246	1,404,527
Depreciation	875,274	788,869
Employees' entitlements	622,075	586,814
Superannuation contributions – employees	543,545	497,550
Computer costs – other	397,535	328,583
Communication expenses	385,819	339,964
Meeting expenses	354,142	220,201
Professional fees – consulting	333,188	218,774
Payroll tax	325,152	294,782
ICANN	284,889	321,172
Office expenses	151,995	72,028
ISIF grant expense	142,138	105,392
Donations	138,453	97,269
Recruitment	123,485	140,220
Insurance – other	120,236	116,824
Professional fees – R&D	111,759	180,315
Staff training	107,752	146,287
Bank charges – general	102,974	81,607
Professional fees – legal	92,317	82,101
Sponsorship fees	85,449	108,718
Gifts and promotions	69,133	46,195
Electricity	60,180	27,825
Staff amenities	56,995	16,906
Membership fees	54,261	53,663
Printing and stationery	37,515	21,618
Fringe benefits tax	36,861	14,716
Cleaning	33,188	11,151
Postage	32,842	27,394
Auditor's remuneration fees	31,500	30,000
Deductable entertainment	29,927	21,905
Professional fees – accountancy/management	28,366	34,986
Rent and make good	28,134	1,247,460
Books and periodicals	17,335	14,982
Repairs and maintenance	14,515	73,655
Equipment hire	13,945	7,295
Doubtful debts	12,808	2,106
Worker's compensation	12,697	10,901
Translation expenses	10,297	14,498
Professional fess – project management	7,994	8,120
Administration fees	1,173	992
Miscellaneous expenses	49	40
Parking expenses	-	85,854
Foreign exchange (gain)/loss	(57)	18,471
Loss (gain) on sale of fixed assets	(1,087)	254,386
Total expenses	13,069,388	13,263,032

2011 Auditor's Closing Report

Audit Closing Report for APNIC Pty Ltd

31 December 2011

Ernst & Young

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8 February 2012

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

Attention: Paul Wilson

Dear Paul

Audit Closing Report – 31 December 2011

We have completed our audit of the special purpose financial statements of APNIC Pty Ltd for the financial year ended 31 December 2011 and are pleased to present the results of our audit.

This report includes all matters and issues arising from our audit which we consider appropriate for consideration by the Executive Council.

This report is intended solely for the information and use of the director, Executive Council and management. It is not intended to be and should not be used by anyone other than the specified parties.

We received full co-operation and assistance from APNIC personnel in completing our audit procedures.

Please call me to discuss any queries in relation to the enclosed report or our audit.

Yours sincerely

Ric Roach

Partner

Contents

1. 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 2011. ► 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 3 of this report, we anticipate issuing an unqualified audit opinion (refer Appendix B). ► Materiality was assessed at $112,500. ► Listed in Appendix A 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 C).
Significant Accounting and Audit Matters	We have identified the following matters for consideration by the Board of Directors prior to adopting the financial report: ► Valuation of investment in managed funds; ► Onerous lease provision; ► Make good provision; and ► Depreciation of buildings. Please refer to the detailed discussion at section 2 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.

2. Significant accounting and audit issues

We wish to highlight the following audit and accounting issues noted during our audit:

Issue	Key Accounting and Audit Matter
Valuation of Investment in Managed Funds	**Summary of matter:** ► APNIC held investments in managed funds aggregating approximately $986k as at 31 December 2011. ► These investments (i.e. equity instruments) have been classified as available for sale securities in accordance with AASB 139, *Financial Instruments*. ► The market value of these investments decreased by $171k in the current year. The change in market value has been recorded as a decrease in the investments account with a corresponding decrease to the available for sale investment revaluation reserve account. **Audit findings:** ► As part of our audit procedures, we confirmed the balances directly with the fund managers and did not note any exceptions. Management has recognised the decrease in market value through the available for sale investment revaluation reserve account. We concur with the accounting treatment.
Onerous lease provision	**Summary of matter:** ► APNIC relocated its corporate office to the new premises in December 2010. ► APNIC still has lease commitments on the old office premises until March 2013. ► Accounting standards require that a provision be made in the financial report to account for lease obligations arising under onerous lease contracts. APNIC has secured sub-lessees for certain space in the old office premises. The sub-lease agreement took effect on 1 March 2011. ► As a consequence of this, management has recorded an onerous lease provision for the shortfall in the remaining rental lease obligations to March 2013. **Audit Findings:** ► APNIC has recorded a provision for onerous lease of $253k at 31 December 2011 in accordance with accounting standard AASB 137, *Provisions, contingent liabilities and contingent assets*. We have considered the approach taken by management and extent of provisioning made, and accept the position as reasonable.
Make good provision	**Summary of matter:** ► At the end of the lease term, APNIC is required under the lease agreement for the old office premises to restore its previous leased office facility to its original condition. ► During 2010, management obtained an independent third party assessment and the estimated cost to complete the "make good" to the previous leased office was in the order of $115k. ► Actual costs for the make good of the sub-lease portion for the 685 m2 were $90k. ► At 31 December 2011 a provision amounting to $62k for the remaining space of 453m2 has been provided for based on the cost per sqm of the sub-leased portion.

Issue	Key Accounting and Audit Matter
	Audit Findings: ► APNIC has recorded a make good provision of $62k at 31 December 2011in accordance with accounting standard AASB 137, *Provisions, contingent liabilities and contingent assets*. We accept management's accounting treatment as reasonable.
Depreciation of Buildings	**Summary of matter:** ► In December 2010 APNIC relocated to the refurbished premises in South Brisbane ► In January and February 2011 the final costs associated with the refurbishment of the premises were capitalised. ► APNIC used the tax depreciation schedule provided by the Quantity Surveyors as the basis of its depreciation calculation. **Audit findings:** ► The schedule used did not include the entire portion of the building as part of the basis of the calculation of accounting depreciation, due to differences in the definition of identifiable assets for tax and accounting purposes. ► Therefore $1.7m of assets had not yet been depreciated for the 2011 year. ► APNIC performed an adjustment for the depreciation using a rate of 2.5% (40years) in line with the depreciation used by KPMG ► This led an adjusted audit difference of $48k.

3. Outstanding Matters

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

- Executive Committee minutes for January 2012;
- 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).

4. Appendices

Appendix A – Listing of Audit Differences

Appendix B - Draft Audit Opinion

Appendix C – Draft Auditor's Independence Declaration

Appendix A : Listing of Audit Differences

Adjusted audit differences

Summarised below are the audit differences identified during the audit which were adjusted by management.

		Balance sheet A$		Income Statement A$		Other
	Account	Dr	Cr	Dr	Cr	
1	Depreciation Expense – Building			42,888		
	Accumulated Depreciation - Building		42,888			
	To record the depreciation for the building not recorded for tax depreciation					
			42,888	42,888		

Unadjusted audit differences

There are no unadjusted audit differences.

Appendix B : Draft audit opinion

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 June 2011, the statement of comprehensive income, statement of changes in equity and cash flow statement 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 directors determine 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 2011 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 directors' 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
9 February 2012

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 year ended 31 December 2011, 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
Brisbane

9 February 2012

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EC Election Procedures