2014

Annual Report

MELBOURNE IT

OUR SERVICES

For Small & Medium Businesses

Melbourne IT SMB Solutions helps small and medium-sized businesses be successful online by providing domain names, web hosting, email, web design services, online marketing, website security, and online tools and solutions.

www.melbourneit.com.au
www.netregistry.com.au
www.tppwholesale.com.au
www.webcentral.com.au
www.ziphosting.com.au
www.domainz.co.nz

For Enterprise & Government Clients

Melbourne IT Enterprise Services has a proven ability to design, build, deliver and optimise online and cloud applications, solutions and services.

www.melbourneitenterprise.com.au

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Key Highlights of 2014

$124.7m* Revenue

$12.8m* EBITDA

$7.9m# NPAT

8.72 cents# EPS

** Continuing operations*
 # Normalised

Transforming Melbourne IT

In the past year, the Company has intensified its focus on transformation. Our aim is to become a solutions-led business with high quality earnings. Major achievements towards this objective included:

- **Efficiencies** – continued progress on re-engineering the cost base of the business
- **Growth** – SMB business seeking growth from new solution offerings
- **Revenues** – Enterprise Services business increase in managed cloud services revenues.

New Executive Leaders

New executive leaders were recruited during 2014 to intensify the focus on strategy, customers, sales and marketing delivery with the following appointments:

- Martin Mercer, *Chief Executive Officer and Managing Director*
- Verity Meagher, *Chief Marketing Officer*
- Brett Fenton, *Chief Customer Officer*
- Amy Rixon, *Chief People Officer*
- Cath Hodgson-Croker, *Chief Sales Officer*, and
- Simon Smith, *Chief Technology Officer*.

See our new Executive Team on page 12.

Netregistry Group Acquisition

In February 2014, Melbourne IT announced a major acquisition in the purchase of Netregistry Group. This successful transaction represents a significant contribution including:

- $25.3m to Group Revenue
- $3.8m to Group EBITDA
- Enhanced business capability
- Strong customer facing technology system
- Mature customer base and stable SMB revenue stream
- Diversified product offerings for SMB customers.

Netregistry Group Integration Synergies

Melbourne IT is on track to achieve synergy savings from the Netregistry integration:

- $7.5m p.a. of synergy savings by close of 2016
- Further efficiencies from continued platform, process, and administration consolidation.

Customer Champions

Our vision is to be globally recognised as thought leaders and innovators in customer experience where we have truly transformed ourselves into a "customer first business". In the second half of 2014:

- NPS lifted by +36 points in total, taking us into positive territory
- A number of our core brands are tracking at an overall sentiment of +50; and
- NPS is proving to be an effective tool to drive a customer first orientation into the DNA of all staff in the business.

UberGlobal Acquisition

In the second half of 2014, Melbourne IT commenced negotiations for the acquisition of UberGlobal, culminating in the announcement of the acquisition on 25 February 2015:

- Leading brand providing direct domain registration, hosting and cloud applications, and white label "Business" services through channel partners and bespoke cloud solutions
- Normalised FY15 EBITDA of $2m
- Acquisition synergies of $2.5m p.a. post integration to be realized in 2017
- Significant expansion of Melbourne IT customer base, strengthening the core domains and hosting business, and delivering material synergy benefits.

Chairman's Review

During the 2014 year, Melbourne IT continued its transformation journey, passing a number of key milestones to positively position the Company for future growth. A significant acquisition and a strong direction set by incoming CEO, Martin Mercer, were amongst the highlights of the period. As signalled in the 2013 strategic review, Melbourne IT reinforced its commitment to delivering improved financial results and in this it was successful. For the year ending 31 December 2014, the Company reported strong revenue increases up 21% to $124.7m, EBITDA up 121% to $12.8m, and net profit after tax (after normalising for impairment and transaction costs arising from the acquisition of Netregistry), up 27% to $7.9m.

Significantly, the Company moved beyond the turnaround phase of the previous year, with growth in both the SMB and Enterprise divisions and the completed acquisition of Netregistry Group together with the announcement of the UberGlobal transaction. In the business divisions, 2014 saw a very good performance in Enterprise Services, with green shoots appearing in the SMB Solutions business. In particular, strong organic growth from Enterprise Services and the acquisition of Netregistry have driven revenue growth. Considered together, this activity signals a new era has truly commenced with a confident outlook for growth and profitability at Melbourne IT.

Achieving Scale

Under the guidance of new CEO Martin Mercer, from April, Melbourne IT undertook a review of its leadership team revitalizing management resources. A key aim was to provide the talent needed to manage in a new scaled up environment post the Netregistry acquisition. The extension of the Company's customer base and product and services offered as a result of the merger with Netregistry provided not only much needed scale, but also a robust platform for future growth. Indeed, the Netregistry acquisition was a significant step forward in achieving cost efficiencies, and has seen the offer of best in class products into a larger customer base. Together with the scale benefits, since the announcement in February 2014, this acquisition has also delivered efficiencies, with forecast synergies of $7.5m p.a. (being fully realized during FY2016) anticipated from the integration of Melbourne IT and Netregistry.

A new era has commenced with a confident outlook for growth and profitability at Melbourne IT.

Building the Platform

Melbourne IT's Board views the acquisition of cloud services provider UberGlobal Group as a major opportunity to achieve additional scale and also strengthen the Company's core domains and hosting business. The deal was announced in February 2015 with an initial purchase price of $15.5m (AUD). The transaction reinforces our strong platform from which to compete and win business in the SMB space. It also aligns with the Board's stated requirement that such acquisitions be earnings accretive from day one. In terms of scale, UberGlobal adds significantly to our customer base with 70,000 customers and more than 400 resellers, as well as leading brands such as Uber Enterprise, Uber Wholesale, ilisys Web Hosting, SmartyHost. We also have the benefit of our experience from the Netregistry integration as vital intellectual property as we similarly integrate UberGlobal into our growth platform.

Delivering Shareholder Value

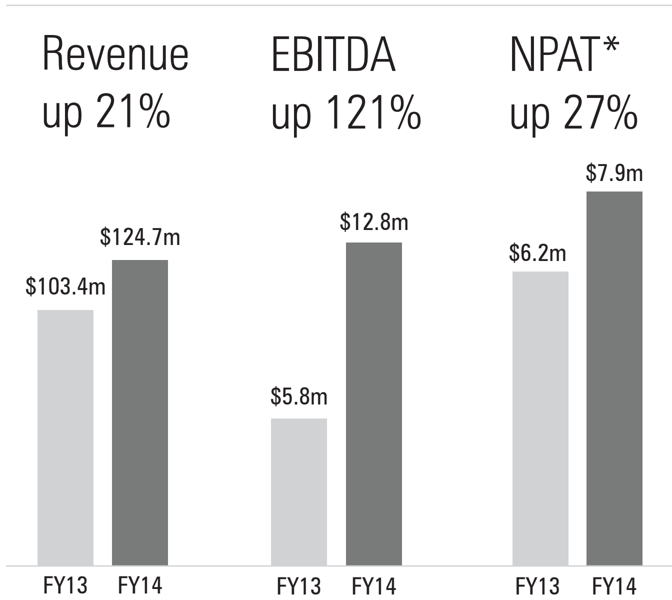
Melbourne IT has an ongoing commitment to creating value for its shareholders. We also recognize that performance and growth need to be balanced by sound risk management. Given the solid platform delivered by the recent acquisition, my fellow directors and I believe the Company is now well placed to increase sales, ARPU, and profitability; in turn these elements will lay the foundation for sustainable shareholder returns. In light of the sound financial results of 2014, the Board of Melbourne IT declared a final dividend of 4.0 cents per share (80% franked).

Recognition of Effort

I was very pleased to welcome our new management team during 2014, and to have had the opportunity to work with them and with our new CEO Martin Mercer. Martin's clear vision and knowledge of the sector and of strategy, as well as his excellent understanding of the value of scale and strength have already served us well. It is important to note that Melbourne IT's new leadership team brings together the best of the two companies, with key lateral hires completed during the year, strengthening the team.

In addition, we have a team of dedicated, quality staff members who continue to deliver. Many have extensive track records and specialisations in the technology sector which serve us well. Others bring diversity and the benefit of different sector experience. I would like to recognize the considerable efforts of all our people in seeing the Company through this recent period of turnaround, major acquisition, and integration.

The Melbourne IT Board maintains a commitment to ensuring we meet the highest standards in areas like corporate governance, risk management, diversity, and investment in talent. Their stewardship has brought reward during a time in which we have seen some of our key objectives realized. While the Board supports a growth strategy this is always balanced by sound risk management. I would like to thank my fellow directors, together with our management team, and say that I am confident that, with their hard work we can anticipate a positive future with many 'green shoots' already in evidence.



** after normalising for impairment and transaction costs*

Looking Ahead

Melbourne IT has successfully delivered two major acquisitions within a twelve-month period. The Company has developed a clearly articulated plan for future growth and recognised growing market opportunity. We understand that in the online world, businesses seek to compete and operate successfully in a rapidly changing environment. Furthermore, the burgeoning reach of the Internet gives us a significant market opportunity to successfully grow and compete online. In addition, our clear strategy, extensive customer base, strong balance sheet, and renewed focus on execution collectively suggest a bright future for Melbourne IT.

Consistent with this outlook, we are strengthening the business with an incremental investment this financial year of $5m in sales, marketing and people. The payback period is expected to be less than eighteen months. For 2015, we also expect to achieve high single-digit organic growth in underlying EBITDA. As we look to the coming year, our focus is thus firmly on using this solid platform, and enhanced scale, to transform Melbourne IT into a solutions-led business with higher quality earnings. We remain focussed on delivering strong free cash flows and enhancing returns to our shareholders. I look forward to the next exciting phase in the Melbourne IT evolution into a successful solutions-led business.

Simon Jones
Chairman

CEO's Report

The acquisition of Netregistry was a catalyst for profound change at Melbourne IT. It refocussed us on our core domestic franchise in domains, hosting and email and made transparent our performance. It introduced new people and a new and better customer facing technology platform. It also created new challenges and new opportunities through the integration of two quite different cultures. In integrating these two businesses, we literally pulled everything apart and then put it back together again.

We have emerged from this process with a stronger, focussed, more vibrant business. We have a very strong leadership team that combines the best of Netregistry and Melbourne IT, complemented by targeted external recruitment. We have an operating rhythm that is founded on a flexible and responsive 90 day cycle that focusses the whole business on the achievement of key goals and business outcomes. We have a clearly articulated strategy for growth.

Returning to Growth

We are already enjoying the early fruits of our efforts. Our (measured) staff engagement has increased, the sentiment that our customers have towards us has dramatically improved, and we are seeing early signs of growth. Importantly, we are seeing growth not only in revenue but also in our ability to attract new customers both in our SMB Solutions and Enterprise Services divisions.

In 2015, we are laying the foundations for a return to organic growth. This is a multifaceted challenge and our priorities for this year are clear. We must:

- attract, develop, and retain talented people and create an even more vibrant workplace,
- continually iterate and improve customer experience at every opportunity because this will set us apart from our competition and is a great rallying cry for our people,
- drive growth from our core domains and hosting business,
- build a new business that delivers solutions for small to medium business customers rather than relying exclusively on low touch commoditised products,
- accelerate the growth of our Enterprise Services business as it moves quickly to become the leading provider of sophisticated cloud solutions, and
- advance the integration of Melbourne IT and Netregistry.

Let me look briefly at each of these priorities.

> We have a clearly defined plan to build the foundations for growth. These building blocks encompass technology, people, systems, culture, vision and business philosophy.

Engaged and Motivated People

While the integration of Melbourne IT and Netregistry will deliver significant long term benefits, short term risks relating to people and engagement need to be closely managed. I'm proud to report that despite the upheaval of the past year, in addition to making very meaningful progress on the technical integration, our staff engagement actually improved.

This lift in engagement didn't just happen by chance. At Melbourne IT, a focus on the development of our people and the creation of meaningful work is a priority for us. We believe that the happiness of our people and the returns to our shareholders are both important and inextricably linked.

We want to attract, develop and retain great talent in the business resulting in an engaged, motivated and highly performing workforce. We are using this to build a culture of excellence that is being reflected in the way our customers and the wider market perceives us.

In 2015, we are investing in leadership development and specific skills training. We believe that leadership at every level is essential to performance and engagement. Together with skills training and development and a genuine focus on customer experience, it creates the conditions in which our people can find meaning and fulfillment.

Customer Experience

Much like the challenges that we expected in staff engagement, quite often during an integration process, customers can be negatively impacted, resulting in strong declines in their sentiment towards the business. We measure customer sentiment using 'Net Promoter Score', an established model measuring customer loyalty.

In 2014, customer sentiment across our combined brands improved by +36 points, with early trends in the first quarter of 2015 showing continued improvement. As we continue to develop and drive strong positive outcomes in customer sentiment, we will transform ourselves into a true customer company.

This will provide sustainable differentiation, fuel growth and catalyse change across our business. Viewed this way, a focus on customer excellence is a critical tool in galvanizing meaningful change and delivering shareholder return.

Growth in SMB

The acquisitions of Netregistry and UberGlobal enable us to strengthen our core domains and hosting business and lay the foundations for growth in SMB Solutions. By integrating these businesses and Melbourne IT onto one common underlying technology platform we unlock material cost savings, capture the enduring benefits of scale, and deliver a uniform and measurably better customer experience.

These acquisitions and the subsequent integration are key to realizing our vision of building a highly scalable business predicated on a central business and customer platform. This platform will not only facilitate the growth of our core domains and hosting business, it will also help us to accelerate the growth of our embryonic solutions business.

In the second half of 2014, we made a strategic investment in Tiger Pistol, the leading provider of social marketing solutions to SMBs. At the same time, we entered into an agreement with Tiger Pistol enabling us to resell their products under our brand. In the second half year, we also launched our new Do-It-For-You Web Design solution for SMBs.

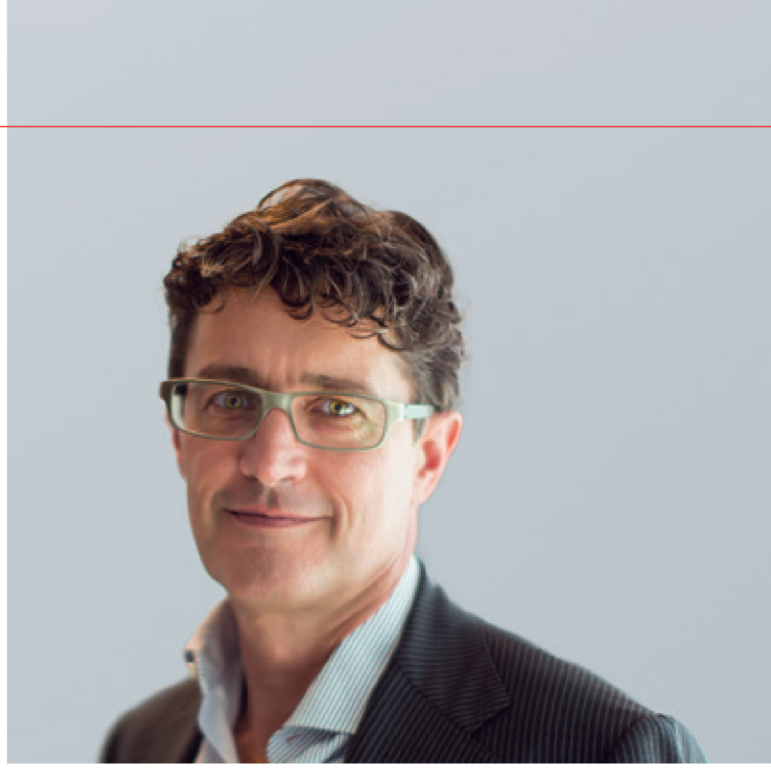
These two products form the core of our new SMB Solutions business. For 2015, we have forecast high single digit growth in underlying EBITDA for Melbourne IT and these two products will make a significant contribution to that. If we cast forward to 2016, sales of these two solutions are expected to be making a material contribution to top and bottom line growth in our SMB Solutions division.

The Leading Role of Enterprise Services

The transformation of our Enterprise Services (ES) division from a dedicated hosting business to a managed cloud services business has been unfolding over several years and has set the foundations for sustainable growth. In 2013, the ES business grew strongly off the back of cloud projects and managed services and this began to pay real dividends in 2014, with revenues up 14% for the year. This revenue performance combined with effective cost management resulted in an 80% growth in EBITDA for our ES division in 2014.

One of our proudest achievements in 2014 was to become an Amazon Web Services Premier Consulting Partner. AWS has more than 14,000 partners globally and at the time less than 30 of them had attained this peak partner status. This is a strong endorsement of our capability and a testament to the transformation that has been wrought in this once staid business.

The successful transition of ES from a mature infrastructure business to an expanding services business gives us confidence about the similar transition we are embarking on in our SMB Solutions division. Over the next few years we will augment our mature SMB domains and hosting business with a growing solutions business, and the lessons learnt from ES will be invaluable in this transition.



The Integration of Melbourne IT and Netregistry

Last but by no means least, 2015 is the year in which we will significantly advance the back-end technical integration of Melbourne IT and Netregistry.

This is a non-trivial exercise involving the migration of approximately 350,000 customers off 3 legacy technology platforms onto one customer facing system. In 2014, we commenced the most challenging of the many customer migrations and this has proceeded to schedule and essentially without incident. We have already realised approximately $2m of annualised synergy savings. In 2015, we will achieve annualized savings of $5m p.a. This customer migration will also lay the foundations for the achievement of $7.5m p.a. of annualized savings in 2016.

The integration of Melbourne IT and Netregistry is also essential to realizing our vision of driving a growing business off a scalable and integrated business and customer platform. While the short term synergy savings from integration are compelling, the long term business benefits are potentially more significant.

Looking Ahead

In 2015, the emphasis will progressively shift from rebuilding to growth. We have a clearly defined plan to build the foundations for growth. These building blocks encompass technology, people, systems, culture, vision and business philosophy. It is an ambitious and challenging plan. If we execute well, 2015 will be the year when we really establish that we are a different, confident, and exciting business.

Martin Mercer
Managing Director and CEO

SMB Solutions

Overview

As a core business, the SMB Solutions division delivers online solutions to more than 500,000 small and medium businesses in Australia and New Zealand. It aims to provide SMB customers with the confidence and tools to grow and become more successful via the online channel.

Melbourne IT also offers an expanding wholesale channel with over 25,000 local and global resellers. These partners provide a powerful administration platform from which we can resell products and services to their SMB customer base.

Our eBusiness centres together with our online sales channel provide advice and services to small businesses. These resources aim to help SMB's establish and grow their online presence with key tools and solutions including advisory, products, and services. The wide range of services and solutions on offer are specifically designed to meet individual business needs. They include domain name registration, email and website hosting, website design, eCommerce services, website security, and online marketing solutions.

Melbourne IT also provides its global partner network with access to its domain name management system. This allows resellers to market domain names sourced from registries around the world together with value-added online business services to small businesses globally.

2014 Highlights

During the year, the SMB Solutions division focused on stabilizing its core legacy component business whilst developing a range of new solutions offerings. There were also positive financial results for the Division. Overall, SMB Solutions' 2014 revenue increased 26% year-on-year from $76.3m to $96.3m. This growth was largely due to the acquisition of the Netregistry Group. At the same time, there was a slowing in the rate of decline of the core Melbourne IT business.

Melbourne IT Group EBITDA increased 53% from $8.9m to $13.6m, largely due to the acquisition of Netregistry Group.

The acquisition of Netregistry Group saw a doubling of Melbourne IT's SMB Solutions customer base and also an expansion of service capabilities, product offerings and delivery of internal efficiencies and scale. In addition, the acquisition provided a strong customer facing technology system utilised across the Melbourne IT business.

A key activity for 2014 was extensive market research and internal data analysis. The results underpinned the development of a new strategic plan, the implementation of which will support the ultimate goal of returning to profitable growth. This plan focusses on the twin goals of strengthening the core business through enhanced products and scale economies coupled with a growing contribution from new solution services such as managed website design and managed social media for small businesses.

SMB Solutions division has a strong internal commitment to providing an excellent customer experience across all lines of the business. The substantial focus on Net Promoter Score (NPS) resulted in a 36-point improvement in the second half of 2014. Additionally, there was a focused review and redesign of the online customer journey, from the product exploration phase through to the purchase experience.

The improved domain renewal rate seen in 2013 continued during 2014. The business also saw additional success during 2014 in the new domain name space with the delivery of additional domains: .melbourne, .nz, and .sydney

2015 Outlook

In 2014, the SMB Solutions business focus was on product development, and reviews of organisational structures and go-to-market strategies. These activities were undertaken to ensure strong positioning and support the Division's growth in 2015. With the strategy defined and initiatives under way, it is expected 2015 will see gradually accelerating growth and profitability across the SMB Solutions division.

The year will also see the implementation of a defined brand strategy, correctly positioning our components and solutions businesses, and supported by a significant advertising and promotional investment to increase brand awareness.

The milestones in platform and system integration activities will continue to deliver robust and reliable service offerings to our customers and these will come with a consistent look and feel.

There will be a continued internal focus on the delivery of an exceptional customer experience. At Melbourne IT, we know that SMB Solutions' service offerings are fundamental to the online success of many small businesses. In the busy world of the SMB owner, the focus is on finding easy-to-use solutions – the key objective of our SMB Solutions division.

SMB SOLUTIONS	FY 14	FY 13	CHANGE
Revenue	$96.3m	$76.3m	26%
EBITDA Contribution	$13.6m	$8.9m	53%

The acquisition of Netregistry Group saw a doubling of Melbourne IT's SMB Solutions customer base and an expansion of service capabilities.

In 2014, Enterprise Services revenue grew **14%** to **$27.9m** while EBITDA grew **83%** to **$4.4m** on the back of continued strong demand for Melbourne IT's cloud solutions.

Enterprise Services

Overview

In the past twelve months, Melbourne IT's Enterprise Services division continued its focus on customer delivery. As its core business, it designs, builds and manages complex cloud solutions to meet specified customer outcomes. As Enterprise and Government organisations increase their investment in web, digital and other market facing initiatives to drive continuous innovation and deeper engagement with their customers, partners and suppliers, demand for the Division's services is expected to grow further. At the same time, many organisations lack the skills, tools and culture needed to create and manage the rapid changes required of high performance market facing platforms. Melbourne IT understands this and has successfully evolved as a specialist in providing the right cloud solutions as well as integrating these platforms with back office systems. The Company's cloud and application professional services – and managed services teams – now support many of Australia's largest and most high profile private and public cloud solutions.

Hundreds of customers – including organisations such as ASX-listed corporations, dynamic media companies and large government departments – rely on Melbourne IT's cloud solutions and managed services to design, build and operate their market facing technology platforms and enterprise applications. We expect demand to grow as technology systems continue to evolve.

2014 Highlights

Melbourne IT is the cloud services partner of choice of many of Australia's leading corporate and government organisations. This client base expanded in 2014, with the addition of new clients such as Coles Financial Services, Australian Federal Government Office of Parliamentary Counsel, Lend Lease Group, and USG Boral Australia. Managed services growth outstripped the decline in traditional hosting services as existing customers took advantage of cloud services.

Financial results for Enterprise Services year-on-year were positive. A focus on delivering solutions to customers rather than supplying components allowed the Division to maintain a strong gross margin of 64%. The combination of continued revenue growth, maintenance of gross margin, and effective management of labour has driven 83% EBITDA growth to $4.4m. Furthermore, increasing demand for cloud application and integration services triggered additional demand for professional services to implement complex solutions. This activity also saw improved billable utilisation rates.

Enterprise Services is committed to investing in skills development and the achievement of industry certifications, in order to maintain its leadership position in the Australian market. In 2014, Enterprise Services was proud to achieve Premier Partner Certification with Amazon Web Services (AWS), one of only 28 partners globally to be awarded this level of certification, PCI compliance and ISO 9001 re-certification.

ENTERPRISE SERVICES	FY 14	FY 13	CHANGE
Revenue	$27.9m	$24.5m	14%
EBITDA Contribution	$4.4m	$2.4m	83%

2015 Outlook

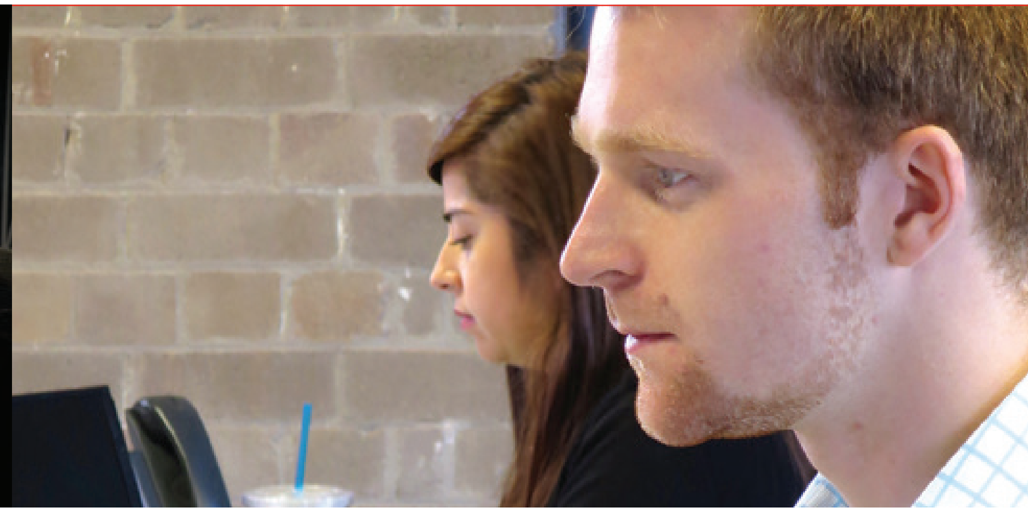
In a significant uptick for the technology sector and for Melbourne IT, adoption of cloud services in Australia is now mainstream.

It is expected that testing and development, together with analytics, web and digital workloads will continue to be strong drivers for cloud adoption. These will allow organisations to be more innovative, create new value, and engage more deeply with their external stakeholders. Enterprise Services has a strong track record in delivering cloud-based solutions and enjoys a trusted position with its customers. This enables Melbourne IT to take advantage of continued sector growth.

Most organisations in Australia now have experience with cloud solutions and understand their value: driving increased innovation and improving speed to market. Hence, the move to migrate traditional back office workloads is expected to become an additional element of cloud adoption. Data centre consolidation into the cloud will also unlock cost efficiencies in managing traditional data centre workloads. In the coming year, Enterprise Services will leverage its proven capabilities in both cloud and application professional services to plan and execute the migration of workloads to the cloud. Once in the cloud, our managed services team is ideally placed to oversee the cloud platform and application.

With its excellent track record and investment in growth and customer service, Melbourne IT has the expertise, experience and credibility to continue to be a leader in the cloud services market in Australia. The next period is expected to see continued growth in this sector fuelled by market demand.

Our People



Investing in our People, Melbourne IT's most important asset

Melbourne IT has a proud history as a workplace offering a friendly and inclusive environment, delivering opportunity for its people in career development, and demonstrating a commitment to diversity, respect, and safety amongst other key values.

From a people perspective, 2014 was an exciting year of change with the revitalisation of the executive team a highlight.

In April 2014, Martin Mercer joined Melbourne IT as its new Chief Executive Officer. Martin brought with him an impressive resume in sales, marketing and product development and general management, and a reputation for excellence in both strategy and execution. Martin quickly introduced strategic change with significant progress made towards becoming a single business, consolidation of business structures, and formalising of business strategy under one umbrella, including multiple brands.

In June 2014, Amy Rixon was appointed as new Chief People Officer, while in July the Company announced a new Group structure integrating the Netregistry business under one Executive Leadership team reporting to the CEO.
This activity was aligned with the formation of a new strategic plan and direction for Melbourne IT in both the SMB and Enterprise markets.

In line with the new direction, other key people changes included the appointment of a revitalised Executive Leadership team (finalised in December 2014 with Cath Hodgson-Croker joining as Chief Sales Officer and Simon Smith as Chief Technology Officer).

As the structure evolved under the new leadership, there were numerous changes in role and reporting lines with the consistent aim of aligning strategy and operations.

Melbourne IT People Numbers

Prior to integration in June 2014, the business had a combined permanent headcount of 430 (not including our offshore partners or contractors). As at 31 December 2014, the combined permanent head count for the business is 368 Full Time Equivalent.

The Melbourne IT business is spread across three Australian locations, with employees in Melbourne (approximately 40 per cent), Sydney (approximately 32 per cent), and Brisbane (25 per cent) as well as an office in Wellington (New Zealand, 3 per cent). We also have our offshore partners and some employees based in Manila and the US.

2014 Highlights

Culture & Engagement – In 2014, understanding employee sentiment and engagement was an important first step to ensuring business alignment. We conducted three employee surveys during the year. These were aimed at understanding and monitoring sentiment. There was a focus on key initiatives to drive engagement, including revised remuneration benchmarking, leadership development, realignment of structures and roles/responsibilities and improved internal communications. Overall, we saw incremental improvement in employee engagement during the year, with strong underlying shifts around effective leadership, performance culture, and employer brand. A robust plan for 2015 to further invest in employee engagement and culture is underway.

Leadership – With the introduction of the Company's new structure and executive team during 2014, Melbourne IT has maintained a focus on, and investment in, leadership alignment and development. We commenced a program of "top down" training for leaders. The aim has been to build strong strategic alignment, collaboration across divisions and to continue to improve leadership capabilities from a coaching, development and performance management perspective.

Diversity – Melbourne IT's gender diversity improved at management levels during 2014, though overall representation remains similar to industry benchmarks. We have updated our diversity policy and launched initiatives aimed at delivering our commitment to improving diversity within our workforce, and enhancing culture, creativity, and performance.

Integration – With the integration of Netregistry into Melbourne IT, key activities included consolidating payroll, recruitment, and induction processes, and refreshing and simplifying internal policies and procedures that affect employees. The aim is to build a singular business identity, through multiple brands.

2015 Outlook

Looking ahead, a key pillar of Melbourne IT's business strategy is culture and engagement. For 2015 and beyond, we have further development investments planned for leadership at all levels of the Company with a focus on building employee coaching capability and a high performance culture.

We will plan to continue improvement at a people management level around policies and procedures delivering benefits and programs that will build employee engagement.

We are also intensifying the focus on employer branding and skill and capability development in the areas aligned with our strategy, as well as supporting career development.

Ongoing integration and synergy opportunities will be a core capability for the business, underpinned by effective change management.

Melbourne IT's People & Culture team will continue its focus on employee lifecycle to improve attraction and retention, and engagement.

Our ultimate aim is to build and maintain a winning culture.

New Executive Team

Martin Mercer	Chief Executive Officer
Peter Findlay	Chief Financial Officer
Brett Fenton	Chief Customer Officer
Cath Hodgson-Croker	Chief Sales Officer
Verity Meagher	Chief Marketing Officer
Amy Rixon	Chief People Officer
Simon Smith	Chief Technology Officer
Bruce Tonkin	Chief Strategy Officer
Peter Wright	Executive General Manager, Enterprise Services

Board of Directors

Simon Jones
Chairman

Mr Jones is a Chartered Accountant and a director of Canterbury Partners Pty Ltd which is a boutique corporate advisory business located in Melbourne. He has extensive experience in investment advisory, valuations, mergers and acquisitions, public offerings, audit and venture capital.

Mr Jones is Chairman of the Advisory Board of MAB Limited, Lead Independent Director of Computershare Limited and Chairman of the Advisory Board of Trawalla Group. Mr Jones is former Managing Director of N.M. Rothschild and Sons (Australia) - Melbourne office. He is also a former Head of Audit and Business Advisory (Australia & New Zealand) and Corporate Finance (Melbourne) of Arthur Andersen.

Mr Jones was appointed to the Board on 12 March 2003, and was appointed Chairman on 1 November 2009. He is a member of the Audit & Risk Management Committee and the Human Resources, Remuneration and Nomination Committee.

Martin Mercer
Managing Director and Chief Executive Officer

Mr Mercer was Managing Director, Strategy and Fixed at Optus following four successful years as Chief Executive Officer of vividwireless and ten years in a number of significant leadership positions at Telstra. Mr Mercer has an impressive resume in strategy, sales, marketing and product development and general management and brings with him a reputation for excellence in both strategy and execution.

Mr Mercer has a BA (Hons) and an LLB from the University of Sydney. He has a graduate diploma in Finance from the Securities Institute of Australia and studied economics and finance at the Woodrow Wilson School of Public and International Affairs, Princeton University. He is also a former Harkness Fellow.

Mr Mercer was appointed as Managing Director and Chief Executive Officer on 7 April 2014.

Rob Stewart AM
Non-Executive Director

Mr Stewart is a company director and management consultant. He was National Managing Partner of Minter Ellison, one of Australia's leading law firms, for eleven years, retiring in June 1999. He was also a non-executive director of Memtec Ltd from 1988 until 1997. Memtec listed on NASDAQ and then the New York Stock Exchange prior to being taken over by a US company in 1997.

Mr Stewart spent five years with Pacific Dunlop from 1976 to 1981 in a variety of general management positions within the Footwear Group. He is a highly experienced company director, having served on the boards of seven publicly listed companies (including Mitchell Communications Group Ltd and Metabolic Pharmaceuticals Ltd). He was also a director of a number of private commercial companies and not for profit organisations (including the Baker IDI Heart and Diabetes Research Institute, where he was Chairman for six years). Currently he is Chairman of C E Bartlett Pty Ltd; Chairman of jobsjobsjobs Pty Ltd; and a director of QSR International Pty Ltd.

Mr Stewart was appointed to the Board on 14 September 1999 and held the position of Chairman until 31 October 2009. He is Chairman of the Audit & Risk Management Committee.

Tom Kiing
Non-Executive Director

Mr Kiing is a director of Bridge Capital Pty Ltd, an Australian technology investment firm that manages a portfolio of investments in the IT sector. He currently sits on the Boards of: Primary Opinion Ltd, an ASX listed digital content company; and The Atomic Group, an integrated sports and health company in Australia. Mr Kiing is also co-founder of Tarazz.com, an Asian based ecommerce portal.

Mr Kiing has extensive experience in mergers and acquisitions, capital markets and corporate finance. He travels extensively through the ASEAN region to promote a wide range of Australian investment opportunities to Asian institutions and private investors.

Mr Kiing was appointed to the Board on 19 December 2002. He is a member of the Human Resources, Remuneration and Nomination Committee and served as the Chairman from 1 October 2013 until 1 March 2014.

Naseema Sparks
Non-Executive Director

Ms Sparks is an experienced 'top-line growth' director with current and relevant expertise in a range of industries in particular organisations with strong B2C profiles as well as disruptive technology playing in traditional industry sectors. Her expertise includes corporate strategy, online commerce, retail, financial services, media, branding and marketing, digital technology platforms and manufacturing. Her most recent executive career was as Managing Director and Global Partner of M&C Saatchi Ltd.

Ms Sparks' qualifications include an MBA from Melbourne Business School and she is a Fellow of the Australian Institute of Company Directors.

She is a member of the boards of a number of Australian listed companies, arts and not-for-profit organisations, including PMP Ltd, Grays e-Commerce Ltd, Australian Vintage Ltd, and AIG Australia. She is also Deputy Chairman of Racing NSW and a Trustee of Sydney Living Museums (Historic Houses Trust of NSW).

Ms Sparks was appointed to the Board on April 2012. After serving as a member of the Human Resources, Remuneration and Nomination Committee, she was appointed Chairperson on 1 March 2014.

Larry Bloch
Non-Executive Director

Mr Bloch has been a serial entrepreneur, pioneer and leader in the online business services industry for 20 years. He founded and was Managing Director of NetBenefit in the UK in 1994. NetBenefit rapidly became the largest domain and hosting provider in Europe. Mr Bloch also founded Virtual Internet in France in 1996. After selling NetBenefit to the General Internet Corporation in 1997, he relocated to Sydney.

Mr Bloch co-founded Netregistry Group Limited in 1997 and was its major shareholder, CEO and Chairman for 17 years. In 2014, he successfully sold Netregistry Group Limited to Melbourne IT Limited.

Mr Bloch holds a B.Sc Degree and two Post Graduate Honours Degrees in Pure Mathematics and Computer Science from the University of Cape Town.

Mr Bloch was appointed to the Board on 3 April 2014. He is a member of the Human Resources, Remuneration and Nomination Committee.

DIRECTORS' REPORT

Your directors submit their report for the year ended 31 December 2014.

Directors were in office for the entire period unless otherwise noted.

Directors		Managing Director
Mr. Simon Jones		Mr. Martin Mercer (Appointed 7 April 2014)
Mr. Tom Kiing		
Mr. Robert Stewart AM		
Ms. Naseema Sparks		
Mr. Larry Bloch	(Appointed 3 April 2014)	

Company Secretary	
Mrs. Edelvine Rigato	(Appointed 11 November 2014)
Mr. Arnaud Desprets	(Resigned 11 November 2014)

DETAILS OF DIRECTORS' EXPERIENCE, EXPERTISE AND DIRECTORSHIPS

Full details of the Directors' experience, expertise and directorships can be found on the Melbourne IT website at www.melbourneit.info and the Annual Report.

Interests in the shares and options of the company

As at the date of this report, the interests of the directors in the shares and options of the company and related bodies corporate were:

	Ordinary Shares	Options over Ordinary Shares
Mr. Simon Jones	155,935	-
Mr. Tom Kiing	5,721,488	-
Mr. Robert Stewart AM	810,784	-
Ms. Naseema Sparks	-	-
Mr. Larry Bloch	9,208,363	-
Mr. Martin Mercer	-	296,610

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year by operating segment are described as follows:

Enterprise Services ('ES')
The Enterprise Services Division provides managed services and business grade cloud applications, solutions and services to corporate and government clients throughout Australia.

SMB Solutions
SMB Solutions operates in the web services business in Australia and New Zealand, offering customers everything they need to run an online business. These services include domain name registrations and renewals, website and email hosting, website design services, online marketing, website security, and online tools and solutions. Customers are primarily in the Small to Medium Enterprise (SME) sector.

SMB Solutions also supplies a technical and support solution for domain name registration, shared hosting and other online business services to a global network of reseller clients. Resellers are given access to Melbourne IT's domain name registration, shared hosting and maintenance systems. Benefits to Reseller clients include application of a real time automated system that can be integrated into the Reseller website, together with access to specialist support and account management services.

DIRECTORS' REPORT (continued)

PRINCIPAL ACTIVITIES (continued)

Discontinued Operations
The Group also conducted two other principal activities, both of which were discontinued in the previous corresponding period. The Digital Brand Services (DBS) business was sold on 12 March 2013. Its core business was online brand protection including the management of corporate domain name portfolios. The sale of the For The Record (FTR) business was completed on 30 August 2013. It was a supplier of rich media content management systems primarily to court rooms.

REVIEW AND RESULTS OF OPERATIONS

EARNINGS PER SHARE

	2014	2013
Continuing operations		
Basic earnings per share	0.72 cents	7.46 cents
Diluted earnings per share	0.72 cents	7.42 cents
Discontinued operations		
Basic earnings per share	-	75.44 cents
Diluted earnings per share	-	75.05 cents
Total operations		
Basic earnings per share	0.72 cents	82.90 cents
Diluted earnings per share	0.72 cents	82.47 cents

DIVIDENDS

During the year, an interim dividend of 1.0 cent per share, franked at 80%, amounting to $0.929 million was paid on 30 September 2014.

After 31 December 2014, a final dividend of 4.0 cents per share, franked at 80%, amounting to $3.718 million has been declared by the directors. The final dividend has not been recognised as a liability as at 31 December 2014.

REVIEW OF OPERATIONS

Overview

The group recorded a 20.6% increase in consolidated revenue from continuing operations during the year ended 31 December 2014, from $103.4m to $124.7m. This was primarily due to the acquisition of Netregistry on 31 March 2014 and the continued growth of the Enterprise Services business. EBITDA of $12.8m, based on continuing operations was 121% better than 2013. There was strong underlying EPS growth (when adjusted for impairment and transaction costs) of 8.72 cents, which was 17% better than prior year. This result was driven by the full year impact of restructuring in late 2013, the acquisition of Netregistry Group and the strong Enterprise Services division performance.

Profit after tax from continuing operations for the year ended 31 December 2014 was $0.6m (2013: $6.2m). Normalised profit after tax is $7.9m after adjusting for tax effected impairment costs and transaction costs (2013:$6.2m).

DIRECTORS' REPORT (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

REVIEW OF OPERATIONS (continued)

Overview (Continued)

The increase in earnings outlined above also provided improved cash flows for Melbourne IT. During the year $9.4m of free cash flow was generated representing a 168% improvement on 2013. The net cash balance of $18.1m as at 31 December 2014 demonstrates the strength of our balance sheet.

The Netregistry acquisition contributed $25.3m to Group Revenue and $3.8m to Group EBITDA. It significantly added to Melbourne IT's business capability and provided a strong customer facing technology system which can be utilised across the entire business. Furthermore, Netregistry added a mature customer base and a stable SMB revenue stream allowing for greater cross sell opportunities. Substantial progress was achieved in realising synergy savings from the Netregistry acquisition during the year with the consolidation of many technology suppliers and service providers. The integration is on track to achieve $7.5m per annum of synergy savings by the end of 2016.

Outlook 2015 and beyond

Melbourne IT will continue to focus on the following four key areas in 2015:

- Stabilise the core legacy SMB business of domains and hosting and ensure the historical trend of decline is arrested by year end;
- Grow the SMB solution business through the development of "Do It For Me" website solutions and the Tiger Pistol managed social media offering;
- Continue with the successful integration of Melbourne IT and Netregistry to drive further synergy benefits; and
- Further develop and expand the ES managed services offering.

The acquisition of the Uber Global Group (announced in February 2015) will provide additional customers in domain registration, hosting and cloud applications. These economies of scale will further strengthen Melbourne IT's core domains and hosting position. We expect some $2.5m in annualised synergies to be extracted from Uber Global business by 2017.

Risks review

Melbourne IT's ability to achieve its strategic objectives and secure its future financial prospects may be impacted by the following key risks:

- Competition – the online business world is rapidly evolving with a heightened environment of change characterised by disruptive technologies. Melbourne IT remains abreast of the competitive landscape by investing in new products and customer experience. The acquisitions of Netregistry and Uber Global assist in risk mitigation with access to a larger customer pool, increased skill sets, funds available for market investment and product enhancements.
- Markets – a material proportion of Melbourne IT revenue is derived from the performance of its reseller channel and government funding patterns. These revenue streams can be difficult to predict. Melbourne IT works closely with its customers to understand their challenges in order to mitigate these risks.
- Regulatory – Melbourne IT business operates in highly regulated global markets. Success can be impacted by changes to the regulatory environment. Melbourne IT plays an active role in consulting with regulators on changes which could impact our business.

A reconciliation of EBIT and EBITDA included in this report to the reported profit after tax is provided below. The company believes that this non-IFRS, unaudited information is relevant to the user's understanding of its results as it provides a better measure of underlying operating performance.

DIRECTORS' REPORT (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

Summarised operating results are as follows:

	2014 $'000	2013 $'000
Continuing operations		
Revenue		
Registration Revenue	53,335	44,752
Hosting & Value-Added Product Sales	70,286	55,729
Other Revenue	513	248
Total Revenue excluding Interest Revenue	124,134	100,729
Interest Revenue	572	2,670
Total Consolidated Income	**124,706**	**103,399**
Earnings Before Net Interest, Tax, Depreciation and Amortisation ('EBITDA')	**12,786**	**5,819**
Depreciation Expense	(2,445)	(1,978)
Amortisation Expense	(1,870)	(804)
Impairment of Intangible Asset	(8,587)	-
Total Earnings Before Net Interest and Tax ('EBIT')	**(116)**	**3,037**
Costs Recovered from Discontinued Operations*	-	282
Net Interest Revenue	406	2,545
Profit Before Tax from Continuing Operations	**290**	**5,864**
Tax Benefit	358	334
Profit After Tax from Continuing Operations	**648**	**6,198**
Discontinued Operations		
Profit After Tax from Discontinued Operations	**-**	**62,678**
Profit After Tax for the Year	**648**	**68,876**
Cashflow from Operations	**16,082**	**7,308**

* Represents recovery of costs from the DBS and FTR businesses by the parent entity with a corresponding expense included in the discontinued operations

DIRECTORS' REPORT (continued)

RISK MANAGEMENT

The Group takes a proactive approach to risk management and an active risk management plan is in place. The Group's approach to risk management is to determine the material areas of risk it is exposed to in running the organisation and to put in place plans to manage and/or mitigate those risks.

In addition, risk areas are reviewed by the Group's risk management staff, with the assistance of external advisors on specific matters, where appropriate.

Internal audit of key business processes is scheduled across the Group. The entire risk management plan is reviewed at least annually.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 19 February 2014, the Company made a capital return of $45.2 million (equivalent to $0.54 per fully paid ordinary share) to shareholders. The capital return was made in accordance with the resolution approved by shareholders at the General Meeting held on 28 January 2014.

On 31 March 2014, Melbourne IT completed the acquisition of Netregistry Group Limited ('Netregistry'), a leading online services provider, for an enterprise value of $50.4 million. The acquisition was funded through a mix of cash ($38.366 million) and scrip ($12.070 million) consideration. To facilitate the acquisition, Melbourne IT entered into a $20 million revolving credit facility with National Australia Bank Limited in late March 2014. The bank facility was fully repaid prior to 30 June 2014. The accounting for the acquisition in accordance with AASB 3 'Business Combinations' is as disclosed in Note 21 to the Financial Statements.

Larry Bloch, founder and CEO of Netregistry Group Limited, joined Melbourne IT's Board of Directors as a non-executive director on 3 April 2014.

Martin Mercer was appointed as Chief Executive Officer and Managing Director of Melbourne IT effective on 7 April 2014.

On 13 June 2014, the Company received the remaining 10% of the sale price of the DBS business of $15.250 million (including accrued interest income) which had been held in escrow and recorded as a receivable in the previous corresponding period.

Other than as stated above, there have been no other significant changes in the state of affairs during the year ended 31 December 2014.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 25 February 2015, the directors declared a final dividend of 4.0 cents per ordinary share, franked at 80%, amounting to $3.718 million. The dividend will be paid on 23 April 2015.

On 25 February 2015 Melbourne IT announced that it had entered into a Share Purchase Agreement to acquire 100% interest in Uber Global Pty Ltd, a major domains and hosting services provider, for the purchase consideration of $15.5 million, and a potential earn out based on EBITDA performance to 30 June 2015 which is capped at $5 million. The acquisition will be funded through cash on hand. The completion of the transaction is subject to regulatory approval.

Other than the above, there has not been any other matter or circumstance in the interval between the end of the year and the date of this report that has materially affected or may materially affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial periods.

DIRECTORS' REPORT (continued)

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

For further information about the likely developments and expected results of the Group, refer to the 'Outlook 2015 and beyond' section on page 18 of this report.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has entered into a Deed of Insurance and Indemnity with each of the non-executive directors and certain officers named earlier in this report and executive directors of controlled entities. Under the Deed, the Company has agreed to indemnify these directors against any claim or for any costs which may arise as a result of work performed in their capacity as directors, to the extent permitted by law.

During the financial year, the Company paid an insurance premium in respect of a Directors and Officers Liability Policy covering all directors and officers of the Company and related bodies corporate. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

SHARE OPTIONS

Unissued shares

As at the date of this report, there were no unissued ordinary shares under options. There were none at the reporting date. Refer to Note 30 to the Financial Statements for further details of the options outstanding. Option holders do not have any right, by virtue of the option rules, to participate in any share issue of the Company or any related body corporate or in the issue of any other registered scheme.

Shares issued as a result of the exercise of options/rights

A total of 571,215 (2013: 713,008) options/rights were vested/exercised during the year ended 31 December 2014.

During the financial year, there were 296,610 rights granted.

DIRECTORS' REPORT (continued)

DIRECTORS' MEETINGS

	Directors' Meetings		Meetings of Committees			
			ARMC (1)		HRRNC (2)	
No. of meetings held in 2014	14		5		5	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Mr Simon Jones	14	14	5	5	5	5
Mr Martin Mercer*	9	9				
Mr Robert Stewart AM	14	14	5	5		
Mr Tom Kiing	14	13			5	5
Ms Naseema Sparks	14	12			5	5
Mr Larry Bloch**	9	9			4	4

(1) Audit and Risk Management Committee
(2) Human Resources, Remuneration and Nomination Committee
* Appointed 7 April 2014
** Appointed 3 April 2014

The above table shows the numbers of meetings of directors held during 2014. The table also shows the number of meetings attended by each director and the number of meetings each committee member was eligible to attend.

As at the date of this report, the Company had an Audit and Risk Management Committee ("ARMC") and a Human Resource, Remuneration and Nomination Committee ("HRRNC") of the Board of Directors.

The members of the ARMC are Mr R. Stewart AM (Chairman) and Mr S. Jones.

The members of the HRRNC are Mr T. Kiing (Chairman from 1 September 2013 until 28 February 2014), Mr S. Jones, Ms N. Sparks (Chairman from 1 March 2014) and Mr L. Bloch (appointed member from 3 April 2014).

The Managing Director and Chief Executive Officer attends each ARMC and each HRRNC by invitation.

DIRECTORS' REPORT (continued)

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Melbourne IT Ltd support and have adhered to the principles of corporate governance.

The Company's Corporate Governance Statement is available on the Company's website (www.melbourneit.info).

REMUNERATION REPORT (Audited)

This Remuneration Report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purpose of this report, Key Management Personnel (KMP) of the Group are defined as those persons having the authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly.

For the purposes of this report, the KMP are the Chief Executive Officer/Managing Director, Chief Financial Officer, Company Secretary, Chief Technology Officer, Chief Strategy Officer, Chief Sales Officer, Chief Marketing Officer, Chief Customer Officer, Chief People Officer and Executive General Manager, Enterprise Services. Directors of the Company are also included in the definition of KMP.

Human Resources, Remuneration and Nomination Committee (HRRNC)

The HRRNC of the Board of Directors of the Company is responsible for determining and reviewing compensation policy and arrangements for directors, executives and staff.

The HRRNC assesses the appropriateness of the nature and amount of remuneration of directors and executives on a periodic basis by reference to relevant employment market conditions and the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing director and executive team.

Remuneration philosophy

The performance of the Company depends upon the quality of its directors, executives and staff. Our approach to remuneration is to aim to pay an appropriate market rate for the skills and capabilities we require now and in the future and to reward pay for performance and progression. We consider Remuneration to be one component of our Employee Value Proposition, and therefore believe employee reward is greater than just 'salary'. We look for opportunities to provide a meaningful and rewarding role and place to work for our people, both in financial and non-financial ways. The intention of our remuneration approach is to attract and retain motivated and quality skilled employees, appropriately compensate team members to fulfil their duties and motivate employees to deliver business outcomes.

In line with this, the following principles are applied in the remuneration framework for executives:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to shareholder value;
- Have a significant portion of executive remuneration 'at risk', dependent upon meeting pre-determined performance; and
- Establish appropriate, demanding performance hurdles for variable executive remuneration.

Further details of the remuneration of directors and KMP are also provided in Note 29 to the Financial Statements.

DIRECTORS’ REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

Objective
The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, while incurring a cost that is acceptable to shareholders.

Structure
The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The last determination was at the Annual General Meeting held on 20 May 2008 when shareholders approved an aggregate remuneration of $1,000,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed periodically. The Board considers advice from external consultants, the fees paid to non-executive directors of comparable companies as well as company performance when undertaking the annual review process.

Fixed Remuneration

Each director receives a fee for being a director of the Company. Each director is expected to be a member of at least one committee. An additional fee is paid for chairing a Board committee in recognition of the additional time commitment and responsibility required.

Non-executive directors have long been encouraged by the Board to hold shares in the Company (purchased by the directors on market). It is considered good governance for directors to have a stake in a Company on whose board they sit. Details of the shareholding as at the date of this report are disclosed on page 16 of the Directors' Report. The fees for non-executive directors are reviewed annually. The last change was made with effect from 1 January 2011.

The remuneration of non-executive directors for the period ended 31 December 2014 is detailed below.

Structure
Details of the nature and amount of each element of the emolument of each non-executive director of Melbourne IT Ltd for the financial year are as follows:

2014	**Short Term**	**Post Employment**	
Directors	Salary & fees	Superannuation Contribution	**Total**
	$	$	**$**
Mr Simon Jones	176,813	16,576	193,389
Mr Tom Kiing	78,542	7,361	85,903
Ms Naseema Sparks	85,208	7,990	93,198
Mr Robert Stewart AM	86,875	8,145	95,020
Mr Larry Bloch (1)	65,156	6,136	71,292
Total 2014	**492,594**	**46,208**	**538,802**

(1) Appointed 3 April 2014

DIRECTORS’ REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Fixed Remuneration (continued)

2013	**Short Term**	**Post Employment**	
Directors	Salary & fees	Superannuation Contribution	**Total**
	$	$	**$**
Mr Simon Jones	276,813	25,134	301,947
Mr Tom Kiing	79,376	7,015	86,391
Ms Naseema Sparks	76,875	7,015	83,890
Mr Robert Stewart AM	86,875	7,927	94,802
Mr Andrew Walsh (1)	57,916	5,249	63,165
Total 2013	**577,855**	**52,340**	**630,195**

(1) Resigned 31 August 2013

Executive and senior manager remuneration

Objective
The Company aims to reward executives and senior managers with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:
- Reward them for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- Align their interests with those of shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

Structure
To assist in achieving these objectives, the HRRNC links the nature and amount of executive emoluments to the Company’s financial and operational performance. All executives have the opportunity to participate in the Short Term Incentive Plan as described on page 26. Some executives are also participants in the Long Term Incentive Plan as described on page 27.

Remuneration consists of the following key elements:
- Fixed Remuneration
  - All employees will have base salary and superannuation
- Variable Remuneration
  - In addition to fixed salary, some employees (based on role type and seniority) may have annual variable incentive, i.e. Short Term Incentives ("STI") based on company and individual performance.
  - Senior executives of the business may also have long term share plan incentives ("LTI") aligned with company and individual performance.
- Other benefits
  - Depending on role type/ requirements and policy considerations, some additional benefits may also be included in an individual's remuneration package or offer. This could include parking, allowances, phone/ internet, etc.

The proportion of fixed and variable remuneration (potential short term and long term incentives) is established for executives by the HRRNC. The table on page 29 details the fixed and variable components of the Key Management Personnel of the Group and the Company.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Executive and senior manager remuneration (continued)

Fixed remuneration

Objective
Fixed remuneration is reviewed annually by the HRRNC. The process consists of a review of company wide, business unit and individual performance, relevant comparative remuneration in the market and internally, and where appropriate, external advice on policies and practices. As noted above, the HRRNC has access to external advice independent of management.

Structure
Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

The fixed remuneration component of the Key Management Personnel is detailed on page 29.

Variable Remuneration – Short Term Incentives (STI)

Objective
The objective of the STI program is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executives to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

Structure
In order to determine whether an executive will qualify to receive an STI payment, two hurdles need to be met. Firstly, the Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA'), Revenue, Employee Engagement and Net Promoter Score targets (collectively known as 'performance targets') set by the Company need to be met. The performance targets were chosen as they represent the key performance indicators for the short term success of the business and provide a framework for delivering long term value. Assuming this occurs, actual STI awards will be made based on the extent to which specific operational targets are met. If the performance targets are missed, then the payment for the achievement of any operational targets becomes discretionary and will only be paid if the executive has demonstrated excellent performance in meeting those operational targets. The operational targets are set at the beginning of each year and include both financial and non-financial performance metrics, such as contribution to profit, customer service, IT production and development, product and marketing management, finance, legal and human resources management, risk management and leadership/team contribution, including adherence to company values and behaviours.

Both hurdles are assessed on an annual basis, and reviewed by the HRRNC, and are taken into account when determining the amount, if any, of the STI to be paid to each executive. This assessment process usually occurs within 3 months of the end of our financial year. The limits that are applied to the STI payment ranges from nil to 100% of the amount of the base value awarded to the executive. During the year, no STI was paid in relation to this STI program set out above in respect of the 31 December 2013 financial year. For the financial year ended 31 December 2014, 83.7% of STI will be paid out in 2015.

In addition, the HRNNC and/or the Board of Directors exercised their discretion to determine STI to be received by certain executives in recognition of their contribution to the Group's performance (e.g. acquisition of Netregistry in 2014).

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Executive and senior manager remuneration (continued)

Variable Remuneration – Long Term Incentives (LTI)

Objective
The objective of the LTI plan is to reward executives, senior management and staff in a manner that aligns this element of remuneration with the creation of shareholder wealth. As such, LTI grants are made to executives, senior management and staff who are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance against the relevant long term performance hurdle.

Structure
LTI grants to executives are delivered in the form of performance rights to achieve alignment between comparative shareholder return and reward for executives.

LTI Plans – pre 31 December 2013
Performance Rights/LTI Deferred Cash Bonus Plans (referred to collectively as Performance Rights) issued on 1 July 2010, 1 July 2011, 1 January 2012 and 1 July 2012, had two performance conditions. 50% of the Performance Rights would vest based on the increase in basic earnings per share ('EPS') adjusted for matters outside of management control that affects EPS (for example, by excluding one-off non-recurrent items), and 50% would vest based on relative total shareholder return ('TSR') in comparison to a peer group from the S&P/ASX Small Ordinaries Index. These Performance Rights were granted with a zero exercise price.

The Performance Rights vested on a sliding scale so that the amount of Rights vesting to the individual depended on the performance level achieved. Performance was measured over the 36 month period from 1 January of the respective grant year to 31 December of the respective vesting year and was settled in the equivalent number of ordinary shares of Melbourne IT, except for overseas executives who on settlement instead received a cash bonus of the equivalent amount. The following sliding scale was applied to the vesting of the Rights:

Relative TSR Percentile Rank Achieved	TSR Proportion of Rights Vesting
>= 75th percentile	100%
> 50.1 percentile and < 75th percentile	Pro-rata allocation
50.1 percentile	50%
< 50.1 percentile	0%

Compound annual EPS growth	Proportion of EPS Rights Vesting
>= 12.5%	100%
> 7.5% and < 12.5%	Pro-rata allocation
7.50%	50%
< 7.5%	0%

Relative TSR in comparison to a peer group from the S&P/ASX Small Ordinaries Index was chosen as a performance hurdle as it will align the remuneration outcome of management team to the investment performance of its shareholders while EPS growth was chosen as a performance hurdle as the Board believes that this metric recognises the performance of management team in delivering quantifiable results for shareholders.

On 28 January 2014, shareholders approved a resolution to vary the vesting dates of the 2011 and 2012 Performance Rights such that both Performance Rights vested on 31 January 2014. The Performance Rights which vested in relation to the 2012 plan were held in escrow until 30 June 2014. After 31 January 2014, there were no unissued shares relating to the 2011 and 2012 Performance Rights plans.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Executive and senior manager remuneration (continued)

Variable Remuneration – Long Term Incentives (LTI) (continued)

LTI Plans – post 31 December 2013

Performance Rights relating to the 31 December 2014 financial year (hereafter referred to as 2014 LTI Plan) were issued on 27 May 2014 with respect to the Performance Rights granted to the Chief Executive Officer (CEO). The Performance Rights granted to other eligible staff were issued on 12 January 2015. The 2014 LTI Plan and the Performance Rights granted to the CEO were approved by shareholders at the Annual General Meeting on 27 May 2014.

The 2014 LTI Plan has two performance conditions. 50% of the Performance Rights will vest based on the increase in basic earnings per share ('EPS') adjusted for matters outside of management control that affects EPS (for example, by excluding one-off non-recurrent items), and 50% will vest based on relative total shareholder return ('TSR') in comparison to a peer group from the S&P/ ASX Small Ordinaries Index. These Performance Rights were granted with a zero exercise price.

The Performance Rights will vest on a sliding scale so that the amount of Rights vesting to the individual depends on the performance level achieved. Performance will be measured over the 36 month period from 1 January of the respective grant year to 31 December of the respective vesting year and will be settled in the equivalent number of ordinary shares of Melbourne IT. The following sliding scale is applied to the vesting of the Rights:

TSR Percentile Rank Achieved	TSR Proportion of Rights Vesting
> 75th percentile	100%
> 50.1 percentile and < 75th percentile	Pro-rata allocation
< 50 percentile	0%

Compound annual EPS growth	Proportion of EPS Rights Vesting
> 17%	100%
> 12% and < 17%	Pro-rata allocation
< 12%	0%

Company performance and link to remuneration

Company performance and link to short and long term incentives

The financial performance metric on which STI payments are based is the Group's EBITDA and Revenue results. LTI's vest on the basis of relative TSR and EPS achievements, as shown in the table above. These metrics are considered to most closely align the interests of executives with those of shareholders.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Emoluments of Executives of the Company and the Consolidated Entity

Details of the nature and amount of each element of the total remuneration for each member of the Key Management Personnel for the year ended 31 December 2014 and 2013 are set out in the tables. Where remuneration was paid in anything other than AUD, it has been translated at the average exchange rate for the financial year.

2014	**Short term benefits**			**Post Employment benefits**	**Long term benefits**	**Share Based Payments**	**Other**		
Executives	Salary & fees	STI (1)	Other (2)	Super Cont.	Long service leave (3)	Amortisation Expense (4)	Termination Pay	**Total**	**Performance related (5)**
	$	$	$	$	$	$	$	**$**	%
Mr Martin Mercer (6)	409,155	221,833	4,302	18,720	-	117,655	-	771,665	44.0%
Mr Peter Findlay	414,064	116,233	9,826	32,490	5,050	39,791	-	617,453	25.3%
Dr Bruce Tonkin	272,070	98,725	10,930	24,237	7,813	26,527	-	440,301	28.4%
Mr Peter Wright	272,336	83,633	7,494	23,154	3,783	26,527	-	416,927	26.4%
Mr Arnaud Desprets (7)	126,780	12,500	392	12,615	2,274	-	-	154,560	8.1%
Mrs Amy Rixon (8)	108,605	46,923	488	9,933	-	20,216	-	186,164	36.1%
Mr Brett Fenton (9)	162,098	60,442	4,302	14,534	3,300	32,392	-	277,068	33.5%
Ms Verity Meagher (10)	139,247	54,947	4,302	13,883	1,667	22,083	-	236,129	32.6%
Mrs Catherine Hodgson-Croker (11)	24,049	-	488	1,979	-	-	-	26,516	0.0%
Mr Simon Smith (12)	24,529	-	488	2,138	-	-	-	27,154	0.0%
Mr Doug Schneider (13)	166,033	-	-	-	-	26,390	-	192,423	0.0%
Mrs Edelvine Rigato (14)	6,898	-	-	570	-	-	-	7,468	0.0%
Total 2014	**2,125,863**	**695,236**	**43,011**	**154,252**	**23,886**	**311,581**	**-**	**3,353,829**	

(1) Represent STIs accrued in relation to 2014 financial year and STIs paid to executives who worked on the acquisition of Netregistry.
(2) Includes the cost to the business of any non-cash business benefits provided.
(3) Comprises Long Service Leave accrued during the year.
(4) Relates to the amortisation booked during the year in relation to the fair value of the 2011, 2012 and 2014 Performance Rights.
(5) Calculated as STI plus Amortisation of Performance Rights, as a proportion of total remuneration.
These two elements represent the at-risk and discretionary amount payable which will vary depending on the financial performance of the Company. They are in addition to the fixed remuneration.
(6) Mr Martin Mercer, CEO and Managing Director was appointed to the Group and the executive on 7 April 2014.
(7) Mr Arnaud Desprets resigned as Company Secretary on 11 November 2014.
(8) Mrs Amy Rixon was appointed to the executive on 4 June 2014. She holds the position of Chief People Officer.
(9) Mr Brett Fenton was appointed to his current executive position of Chief Customer Officer on 14 July 2014, however he held an executive position from 1 April 2014.
(10) Ms Verity Meagher was appointed to her current executive position of Chief Marketing Officer on 14 July 2014, however she held an executive position from 1 April 2014.
(11) Mrs Catherine Hodgson-Croker was appointed to the executive on 3 November 2014. She holds the position of Chief Sales Officer.
(12) Mr Simon Smith was appointed to the executive on 1 December 2014. He holds the position of Chief Technology Officer.
(13) Mr Doug Schneider resigned from the Group and the executive on 9 May 2014.
(14) Mrs Edelvine Rigato was appointed as Company Secretary on 11 November 2014.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Emoluments of Executives of the Company and the Consolidated Entity (Continued)

2013	Short term benefits			Post Employment benefits	Long term benefits	Share Based Payments	Other		
Executives	Salary & fees	STI (1)	Other (2)	Super Cont.	Long service leave (3)	Amortisation Expense (4)	Termination Pay	Total	Performance related (5)
	$	$	$	$	$	$	$	$	%
Mr Theo Hnarakis (6)	670,627	143,640	17,816	13,287	15,015	268,274	847,817	1,976,476	20.8%
Mr Doug Schneider	347,553	-	-	-	-	65,344	-	412,897	15.8%
Mr Peter Findlay	323,139	102,069	8,736	28,750	4,924	94,098	-	561,716	34.9%
Ms Ashe-lee Jegathesan (7)	191,466	63,443	8,650	29,146	(10,584)	69,094	214,568	565,783	23.4%
Mr Arnaud Desprets (8)	43,750	-	98	4,047	-	-	-	47,895	0.0%
Mr Peter Wright (9)	270,284	-	14,187	24,555	4,290	62,732	-	376,048	16.7%
Dr Bruce Tonkin (10)	281,212	83,061	10,472	24,477	7,661	64,842	-	471,725	31.4%
Mr Martin Burke (11)	73,670	-	-	15,319	-	-	405,099	494,088	0.0%
Total 2013	**2,201,701**	**392,213**	**59,959**	**139,581**	**21,306**	**624,384**	**1,467,484**	**4,906,628**	

(1) Represent STIs paid to executives who worked on the sale of the DBS business.
(2) Includes the cost to the business of any non-cash business benefits provided.
(3) Comprises Long Service Leave accrued during the year. A credit balance in respect of leavers represents the reversal of leave accrued in prior years.
(4) Relates to the amortisation booked during the year in relation to the fair value of the 2010, 2011 and 2012 Performance Rights.
(5) Calculated as STI plus Amortisation of Performance Rights, as a proportion of total remuneration.
These two elements represent the at-risk and discretionary amount payable which will vary depending on the financial performance of the Company. They are in addition to the fixed remuneration.
(6) Mr Theo Hnarakis, CEO and Managing Director, resigned from the Group and the executive on 5 December 2013.
He was entitled to the following termination benefits: (1) payment in lieu of the 12 months' notice period based on the fixed component of Mr Hnarakis' remuneration, (2) redundancy payment based on the fixed component of his remuneration according to the Fair Work Act 2009, and (3) accrued discretionary bonus relating to the sale of the DBS business.
Also, his entitlement to the 2011 and 2012 Performance Rights granted to him had vested, on a pro-rata basis in relation to the proportion of the service period during which he was employed, on the date of his resignation from the executive.
(7) Ms Ashe-lee Jegathesan resigned from the executive on 26 September 2013, and resigned from the Group on 6 December 2013.
Her entitlement to the 2011 and 2012 Performance Rights granted to her had vested, on a pro-rata basis in relation to the proportion of the service period during which she was employed, on the date of her resignation from the executive.
(8) Mr Arnaud Desprets was appointed as Company Secretary on 26 September 2013.
(9) Mr Peter Wright was appointed to the executive on 1 January 2013. He holds the position of Executive General Manager, Enterprise Services.
(10) Dr Bruce Tonkin was appointed to the executive on 1 January 2013. He holds the position of Chief Strategy Officer.
(11) Mr Martin Burke resigned from the Group and the executive on 11 March 2013 following the sale of the DBS business.

Employment contracts

The Managing Director and Chief Executive Officer, Mr Martin Mercer, is employed under an ongoing contract from 7 April 2014 and continues until such time that employment is terminated. Under the terms of the contract as disclosed to ASX on 17 January 2014:
- He receives fixed remuneration of $500,000 plus superannuation per year. This remuneration will be reviewed annually.
- He is eligible for discretionary annual STI opportunity up to a maximum of 50% of fixed remuneration.
- He is eligible to participate in the LTI plans on terms determined by the Board, subject to receiving shareholders' approval.
- He may resign from this position and thus terminate the contract by giving 6 months' notice.
- The Company may terminate this employment contract by providing 12 months' notice.

All other executives are on standard contracts and are remunerated as stipulated in this report.

Compensation options/rights: options/rights granted and options/rights vested during the year

2014
During the year ended 31 December 2014, there were 296,610 rights granted to the KMP (2013 : Nil).

Shares issued on exercise of rights

On 28 January 2014, shareholders approved a resolution to vary the vesting dates of the 2011 and 2012 Performance Rights such that both Performance Rights vested on 31 January 2014. As a consequence, 266,777 shares were issued to KMP upon vesting on that date.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Options/Rights granted/vested/exercised/lapsed as remuneration during the year

2014	Options/ Rights Granted	Value of options/ rights granted (1) $	Value of options/rights vested/ exercised $	Number of options/rights lapsed / forfeited	Value of options/rights lapsed / forfeited $	Remuneration consisting of options/rights (2) %
Directors						
Mr Simon Jones	-	-	-	-	-	0.0%
Mr Martin Mercer	296,610	352,965	-	-	-	45.7%
Mr Robert Stewart AM	-	-	-	-	-	0.0%
Mr Tom Kiing	-	-	-	-	-	0.0%
Ms Naseema Sparks	-	-	-	-	-	0.0%
Mr Larry Bloch	-	-	-	-	-	0.0%
Executives						
Mr Peter Findlay	-	-	-	35,667	50,290	-8.1%
Dr Bruce Tonkin	-	-	-	23,778	33,527	-7.6%
Mr Peter Wright	-	-	-	23,778	33,527	-8.0%
Mrs Amy Rixon	-	-	-	-	-	0.0%
Mr Brett Fenton	-	-	-	-	-	0.0%
Ms Verity Meagher	-	-	-	-	-	0.0%
Mrs Catherine Hodgson-Croker	-	-	-	-	-	0.0%
Mr Simon Smith	-	-	-	-	-	0.0%
Mr Doug Schneider (3)	-	-	-	30,556	43,084	-22.4%
	296,610	352,965	-	113,779	160,428	

(1) Represents the grant date valuation multiplied by the number of performance rights granted. This cost is expensed over the 3 year performance period.
(2) The proportion of remuneration consisting of options is not considered meaningful for leavers, due to the fact that the current year remuneration as reported in the table on page 16 includes the reversal of prior year share based payments amortisation.
(3) Mr Doug Schneider resigned from the Group and the executive on 9 May 2014.

On 12 January 2015, the LTI plan in respect of the 31 December 2014 financial year was issued to the Executives listed in the above table. The total number of performance rights issued is 363,303.

The maximum grant, which will be payable assuming that all service and performance criteria are met, is equal to the number of options/rights granted multiplied by the fair value at the vesting date. The minimum grant payable assuming that service and performance criteria are not met is zero.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Option/ Rights holdings of Key Management Personnel

	Opening balance	Options/ Rights granted	Options/ Rights vested/ exercised	Options/ Rights lapsed	Closing balance	Vested and exercisable at year end
Directors						
Mr Simon Jones	-	-	-	-	-	-
Mr Martin Mercer	-	296,610	-	-	296,610	-
Mr Robert Stewart AM	-	-	-	-	-	-
Mr Tom Kiing	-	-	-	-	-	-
Ms Naseema Sparks	-	-	-	-	-	-
Mr Larry Bloch	-	-	-	-	-	-
Executives						
Mr Peter Findlay	150,000	-	(114,333)	(35,667)	-	-
Dr Bruce Tonkin	100,000	-	(76,222)	(23,778)	-	-
Mr Peter Wright	100,000	-	(76,222)	(23,778)	-	-
Mr Arnaud Desprets	-	-	-	-	-	-
Mrs Amy Rixon	-	-	-	-	-	-
Mr Brett Fenton	-	-	-	-	-	-
Ms Verity Meagher	-	-	-	-	-	-
Mrs Edelvine Rigato	-	-	-	-	-	-
Mrs Catherine Hodgson-Croker	-	-	-	-	-	-
Mr Simon Smith	-	-	-	-	-	-
Mr Doug Schneider	100,000	-	(69,444)	(30,556)	-	-
	450,000	296,610	(336,221)	(113,779)	296,610	-

Shareholdings of Key Management Personnel

	Opening balance	Granted as remuneration	Net change other*	Shares issued **	Netregistry acquisition***	Closing balance
Directors						
Mr Simon Jones	130,935	-	25,000	-	-	155,935
Mr Martin Mercer	-	-	-	-	-	-
Mr Tom Kiing	5,721,488	-	-	-	-	5,721,488
Mr Robert Stewart AM	685,784	-	125,000	-	-	810,784
Ms Naseema Sparks	-	-	-	-	-	-
Mr Larry Bloch	-	-	-	-	9,208,363	9,208,363
Executives						
Mr Peter Findlay	-	-	-	114,333	-	114,333
Mr Bruce Tonkin	152,500	-	-	76,222	-	228,722
Mr Peter Wright	-	-	-	76,222	-	76,222
Mr Arnaud Desprets	-	-	-	-	-	-
Mrs Amy Rixon	-	-	-	-	-	-
Mr Brett Fenton	-	-	-	-	-	-
Ms Verity Meagher	-	-	-	-	-	-
Mrs Edelvine Rigato	-	-	-	-	-	-
Mrs Catherine Hodgson-Croker	-	-	-	-	-	-
Mr Simon Smith	-	-	-	-	-	-
Mr Doug Schneider	-	-	-	-	-	-
	6,690,707	-	150,000	266,777	9,208,363	16,315,847

* On market transactions
** Represents shares issued to satisfy Performance Rights Plans
*** Shares issued as part of the purchase consideration of Netregistry. Refer to Note 21 to the Financial Statements for further details.

DIRECTORS' REPORT (continued)

Employees
The consolidated entity employed 368 full time equivalent ("FTE") employees as at 31 December 2014 (2013: 323 FTE).

Auditor independence and non audit services

The Directors have received an independence declaration from the auditor of Melbourne IT Ltd, as shown on page 92.

Non audit services

The following non audit services were provided by the Group's auditor, Ernst & Young. The directors are satisfied that the provision of non audit services is compatible with general standards of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non audit services:

	$
Taxation advice services	56,750
	56,750

Modification of auditor rotation requirements

On 27 August 2013, at the recommendation of the ARMC, the directors granted an approval for the extension of the Group's audit partner for a further 2 years when the initial period of 5 years as permitted under the *Corporations Act 2001* expired in December 2013. The ARMC's recommendation was based on the following reasons:

- the ARMC was satisfied with the skills and personal qualities of the audit partner and the audit team and is of the view that they displayed a good understanding of the Group and strong technical accounting competence;
- the ARMC was satisfied that Ernst & Young conduct an effective audit with focus on the appropriate areas of risk;
- the ARMC was satisfied that the approval of a 2 year extension does not give rise to a conflict of interest situation; and
- given the sale of business units undertaken and the resulting accounting complexity, the ARMC felt that continuity of audit partner would be simpler for both the Company and the auditors.

Signed in accordance with a resolution of the directors.

Simon Jones (Chairman)

Sydney, 25 March 2015

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Melbourne IT Ltd, I state that:

(1) In the opinion of the directors:

(a) the financial statements and notes of Melbourne IT Ltd for the financial year ended 31 December 2014 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of its financial position as at 31 December 2014 and of its performance for the year ended on that date;

(ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and *Corporations Regulations 2001*; and

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

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

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2014.

(3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group, as identified in Note 34, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the deed as described in Note 33.

On behalf of the Board

Simon Jones (Chairman)

Sydney, 25 March 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

		CONSOLIDATED	
	Notes	**2014**	**2013**
ASSETS		**$'000**	**$'000**
Current Assets			
Cash and cash equivalents	20(b)	18,086	80,520
Trade and other receivables	8	8,650	24,183
Prepayment of domain name registry charges		10,045	6,287
Current tax asset	17	61	5,438
Derivative financial instruments	24	31	-
Other assets	9	2,521	1,570
Total Current Assets		**39,394**	**117,998**
Non-Current Assets			
Plant and equipment	11	4,909	2,957
Intangible assets	12	118,884	69,312
Deferred tax assets	10	4,524	3,261
Prepayment of domain name registry charges		5,095	5,236
Non-current financial assets	13	1,250	-
Other assets		47	74
Total Non-Current Assets		**134,709**	**80,840**
TOTAL ASSETS		**174,103**	**198,838**
LIABILITIES			
Current Liabilities			
Trade and other payables	14	13,752	17,443
Interest-bearing loans and borrowings	15	513	-
Provisions	16	4,120	3,002
Income received in advance		26,150	16,689
Total Current Liabilities		**44,535**	**37,134**
Non-Current Liabilities			
Deferred tax liabilites	17	703	697
Provisions	16	628	530
Income received in advance		13,469	12,410
Total Non-Current Liabilities		**14,800**	**13,637**
TOTAL LIABILITIES		**59,335**	**50,771**
NET ASSETS		**114,768**	**148,067**
EQUITY			
Contributed equity	18(a)	35,629	68,809
Foreign currency translation reserve		(658)	(566)
Options reserve		5,321	5,017
Hedging reserve		31	-
Retained earnings		74,357	74,807
Equity attributable to Equity holders of the parent		114,680	148,067
Non-controlling interest		88	-
TOTAL EQUITY		**114,768**	**148,067**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	CONSOLIDATED 2014 $'000	2013 $'000
Continuing operations			
Revenue	4	124,706	103,412
Registry, Hosting and Sundry Other Product Costs		(52,944)	(41,145)
Gross profit		71,762	62,267
Salaries and employee benefit expenses		(43,224)	(40,522)
Depreciation expenses	5(a)	(2,445)	(1,978)
Amortisation of identifiable intangible assets	5(b)	(1,870)	(804)
Impairment of intangible assets	12(b)	(8,587)	-
Transaction costs relating to the acquisition of Netregistry		(1,340)	-
Finance costs	5(c)	(1,338)	(915)
Other expenses	5(d)	(12,668)	(12,184)
Profit before tax from continuing operations		290	5,864
Income tax benefit	6	358	334
Profit for the year from continuing operations		648	6,198
Discontinued operations			
Profit after tax for the year from discontinued operations	22	-	62,678
Profit for the year		648	68,876
Other comprehensive income			
Items that are reclassified to the profit or loss:			
Currency translation differences		(92)	9,335
Items that may be reclassified to the profit or loss:			
Net gains/(losses) on cashflow hedges (net of tax)		31	214
Other comprehensive income for the year, net of tax		(61)	9,549
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		587	78,425
Profit for the year attributable to:			
Equity holders of the parent		479	68,876
Non-controlling interests		169	-
		648	68,876
Total comprehensive income attributable to:			
Equity holders of the parent		418	78,425
Non-controlling interests		169	-
		587	78,425

Earnings per share

		2014	2013
Basic earnings per share from continuing operations	26	0.72 cents	7.46 cents
Diluted earnings per share from continuing operations	26	0.72 cents	7.42 cents
Basic earnings per share from discontinued operations	26	-	75.44 cents
Diluted earnings per share from discontinued operations	26	-	75.05 cents

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2014

	FOREIGN CURRENCY RESERVE $'000	OPTIONS RESERVE $'000	HEDGING RESERVE $'000	CONTRIBUTED EQUITY $'000	RETAINED EARNINGS $'000	TOTAL $'000	NON-CONTROLLING INTEREST $'000	TOTAL EQUITY $'000
As at 1 January 2014	**(566)**	**5,017**	**-**	**68,809**	**74,807**	**148,067**	**-**	**148,067**
Profit for the year	-	-	-	-	479	**479**	169	**648**
Other comprehensive income	(92)	-	31	-	-	**(61)**	-	**(61)**
Total comprehensive income for the year	(92)	-	31	-	479	**418**	169	**587**
Transactions with owners in their capacity as owners:								
Share based payment	-	304	-	-	-	**304**	-	**304**
Capital return	-	-	-	(45,176)	-	**(45,176)**	-	**(45,176)**
Acquisition of subsidiary (Note 21)	-	-	-	12,070	-	**12,070**	94	**12,164**
Capital return transaction costs (net of tax)	-	-	-	(74)	-	**(74)**	-	**(74)**
Equity dividends	-	-	-	-	(929)	**(929)**	(175)	**(1,104)**
As at 31 December 2014	**(658)**	**5,321**	**31**	**35,629**	**74,357**	**114,680**	**88**	**114,768**
As at 1 January 2013	**(9,901)**	**4,237**	**(214)**	**68,794**	**32,378**	**95,294**	**-**	**95,294**
Profit for the year	-	-	-	-	68,876	**68,876**	-	**68,876**
Other comprehensive income	9,335	-	214	-	-	**9,549**	-	**9,549**
Total comprehensive income for the year	9,335	-	214	-	68,876	**78,425**	-	78,425
Transactions with owners in their capacity as owners:								
Share based payment	-	780	-	-	-	**780**	-	**780**
Exercise of options	-	-	-	63	-	**63**	-	**63**
Capital return transaction costs (net of tax)	-	-	-	(48)	-	**(48)**	-	**(48)**
Equity dividends	-	-	-	-	(26,447)	**(26,447)**	-	**(26,447)**
As at 31 December 2013	**(566)**	**5,017**	**-**	**68,809**	**74,807**	**148,067**	**-**	**148,067**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	CONSOLIDATED 2014 $'000	2013 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of service revenue and recoveries		134,707	128,041
Payments to suppliers and employees		(122,690)	(121,116)
Interest received		572	2,576
Interest paid		(166)	(239)
Bank charges and credit card merchant fees		(1,172)	(790)
Income tax refunds		5,980	-
Income tax paid		(1,149)	(1,164)
NET CASH FLOWS FROM OPERATING ACTIVITIES	20(a)	**16,082**	**7,308**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(1,904)	(1,777)
Purchase of intangible assets		(4,405)	(3,714)
Sale of DBS business, net of cash disposed	22(a)	15,250	115,884
Sale of FTR business, net of cash disposed	22(b)	-	6,030
Proceeds from sale of plant and equipment		-	250
Purchase of financial asset	13	(1,250)	-
Acquisition of Netregistry, including transaction costs	21	(39,706)	-
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		**(32,015)**	**116,673**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	15	20,000	-
Repayment of borrowings	15	(20,000)	(34,617)
Proceeds from issue of ordinary shares	18(b)	-	63
Transaction costs on capital return	18(b)	(74)	(48)
Return of capital		(45,176)	-
Payment of dividend to equity holders of the parent		(929)	(26,447)
Payment of dividend to non-controlling interests		(175)	-
Payment of finance lease liabilities		(137)	-
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(46,491)**	**(61,049)**
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS		(62,424)	62,932
Net foreign exchange differences		(10)	(269)
Cash and cash equivalents at beginning of year		80,520	17,857
CASH AND CASH EQUIVALENTS AT END OF YEAR	20(b)	**18,086**	**80,520**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

CORPORATE INFORMATION

The financial report of Melbourne IT Ltd for the year ended 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 25 March 2015.

Melbourne IT Ltd is a company limited by shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described in Note 1(e).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001,* Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board.

The entity is a for-profit entity.

The financial report has been prepared on a historical cost basis, except for derivative financial instruments that have been measured at fair value and certain assets where an impairment loss has been charged. The carrying values of recognised assets and liabilities that are hedged with fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000), unless otherwise stated, under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

(a) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board.

(b) New Accounting Standards and Interpretations

(i) Changes in accounting policy and disclosures
The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards as of 1 January 2014.

- *AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel (KMP) Disclosure Requirements (AASB 124)*
  This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.

- *AASB 2013-3 Amendments to AASB 136 Recoverable Amount Disclosure for Non-Financial Assets*
  AASB 2013-3 amends the disclosure requirements in *AASB 136 Impairment of Assets* . The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.

- *AASB 2011-4 Amendments to Australian Accounting Standards - Offsetting Financial assets and Financial Liabilities*
  AASB 2012-3 adds application guidance to *AASB 132 Financial Instruments* : Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *AASB 1031 Materiality*
  The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.

The adoption of the above standards had no material effect on the financial position or performance of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

(ii) Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards that have recently been issued or amended but which are not yet effective and have not been adopted by the Group for the annual reporting period ended 31 December 2014 are outlined in the table below.

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
Annual Improvements 2010-2012 Cycle	Annual Improvements to IFRSs 2010-2012 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: ► IFRS 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'. ► IFRS 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to IAS 37. ► IFRS 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset the entity's assets. ► IAS 16 & IAS 38 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts. ► IAS 24 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of IAS 24 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.	1-Jul-14	The amendments to the Accounting Standard are not expected to have a material impact on the Group's financial position or performance.	1-Jan-15

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Accounting Standards and Interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB 9	Financial instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1-Jan-18	Whilst the impact of the application of the new Standard is currently being assessed, our initial assessment is that there should be no material impact on the Group's financial position or performance.	1-Jan-18

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Accounting Standards and Interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB 9 (Cont'd)	Financial instruments	Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10. The AASB issued a revised version of AASB 9 (AASB 2013-9) during December 2013. The revised standard incorporates three primary changes: 1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures; 2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time; and 3. The mandatory effective date moved to 1 January 2018.	31-Dec-17	Whilst the impact of the application of the new Standard is currently being assessed, our initial assessment is that there should be no material impact on the Group's financial position or performance.	31-Dec-17
AASB 2014-1 Part A - Annual Improvements 2011-2013 Cycle	Amendments to Australian Accounting Standards - Part A Annual Improvements to IFRS 2011-2013 Cycle	Annual improvments to IFRSs 2011-2013 Cycle addressed the following items: ► AASB 13 - Clarifies that the portfolio exception in paragraph 52 of AASb 13 applies to all contracts withing the scope of AASB 139 or AASb 9, regardless of whether they meet the definitions of AASB 139 or AASB 9, regardless of whether they meet all the defintions of financial assets or financial liabilities as in AASB 132. ► AASB 40 - Clarifies that judgment is needed to determine whether an acquisition of an investment property is solely the acquisition of an investment property or whether it is the acqusition of a group of assets or a business combination in the scope of AASB 3 that includes an investment property. The judgment is based on guidance in AASB 3.	1-Jul-14	The amendments to the Accounting Standard are not expected to have a material impact on the Group's financial position or performance.	1-Jan-15

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(ii) Accounting Standards and Interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendment to AASB 116 and AASB 138)	AASB 116 and AASB 138 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of economic benefits embodied in an intangible asset. The presumption, however, can be rebutted in certain limited circumstances.	1-Jan-16	The amendments to the Accounting Standard are not expected to have a material impact on the Group's financial position or performance.	1-Jan-16
IFRS 15	Revenue from Contracts with Customers	In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations (IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue-Barter Transactions involving Advertising Services.	1-Jan-17	Whilst the impact of the application of the new Standard is currently being assessed, our initial assessment is that there should be no material impact on the Group's financial position or performance.	1-Jan-17

* Application date is for the reporting periods beginning on or after the date shown in the above table

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Melbourne IT Ltd and its subsidiaries as at 31 December each year ('the Group'). The Group controls a subsidiary if and only if the Group has:
(1) power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the subsidiary);
(2) exposure, or rights, to variable returns from its involvement with the subsidiary; and
(3) the ability to use its power over the subsidiary to affect its returns.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to Melbourne IT Ltd and cease to be consolidated from the date on which control is transferred out of Melbourne IT Ltd.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of Consolidation (Continued)

Investments in subsidiaries held by Melbourne IT Ltd are accounted for at cost in the separate financial statements of the parent entity less any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values. The difference between the above items and the fair value of the consideration (including the fair value of any pre-existing investment in the acquiree) is goodwill or a discount on acquisition.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Melbourne IT Ltd has control. A change in the ownership interest of a subsidiary that does not result in a loss of control, is accounted for as an equity transaction.

On the loss of control of a subsidiary, the Group derecognises the assets and liabilities of the subsidiary, and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss.

(d) Business Combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and included in other expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured to the acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Operating Segment

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Executive management meet on a monthly basis to assess the performance of each segment by analysing the segment's earnings before interest and tax (EBITDA).

Transfer prices between operating segments are set on an arms' length basis in a manner similar to transactions with third parties. Segment revenue, expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

Consistent with the requirements of *AASB 8 Operating Segments* , as the Chief Operating Decision Maker does not receive information regarding segment assets, no disclosure of segment assets has been provided.

Accounting policies and inter segment transactions
The accounting policies used by the group in reporting segments internally are the same as those contained in note 1.

Identification of reportable segments
Operating segments have been identified based on the information provided to the Chief Operating Decision Maker, being the CEO.

The operating segments are identified by Management based on the manner in which the product is sold, whether retail or wholesale, and the nature of the services provided, the identity of the service line manager and country of origin. Discrete financial information about each of these operating businesses is reported to the executive management team on at least a monthly basis.

Where operating segments meet the aggregation criteria, these are aggregated into reported segments. The Group's reportable segments are:

SMB Solutions

SMB Solutions operates in the web services business in Australia and New Zealand, offering customers everything they need to run an online business. These services include domain name registrations and renewals, website and email hosting, website design services, online marketing, website security, and online tools and solutions. Customers are primarily in the Small to Medium Enterprise (SME) sector.

SMB Solutions also supplies a technical and support solution for domain name registration, shared hosting and other online business services to a global network of reseller clients. Resellers are given access to Melbourne IT's domain name registration, shared hosting and maintenance systems. Benefits to Reseller clients include application of a real time automated system that can be integrated into the Reseller website, together with access to specialist support and account management services.

Enterprise Services ("ES")

The Enterprise Services Division provides managed services and business grade cloud applications, solutions and services to corporate and government clients throughout Australia.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Foreign Currency Transactions

Both the functional and presentation currency of Melbourne IT Ltd and its Australian subsidiaries is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

The functional currency of each overseas subsidiary is as follows:

- Investment in New Zealand subsidiary - NZD (New Zealand Dollar)
- Investment in US subsidiaries - USD (United States Dollar)

The assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Melbourne IT Ltd at the rate of exchange ruling at the reporting date and the statement of comprehensive income is translated at the weighted average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the determination of profit and loss for the year.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designed as hedges of such investments are taken to the foreign currency translation reserve in equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the Statement of Comprehensive Income, as part of the gain on sale or loss on sale where applicable.

(g) Cash and Cash Equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(h) Trade and Other Receivables

Trade receivables, which generally have 14-60 day terms, are recognised and carried at amortised cost which is at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial assets

(a) Recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available for sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

AFS financial assets
AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognised as other comprehensive income (OCI) and credited in the AFS reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in other operating income in the statement of profit or loss, or the investment is determined to be impaired when the cumulative loss is reclassified from the AFS reserve to the statement of profit or loss in finance costs. Interest earned while holding AFS financial assets is reported as interest income using the effective interest rate (EIR) method in the statement of profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments which are not quoted in an active market. After initial measurement, such financial assets are measured at amortised cost using the EIR method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance income in the statement of profit or loss. The losses arising from impairment are recognised in the statement of profit or loss in finance costs for loans and other operating expenses for receivables.

(b) Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Financial assets (continued)

(b) Impairment of financial assets (continued)

Available-for-sale (AFS) financial assets
For AFS financial assets, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as AFS, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss – is removed from OCI and recognised in the statement of profit or loss. Impairment losses on equity investments are not reversed through the statement of profit or loss; increases in their fair value after impairment are recognised directly in OCI.

The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

(j) Fair Value Measurement

The Group measures financial assets such as derivatives at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either (1) in the principal market for the asset or liability or (2) in the absence of a principal market, in the most advantageous market for the asset or liability. The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that the market participants act in their economic best interest.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within their fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:
- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurment is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Prepayment of Domain Name Registry Charges

Domain Name Registry Charges are deferred in the Statement of Financial Position and are recognised in the Statement of Comprehensive income using the same principles as Revenue from the sale of Domain Names, as explained in accounting policy in Note 1(w).

(l) Derivative Financial Instruments

Melbourne IT Ltd conducts a material amount of its business in US dollars ("USD") and is therefore exposed to movements in the AUD/USD dollar exchange rate. The company actively manages this risk via its foreign currency risk management strategy.

Melbourne IT Ltd uses derivative financial instruments, such as foreign exchange options and interest rate swaps, to hedge its risks associated with currency and interest rate fluctuations. Such derivative financial instruments are stated at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purposes of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion is recognised in the determination of profit and loss for the year.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in other comprehensive income are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in other comprehensive income are transferred to profit and loss in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to profit and loss.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit and loss.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation
Depreciation is provided on a straight-line or diminishing value basis on all plant and equipment. Major depreciation periods are:

	2014	2013
Leasehold improvements	The lease term	The lease term
Plant and equipment	2 to 4 years	2 to 4 years
Furniture and Fittings	2 to 5 years	2 to 5 years

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of the asset (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in the income statement upon derecognition.

The residual values, useful lives and methods of depreciation of plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

(n) Impairment of non-financial assets

At each reporting date, Melbourne IT Ltd assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, Melbourne IT Ltd makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

The carrying values of assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses recognised for goodwill are not permitted to be subsequently reversed.

(p) Investments in Subsidiaries

Investments have been initially recognised at cost, being the fair value of the consideration given. Following initial recognition, investments are measured at cost less any accumulated impairment losses.

(q) Trade and Other Payables

Trade and other payables are carried at cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of the year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(r) Interest-bearing Loans and Borrowing Costs

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings. Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for a least 12 months after the reporting date.

Borrowing costs are recognised as an expense when incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(s) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset(s) or the arrangement conveys a right to use the asset(s), even if that right is not explicitly specified in an arrangement.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Intangible Assets

Acquired both separately and from a business combination
Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

Where amortisation is charged on assets with finite lives, this expense is taken to profit and loss through the 'amortisation of identifiable intangible assets' line item.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss when the asset is derecognised.

Internally Generated Assets: Transformation Projects
In the prior year, the Group had completed a transformation project to develop and implement Integrated Web Services, Oracle Financials and Operational Support Systems. Costs relating to the research phase of the project are expensed while costs relating to the development phase are capitalised as Capitalised Software: Transformation Projects. The costs capitalised are being amortised over a useful life of 6 years. In the current financial year, following the acquisition of Netregistry Group Limited and its controlled entities ("Netregistry"), an impairment charge against the transformation asset was recognised. Refer to note 12(b) for further details.

A summary of the policies applied to the Group's intangible assets is as follows:

Customer Contracts	
Useful lives	Finite
Amortisation	Amortised over the estimated churn of the customer base.
Impairment testing	Amortisation method reviewed at each financial year-end and when indicators exist.

Market Related Intangibles	
Useful lives	Indefinite
Amortisation	No amortisation.
Impairment testing	Annually and more frequently when indicator exists.

Software Platforms	
Useful lives	Finite
Amortisation	Amortised over expected useful life of 6 years
Impairment testing	Amortisation method reviewed at each financial year-end and when indicators exist.

The carrying value of intangible assets denominated in foreign currencies is revalued at the year end spot rate of each reporting period, leading to changes in the carrying value of the intangible assets in reporting currency. Any revaluation amounts are recognised directly in the foreign currency translation reserve.

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

(v) Discontinued operations

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Revenue Recognition / Income Received in Advance

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Group

Rendering of services - domain names
Revenue is recognised by reference to percentage of completion method. The percentage of completion is determined by reference to the extent of services performed to date on the agreement as a percentage of total services to be performed under the agreement. Revenue is recognised in the financial period in which services are rendered.

Where cash has been received for services yet to be performed pursuant to the agreement, the amount has been classified in the statement of financial position as "Income received in advance".

The following table summarises the domain name registration revenue and registry cost recognition policy for the Group:

Length of Registration - Years	First Month	Per Other Month
1	78.0000%	2.0000%
2	54.0000%	2.0000%
3	36.0000%	1.8286%
4	27.0000%	1.5532%
5	21.6000%	1.3288%
6	18.0000%	1.1549%
7	15.4286%	1.0189%
8	13.5000%	0.9105%
9	12.0000%	0.8224%
10	10.8000%	0.7496%

Rendering of services – non domain name revenue
Non domain name registration revenue is recognised when the services are performed.

Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred in respect of the transaction can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Interest
Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends
Revenue is recognised when the shareholder's right to receive the payment is established.

(x) Employee Entitlements

Provision is made for employee entitlements accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Employee Entitlements (continued)

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

Employee entitlement expenses arise in respect of the following categories:

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

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

(y) Share-based Payment Transactions

(i) Performance Rights Plan - 2010, 2011 and 2012

Performance Rights issued on 1 July 2010, 1 July 2011, 1 January 2012 and 1 July 2012, had two performance conditions. 50% of the Performance Rights would vest based on the increase in basic earnings per share ('EPS') as reported in the annual Financial Report, and 50% would vest based on relative total shareholder return ('TSR') in comparison to a peer group from the S&P/ ASX Small Ordinaries Index. These Performance Rights were granted with a zero exercise price.

The Performance Rights vested on a sliding scale so that the amount of Rights vesting to the individual depended on the performance level achieved. Performance was measured over the 36 month period from 1 January of the respective grant year to 31 December of the respective vesting year and would be settled in the equivalent number of ordinary shares of Melbourne IT, except for overseas executives who on settlement would instead receive a cash bonus of the equivalent amount. The following sliding scale was applied to the vesting of the Rights:

TSR Percentile Rank Achieved	TSR Proportion of Rights Vesting
>= 75th percentile	100%
> 50.1 percentile and <	Pro-rata allocation
50.1 percentile	50%
< 50.1 percentile	0%

Compound annual EPS growth	Proportion of EPS Rights Vesting
>= 12.5%	100%
> 7.5% and < 12.5%	Pro-rata allocation
7.50%	50%
< 7.5%	0%

The fair value was determined by an external valuer using a Monte Carlo Simulation Model. In valuing equity-settled transactions, no account was taken of any performance conditions, other than conditions linked to the price of the shares of Melbourne IT Ltd ('market conditions').

The cost of equity-settled transactions was recognised, together with a corresponding increase in equity, over the period in which the performance conditions were fulfilled, ending on the date on which the relevant employees became fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflected (i) the extent to which the vesting period had expired and (ii) the number of awards that, in the opinion of the directors of Melbourne IT Ltd, would ultimately vest. This opinion was formed based on the best available information at the reporting date.

No expense was recognised for awards that do not ultimately vest, except for awards where vesting was conditional upon a market condition.

Where the terms of an equity-settled award were modified, as a minimum an expense was recognised as if the terms had not been modified. In addition, an expense was recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

The dilutive effect, if any, of outstanding Performance Rights was reflected as additional share dilution in the computation of earnings per share.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Share-based Payment Transactions (continued)

(ii) Long Term Incentive Deferred Cash Bonus Plan

The Group also provided benefits to certain international employees in the form of cash-settled share based payments, whereby employees rendered services in exchange for cash, the amounts of which were determined by reference to movements in the price of the shares of Melbourne IT Ltd. The ultimate cost of these cash-settled transactions would be equal to the actual cash paid to the employees, which would be the fair value at settlement date.

The cumulative cost recognised until settlement was a liability and the periodic determination of this liability was as follows:

(a) At each reporting date between grant and settlement, the fair value of the award was determined.
(b) During the vesting period, the liability recognised at each reporting date was the fair value of the award at that date multiplied by the expired portion of the vesting period.
(c) From the end of the vesting period until settlement, the liability recognised was the full fair value of the liability at the reporting date.
(d) All changes in the liability were recognised in employee benefits expense for the period. The fair value of the liability was determined, initially and at each reporting date until it was settled, by applying an option pricing model, taking into account the terms and conditions on which the award was granted, and the extent to which employees have rendered service to date.

The General Meeting held on 28 January 2014 changed the vesting and expiry dates of the 2011 and 2012 Performance Rights plans (as mentioned in note 2(x)(ii) and 2(x)(iii) above) to 31 January 2014. All vested performance rights vested and long term incentive deferred cash bonus plans were paid by 30 June 2014.

(iii) Performance Rights Plan - 2014

Performance Rights issued on 1 January 2014, have two performance conditions. 50% of the Performance Rights will vest based on the increase in basic earnings per share ('EPS') as reported in the annual Financial Report, and 50% will vest based on relative total shareholder return ('TSR') in comparison to a peer group from the S&P/ ASX Small Ordinaries Index. These Performance Rights were granted with a zero exercise price.

The Performance Rights vest on a sliding scale so that the amount of Rights vesting to the individual depends on the performance level achieved. Performance will be measured over the 36 month period from 1 January of the respective grant year to 31 December of the respective vesting year and will be settled in the equivalent number of ordinary shares of Melbourne IT, except for overseas executives who on settlement will instead receive a cash bonus of the equivalent amount. The following sliding scale will be applied to the vesting of the Rights:

TSR Percentile Rank Achieved	TSR Proportion of Rights Vesting
>= 75th percentile	100%
> 50.1 percentile and <	Pro-rata allocation
50.1 percentile	50%
< 50.1 percentile	0%

Compound annual EPS growth	Proportion of EPS Rights Vesting
>= 17%	100%
> 12% and < 17%	Pro-rata allocation
12.00%	50%
< 12%	0%

The fair value was determined by an external valuer using a Monte Carlo Simulation Model. In valuing equity-settled transactions, no account was taken of any performance conditions, other than conditions linked to the price of the shares of Melbourne IT Ltd ('market conditions').

The cost of equity-settled transactions will be recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees became fully entitled to the award ('vesting date').

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Share-based Payment Transactions (continued)

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflected (i) the extent to which the vesting period had expired and (ii) the number of awards that, in the opinion of the directors of Melbourne IT Ltd, would ultimately vest. This opinion was formed based on the best available information at the reporting date.

No expense was recognised for awards that do not ultimately vest, except for awards where vesting was conditional upon a market condition.

Where the terms of an equity-settled award were modified, as a minimum an expense was recognised as if the terms had not been modified. In addition, an expense was recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

The dilutive effect, if any, of outstanding Performance Rights was reflected as additional share dilution in the computation of earnings per share.

(z) Income Tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Income Tax (Continued)

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

Tax consolidation legislation
Melbourne IT Ltd and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 January 2006. Members of the tax consolidated group have entered into a tax funding agreement. Each entity is responsible for remitting its share of the current tax payable (receivable) assumed by the head entity.

In accordance with UIG 1052 and Group accounting policy, the Group has applied the "separate taxpayer within group approach" in which the head entity, Melbourne IT Ltd, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts.

In addition to its own current and deferred tax amounts, Melbourne IT Ltd also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The allocation of taxes to the head entity is recognised as an increase/decrease in the controlled entity's inter-company accounts with the tax consolidated Group head entity.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Other Taxes

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

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

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

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

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

(ab) Contributed Equity

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(ac) Option Reserve

The options reserve is used to recognise the value of equity-settled share based payment transactions provided to employees, including Key Management Personnel, as part of their remuneration. Refer to Note 30 for further details of these plans.

(ad) Hedging Reserve

The hedging reserve contains the effective portion of the cash flow hedge relationships incurred as at the reporting date.

(ae) Foreign Currency Translation Reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(af) Earnings Per Share

Basic earnings per share is calculated as net profit attributable to members, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share are calculated as net profit attributable to members, adjusted for:
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares:

divided by the weighted average number of ordinary shares and the dilutive potential ordinary shares, adjusted for any bonus element.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, interest bearing loans, cash, short-term deposits and derivatives. The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting financial security.

The purpose is to manage the financial risks arising from the Group's operations. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to foreign exchange risk and interest rate risk, assessments of market forecasts for foreign exchange and interest rate. Liquidity risk is monitored through the development of rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below. Primary responsibility for identification and control of financial risks rests with Management under the supervision of the Audit and Risk Management Committee and under the authority of the Board. The Board reviews and agrees policies for managing each of the risks identified below, including the setting of limits for trading in derivatives, hedging cover of foreign currency and interest rate risk, credit allowances, and cash flow forecast projections.

Capital Management

When managing capital, the Board's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders.

The Board may change the amount of dividends to be paid to shareholders, issue new shares or sell assets to reduce debt.
During 2014, the Group made a return to shareholders amounting to approximately $45.2 million and paid dividends of $0.929 million (2013: $26.447 million).

On 25 February 2015, the directors declared a final dividend amounting to $3.718 million.

The Group has no current plans to issue further shares on the market, except for shares issued under the employee equity incentive plan and dividend reinvestment plan.

Risk Exposures and Responses

Interest Rate Risk

The Group's exposure to market interest rates related primarily to the Group's short term deposits held and drawdowns on available financing facilities. Refer to Note 15(b) for details of available financing facilities.

At balance date, the Group had the following mix of financial assets and liabilities exposed to variable interest rate risk that are not designated in cash flow hedges.

	CONSOLIDATED	
	2014 $'000	2013 $'000
Financial assets		
Cash and cash equivalents	18,086	80,520
Financial Liabilities		
Interest bearing loans (current and non-current)	513	-

During the year, the Group entered into finance leases for some items of equipment whereby the present value of the minimum lease payments approximate $513,000.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Risk Exposures and Responses (Continued)

Sensitivity Analysis
The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 31 December 2014, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Net Profit Higher / (Lower)		Equity Higher / (Lower)	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Consolidated				
Assets + 0.25% (25 basis points), , Liabilities + 0.25% (25 basis points) Liabilities (no change), (2013: Assets + 0.25% (25 basis points)).	31	141	31	141
Assets - 0.25% (25 basis points), , Liabilities - 0.25% (25 basis points) Liabilities (no change), (2013: Assets - 0.25% (25 basis points)).	(31)	(141)	(31)	(141)

The sensitivities have been calculated based on average holdings of interest bearing assets and liabilities restated at year end exchange rates. Interest bearing assets are predominantly sensitive to movements in Australian interest rates.

Credit Risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

The Group provides credit only with recognised, creditworthy third parties, and as such collateral is not required nor is it the Group's policy to securitise its trade and other receivables.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures which may include an assessment of their financial position, past experience and industry reputation, depending on the amount of credit to be granted. In addition, receivable balances are monitored on an ongoing basis.

Liquidity Risk

Liquidity risk is managed via the regular review of forecasted cash inflows and outflows, with any surplus funds being placed in short term deposits to maximise interest revenue.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Risk Exposures and Responses (Continued)

Foreign Currency Risk

Due to the prescribed global market arrangements regarding domain name registration, Melbourne IT Limited earns a material amount of its revenues, and incurs a material amount of its costs in US dollars ("USD") and is therefore exposed to movements in the AUD/USD exchange rate. The Company actively manages the gross margin risk by its foreign currency risk management strategy. Please refer to Note 24 for further details.

Both the functional and presentation currency of Melbourne IT Ltd is in Australian dollars (A$). The consolidated Group contains functional currencies as disclosed in Note 1(f). Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

The exchange differences arising on the retranslation are taken directly to other comprehensive income. On disposal of a foreign entity, the deferred cumulative amount recognised in other comprehensive income relating to that particular foreign operation is recognised in the determination of profit and loss for the year.

At 31 December 2014, the Group had the following exposures to USD denominated assets and liabilities, where the functional currency is not USD. The Group's exposure to foreign currency changes for all other currencies is not material. Assets and liabilities that are designated in cashflow hedges are not included:

	CONSOLIDATED	
	2014 $'000	2013 $'000
Financial Assets		
Cash and cash equivalents	338	442
Trade and other receivables	1,242	1,068
	1,580	**1,510**
Financial Liabilities		
Trade and other payables	(1,739)	(3,551)
Net exposure	**(159)**	**(2,041)**

The following sensitivity is based on foreign currency risk exposures in existence at the reporting date.

At 31 December 2014, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Net Profit Higher / (Lower)		Equity Higher / (Lower)	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Consolidated				
- AUD/USD +1% (2013: +2%)	1	28	1	28
- AUD/USD -10% (2013: -10%)	(12)	(156)	(12)	(156)

The Group also has exposures to foreign exchange when retranslating foreign currency subsidiaries into Australian Dollars. The sensitivity range has been determined using an expected range of 0.734 to 0.824 USD/AUD for the retranslation of USD denominated balances for the forthcoming year.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maturity Analysis of Financial Assets and Liabilities

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in ongoing operations such as plant, equipment and investments in working capital e.g. inventories and trade receivables. These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, the Company has established comprehensive risk reporting covering its business units that reflects expectations of settlement of financial assets and liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Consolidated	< 6 Months $'000	6 - 12 Months $'000	1 to 5 Years $'000	> 5 Years $'000	Total $'000
31 December 2014					
Financial assets					
Cash and cash equivalents	18,086	-	-	-	**18,086**
Trade and other receivables	8,650	-	-	-	**8,650**
Other financial assets	-	-	1,250	-	**1,250**
	26,736	-	1,250	-	**27,986**
Financial liabilities					
Trade and other payables	(13,752)	-	-	-	**(13,752)**
Interest bearing loans and borrowings	(124)	(94)	(354)	-	**(572)**
	(13,876)	(94)	(354)	-	**(14,324)**
Net inflow/(outflow)	**12,860**	**(94)**	**896**	**-**	**13,662**
31 December 2013					
Financial assets					
Cash and cash equivalents	80,520	-	-	-	**80,520**
Trade and other receivables	24,183	-	-	-	**24,183**
	104,703	-	-	-	**104,703**
Financial liabilities					
Trade and other payables	(17,443)	-	-	-	**(17,443)**
	(17,443)	-	-	-	**(17,443)**
Net inflow/(outflow)	**87,260**	**-**	**-**	**-**	**87,260**

Fair Value Hierarchy

Financial instruments at fair value comprise derivative financial instruments and AFS financial assets whose fair value is derived using valuation techniques whose inputs are based on observable market data. Refer to note 24 for more details.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenues and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

(i) Significant accounting judgements

Taxation
The Group's accounting policy for taxation requires Management's judgement in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the statement of financial position. Deferred tax assets are recognised only when it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty which may impact the carrying amount of tax assets and liabilities recognised in the statement of financial position.

Discontinued operations
Management's judgement was required in assessing and allocating certain transactional, operating and restructuring costs relating to discontinued operations to ensure costs associated with or resulting from the sale of DBS and FTR businesses were correctly classified in the Statement of Comprehensive Income. Refer to Note 22 for further details of these costs.

(ii) Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives
The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit, using a value in use discounted cashflow methodology, to which the goodwill and intangibles, with indefinite useful lives are allocated. Refer to note 12 for further details of assumptions.

Share-based payment transactions
The fair value is determined by an external valuer using a binomial model and/or Monte Carlo simulation model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Melbourne IT Ltd ('market conditions').

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

Refer to note 30 for further details.

Convertible note receivable
The carrying value is accounted for on an amortised cost basis using the effective interest rate method.

Refer to note 13 for further details.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000
4. REVENUE		
Registration revenue	53,335	44,752
Hosting & value-added product sales	70,286	55,729
Other revenue	513	248
Total revenue excluding interest income	124,134	100,729
Interest revenue	572	2,670
Other income	-	13
Total consolidated revenue	**124,706**	**103,412**
5. EXPENSES		
(a) Depreciation expenses		
Depreciation of non-current assets		
Fit out	308	88
Plant and equipment	2,112	1,867
Furniture	25	23
Total depreciation of non-current assets	2,445	1,978
(b) Amortisation of identifiable intangible assets		
Transformation Asset	406	804
Capitalised software	1,176	-
Customer contracts	288	-
Total amortisation of identifiable intangible assets	1,870	804
(c) Finance costs		
Bank charges and credit card merchant fees	1,172	790
Interest expense	166	125
	1,338	915
(d) Other Expenses		
Included in other expenses:		
Premises	2,721	2,208
Communications	1,243	1,297
Marketing	2,157	1,644
Equipment	2,819	4,179
Finance & legal	1,225	1,478
Foreign exchange	112	31
Bad debts and doubtful debts	175	222
(e) Other		
Expensing of share based payments	330	780
Superannuation expense	2,652	2,640

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000
6. INCOME TAX		
The major components of income tax expense are:		
(a) Statement of comprehensive income		
Current income tax		
Current income tax charge	1,237	7,640
Adjustments in respect of current income tax of previous years	(685)	(786)
Deferred income tax		
Relating to origination and reversal of temporary differences	(910)	(2,110)
Income tax (benefit)/ expense reported in the statement of comprehensive income	**(358)**	**4,744**
(b) Statement of changes in equity		
Deferred income tax related to items charged or credited directly to equity		
Net gain/(loss) on revaluation of cash flow hedges	-	92
Income tax expense reported in equity	**-**	**92**
(c) A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit before income tax from continuing operations	290	5,864
Profit before tax from discontinued operations	-	67,756
Accounting profit before income tax	290	73,620
At the Group's statutory income tax rate of 30% (2013: 30%)	87	22,086
Adjustments in respect of current income tax of previous years	(685)	(786)
Options cost	91	249
Impairment of intangibles	2,576	3,624
Utilisation of previously unrecognised tax losses	-	(703)
Estimated future tax claims	-	(868)
Effect of difference between accounting and tax from sale of DBS and FTR businesses	-	(18,366)
Deductions from shares issued via Employee Share Trust	(283)	(383)
Differences between accounting and tax depreciation	(2,249)	-
Non-deductible amortisation	86	-
Other	19	(109)
Income tax expense/ (benefit) at the effective income tax rate	**(358)**	**4,744**
Income tax (benefit) reported in the statement of comprehensive income	(358)	(334)
Income tax attributable to discontinued operations	-	5,078
	(358)	**4,744**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

6. INCOME TAX (Continued)

Tax Consolidation

Melbourne IT Ltd and its 100% resident subsidiaries formed a tax consolidated Group with effect from 1 January 2006. Melbourne IT Ltd is the head entity of the tax consolidated Group. Members of the Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement, on the grounds that the possibility is remote.

On 1 April 2014, Netregistry entered into the tax consolidation Group of Melbourne IT following the acquisition of Netregistry.

On 30 August 2013, FTR Pty Ltd has left the tax consolidation Group of Melbourne IT Ltd following the sale of the FTR business.

The allocation of taxes to the head entity is recognised as an increase/decrease in the controlled entities inter-company accounts with the tax consolidated Group head entity.

Members of the Group have also entered into a tax funding agreement (refer to note 1 (z)).

	CONSOLIDATED	
	2014 $'000	2013 $'000
7. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES		
(a) Dividends paid during the year		
Interim franked dividends for 2014: 1.0 cent per share (2013: Nil)	929	-
Final franked dividends for 2013: Nil (2012: 7.0 cents per share)	-	5,772
Special partially franked dividend for 2014: Nil (2013: 25.0 cents per share)	-	20,675
(b) Dividends proposed and not recognised as a liability		
Final franked dividend for the year ended 31 December 2014: 4.0 cents per share (2013: Nil)	3,718	-
(c) Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
- franking account balance as at the end of the financial year at 30% (2013: 30%)	1,032	2,966

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

	CONSOLIDATED	
	2014 $'000	2013 $'000
8. TRADE AND OTHER RECEIVABLES (CURRENT)		
Trade debtors	9,684	9,471
Allowance for impairment loss	(1,034)	(639)
	8,650	8,832
Escrow funds receivable (including accrued interest)*	-	15,351
Total trade and other receivables (Current)	**8,650**	**24,183**

* This amount was held in escrow pursuant to the terms of the agreement for the sale of the DBS business, for a period of 15 months from the date of the sale, being 12 March 2013. The amount was held in escrow as security for the performance of Melbourne IT's indemnification obligations under the Agreement. The amount was released to Melbourne IT on 13 June 2014.

The carrying amount of trade and other receivables is a reasonable approximation of fair value.
Trade debtors are non-interest bearing and generally on 14-60 day terms.

Movements in the allowance for impairment loss were as follows:

	2014	2013
Opening Balance	639	1,259
Additional Provision / (Released)	160	(116)
Amounts (Written off) / Recovered	-	(332)
Acquisition of Netregistry	229	-
Discontinued operations	-	(185)
Foreign currency translation impact	6	13
Closing Balance	**1,034**	**639**

At 31 December, the ageing analysis of trade receivables is as follows:

	2014		2013	
	Gross $'000	Allowance $'000	Gross $'000	Allowance $'000
Consolidated				
Current	4,106	-	4,995	-
0 - 30 days past due	2,131	-	2,774	-
31 – 60 days past due	1,323	-	830	-
Past due 61 days +	2,124	(1,034)	872	(639)
Closing Balance	**9,684**	**(1,034)**	**9,471**	**(639)**

Receivables past due but not considered impaired are $4.544 million (2013: $3.837 million), and comprise balances owed from customers who have a good history of repayments or are otherwise considered recoverable.

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

	CONSOLIDATED 2014	2013
9. OTHER ASSETS (CURRENT)		
Other prepayments	2,521	1,570
Total other assets (Current)	**2,521**	**1,570**

10. DEFERRED TAX ASSET (NON-CURRENT)

Deferred tax asset at 31 December relates to the following:

	2014	2013
Doubtful debts provision	307	191
Employee benefits and make good	1,097	1,011
Accruals	1,318	751
Unrealised FX	39	1,199
Transformation asset	1,498	-
Blackhole expenditure	194	-
Other	71	109
	4,524	**3,261**

Unrecognised tax losses

As at 31 December 2014 and 2013, there were no unrecognised tax losses within the Group.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

11. PLANT AND EQUIPMENT (NON CURRENT)

	Leasehold Improvements $'000	Plant and Equipment $'000	Furniture and fittings $'000	CWIP $'000	Total $'000
Cost					
At 1 January 2013	3,536	32,265	851	-	36,652
Additions	396	1,596	67	-	2,059
Disposals	(2,695)	(23,175)	(419)	-	(26,289)
Transfers	-	-	-	-	-
Discontinued operations	(577)	(3,897)	(346)	-	(4,820)
Exchange differences	1	198	6	-	205
At 31 December 2013	**661**	**6,987**	**159**	**-**	**7,807**
Acquisition of Netregistry (note 21)	28	1,776	39	-	1,843
Additions	69	1,517	10	958	2,554
Disposals	(40)	(1,331)	-	-	(1,371)
At 31 December 2014	**718**	**8,949**	**208**	**958**	**10,833**
Depreciation and impairment					
At 1 January 2013	3,075	29,158	727	-	32,960
Depreciation charge for the year	88	1,867	23	-	1,978
Disposals	(2,654)	(23,205)	(416)	-	(26,275)
Transfers	-	-	-	-	-
Discontinued operations	(317)	(3,051)	(255)	-	(3,623)
Exchange differences	(1)	(187)	(2)	-	(190)
At 31 December 2013	**191**	**4,582**	**77**	**-**	**4,850**
Depreciation charge for the year	308	2,112	25	-	2,445
Disposals	(40)	(1,331)	-	-	(1,371)
At 31 December 2014	**459**	**5,363**	**102**	**-**	**5,924**
Net book value					
At 31 December 2013	**470**	**2,405**	**82**	**-**	**2,957**
At 31 December 2014	**259**	**3,586**	**106**	**958**	**4,909**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

12. INTANGIBLE ASSETS (NON CURRENT)

(a) Carrying amounts of intangible assets

	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000
Goodwill	99,976	52,280
Market Related Intangibles	9,052	7,128
Customer Contracts	2,583	663
Accumulated amortisation	(951)	(663)
	1,632	-
Capitalised Software	9,400	-
Accumulated amortisation	(1,176)	-
	8,224	-
Transformation Projects	-	10,918
Accumulated amortisation	-	(1,014)
	-	9,904
Total Capitalised Software	8,224	9,904
Other Intangibles	315	315
Accumulated amortisation	(315)	(315)
	-	-
Total Intangible Assets	**118,884**	**69,312**

Reconciliation of carrying amounts at the beginning and end of the period

	Other Intangibles $'000	Capitalised Software $'000	Customer Contracts $'000	Market Related Intangibles $'000	Goodwill $'000	Total $'000
Net balance at 1 January 2013	-	14,857	5,599	9,982	100,264	130,702
Acquisitions and Additions	-	8,030	-	-	-	8,030
Discontinued Operations	-	(12,179)	(5,599)	(2,854)	(47,984)	(68,616)
Amortisation	-	(804)	-	-	-	(804)
Impairment	-	-	-	-	-	-
Foreign exchange impact	-	-	-	-	-	-
Net balance at 31 December 2013	-	9,904	-	7,128	52,280	69,312
Acquisition of Netregistry (note 21)	-	8,400	1,920	1,924	47,696	59,940
Additions		89				89
Amortisation	-	(1,582)	(288)	-	-	(1,870)
Impairment	-	(8,587)	-	-	-	(8,587)
Foreign exchange impact	-	-	-	-	-	-
Net balance at 31 December 2014	-	8,224	1,632	9,052	99,976	118,884

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

12. INTANGIBLE ASSETS (NON CURRENT) (Continued)

(b) Capitalised Software

As at 31 December 2013 Melbourne IT had recorded a capitalised software intangible asset in relation to the Integrated Web Services ('IWS') platform, which was developed during the Transformation Project. The carrying value of the IWS asset was $9.904 million, which included Oracle Financials, the common financial reporting system across all entities in the Group.

Following the acquistion of Netregistry, Melbourne IT has completed an assessment of both the IWS asset and the existing platform used by Netregistry, to determine the most suitable platform to support the operations of the enlarged group. The conclusion of this assessment was that existing Netregistry platform, referred to as the "Console", was the preferred platform.

As a result of this decision, the IWS platform will be decommissioned. However, Oracle Financials will continue to be used as a common financial reporting system for the enlarged group. An impairment charge of $8.587 million has been recorded to reduce the carrying value of the IWS asset to $1.0 million (being the carrying value of Oracle Financials) as at 31 March 2014.

Simultaneously, a valuation exercise was performed to identify and recognise intangible assets arising from the acquisition of Netregistry. A total of $12.244 million of intangible assets was identified which comprise of software ($8.4 million), customer contracts ($1.92 million) and brandnames ($1.924 million) at 31 March 2014.

The Netregistry software and Oracle Financials system are currently being used and amortised over the useful life of 6 years. The customer contracts are amortised over the period of 5 years based on the historical attrition rate.

In the previous year, following the sale of the DBS business unit, a review of the carrying value of the transformation asset was undertaken. The decision to invest in a comprehensive solution was motivated by the complexity of the business. The nature and geographic spread of the DBS business was a significant contributing factor to this level of complexity. If the Melbourne IT Ltd corporate structure had not included DBS at the time of the project scope, it would not have made the decision to use a tier one product, and the time and planning required to roll out the consolidated platform would have been significantly reduced. Following the re-scoping of the project, an impairment of $12.080 million has been booked against the carrying value of the asset. This was included in the discontinued operations section of the Statement of Comprehensive Income.

(c) Goodwill and other intangible assets impairment testing

Cash Generating Unit ('CGU')	2014 $'000	2013 $'000	Basis for valuation*	Discount rate	Growth rate years 2 - 5	Growth rate after 5 years
SMB Solutions	90,995	43,300	Value in use	13.00%	3%	3%
ES	8,981	8,980	Value in use	13.00%	3%	3%
Total Goodwill	99,976	52,280				
SMB Solutions	7,794	5,845	Value in use	13.00%	3%	3%
ES	1,258	1,283	Value in use	13.00%	3%	3%
Total Market Related Intangibles	9,052	7,128				
SMB Solutions	1,632	-	Value in use	13.00%	3%	3%
ES	-	-	Value in use	13.00%	3%	3%
Total Customer Contracts	1,632	-				
SMB Solutions	6,168	8,121	Value in use	13.00%	3%	3%
ES	2,056	1,783	Value in use	13.00%	3%	3%
Total Capitalised Software	8,224	9,904				

Under the impairment testing the carrying amount of each CGU is compared to its recoverable amount. The recoverable amount of each CGU is determined based on a value in use calculation for each CGU to which goodwill and other intangible assets has been allocated.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

12. INTANGIBLE ASSETS (NON CURRENT) (Continued)

(c) Goodwill and intangible assets impairment testing (Continued)

Key assumptions used in value in use ('VIU') calculations

* All value in use calculations are based on management's estimates of achievable EBITDAs for the respective CGUs, with growth rates as noted in the table applied to years 2-5. These estimates are most sensitive to assumptions around revenue growth, in particular the timescale for implementation of new products and initiatives in the SMB Solutions business, and the continuing evolution of the ES business from dedicated hosting towards the provision of managed services.
* Cash flows beyond the 5 year period are extrapolated using a 3% growth rate (2013: 3%) to determine terminal value, which is the company's estimate of the long term average growth rate for the industry in which the company operates.
* The discount rate used reflects risks specific to the Group and its operating segments and is derived from its weighted average cost of capital. Segment-specific risk is incorporated by applying individual beta which is assessed annually based on publicly available data.

Results of impairment test and impact of reasonably possible changes in key assumptions

For each CGU the recoverable amount exceeds its carrying amount. As impairment testing is based on assumptions and judgements, the Group has considered changes in key assumptions that they believe to be reasonably possible. For all CGUs, the recoverable amount exceeds the carrying amount when testing for reasonably possible changes in key assumptions.

If all assumptions remain the same, the base year EBITDA would need to decline from the current expected EBITDA by 6% for the SMB Solutions CGU and 31% for the ES CGU for the recoverable amounts of the CGUs to equal their carrying values respectively.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

	CONSOLIDATED	
	2014 $'000	2013 $'000
13. NON-CURRENT FINANCIAL ASSETS		
Convertible note receivable	1,250	-
	1,250	-

The Group entered into a Convertible Note Agreement ("Agreement') with Tiger Pistol Pty Ltd on 20 October 2014. The convertible note contains an embedded derivative and a loan receivable component. These components are accounted for together in accordance with AASB 139. Refer to note 24 for further details on the embedded derivative component.

The convertible note receivable has a maturity of 5 years from 20 October 2014 (issue date). Coupon rate of 6% per annum will be calculated and payable in arrears or on conversion or redemption of the note, 2 years after the issue date. This financial asset may be converted into 500,000 ordinary shares upon maturity or earlier subject to satisfaction of early redemption or conversion conditions as stipulated in the Agreement.

14. TRADE AND OTHER PAYABLES (CURRENT)

	2014 $'000	2013 $'000
Trade creditors	1,146	1,116
Sundry creditors	3,077	6,411
Deposits received in advance	3,138	2,546
Accrued expenses	6,391	7,370
Total trade and other payables (Current)	13,752	17,443

Terms and conditions relating to trade creditors:
(i) Trade creditors are non-interest bearing and are normally settled within agreed trading terms.
(ii) Sundry creditors are non-interest bearing and are normally settled within agreed trading terms.

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

15. INTEREST BEARING LOANS AND BORROWINGS

During the year, the Group entered into finance leases for some items of equipment whereby the present value of the minimum lease payments approximate $513,000. Refer to note 23 for further details.

The Group has also entered into a $20 million revolving credit facility with National Australia Bank Limited to partly fund the acquisition of Netregistry in late March 2014. The revolving credit facility was repaid in full prior to 31 December 2014.

(b) Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	Total facilities		Facility used at reporting date	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
- Asset Finance - Leasing	5,000	5,000	-	-
- Business Lending - Bank Guarantees	7,042	1,845	1,885	1,482
- Business Lending - Revolving credit facility	20,000	-	-	-
- Standby Letters of Credit	3,103	3,103	2,443	2,687
	35,145	9,948	4,328	4,169

16. PROVISIONS

	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000
Current		
Employee benefits	2,882	2,746
Other	1,238	256
	4,120	3,002
Non current		
Employee benefits	628	530
Total provisions	4,748	3,532
The aggregate employee benefit liability comprises:		
Provisions (current)	2,882	2,746
Provisions (non current)	628	530
	3,510	3,276

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

17. TAX ASSETS/(LIABILITIES)

	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000
Current tax assets/(liabilities)		
Current tax receivables/(Provision for income tax)	61	5,438
Deferred tax liabilities		
Deferred tax liability at 31 December relates to the following:		
Intangible assets	669	598
Prepayments	-	49
Other	34	50
	703	697

18. CONTRIBUTED EQUITY

	2014 $'000	2013 $'000
(a) Issued and paid-up capital		
Ordinary shares each fully paid	35,629	68,809

(b) Movements in shares on issue

	2014 Number of shares	2014 $'000	2013 Number of shares	2013 $'000
Beginning of the financial year	83,164,371	68,809	82,451,363	68,794
Issued during the year:				
- Acquisition of Netregistry Group Limited (Netregistry)	9,285,144	12,070	-	-
- Return of capital	-	(45,176)	-	-
- Executive and employee options exercised	-	-	30,000	63
- Performance rights plans (a)	494,877	-	683,008	-
- Decrease due to transaction costs for capital return	-	(74)	-	(48)
End of the financial year	92,944,392	35,629	83,164,371	68,809

(a) Represents shares issued to satisfy (1) Performance Rights Plan issued on 1 July 2010 that vested on 1 July 2013, and (2) early vesting of the Performance Rights Plans issued on 1 July 2011 and 1 July 2012 held by certain executives, who left the company following the sale of the DBS business as detailed in Note 22(a).

19. RESERVES

	CONSOLIDATED 2014 $'000	CONSOLIDATED 2013 $'000
Options reserve	5,321	5,017
Foreign currency translation reserve	(658)	(566)
Hedging reserve	31	-
	4,694	4,451

Options reserve
During the financial year, there were 296,610 rights granted (2013: Nil). Refer to note 30 for details relating to the 2014 Long Term Incentive Plan.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

19. RESERVES (Continued)

Foreign currency translation reserve
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

Hedging reserve
The hedge reserve contains the effective portion of the hedge relationships incurred as at the reporting date. No hedge reserve balance existed as at 31 December 2013 as the interest rate swaps and cross currency swaps were closed pursuant to the settlement of the bank borrowings due to the sale of the DBS business.

20. CASH FLOW STATEMENT

(a) Reconciliation of the operating profit after tax to the net cash flow from operations:

	CONSOLIDATED	
	2014 $'000	2013 $'000
Profit after tax from continuing operations	648	6,198
Profit after tax from discontinued operations	-	62,678
Profit for the year	648	68,876
Depreciation of non-current assets	2,445	2,127
Amortisation of non-current assets	1,870	992
Impairment of non-current assets	8,587	-
Expense of share based payments	330	439
Gain on sale of DBS and FTR businesses	-	(68,376)
Transaction costs	1,340	-
Changes in assets and liabilities		
Decrease in trade debtors	938	13,783
Decrease in inventories	-	539
Decrease in prepayments	1,092	4,305
Decrease in current tax receivables	5,377	5,579
(Decrease) in provisions	(1,196)	(1,586)
(Increase)/decrease in deferred tax asset	(200)	3,151
Increase in deferred tax liability	(575)	(5,590)
Increase/(decrease) in accounts payable	(1,308)	(3,635)
Increase/(decrease) in income tax provision	-	(682)
Increase (decrease) in income received in advance	(2,778)	(13,768)
(Increase)/decrease in other assets	(488)	1,154
Net cash flow from operating activities	16,082	7,308

(b) Reconciliation of cash and cash equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following:

	2014 $'000	2013 $'000
Cash and cash equivalents on hand	18,086	80,520
Closing cash and cash equivalents balances	18,086	80,520

NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2014

21. BUSINESS COMBINATION

On 31 March 2014, Melbourne IT acquired 100% of Netregistry Group Limited and its controlled entities (Netregistry), a leading online services provider based in Australia, for an enterprise value of $50.4 million. The acquisition was funded through a mix of cash and scrip consideration. Melbourne IT acquired Netregistry as the combined enlarged group will be able to offer best in class domain names and hosting products; and to compete more effectively against strong, price driven, foreign competition.

Assets acquired and liabilities assumed

The fair values of the identifiable assets and liabilities of Netregistry as at the date of acquisition were:

	Fair value recognised on acquisition $'000s
Assets	
Trade and other receivables	655
Prepayment of domain name registry charges	4,709
Other assets	436
Plant and equipment	1,843
Intangibles	12,244
Deferred tax assets	1,063
	20,950
Liabilities	
Trade and other payables	1,825
Provisions	2,412
Income received in advance	13,298
Deferred tax liabilities	581
	18,116
Total identifiable net assets at fair value	2,834
Non-controlling interest at proportionate share of net identifiable assets	(94)
Goodwill arising on acquisition	47,696
Purchase consideration transferred	50,436

The fair value of the trade and other receivables amounts to $655,000. The gross amount of trade and other receivables is $851,000.

The intangibles of $12,244,000 comprise software, brand names and customer relationships. The fair values of these intangibles has been determined using the following valuation approaches:
- Replacement cost approach was utilised to value the software;
- Income approach that is relief from royalty method was utilised to value the brand names; and
- Income approach that is multi period excess earnings method to value the customer relationships.

From the date of acquisition, Netregistry has contributed $25,273,000 of revenue and $1,551,000 to the profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been $133,325,000 and loss before tax from continuing operations would have been $371,000. Netregistry was is in a loss before tax position during the first quarter of 2014 due to restructuring costs incurred prior to the completion of sale to Melbourne IT.

Purchase consideration

Shares issued, at fair value	12,070
Cash paid	38,366
Total consideration	50,436
Analysis of the cash flows on acquisition:	
Cash transaction costs of the acquisition (included in cash flows from investing activities)	1,340

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

21. BUSINESS COMBINATION (Continued)

The Group issued 9,285,144 ordinary shares as consideration for the 100% interest in Netregistry. The fair value of the shares is calculated with reference to the average daily volume weighted average price (VWAP) of the quoted price over the period of 4 February 2014 to 24 February 2014 as stipulated in the Share Purchase Agreement dated 27 February 2014, which was $1.30 each. The total value of scrip consideration given is therefore $12,070,000. The balance of the consideration is settled via cash.

Transaction costs of $1,340,000 have been expensed and are included in the operating expenses.

22. DISCONTINUED OPERATIONS

(a) SALE OF DIGITAL BRAND SERVICES (DBS) BUSINESS

On 12 March 2013 Melbourne IT sold the DBS business to the Corporation Service Company Ltd ("CSC") for an initial cash consideration of $152.25 million, of which 10% was to be held in escrow for a period of 15 months. The results of the DBS business for the year are presented below:

	2014 $'000	2013 $'000
Revenue	-	8,885
Expenses	-	(9,710)
Gain on sale of DBS business*	-	69,925
Profit before tax from a discontinued operation	-	69,100
Tax expense	-	(6,966)
Profit for the year from a discontinued operation	-	62,134

* Includes professional fees, costs to close out interest rate and cross currency swaps, corporate costs incurred in negotiating the sale insurance costs, the impairment of the transformation asset (refer to Note 12(b) for details) and Foreign Currency Translation Reserve recycled to the Statement of Comprehensive Income.

A further $4.7 million of costs was incurred in the second half of the previous financial year relating to professional fees associated with the liquidation of General Partnership (which is the immediate parent entity of the DBS US entity) and the associated Foreign Currency Translation Reserve recycled to the Statement of Comprehensive Income was allocated to the gain on sale of DBS business. Also included in this amount are restructuring costs relating to the termination of certain executives and functional units employees as they represented the overheads that were required to support the DBS business, and expenses related to the vesting of the Performance Rights plans associated with the executives.

The net cashflows incurred by the DBS business unit in the ordinary course of business until 12 March 2013 were as follows:

	2014 $'000	2013 $'000
Operating	-	1,777
Investing	-	-
Financing *	-	6,716
Net cash inflow/(outflow)	-	8,493

* Financing cashflow includes movements on inter-company accounts with other entities in the Melbourne IT group.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

22. DISCONTINUED OPERATIONS (Continued)

(a) SALE OF DIGITAL BRAND SERVICES (DBS) BUSINESS (Continued)

The net cashflows on disposal of the DBS business unit by Melbourne IT Ltd were as follows:

	2013 $'000
Announced sale price for DBS business unit	152,500
Plus: payment for cash balances in subsidiaries sold	7,500
Plus: additional payment on finalisation of completion accounts received in July 2013	3,671
Less: amounts held in escrow (recorded as a receivable - see note 8 for details)	(15,250)
Less: cash at bank of DBS business unit on 12 March 2013	(15,549)
Less: costs associated with the disposal	(5,971)
Less: tax paid associated with the disposal	(11,017)
Proceeds from sale of DBS business, net of cash disposed	115,884
Less: amounts paid directly by the purchasers to extinguish bank debt	(34,617)
	81,267

(b) SALE OF FOR THE RECORD (FTR) BUSINESS

On 1 August 2013 Melbourne IT announced that it entered into a sale agreement to divest the FTR business to Record Holdings Pty Ltd for a cash consideration of $6.3 million. Completion of the sale transaction occurred on 30 August 2013. The results of the FTR business for the year are presented below:

	2014 $'000	2013 $'000
Revenue	-	5,037
Expenses	-	(4,832)
Loss on sale of FTR business*	-	(1,549)
Profit before tax from a discontinued operation	-	(1,344)
Tax expense	-	1,888
Profit for the year from a discontinued operation	-	544

* Includes professional fees, corporate costs incurred in negotiating the sale insurance costs and Foreign Currency Translation Reserve recycled to the Statement of Comprehensive Income.

The net cashflows incurred by the FTR business unit in the ordinary course of business until 30 August 2013 were as follows:

	2014 $'000	2013 $'000
Operating	-	461
Investing	-	(96)
Financing	-	(1,136)
Net cash inflow/(outflow)	-	(771)

The net cashflows on disposal of the FTR business unit by Melbourne IT Ltd were as follows:

	2013 $'000
Announced sale price for FTR business unit	6,300
Less: cash at bank of FTR business unit on 31 August 2013	(26)
Less: costs associated with the disposal	(244)
Proceeds from sale of FTR business, net of cash disposed	6,030

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

	CONSOLIDATED	
	2014	2013
	$'000	$'000
23. EXPENDITURE COMMITMENTS AND OBLIGATIONS		
Operating lease commitments		
Operating leases		
Minimum lease payments		
- not later than 1 year	3,142	2,737
- later than 1 year and not later than 5 years	8,618	7,656
- later than 5 years	1,145	1,145
Aggregate lease expenditure contracted for at reporting date	12,905	11,538

Finance lease commitments

The Group has finance leases for various items of plant and machinery. The effective interest rate of these finance leases are between 8.0 - 8.5% p.a. The Group's obligations under finance leases are secured by the lessor's title to the leased assets. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2014		2013	
	Minimum payments	Present value of payments	Minimum payments	Present value of payments
	$ '000	$ '000	$ '000	$ '000
Within 1 year	218	218	-	
After 1 year but not more than 5 years	354	295	-	-
More than 5 years	-	-	-	-
Total minimum lease payments	572	513	-	-
Less amounts representing finance charges	(59)	-	-	-
Present value of minimum lease payments	**513**	**513**	**-**	**-**

Financial instruments

The details of hedging instruments held and guarantees issued are as follows:

(a) Hedges of specific commitments

Refer to Note 24 for details of hedging instruments the Group entered into to manage its foreign currency risk exposure.

(b) Financial Guarantees and other credit facilities

The face value of financial guarantees issued by the Group are presented below.

(a) Bank Guarantees of AU$1.885 million have been issued in favour of various parties in accordance with the Group's property commitments.

(b) The Company has Standby Letters of Credit totalling US$2.4 million (equivalent to AUD2.687 million) in accordance with various Registry Licence Agreements.

	CONSOLIDATED	
	2014	2013
	$'000	$'000
24. DERIVATIVE FINANCIAL INSTRUMENTS		
Foreign exchange contracts	31	-
	31	-

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

24. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Hedging Activities

Melbourne IT Ltd earns a material amount of its revenues, and incurs a material amount of its costs in US dollars ("USD") and is therefore exposed to movements in the AUD/USD dollar exchange rate. The Company actively manages the gross margin risk by its foreign currency risk management strategy.

2014

Foreign exchange contracts

At 31 December 2014, Melbourne IT Ltd held 6 foreign exchange contracts designated as cash flow hedges of expected future sales to customers in the US for which the company has firm commitments. The terms of these foreign exchange contracts was negotiated to match the terms of the commitments. The exchange contracts was used to reduce the exposure of foreign exchange risk.

As at 31 December 2014, an unrealised gain of $31,000 was included in other comprehensive income in respect of these contracts.

2013

Following the sale of the DBS and FTR businesses, the Company has reviewed its USD transactions and is of the opinion that there exists a natural hedge position in terms of the quantum and timing of the USD revenues and costs. Consequently, this led to a reduction in the exposure to movements in the AUD/USD exchange rate. As at 31 December 2013, Melbourne IT Ltd has not entered into any foreign currency exchange contracts.

Following the full repayment of the interest bearing loan using part of the proceeds from the sale of the DBS business on 12 March 2013, the Group has closed out on the USD $20.0 million interest rate swap and USD $1.0 million cross currency swap at the same time. In the previous year, the derivatives have been determined as being effective hedges and have been accounted for in accordance with AASB 139.

Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Fair value measurement hierarchy for assets as at 31 December 2014:

			Fair value measurement using		
	Date of valuation	Total $'000	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000
Assets measured at fair value:					
Derivative financial assets					
Foreign exchange forward contracts - USD (i)	31 December 2014	31	-	31	-
AFS financial assets (Note 13)					
Convertible note receivable (ii)	31 December 2014	1,250	-	1,250	-

There have been no transfer between Level 1, Level 2 and Level 3 during the period.

(i) Reflects the positive change in the fair value of foreign exchange contracts, designated as cash flow hedges.

(ii) The fair value of the embedded derivative component of the convertible note receivable is determined by reference to share price observed in a recent transaction prior to 31 December 2014. The fair value of the remainder of the convertible note has been determined using a discounted cash flow model. The face value of the convertible note is $1,250,000.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

25. OPERATING SEGMENTS

The following tables present the revenue and profit information regarding business unit segments for the years ended 31 December 2014 and 31 December 2013.

	SMB Solutions	ES	Total
Year ended 31 December 2014			
	$'000	**$'000**	**$'000**
Segment revenue			
Revenue from operating activities			
Registration revenue	53,335	-	**53,335**
Hosting & value-added product sales	42,447	27,839	**70,286**
Other revenue	513	-	**513**
	96,295	27,839	**124,134**
Other Income			**-**
Total segment revenue			**124,134**
Result			
Segment results	13,562	4,430	**17,992**
Unallocated expenses:			
- Corporate (including transaction costs relating to Netregistry acquisition)			(5,206)
Earnings before interest and tax & amortisation			**12,786**
Net Interest			
Interest revenue			572
Interest expense			(166)
Total Net Interest			**406**
Income tax benefit			358
Depreciation & amortisation			(4,315)
Impairment of intangible asset			(8,587)
Profit after tax for the year			**648**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

25. SEGMENT REPORTING (Continued)

	SMB Solutions	ES	Total
Year ended 31 December 2013	**$'000**	**$'000**	**$'000**
Segment revenue			
Revenue from operating activities			
Registration revenue	44,752	-	**44,752**
Hosting & value-added product sales	31,284	24,445	**55,729**
Other revenue	248	-	**248**
	76,284	24,445	**100,729**
Other Income			13
Total segment revenue			**100,742**
Result			
Segment results	8,905	2,354	**11,259**
Unallocated expenses:			
- Corporate			(4,938)
- Transformation Projects			(502)
Earnings before interest,tax,depreciation & amortisation			**5,819**
Net Interest			
Interest revenue			2,670
Interest expense			(125)
Total Net Interest			2,545
Income tax expense			334
Depreciation & amortisation			(2,782)
Costs recovered from discontinued operations *			282
Profit after tax for the year from continuing operations			**6,198**
Profit after tax for the year from discontinued operations (DBS and FTR segments)			**62,678**
Profit after tax for the year			**68,876**

* Represents recovery of costs from the DBS and FTR businesses by the parent entity with a corresponding expense included in the discontinued operations

	CONSOLIDATED	
	2014	**2013**
	$'000	**$'000**
Reconciliation of revenue		
Segment revenue	124,134	100,742
Interest revenue	572	2,670
Total revenue	124,706	103,412

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

	CONSOLIDATED	
	2014	2013
	$'000	$'000

26. EARNINGS PER SHARE

Basic earnings per share from continuing operations (cents per share)	0.72 cents	7.46 cents
Diluted earnings per share from continuing operations (cents per share)	0.72 cents	7.42 cents
Basic earnings per share from discontinued operations (cents per share)	-	75.44 cents
Diluted earnings per share from discontinued operations (cents per share)	-	75.05 cents

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

Net Profit attributable to ordinary equity holders of the parent from continuing operations	648	6,198
Net Profit attributable to ordinary equity holders of the parent from discontinued operations	-	62,678
	648	68,876
	Number of shares	
Weighted average number of ordinary shares used in the calculation of basic earnings per share	90,647,389	83,086,440
Effect of dilution:		
Share options/rights	296,610	428,210
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	90,943,999	83,514,650

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

Options/rights granted to employees are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent that they are dilutive. These options have not been included in the determination of basic earnings per share.

27. RELATED PARTY DISCLOSURES

Ultimate parent
The ultimate Australian Parent entity in the wholly owned Group is Melbourne IT Ltd. During the year various intercompany transactions were undertaken between companies in the wholly owned Group. These transactions were undertaken on a net margin basis. The effect of these transactions are fully eliminated on consolidation. All intercompany balances, payable and receivable, are on an "arm's length" basis with standard terms and conditions.

Other related party transactions
There were no other transactions with related parties during the year ended 31 December 2014 or 2013 other than detailed within the annual report.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

	CONSOLIDATED	
	2014	2013
	$'000	$'000

28. AUDITORS' REMUNERATION

Amounts received or due and receivable by the auditors of Melbourne IT Ltd for:

Audit or review of the financial statements of the entity and any other entity in the consolidated entity	325,000	285,000
Other services in relation to the entity and any other entity in the consolidated entity		
- Taxation advice	56,750	366,245
- Assurance and advisory related	-	71,450
	381,750	722,695

Amounts received or due and receivable by non Ernst & Young audit firms for:

Review of the financial report	-	-
Tax compliance services	43,384	67,282
Other non-audit services	140,909	-
	184,293	67,282

29. KEY MANAGEMENT PERSONNEL (KMP) DISCLOSURES

For the purposes of this report, KMP are the Chief Executive Officer/Managing Director, Chief Financial Officer, Company Secretary, Chief Technology Officer, Chief Strategy Officer, Chief Sales Officer, Chief Marketing Officer, Chief Customer Officer, Chief People Officer and Executive General Manager, Enterprise Services. Directors of the Company are also included in the definition of KMP.

(a) Remuneration of Key Management Personnel

	CONSOLIDATED	
	2014	2013
	$'000	$'000
Compensation of Key Management Personnel		
Short term benefits	3,357	3,233
Post Employment	200	192
Long term benefits	24	21
Termination payments	-	1,467
Share-based Payment	312	624
	3,893	5,537

(b) Other Transactions and Balances with Key Management Personnel

Sales to Key Management personnel are made at arm's length at normal market prices and on normal commercial terms and are negligible.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

30. SHARE OPTIONS

The Melbourne IT Long Term Incentive Plans ('LTI Plan') have been established where the managing director and employees of the Company are issued with Performance Rights (zero price options, hereafter termed as 'Options' or 'Rights') over the ordinary shares in Melbourne IT Ltd. The options, issued for nil consideration, are issued in accordance with performance guidelines established by the directors of Melbourne IT Ltd. The options cannot be transferred and will not be quoted on the ASX. The managing director and some full-time or permanent part-time employees of the company or any of its related body corporate are eligible to participate in the LTI Plan.

Each option is to subscribe for one fully paid Share. When issued, the Share will rank equally with other Shares. The options are not transferable except to the legal personal representative of a deceased or legally incapacitated option holder. The options are issued for a term of 3 years.

The Board has adopted certain policies concerning the terms of the options to be granted under the LTI Plan. The Board has the absolute discretion to change these policies at any time, although any change in its policies will have an effect only on options that are issued at or after the time of the change.

Performance Rights relating to the 31 December 2014 financial year (hereafter referred to as 2014 LTI Plan) were issued on 27 May 2014 in respect to the performance rights granted to the Chief Executive Officer (CEO), while the performance rights granted to other eligible employees were issued on 12 January 2015. The 2014 LTI Plan and the performance rights granted to the CEO were approved by shareholders in the Annual General Meeting on 27 May 2014, therefore the CEO and the Company had a shared understanding of the terms and conditions of the 2014 LTI Plan on this date.

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumptions that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

30. SHARE OPTIONS (Continued)

(a) Options held at the beginning of the reporting period:

The following table summarises information about options held by directors and employees as at 1 January 2014:

Number of Options	Ref	Grant Date	Vesting Date*	Expiry Date*	Weighted Average Exercise Price
285,938	**	1/07/11	1/07/14	1/07/14	$ -
370,000	**	1/07/12	1/07/15	1/07/15	$ -
110,000	***	1/07/12	1/07/15	1/07/15	$ -
765,938					

* The General Meeting held on 28 January 2014 changed the vesting and expiry dates of the 2011 and 2012 Performance Rights plans to 31 January 2014. The performance rights which vested in relation to the 2012 plan were held in escrow until 30 June 2014.

** The change in the vesting date as approved in the 28 January 2014 General Meeting also resulted in a change in the number of options vested. For the 2011 plan, 245,988 of performance rights vested while 39,950 performance rights lapsed on 31 January 2014. For the 2012 plan, 248,889 of Performance Rights vested while 121,111 performance rights lapsed on 31 January 2014.

*** Represents zero price shares to be settled in cash at time of vesting, offered to international employees. Pursuant to the 28 January 2014 General Meeting, the number of performance rights vested was 76,338 while 33,612 performance rights lapsed on 31 January 2014.

As at 1 January 2014, no options were exercisable.

(b) Options/Rights granted during the reporting period:

The following table summarises the movement in share options issued during the year:

	2014 Number	2013 Number
Outstanding at the beginning of the year	765,938	3,795,182
Granted during the year	296,610	-
Vested/exercised during the year	(571,215)	(713,008)
Lapsed during the year	(194,723)	(2,316,236)
Outstanding at year end	296,610	765,938

(c) Options/Rights vested/exercised during the reporting period:

A total of 571,215 (2013: 713,008) options/rights were vested/exercised during the year ended 31 December 2014.

(d) Options lapsed or forfeited during the reporting period:

A total of 194,723 (2013: 2,316,236) options lapsed or were forfeited with a weighted average exercise price of Nil (2013: $1.97), by directors and employees during the year ended 31 December 2014.

(e) Options/Rights held at the end of the reporting period:

There were 296,610 Rights held as at the end of the reporting period in relation to the 2014 LTI Plan.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

30. SHARE OPTIONS (Continued)

(f) Option pricing model: 2014 LTI Plan

The fair value of the equity-settled share based payments granted under the 2014 LTI Plan is estimated as at the date of grant using a combination of the Monte Carlo simulation methodology (for market based vesting conditions) and discounted cashflow approach (for non-market based vesting conditions).

The following table lists the inputs to the models used for the 2014 LTI Plan:

	2014 LTI Plan
Dividend yield	4.0%
Expected volatility	34.0%
Risk-free interest rate	2.2%

The dividend yield is based on historic and future yield estimates. The expected volatility was determined using the group's 2 year share price.

The risk-free rate is derived from the yield on Australian Government Bonds of an appropriate term.

31. CONTINGENT ASSETS AND LIABILITIES

The Group is not aware of the existence of any contingent assets at balance date.

The Group is subject to claims from time to time in the ordinary course of business. There are currently no claims against the Group of individual significance.

32. EVENTS SUBSEQUENT TO BALANCE DATE

On 25 February 2015, the directors declared a final dividend of 4.0 cents per ordinary share, franked at 80%, amounting to $3.718 million. The dividend will be paid on 23 April 2015.

On 25 February 2015 Melbourne IT announced that it had entered into a Share Purchase Agreement to acquire 100% interest in Uber Global Pty Ltd, a major domains and hosting services provider, for purchase consideration of $15.5 million, and a potential earn out based on EBITDA performance to 30 June 2015 which is capped at $5 million. The acquisition will be funded through cash on hand. The completion of the transaction is subject to regulatory approval.

There has not been any other matter or circumstance, in the interval between the end of the financial year and the date of this report that has materially affected, or may materially affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial periods.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

33. INFORMATION RELATING TO MELBOURNE IT LTD ("the parent entity")

	2014 $'000	2013 $'000
Current assets	21,662	102,064
Total assets	164,031	200,698
Current liabilities	61,777	60,439
Total liabilities	70,912	72,116
Contributed equity	35,629	68,809
Options reserve	5,341	5,050
Hedging reserve	31	-
Retained earnings	52,118	54,723
	93,119	128,582
Profit/ (loss) of parent entity	(11,750)	79,156
Total comprehensive income/ (loss) of the parent entity	(11,719)	79,069

The parent has issued the following guarantees in relation to the debts of its subsidiaries:

Pursuant to Class Order 98/1418, Melbourne IT Ltd, WebCentral Group Pty Ltd, WebCentral Pty Ltd and Netregistry Group Limited and its controlled entities have entered into a Deed of Cross Guarantee. The effect of the deed is that Melbourne IT Ltd has guaranteed to pay any deficiency in the event of winding up of any controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Melbourne IT Ltd is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

In the previous year, following the sale of the FTR business unit on 30 August 2013, For The Record Pty Ltd was released from the Deed of Cross Guarantee on the same date.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

33. INFORMATION RELATING TO MELBOURNE IT LTD ("the parent entity") (Continued)

The consolidated financial statements include the financial statements of Melbourne IT Ltd and the subsidiaries in the following table:

Name		Country of Incorporation	Equity Interest % 2014	Equity Interest % 2013	Cost of Investment $'000 2014	Cost of Investment $'000 2013
WebCentral Group Pty Ltd	(a)	Australia	100	100	78,190	78,190
Netregistry Group Limited	(a), (c)	Australia	100	-	50,436	-
Domainz Ltd	(a)	New Zealand	100	100	1,671	1,671
Internet Names Worldwide (US), Inc	(a)	USA	100	100	1	1
Melbourne IT GP Holdings Pty Ltd	(a)	Australia	100	100	-	-
Melbourne IT General Partnership	(b)	USA	100	100	758	758
Advantate Pty Ltd		Australia	100	100	-	-
					131,056	80,620

(a) Investments in controlled entities are initial capital investments and are eliminated in the consolidated financial statements.
(b) Investments in foreign entities are revalued to the year end foreign exchange spot rates.
(c) Netregistry Group Limited has a 50% ownership in NetAlliance Pty Ltd.

On 31 March 2014, Melbourne IT acquired 100% of Netregistry Group Limited and its controlled entities (Netregistry). Refer to note 21 for further details.

34. CLOSED GROUP CLASS ORDER DISCLOSURES

Entities subject to class order relief

Pursuant to Class Order 98/1418, relief has been granted to Melbourne IT Ltd, WebCentral Group Pty Ltd and WebCentral Pty Ltd and Netregistry Group Limited and its controlled entities from the Corporations Act 2001 requirements for the preparation, audit and lodgement of their financial reports.

The consolidated statement of comprehensive income and statement of financial position of the entities that are members of the Closed Group are as follows:

	Closed Group 2014 $'000	Closed Group 2013 $'000
Consolidated statement of comprehensive income		
Profit from continuing operations before income tax	1,784	13,025
Income tax benefit	74	279
Profit after tax from continuing operations, net profit for the period	1,858	13,304
Gain after tax from discontinued operations	-	75,838
Net profit for the period	1,858	89,142
Retained earnings at the beginning of the period	81,234	18,539
Dividends provided for or paid	(929)	(26,447)
Retained earnings at the end of the period	82,163	81,234

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

34. CLOSED GROUP CLASS ORDER DISCLOSURES (Continued)

	Closed Group 2014 $'000	Closed Group 2013 $'000
Consolidated statement of financial position		
ASSETS		
Current assets		
Cash and cash equivalents	17,907	79,841
Trade and other receivables	8,425	23,943
Prepayments of domain name registry charges	9,709	6,164
Current tax receivable	-	5,497
Derivative financial instruments	31	-
Other assets	2,520	1,570
Total current assets	38,592	117,015
Non-current assets		
Other financial assets	10,891	9,641
Property, plant and equipment	4,853	2,924
Intangible assets	118,075	68,420
Deferred tax assets	4,418	3,186
Prepayments of domain name registry charges	4,699	4,710
Other assets	47	74
Total non-current assets	142,983	88,955
TOTAL ASSETS	181,575	205,970
LIABILITIES		
Current liabilities		
Trade and other payables	14,978	19,831
Interest bearing loans and borrowings	513	-
Current tax payable	55	-
Provisions	4,081	2,818
Income received in advance	25,043	16,269
Total current liabilities	44,670	38,918
Non-current liabilities		
Deferred tax liability	703	697
Provisions	628	530
Income received in advance	12,342	10,819
Total non-current liabilities	13,673	12,046
TOTAL LIABILITIES	58,343	50,964
NET ASSETS	123,232	155,006
EQUITY		
Contributed equity	35,629	68,809
Options reserve	5,321	4,963
Hedging reserve	31	-
Non-controlling interest	88	-
Retained earnings	82,163	81,234
TOTAL EQUITY	123,232	155,006

Building a better working world

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Auditor's Independence Declaration to the Directors of Melbourne IT Limited

In relation to our audit of the financial report of Melbourne IT Limited for the financial year ended 31 December 2014, 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

Joanne Lonergan
Partner
25 March 2015

Building a better working world

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Independent auditor's report to the members of Melbourne IT Limited

Report on the financial report

We have audited the accompanying financial report of Melbourne IT Limited, which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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 directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

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Opinion

In our opinion:

a. the financial report of Melbourne IT Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 23 to 32 of the directors' report for the year ended 31 December 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Melbourne IT Limited for the year ended 31 December 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

Joanne Lonergan
Partner
Melbourne
25 March 2015

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Additional information required by the Australian Stock Exchange Ltd Listing Rules and not shown elsewhere in this report is as follows. The following information was current as at 19 March 2015.

Distribution schedule of the equity security holders

The distribution schedule of the number of holders in each class of equity securities are as follows:

RANGE	ORDINARY SHARE HOLDERS	PERFORMANCE RIGHTS HOLDERS
100,001 and Over	59	1
50,001 to 100,000	51	6
10,001 to 50,000	748	–
5,001 to 10,000	861	–
1,001 to 5,000	2,609	–
1 to 1,000	1,637	–
Total number of equity	**5,965**	**7**

As at the close of trading on 18 March 2015, the Company's share price was $1.37. Based on this closing price, there were 534 shareholders holding less than a marketable parcel of 365 ordinary shares.

The 20 Largest Security holders

The names of the 20 largest holders of quoted equity securities, and the number of equity securities and percentage of capital each holds, are listed below.

NAME OF REGISTERED SECURITY HOLDER	NUMBER OF ORDINARY SHARES HELD	PERCENTAGE OF ISSUED ORDINARY SHARES
1 National Nominees Limited <DB A/C>	10,020,938	10.78
2 HSBC Custody Nominees (Australia) Limited	9,281,801	9.99
3 Corpsand Pty Ltd <Impulse A/C>	9,208,363	9.91
4 National Nominees Limited	3,786,818	4.07
5 Sieana Pty Ltd <KKT A/C>	2,848,399	3.06
6 York Investments Limited	2,533,823	2.73
7 Citicorp Nominees Pty Limited	2,413,201	2.60
8 J P Morgan Nominees Australia Limited	2,331,819	2.51
9 Equitas Nominees Pty Limited <2874398 A/C>	1,747,862	1.88
10 BNP Paribas Noms Pty Ltd <DRP>	1,687,688	1.82
11 Microequities Asset Management Pty Ltd <Microequities Nanocap 4 A/C>	1,066,074	1.15
12 Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	907,251	0.98
13 Wyllie Funds Management Pty Ltd	855,500	0.92
14 KTAP Pty Ltd	760,000	0.82
15 Australco Super Investments Pty Ltd <Hnarakis Family S/F A/C>	735,854	0.79
16 Pacific Custodians Pty Limited <Melbourne IT Plans Ctrl>	620,360	0.67
17 Mount Ida Holdings Pty Ltd <Stewart Super Fund A/C>	558,371	0.60
18 McNeil Nominees Pty Limited	500,000	0.54
19 S M & R W Brown Pty Ltd <Robert & Sally Brown SF A/C>	350,000	0.38
20 Forsyth Barr Custodians Ltd <Forsyth Barr Ltd-Nominee A/C>	349,369	0.38
Sub-Total	**52,563,491**	**56.55**
Balance of register	40,380,901	43.45
Total	**92,944,392**	**100.00**

Unquoted equity securities

As at 19 March 2015, there were 659,913 unlisted performance rights over unissued ordinary shares in the Company, granted to 7 holders.

Voting Rights

The voting rights attaching to each class of equity securities are as follows:

(a) **Ordinary Shares** – All ordinary shares carry one vote per share without restriction.

(b) **Performance Rights** – Performance Rights do not carry any voting rights.

Substantial Holders

The names of substantial holders in the Company and the number of securities to which each substantial holder and their associates have a relevant interest are listed below. The following information is extracted from the substantial holder notices received by the Company as at 19 March 2015.

NAME	NUMBER OF ORDINARY SHARES HELD	PERCENTAGE OF ISSUED ORDINARY SHARES
Cadence Asset Management Entities	10,578,417	11.38
Corpsand Pty Ltd atf Impulse Trust	9,208,363	9.91
FMR LLC and associated entities	8,185,000	8.81
IOOF Holdings Limited	7,233,452	7.78
Sieana Pty Ltd and associated entities	5,721,488	6.16

On-Market Buyback

As at the date of this report, there is no on-market share buyback.

MELBOURNE IT LTD

ABN: 21 073 716 793
Melbourne IT Limited is a publicly listed company, limited by shares.
It is incorporated and domiciled in Australia.

STOCK EXCHANGE LISTING

Melbourne IT Limited shares (MLB) are listed on the Australian Stock Exchange.

DIRECTORS

Mr. S.D. Jones (Chairman)
Mr. M. Mercer (Managing Director and Chief Executive Officer)
Mr. T. Kiing
Mr. R.J. Stewart AM
Ms. N. Sparks
Mr. L. Bloch

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr M. Mercer (Appointed 7 April 2014)

CHIEF FINANCIAL OFFICER

Mr P. Findlay

COMPANY SECRETARY

Ms. E. Rigato (Appointed 11 November 2014)
Mr. A. Desprets (Resigned 11 November 2014)

REGISTERED OFFICE:

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Melbourne, Victoria, 3000
Tel: +61 3 8624 2300
Fax: +61 3 9620 2388
Web: www.melbourneit.info
www.melbourneit.com.au

AUDITORS

Ernst & Young
8 Exhibition Street
Melbourne, Victoria, 3000
Tel: +61 3 9288 8000
Fax: +61 3 8650 7777

SHARE REGISTRY

Link Market Services Limited
Level 1, 333 Collins Street
Melbourne, Victoria, 3000

Postal Address:
Locked Bag A14
Sydney South NSW 1235
Tel: +61 1300 554 474
Fax: +61 2 9287 0303
Email: registrars@linkmarketservices.com.au
www.linkmarketservices.com.au

CORPORATE GOVERNANCE STATEMENT

www.melbourneit.info/investor-centre/corporate-governance

ANNUAL GENERAL MEETING

The Annual General Meeting (AGM) will be held -
On: **Wednesday, 27 May 2015** at **11.00 am**
At: **Victoria Suites,**
Sofitel Melbourne on Collins
25 Collins Street
Melbourne VIC 3000

All shareholders are invited to attend the AGM or to complete and return the proxy form that accompanies the Notice of Meeting.

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