



MELBOURNE **IT**

2012

< Annual Report >

## OUR SERVICES

### For small & medium businesses

Domain names, web hosting, web design services, email, search engine marketing, online tools for business

[www.melbourneit.com.au](http://www.melbourneit.com.au)  
[www.webcentral.com.au](http://www.webcentral.com.au)  
[www.domainz.co.nz](http://www.domainz.co.nz)  
[www.advantate.com.au](http://www.advantate.com.au)

### For enterprise & government clients

Design and management of complex web environments  
Digital recording, multimedia and content management solutions

[www.melbourneitenterprise.com](http://www.melbourneitenterprise.com)  
[www.fortherecord.com](http://www.fortherecord.com)

### For partners & resellers

Domain names, web hosting, email and online tools for business

[www.melbourneitgps.com](http://www.melbourneitgps.com)

## AGM DETAILS


The Annual General Meeting (AGM) will be held at:  
Level 2, Spring Street Conference Centre, 1 Spring Street, Melbourne, Australia on Tuesday, 21 May 2013 at 11.00 am.

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



This report has been produced using recycled paper.

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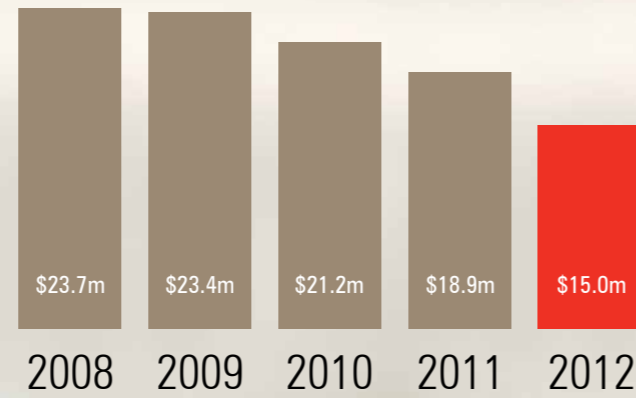
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## Performance over 5 years

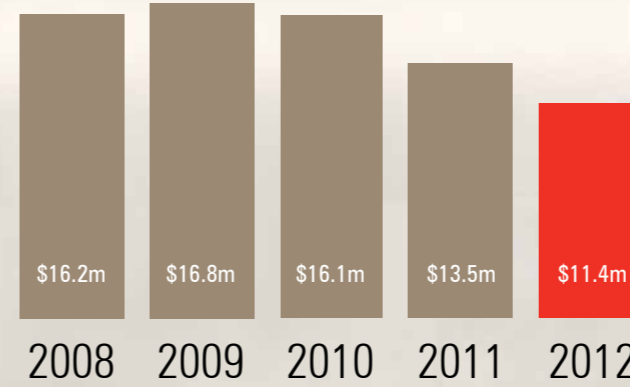
Revenue down  
**5%** to \$170.6m



Earnings Before Interest and Tax down  
**21%** to \$15.0m



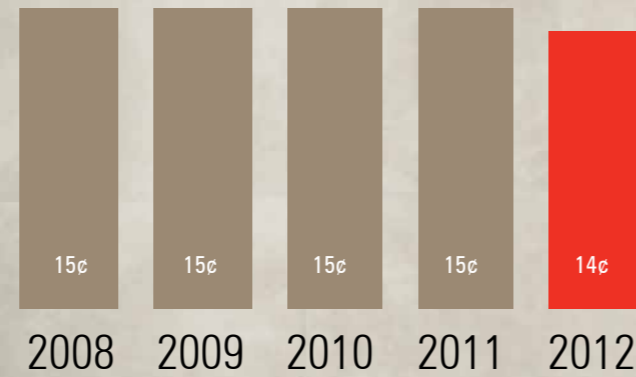
Net Profit after tax down  
**16%** to \$11.4m



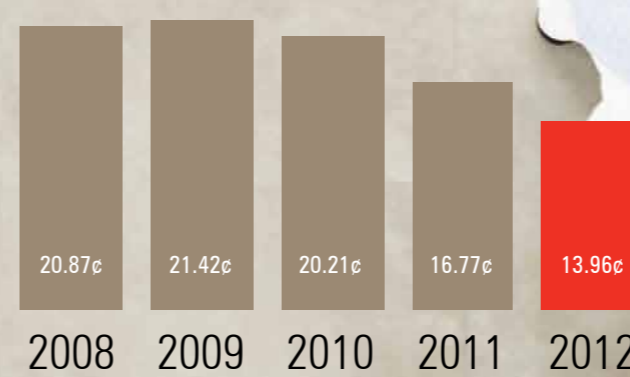
Operating Cash up  
**11%** to \$21.1m



Dividend down  
**7%** to 14¢



Earnings Per Share down  
**17%** to 13.96¢



# Chairman's Review Simon Jones



Despite some challenges in the SMB Solutions business, Melbourne IT continued to generate significant cash flow from its annuity businesses and improve the profitability of its Enterprise Services and Digital Brand Services divisions in 2012.

A second half improvement in our SMB Solutions business was a plus during a year where some external issues negatively impacted operations in the first half to keep full year revenue and earnings before interest and tax (EBIT) lower than the previous year.

Importantly, 2012 saw Melbourne IT assume a global leadership position on the new generic Top Level Domain (gTLD) opportunity.

Melbourne IT ended 2012 with full year revenue down 5% year-on-year to \$170.6 million and underlying EBIT declining 10% to \$17.0 million. The underlying net profit after tax (NPAT) of \$13.4 million was in line with the 2011 NPAT result and benefitted from favourable R&D tax credits. Cash flow increased 11% to \$21.1 million in 2012 from \$19.1 million the year prior.

Following a review by the Board, the decision was made to take a non-cash impairment charge of \$2 million to the carrying value of the ForTheRecord division. This impairment charge reduced the final EBIT and net profit after tax (NPAT) in the statutory accounts. Post-impairment charge, 2012 EBIT was \$15 million and NPAT was \$11.4 million.

Net debt remains low and reduced 25% year-on-year to \$16.0 million from \$21.2 million. Melbourne IT's primary debt facility was refinanced in 2012 with a four year extension, maintaining favourable terms, for \$38 million USD.

The Board indicated its confidence in the future of the business by declaring a 7¢ final dividend. This brought total dividend payments for the year to 14¢, a healthy shareholder yield. The final dividend, however, was only partially franked (40%) due to the use of the R&D tax credits and the fact that an increased proportion of the company's earnings were derived from outside of Australia.

## Unlocking Shareholder Value

In November 2012, the Board announced the commencement of a strategic review process to explore the possibilities of unlocking value for shareholders and delivering greater focus for investment, execution and operations for both customers and staff. The review was instigated, in part, due to the Board's belief that the value of Melbourne IT's businesses was not being adequately recognised by the market.

As a result of discussions with several interested parties during the strategic review, Melbourne IT accepted an all-cash offer for the Digital Brand Services division in March 2013 for \$152.5 million, which the

company believes is a substantial result for shareholders.

The strength of the transaction is illustrated by various valuation methodologies. The \$152.5 million price represents a multiple of 2.8x 2012 revenue, 13.5x 2012 EBITDA, 16.1x 2012 EBIT and was equivalent to 95% of the total value of Melbourne IT's market capitalisation pre-DBS sale (as of 11 March 2013).

In addition to retiring debt, at the time of writing the Board was considering a range of capital management options as a result of the sale including special dividends, share buybacks, capital returns and further investment in the continuing business.

Net proceeds for the transaction are likely to be in the order of A\$135 – A\$140 million but will depend on tax treatment and other transaction costs. The proceeds of the DBS sale will be realised in Melbourne IT's 2013 financial year which began January 1, 2013.

The Board is of the firm belief that this transaction was in the interests of shareholders. In addition to the value achieved, Melbourne IT is now a more focused business with its emphasis on its core domain name registration, web hosting and associated online services for organisations large and small in Australia, New Zealand and beyond, via our increasing network of global partners.

The growing appetite for online services shows no sign of abating and the Board is confident the streamlined Melbourne IT, with its large base of more than 400,000 customers and 6,900 partners, its strong range of products and services, its robust balance sheet and with the benefits from the transformation project starting to be realised, will return to growth.

## In Appreciation

On behalf of the Board I would like to thank the staff of Melbourne IT for their efforts during a challenging year. Managing Director & CEO, Theo Hnarakis, and the Melbourne IT Executive Team deserve praise for their dedication to transforming the business for a return to growth.

I would also like to thank my fellow Board members for their valuable insight and counsel in helping guide Melbourne IT in 2012.

Finally, I would like to thank our shareholders for continuing to believe and invest in this business.

**Simon Jones**  
Chairman

# Managing Director's Review Theo Hnarakis



Following the divestment of the Digital Brand Services division, a very different Melbourne IT approaches 2013 with renewed confidence.

At the time of writing, the Board and management team were focussing on the future strategy for the business as well as considering a range of capital management options for the proceeds of the DBS sale.

While we will outline that strategy and decisions on future investments or shareholder returns at the Annual General Meeting, I think it is worth providing some perspectives on the ongoing value of Melbourne IT's businesses and the positive outlook for their future in this Report.

## Strong core annuity businesses

Melbourne IT is one of the leading providers of internet services in the Asia-Pacific region with more than 400,000 customers. The sale of DBS allows greater focus on our Australian-based businesses – helping to build strong annuity-based services which have reliable cash flow benefits – and also reduces our exposure to the uncertainty of foreign currency movements and international economic volatility.

In 2013, our SMB division is expected to arrest the decline in revenue and EBIT with investments in enhancing the customer experience and new products to drive improved market competitiveness.

Furthermore, the arrival of hundreds of new generic top level domains from the second half of 2013 onwards will provide businesses with greater domain choice and drive increased domain ownership – a significant growth opportunity for Melbourne IT.

The SMB business continues to explore new opportunities with global partners. We are confident of not only growing our service footprint with existing partners but also securing new partnership deals to offset Microsoft's decision last year to exit the domain resale business.

Melbourne IT's Enterprise Services division is well placed to grow in a market in transition. We believe the repositioning of the division's strategy in 2012 will help the division adjust to and take advantage of the disruption caused by the entrance of global web hosting infrastructure giants and open opportunities for experts in managing the online experience.

The continuing shift by traditional businesses to online operations is picking up pace. The significant 2012 announcements by listed retailers Myer and David Jones outlining their online ambitions underscores the substantial levels of investment which companies are increasingly directing to their web presence.

We also expect ForTheRecord (FTR) to experience an improved year on the back of the strong sales pipeline generated by the partnership with Court Record Solutions (CRS). The combination of FTR's and CRS' technology delivers an unrivalled proposition in the court recording market, and customers are responding accordingly, with FTR getting off to a positive start to 2013.

Lastly, our systems transformation project is now in its final year and from 2014 onwards we expect our business to benefit significantly from that investment, by enabling both revenue growth and cost reduction. TechMahindra was appointed at the end of 2012 as our new integration partner to help complete the project, which is progressing in line with expectations for a 2013 completion.

## New focus

The fundamentals of our business remain sound with many opportunities for all of our divisions. With our focus solely on our core domains and hosting business – and a debt-free position of financial strength – I am confident of success as we take Melbourne IT down this 'tighter path'.

I would like to thank the Board for their support and guidance, as well as the Executive Team for their dedication to the business throughout 2012. Finally, I would like to thank our talented group of employees who continue to impress with their ingenuity and tenacity.

I look forward to sharing our new strategy at the AGM.

**Theo Hnarakis**  
Managing Director & CEO

# Digital Brand Services

## Overview

Melbourne IT Digital Brand Services (DBS) helped corporations manage, protect and optimise their brands online to maximise the value of their digital assets.

As the online business landscape increases in scope and opportunity, the complexity and risk associated with managing digital brands and transacting on the web is also increasing. Hundreds of companies, including some of the world's most recognisable names, worked with Melbourne IT DBS to manage their online brands.

Melbourne IT sold the Digital Brand Services division to U.S.-based Corporation Service Company in March 2013 for \$152.5 million.

## 2012 Highlights

DBS improved on 2011's record EBIT result by 6% in 2012, taking EBIT to \$9.5 million, while maintaining revenue at just over \$55 million (\$55.2 million). The continued strength of the Australian Dollar, particularly against European currencies, meant that on constant currency basis using 2011 FX rates, DBS's 2012 full year revenue was up 3% to \$56.8 million.

The 2012 result was assisted by Melbourne IT's leadership position on the ".brand" new generic Top Level Domain (gTLD) opportunity, with DBS preparing 146 applications on behalf of global brand customers including Visa, UBS, Orange and Ralph Lauren.

This was the equivalent of 22% of the total .brand applicants and 10% of all unique applications submitted globally, a strong result. In addition, more than 110 agreements to provide the on-going registry services were signed.

Brand and Reputation Protection Services revenue also continued to grow, with 2012 revenue up 7% year-on-year from \$9.6 million to \$10.3 million.

Growth was tempered, however, by price discounting which negatively impacted Corporate Domain Management services margins and revenue, as well as by extended sales cycles on new security products which delayed expected revenue to 2013.

ICANN delays to the new gTLD program delayed the introduction of new services which the company had developed with the aim of helping organisations navigate the new domain landscape. No significant new gTLD was launched in 2012 – unlike previous years when the launch of .co and .xxx boosted registration revenues – which also hampered revenue growth.

Nevertheless, the number of digital brands under management rose 4% year-on-year to 647,000 from 620,000 as DBS continued to expand.



DBS prepared 146 new gTLD applications on behalf of global brand customers.

DBS	FY12	FY11	CHANGE
Revenue	\$55.2m	\$55.3m	0%
EBIT Contribution	\$9.5m	\$9.0m	6%

## Outlook

Melbourne IT divested the Digital Brand Services division in March 2013 for \$152.5 million, which the company believes is a substantial result for shareholders.

The agreed sale price of \$152.5 million for DBS illustrated a significant growth in value of the business achieved by Melbourne IT and represented a valuation equivalent to 95% of the total value of Melbourne IT's market capitalisation pre-DBS sale (as of 11 March 2013).

At the time of writing, it was Melbourne IT's intention to retire outstanding Group debt and consider a range of capital management options. Decisions on capital management will be communicated at the AGM.

The proceeds of the DBS sale will be realised in Melbourne IT's 2013 financial year which began January 1, 2013.

# SMB Solutions

## Overview

Melbourne IT's SMB Solutions division delivers online business services directly to more than 400,000 small and medium-sized businesses in Australia and New Zealand and thousands more worldwide via a global network of 6,900 resellers.

Our eBusiness Centres help small businesses establish and build their online presence via a range of services including domain name registration and management, email and website hosting, digital marketing tools and eCommerce platforms.

Melbourne IT provides its global partner network with access to a 'white label' management system to allow resellers to sell domains and value-added online business services to small businesses around the world.

## 2012 Highlights

A challenging first half of the year – marked by a combination of external setbacks and some operational execution issues – negatively impacted SMB Solutions' 2012 performance which finished lower than expected despite a second half rebound in EBIT.

One of Melbourne IT's larger partners, Microsoft, exited the domain resale business in January 2012 which not only reduced partner revenue but also negatively impacted on our customer service operations with customer contacts doubling for several months as the company assisted Microsoft's customers resolve their concerns. Attempted credit card fraud attacks from online criminals also impacted the SMB website during February, slowing the web experience for genuine customers. These issues were resolved but affected our operations during the first half, impacting on revenue particularly during this period.

Revenue was down 8% year-on-year from \$89.4 million to \$82.2 million while EBIT dropped 17% from \$15.4 million to \$12.8 million.

Melbourne IT appointed a highly experienced SMB online business leader, Doug Schneider, in July and the formerly separate SMB and GPS operations were merged for improved delivery and greater operational efficiencies. The performance of the now-combined SMB Solutions improved in the second half, with H2 2012 EBIT up 17% to \$6.9 million from H1 2012 EBIT of \$5.9m.

While partner names under management decreased by 15% year-on-year from 3.6m to 3.1m domains – largely due to the Microsoft impact – higher margin services continued to deliver revenue benefits to the division, with SMB software-as-a-service (SaaS) revenue up 8% year-on-year from \$3.8 million to \$4.1 million.



New gTLDs will generate significant revenue opportunities from late 2013 onwards.

CONSOLIDATED	FY 12	FY 11	CHANGE
Revenue	\$82.2m	\$89.4m	-8%
EBIT Contribution	\$12.8m	\$15.4m	-17%

## Outlook

SMB Solutions is focused on delivering a much-improved customer experience in 2013 to halt the decline in revenue and EBIT. Investments are planned in the customer service area and recruitment of key senior leaders will help ensure the division has the ability to execute on its strategy.

Investments in new and enhanced products will also help drive improved customer experience. Managed WordPress design and hosting services are now available from Melbourne IT and in 2013 customers will see an upgrade to numerous WebCentral web hosting products to maintain market competitiveness in a rapidly changing industry.

The refresh of Melbourne IT's online sales channels will also help make it easier for customers to select and purchase the right product for their needs. A WebCentral website refresh was completed at the end of 2012 and a new Melbourne IT website has just gone live.

Melbourne IT continues to seek new partnership opportunities with global leaders and we are confident of securing new, significant long-term partnerships in 2013 which will set the Division up for strong growth from 2014.

The upcoming rollout of hundreds of new generic Top Level Domains (gTLDs) will generate significant revenue opportunities for SMB Solutions from late 2013, and increasingly so from 2014 onwards. The new gTLDs (such as .web, .sydney, .shop and so on) will provide small businesses with greater choice and the ability to secure new domains which can improve their online exposure to increase website visitor traffic. We believe this will drive increased ownership of multiple domains among SMBs in Australia and globally.

The completion of the Transformation project in late 2013 will also assist SMB Solutions to grow revenue from 2014 onwards through a strengthened product portfolio and greater product bundling options, in addition to cost savings as a result of systems and process rationalisation.

# Enterprise Services

## Overview

Melbourne IT Enterprise Services has a proven ability to design and manage complex web environments to deliver predictable web outcomes for businesses operating online.

Hundreds of customers – from blue chip corporations to dynamic media companies and large government departments – rely on our digital platform methodology to create, deliver, promote and protect their web platforms and achieve their desired online business goals.

## 2012 Highlights

Following a strong finish to 2011, Enterprise Services (ES) maintained momentum in 2012 with EBIT continuing to grow year-on-year. Greater operational efficiencies and continuing reductions in customer churn paved the way for a 35% year-on-year rise in EBIT to \$2.3 million. This was despite a small (-3%) year-on-year decline in revenue.

The slight year-on-year revenue decline was primarily the result of the way revenue was phased in the multi-year Qld Government Department of Education, Training & Employment (DETE) contract which reduced DETE annuity revenue in the second half of the year.

Delays in the Queensland Government IT priorities review affected project timings, however overall 2012 DETE project revenues were in line with 2011.

The decline in DETE annuity revenue was partially offset by a rise in annuity revenue across the rest of the division, up 4% year-on-year from \$16.1m in 2011 to \$16.7m in 2012.

A major highlight of 2012 was the achievement of ISO 27001 certification, which added to the ISO 9001 certification achieved in the year prior. This important accreditation provides greater scope for deeper government and corporate relationships where mandatory adherence to ISO 27001 standards is required.

Continued reductions in customer churn paved the way for a 35% year-on-year rise in EBIT.

ENTERPRISE SERVICES	FY 12	FY 11	CHANGE
Revenue	\$26.1m	\$26.8m	-3%
EBIT Contribution	\$2.3m	\$1.7m	35%

## Outlook

The Australian enterprise web hosting market is currently in a state of rapid evolution. The entrance of international goliaths, Amazon Web Services (AWS) and Rackspace, to the Australian market is categorically changing the enterprise web hosting landscape.

Enterprise Services is ideally placed to grow in this transitioning market. Our strategy of focusing on delivering predictable web outcomes for customers – no matter which infrastructure platform is used – harnesses the arrival of the new global players and their industry leading, cloud-based platforms.

New partnerships with key online experience providers Adobe, Sitecore, Akamai and AWS ideally position ES as the web partner of choice for the increasing number of Australian businesses which are now seriously investing in online strategies.

The “Click Frenzy” online retail event in 2012 demonstrated the clear need for Australian retailers to seek expert assistance from leaders such as Melbourne IT. Website failure rates across 153 participating Aussie retail sites doubled during the ClickFrenzy event. ES has since secured a growing number of engagements to assist leading retailers deliver a predictable and successful online experience to their customers.

Melbourne IT expects this continuing shift from ‘bricks to clicks’ and our ‘platform-agnostic approach’ to ensure the ES business maintains growth in 2013.

# ForTheRecord

## Overview

For The Record (FTR) is a leading global provider of digital recording and content management solutions for courts, law enforcement and government agencies.

FTR provides easy to use, reliable, cost-effective and innovative solutions which enable customers to capture, index, access, review and manage digital audio and video recordings across an organisation, by leveraging a novel and patented annotation linking technology. The technology helps to significantly lower technology infrastructure and transcription costs while improving productivity and efficiency.

FTR has a proven track record of success, providing more than 23,000 digital recording solutions for court rooms, law enforcement and public hearing venues in over 60 countries.



FTR's partnership with Court Record Solutions is expected to be a major growth opportunity for the business.

FTR	FY12	FY11	CHANGE
Revenue	\$6.9m	\$7.8m	-12%
EBIT Contribution	\$0.1m	\$1.2m	-92%

## 2012 Highlights

FTR, and indeed the court recording market as a whole, faced substantial challenges in 2012. Significant reductions in U.S. Federal and State Government spending, coupled with lengthening sales cycles where government budgets were available, contributed to a 12% year-on-year decline in revenue to \$6.9 million and a 92% year-on-year reduction in EBIT to \$0.1 million.

FTR's profitability is generally determined by a small number of large transactions each year, and fewer large contracts in 2012 (compared to 2011) negatively impacted the final result.

After the end of the financial year the Board conducted a review of the carrying value of the FTR division, and as a result, the Board decided to write down the goodwill value of the asset by \$2 million leading to an impairment in the Group accounts.

A key positive development in the final quarter of 2012, however, was the finalisation of an important partnership with Court Record Solutions (CRS) which delivers an online recording and transcription technology solution which is unmatched in the market.

## Outlook

FTR's partnership with CRS is expected to be a major growth opportunity for the business. This is already evidenced by the sales pipeline of opportunities, which has grown dramatically in both contract value and number of significant deals being worked on from the end of 2012, leading to a strong start to 2013.

Management is confident that the strength of this partnership offering, coupled with further new product introductions expected during 2013, will improve the profitability of FTR.



# Products & Innovation

## Overview

In a world of limitless opportunities, Melbourne IT endeavours to create innovative and dynamic products to help make every online interaction successful. Our investment in product and service development helps our customers deliver a safe and rewarding online experience to their customers.

## 2012 Highlights

Melbourne IT invested in key brand protection services in 2012 to help companies defend themselves from online fraud and manage their brands online. Melbourne IT DBS launched the industry's first phishing fraud prevention service to include proactive protection as well as rapid phishing site shutdown. The service uses email authentication to help prevent phishing emails reaching their intended targets.

In November, DBS also launched a new Brand Protection management portal to provide customers with the ability to manage all security intelligence and services from a single console. Melbourne IT's enforcement services continued to lead the market with a 99% success rate in UDRP (Uniform Domain Name Dispute Resolution Policy) cases to recover domains from cybersquatters. The strength of DBS' brand protection offering was a key consideration in the sale of the division to CSC in March 2013.

The Enterprise Services division further developed its capabilities focused on delivering positive business outcomes for mission critical internet-facing platforms. The company deepened its relationship with Content Management System (CMS) provider, Sitecore, as well as offering enhanced managed security services including vulnerability scanning and intrusion protection. A new partnership with content delivery specialists, Akamai, allows customers to deliver improved performance to their website visitors from around the globe.

SMB Solutions introduced a new managed design and hosting service based on the WordPress CMS towards the end of 2012, allowing customers to create high performing and striking websites quickly and easily.

ForTheRecord worked closely with key partner, Court Record Solutions, to develop an innovative, end-to-end digital solution for judicial venues which is already showing signs of redefining the court recording market.

The solution integrates CRS's LiveCopy, Cortex and Court.fm applications with the functionality of FTR's suite of digital recording and content management products. It allows for the capture, delivery and control of the digital content from a hearing's proceedings, either in court or remotely.



Melbourne IT will continue to invest in innovation to help our customers succeed.

## Outlook

Melbourne IT will continue to invest in its core hosting and domain businesses to help our customers succeed in 2013.

Numerous SMB hosting products under the WebCentral brand will be upgraded this year, with a new control panel and mobile capabilities also under development to improve the customer experience and customer web capabilities.

Melbourne IT will invest substantially in systems to manage the arrival of hundreds of new generic Top Level Domains (gTLDs) from mid-2013 onwards. The company will have the ability to offer domain registrations in new gTLDs such as .web, .shop, .melbourne and more to customers throughout the world.

Enterprise Services will continue developing its management capabilities for leading CMS and e-commerce platforms. New partnerships signed with leading online experience providers (such as Amazon Web Services) at the end of 2012 will begin having market impact in 2013. Further partnerships, such as enhancing our existing relationship with Adobe, will be explored this year.

Finally, a strong pipeline of new FTR products are planned this year including major upgrades to the FTR Gold and TheRecordManager product lines.

In 2012, Melbourne IT had more than 650 employees spread across 18 offices in 10 countries, drawing upon a diverse range of skills, abilities and cultural influences to help foster our culture of innovation and success.

The human resources (HR) team at Melbourne IT is responsible for providing tools, processes and advice to management across the business to effectively attract, motivate and retain our talented employee base.



## 2012 Highlights

Melbourne IT continued its investment in employee communications and wellbeing in 2012.

An international 'Big Picture' communications roadshow in March, led by the CEO, CFO and CTO, presented to ten offices in seven countries. The roadshow events communicated the revamped company vision and purpose to all employees as well as covering the transformation program and company opportunities. More than 600 employees attended.

An open discussion following the events was facilitated by the new Yammer social media tool, allowing employees from different regions around the globe to share their thoughts and debate.

Maintaining and improving skills continued to be a priority, with more than 1,500 training hours achieved in 2012. Continued investments in our people have enabled us to either promote or move 60 employees (nine per cent of the workforce) into new roles during the year. The company hired 154 new employees during the year.

While the company prides itself on a team ethos, some individual performances were recognised by the wider industry in 2012. General Counsel, Ashe-lee Jegathesan, was named In-House Legal Counsel of the Year at the 2012 Women in Law awards, hosted by legal industry bible, Lawyer's Weekly. Ashe-lee was recognized for her efforts in leading the legal team's work on the new gTLD program as well as her role in supporting the advancement and career development of young women within the company.

Melbourne IT is committed to ensuring that its employees and contractors work in an environment that is open, friendly and free of discrimination, harassment and bullying. To ensure employees can work to the best of their ability, Melbourne IT aims to create an environment where employees are treated with dignity, fairness and respect, and where everyone is judged according to merit.

- 65 per cent of employees are male, 35 per cent female. Technical roles, Customer Service and Sales in the IT industry are typically dominated by males. Human Resources, Finance and Legal continue to be dominated by females
- 15 per cent of the executive roles were held by females
- The Training and Development budget is equally available to all staff. There is a balanced representation of males and females participating in leadership, compliance training and our study assistance program
- The company is compliant with equal opportunity legislation administered by the Australian Government's Equal Opportunity for Women in the Workplace Agency (EOWA).

## Outlook

The sale of the Digital Brand Services division in March 2013 means Melbourne IT's total employee base will transition to a smaller number this year.

After assisting around 200 former DBS employees move across to Corporation Service Company, the HR team's focus will squarely be on ensuring Melbourne IT's continuing employees receive the best support and the business attracts, retains and motivates the industry's brightest talent.

Specific initiatives are planned to develop the leadership team to help them drive the new business strategy.

At Melbourne IT, energy usage is the primary focus for our sustainability efforts as it has a greater environmental impact than other factors for the company due to the nature of our business and our operation of several large data centres.

Melbourne IT continues to identify and implement energy-efficient practices to minimise the amount of energy consumed in the delivery of its services.

In 2012, the company continued its data centre consolidation strategy by migrating services to newer, more energy efficient premises, and selling its oldest data centre located in Brisbane. This consolidation exercise has allowed Melbourne IT to reduce power consumption for those services by more than 50 per cent and considerably lower its environmental footprint.

The implementation of energy efficient technologies and the refresh of data storage and back-up equipment – by replacing older technology with new, more energy efficient hardware – has also helped lower energy consumption. The hardware refresh to higher performance technology also allows Melbourne IT to continue to support a growing customer base, without increasing power consumption significantly.

The company has a policy of selecting more energy efficient equipment when IT hardware is replaced and giving preference to virtualisation wherever possible in order to reduce the amount of hardware in use and subsequently the amount of energy consumed. Melbourne IT is a leader in virtualisation and continued to increase the level of virtualised hardware in 2012 for greater efficiencies.

The impact of these investments in energy efficient data centre technology is magnified when customers choose to outsource their online services with us – as instead of using their own (potentially older) equipment they are choosing a more energy efficient solution.

Outside of the data centres, Melbourne IT encourages sustainability efforts in our day-to-day operations. Employees are encouraged to adopt personal working practices that support energy conservation, such as switching off their computers, unused appliances and lights at the end of the day, and printing only what is required. Many processes which were formerly paper-based have now been fully automated and security PINs have been introduced on all printers to avoid paper wastage.

General recycling facilities for paper and cardboard are provided in all Melbourne IT offices where there are more than ten employees. Where possible, all electronic waste is recycled, re-used or donated to charity to minimise disposable e-waste. Any disposal of electronic waste occurs in accordance with local laws.

Video conferencing technology is also used internally, where practical, to assist in reducing the associated emissions from business travel.

In 2013 we will continue to investigate new initiatives to mitigate the environmental impacts of our operations.

**Simon Jones**  
Chairman



Mr Jones has extensive experience in investment advisory, valuations, mergers and acquisitions, public offerings, audit and venture capital and is a member of the Audit & Risk Management Committee (ARMC) and the Human Resources, Remuneration and Nomination Committee (HRRNC). Mr Jones was appointed Chairman of the Board in November 2009, having served as a Non-Executive Director since 12 March 2003.

**Theo Hnarakis**  
Managing Director & CEO



Mr Hnarakis was appointed Chief Executive Officer of Melbourne IT in November 2002 and joined the Board on 20 September 2003. Prior to joining Melbourne IT, Mr Hnarakis held senior roles with News Corporation, Boral Group and the PMP Communications Group. He is an IT Fund for Kids Ambassador for the Starlight Children's Foundation.

**Tom Kiing**  
Non-Executive Director



Mr Kiing has extensive experience in mergers and acquisitions, capital markets and corporate finance. He was appointed to the Board on 19 December 2002 and is a member of the Human Resources, Remuneration and Nomination Committee (HRRNC).

**Naseema Sparks**  
Non-Executive Director



Ms Sparks is a professional company director and experienced advertising executive. She is a member of the boards of a number of Australian listed companies and not-for-profit organisations. She was appointed to the Board in April 2012 and is a member of the Human Resources, Remuneration and Nomination Committee (HRRNC).

**Rob Stewart**  
Non-Executive Director



Mr Stewart is a company director and management consultant. Mr Stewart has extensive management and board experience within leading companies across a variety of industries, and was Chairman of Melbourne IT for more than a decade before standing down in October 2009. He is Chairman of the Audit & Risk Management Committee (ARMC).

**Andrew Walsh**  
Non-Executive Director



Mr Walsh has extensive experience in the global internet industry, primarily in the development of successful online businesses and expanding into new geographies. He was appointed to the Board in June 2008 and is Chairman of the Human Resources, Remuneration and Nomination Committee (HRRNC).

Full details of the Directors' experience, expertise and directorships can be found on the Melbourne IT website at [www.melbourneit.info](http://www.melbourneit.info)

The Melbourne IT Board of Directors recognises the need for the highest standards of corporate behaviour and accountability. The Board is committed to optimising shareholder returns within a framework of ethical business practices.

Melbourne IT corporate governance practices and policies comply with the ASX Corporate Governance Council's revised "Corporate Governance Principles and Recommendations", including the most recent amendments in relation to diversity. This statement reflects a summary of Melbourne IT's corporate governance framework, policies and procedures during the 2012 year.

Further information on the Melbourne IT's corporate governance policies, including Board committee charters, are set out in the Corporate Governance website at <http://www.melbourneit.info/investor-centre/corporate-governance>

### Principle 1 – Lay Solid Foundations for Management and Oversight by Board

Melbourne IT has established functions which are reserved to the Melbourne IT Board and those delegated to senior executives. A statement of those functions is available from the Melbourne IT corporate governance website.

The performance of the Board is regularly evaluated, both formally and informally.

Formal performance reviews are conducted for all staff, including senior executives, on an annual basis. The performance of the senior executives is evaluated on the basis of role descriptions, key performance metrics and 360 degree feedback.

An induction program is conducted for all new Melbourne IT staff, and is accessible for refresher programs for current staff via Melbourne IT's online learning centre.

### Principle 2 – Structure the Board to Add Value

The qualifications of the current Board members are available from the Melbourne corporate governance website.

Four of the five non-executive directors (as at the end of 2012) are considered by the Board to be independent directors (Simon Jones, Naseema Sparks, Rob Stewart and Andrew Walsh). Tom Kiing is a substantial shareholder in Melbourne IT, and therefore is not considered by the Board to be an independent director. Theo Hnarakis is the only executive director.

The Chairman, Simon Jones, is an independent non-executive director. The Chairman, and the Managing Director & CEO, are different people.

The Board has an appropriate mix of relevant skills, experience, expertise and diversity, which enables us to discharge its responsibilities and meet its objectives. The Board considers that diversity includes differences that relate to gender, age, ethnicity and cultural background as well as differences in skills, education and functional and industry expertise. A brief biography of each Director is included in the Directors report.

One third of the directors (with the exception of the Managing Director) must retire from office at the time of the Annual General Meeting each year. Directors are eligible for re-election. The directors who retire by rotation are those with the longest period in office since their appointment or last election. The maximum period that a director can be in office before facing re-election is three years. This period will sometimes be shorter due to the requirement that one third must retire each year. At the time when any director is coming up for re-election, the Board considers that question and makes a conscious decision as to whether to recommend that re-election to shareholders.

The Human Resources Remuneration & Nomination Committee (HRRNC) comprises four non-executive directors: Andrew Walsh (Chairperson), Tom Kiing, Naseema Sparks and Simon Jones. Andrew Walsh, Simon Jones and Naseema Sparks are independent directors. The General Manager, Human Resources and the Managing Director & CEO attend all meetings by invitation. The HRRNC meets at least 3 times a year.

The performance of the Board, its committees and individual directors will next be formally reviewed in the 2013 financial year, with the assistance of an external facilitator.

In certain circumstances a director may consider it necessary to seek independent professional advice in carrying out their duties. Should this arise, the director would discuss the matter first with the Chairman and any advice then considered necessary would be obtained at the company's expense.

### Principle 3 – Promote Ethical and Responsible Decision Making

#### Code of Conduct

The Company has a Code of Conduct to guide the directors, the Managing Director & CEO, the Chief Financial Officer and other key executives as to:

- the practices necessary to maintain confidence in the company's integrity, and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Our Code of Conduct is available from Melbourne IT's corporate governance website.

#### Share Trading

The Company also has a Trading Policy concerning trading in company securities by directors, officers and employees involved in material transactions or privy to material information, which complies with the ASX Listing Rules. A copy is available from Melbourne IT's corporate governance website.

#### Diversity

Melbourne IT is committed to ensuring that its employees and contractors work in an environment that is open, friendly and free of discrimination, harassment and bullying. To ensure employees can work to the best of their ability, Melbourne IT aims to create an environment where employees are treated with dignity, fairness and respect, and where everyone is judged according to merit.

- 65 per cent of employees are male, 35 per cent female. Technical roles, Customer Service and Sales in the IT industry are typically dominated by males. Human Resources, Finance and Legal continue to be dominated by females
- 15 per cent of the executive roles were held by females
- There is one female board member (20%)
- The Training and Development budget is equally available to all staff. There is a balanced representation of males and females participating in leadership, compliance training and our study assistance program
- The company is compliant with equal opportunity legislation administered by the Australian Government's Equal Opportunity for Women in the Workplace Agency (EOWA)

A copy of our Diversity Policy is available from Melbourne IT's corporate governance website.

### Principle 4 – Safeguard Integrity in Financial Reporting

The Managing Director & CEO and the Chief Financial Officer have stated in writing to the Board for the 2012 year that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

The Audit and Risk Management Committee (ARMC) comprises two independent, non-executive directors: Rob Stewart (Chairman) and Simon Jones. The ARMC Chairman is not the Chairman of the Board.

The Managing Director & CEO and Chief Financial Officer attend the meetings by invitation of the ARMC. The relevant partner and staff of Melbourne IT's external auditors also attend by invitation from time to time.

The ARMC meets five times each year and has direct access to Melbourne IT's auditors and senior management. On at least one occasion each year it meets with the auditors without management being present.

The Committee also receives regular reports from both the external and internal auditors concerning any matters which arise in connection with the performance of their role, including adequacy of internal controls. The Committee reports to the Board on its activities after each meeting, and copies of the minutes of the Committee's meetings are provided to all directors.

The ARMC Charter is available from the Melbourne IT corporate governance website.

### Principle 5 – Make timely and balanced disclosure

Melbourne IT is committed to complying with its disclosure obligations. To that end Melbourne IT has developed a written Market Disclosure Policy, which is available from the Corporate Governance section of Melbourne IT's website. The Board has appointed the Company Secretary as "Disclosure Officer", with responsibility for:

- Reviewing compliance with Melbourne IT's continuous disclosure obligations;
- Co-ordination of the timely release of information to the market; and
- Maintaining a record of disclosure information (including any information which was considered but rejected for disclosure and the reasons for non-disclosure).

All market disclosures are reviewed by the directors, together with the Disclosing Officer, to ensure that they are factually correct and complete.

### Principle 6 – Respect the rights of shareholders

Melbourne IT aims to keep its shareholders informed of all important developments concerning the company. Melbourne IT communicates with its shareholders using the following means:

- Notices and explanatory memoranda of annual general meetings;
- The annual report;
- The annual general meeting;
- The Melbourne IT's corporate website located at <http://www.melbourneit.info>
- Periodic analyst briefings, which are released to the ASX; and
- Periodic shareholder announcements, which are also released to the ASX.

Melbourne IT's external auditors attend the Company's Annual General Meeting and are available to answer reasonable questions from shareholders in relation to the conduct of the audit, the independent audit report and the accounting policies adopted by Melbourne IT.

### Principle 7 – Recognise and Manage Risk

The Board has established appropriate policies for the oversight and management of material business risks and a process for management to report as to the effectiveness of the company's management of its material business risks.

Recommendation 7.3 requires the Managing Director & CEO and the Chief Financial Officer to report to the Board that the declaration provided in accordance with section 295A of the Corporations Act is founded

on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. This recommendation was complied with in 2012 by the Managing Director & CEO and by the Chief Financial Officer.

### Principle 8 – Remunerate Fairly and Responsibly

The Board has established the HRRNC to assist it to address the various issues in this area (see Principle 2 above). The Managing Director & CEO reviews the performance of his direct reports and makes recommendations to the HRRNC for approval in relation to their remuneration and Key Performance Indicators ('KPIs'). The Managing Director & CEO's own performance is reviewed by the Board, facilitated by the HRRNC and the Chairman.

The HRRNC also facilitates an annual review of the Board's performance – both of the Board as a whole and of individual directors.

The HRRNC reports to the Board on its activities after each meeting, and copies of the minutes of the Committee's meetings are provided to all directors.

Melbourne IT's remuneration policy has been set to ensure that the remuneration of directors and all staff properly reflects each person's accountabilities, duties and their level of performance, and to ensure that remuneration is competitive in attracting, motivating and retaining staff of the highest quality. All remuneration packages are reviewed at least annually, taking into account individual and company performance, market movements and expert advice.

Remuneration of non-executive directors in 2012 comprised of a fixed fee only.

Non executive directors are paid fixed fees in accordance with a determination of the Board but within a global limit fixed by the shareholders at a General Meeting. The current global limit of \$1,000,000 was approved by shareholders at the Annual General Meeting in 2008. Approval has not been sought to increase the fees paid to non-executive directors since that date. The Chairpersons of each committee receive an additional amount to reflect (at least to some extent) the additional workload and responsibility required of them to carry out that role.

Directors are not entitled as of right to any retirement or termination benefit (other than statutory superannuation benefits).

The remuneration of the Managing Director & CEO, and executives, comprises the following three elements:

1. Fixed Salary
2. Variable remuneration: short-term incentive
3. Variable remuneration: long-term incentive

The short-term incentive for each executive is an annual cash payment determined by the amount of fixed salary and achievement of individual KPIs. The expected performances of the Managing Director & CEO, staff reporting directly to him (known as 'direct reports') and other senior staff members, are specified each year using Key Performance Indicators (KPIs) in individual role agreements. These KPIs include financial targets for Melbourne IT overall as well as personal objectives and targets, appropriate for each individual's role.

The long-term incentive is membership of the Melbourne IT Performance Rights Plan and prior to 2009, the Melbourne IT Employee Performance Share Option Plan (both of which have been approved by shareholders).

Payment of equity-based executive remuneration is made in accordance with thresholds set in Plans approved by shareholders.

**DIRECTORS' REPORT**

Your directors submit their report for the year ended 31 December 2012.

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

Directors	Managing Director	Company Secretary
Mr. Simon Jones	Mr. Theo Hnarakis	Ms. Ashe-lee Jegathesan
Mr. Tom King		
Prof. Iain Morrison	(Resigned 22 May 2012)	
Mr. Robert Stewart AM		
Ms. Naseema Sparks	(Appointed 19 April 2012)	
Mr. Andrew Walsh		

**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.com.au](http://www.melbourneit.com.au) 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	130,935	-
Mr. Theo Hnarakis	688,367	708,400
Mr. Tom King	5,721,488	-
Mr. Robert Stewart AM	685,784	-
Ms. Naseema Sparks	-	-
Mr. Andrew Walsh	48,473	-

**PRINCIPAL ACTIVITIES**

The principal activities of the Group during the year by operating segment were:

**Digital Brand Services ("DBS")**

- Professional services which enable online brand creation, protection and management, and reputation optimisation across large public and private organisations worldwide.
- Guidance and administration of global domain name portfolios.
- Online brand monitoring, Professional services and enforcement.
- Analysis and development of website traffic.

**Enterprise Services ("ES")**

- IT Services, Infrastructure management, hosting and cloud based solutions.
- Data base and application management services.
- Advanced solutions including media content management and distribution, messaging and collaboration services and a unique portfolio of On-Demand Managed Services (ODMS).

**For The Record ("FTR")**

- Develops software and hardware-based digital recording and content management solutions for justice and public safety venues.

**SMB Solutions**

- Provider of products directly to SMB customers and through an extensive global network of partners. Products include:
  - Registration of generic Top Level Domain (gTLD) names (.com, .net, .org, .biz, .info, .name).
  - Registration of .au and .nz domain names.
  - Registration of other country code (ccTLD) domain names (eg. .us, .co.uk, .fr, .de and .eu).
  - Web and application hosting including Software and Services.
  - Consultative and fulfilment services for Search Engine Marketing and Web site design and development.
  - Provision of other Software and Services suited to Small to Medium Business (SMB) and Small Office and Home Office (SOHO).

**DIRECTORS' REPORT (continued)****REVIEW AND RESULTS OF OPERATIONS****EARNINGS PER SHARE**

	2012	2011
Basic earnings per share	13.96 cents	16.77 cents
Diluted earnings per share	13.77 cents	16.60 cents

**RESULTS**

The profit after tax of the Melbourne IT Group for the year ended 31 December 2012 was \$11.441 million (2011: \$13.524 million).

**DIVIDENDS**

	Cents	\$'000
Final Dividend Recommended on ordinary shares	7.0	5,772

**DIVIDENDS PAID IN THE YEAR**

Final Dividend – 2011 on ordinary shares	8.0	6,508
Interim Dividend – 2012 on ordinary shares	7.0	5,739

At the 26 February 2013 Board Meeting, the directors declared a final dividend of 7.0 cents per share, partially franked. The total amount of this final dividend is \$5.772 million. This dividend has not been provided for at 31 December 2012.

**Melbourne IT Ltd - Consolidated Group**

Non-IFRS information included in the summary of results below are unaudited. A table on page 24 shows a reconciliation of the pre- and post-impairment financial results included below to the reported profit after tax, but these performance measures are unaudited except for post-impairment tax expense and profit after tax.

- Total consolidated Revenue for the year ended 31 December 2012 was \$170.567 million (2011: \$179.778 million), a decrease of 5.1%.
- Profit after Tax for the year ended 31 December 2012 was \$11.441 million (2011: \$13.524 million), a decrease of 15.4%.
- Earnings Before Interest and Tax ('EBIT') for the year ended 31 December 2012 was \$15.010 million (2011: \$18.911 million), a decrease of 20.6%. Excluding the FTR impairment of \$2 million, adjusted EBIT was \$17.010 million (2011: \$18.911 million), a decrease of 10.1%.
- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for the year ended 31 December 2012 was \$19.724 million (2011: \$25.036 million), a decrease of 21.2%. Excluding the FTR impairment of \$2 million, adjusted EBITDA was \$21.724 million (2011: \$25.036 million), a decrease of 13.2%.
- Cash and cash equivalents was \$17.857 million at 31 December 2012 (2011: \$19.047 million). At 31 December 2012 total external debt was \$33.818 million (US \$35.0 million) (2011: \$40.291 million (US \$41.0 million)). Net debt is \$15.961 million (2011: \$21.244 million), with the lower external debt partially offset by lower cash and cash equivalents.
- Positive Operating Cashflow for the year ended 31 December 2012 was \$21.134 million (2011: \$19.099 million), an increase of 10.7%.
- During the year, Melbourne IT successfully refinanced its USD bank borrowings to a new maturity date of June 2016. The group continues to make quarterly repayments of USD \$1.5m, a total of USD \$6.0m in the year (AUD \$5.811m).
- Deferred Gross Margin (i.e. income received in advance net of prepaid costs) was \$27.681 million at 31 December 2012 (December 2011: \$29.051 million) a decrease of 4.7%.
- At the 26 February 2013 Board Meeting, the directors declared a 7.0 cents franked to 40% final dividend on ordinary shares in respect of the year ended 31 December 2012 (year ended 31 December 2011: 8.0 cents fully franked).

**DIRECTORS' REPORT (continued)****REVIEW AND RESULTS OF OPERATIONS (continued)**

- The following table shows a reconciliation of the pre- and post-impairment financial results included in the discussion above to the reported profit after tax. The company believes that this non-IFRS, unaudited information is relevant to the user's understanding of its results.

Non-IFRS information	2012			2011
	Post-Impairment (audited)	Impairment (audited)	Pre-Impairment (unaudited)	Post-Impairment (audited)
	\$000	\$000	\$000	\$000
EBITDA*	19,724	(2,000)	21,724	25,036
D & A*	4,714	-	4,714	6,125
<b>EBIT*</b>	<b>15,010</b>	<b>(2,000)</b>	<b>17,010</b>	<b>18,911</b>
Net Interest*	1,062	-	1,062	1,002
Tax Expense*	2,507	-	2,507	4,385
<b>Profit After Tax*</b>	<b>11,441</b>	<b>(2,000)</b>	<b>13,441</b>	<b>13,524</b>

\* An audit opinion has only been provided in relation to profit after tax post impairment.

**Summarised operating results are as follows:**

	2012 \$'000	2011 \$'000
<b>Revenue</b>		
Registration Revenue	62,097	65,748
Professional Services Revenue	40,153	42,414
Hosting & Value-Added Product Sales	61,030	63,065
For The Record Revenue	6,868	7,777
Other Revenue	119	342
Total Revenue excluding Interest Revenue	170,267	179,346
Interest Revenue	270	422
<b>Total Revenue</b>	<b>170,537</b>	<b>179,768</b>
Other Income	30	10
<b>Total Consolidated Income</b>	<b>170,567</b>	<b>179,778</b>
<b>Earnings Before Net Interest and Tax</b>		
Operating segment results	22,747	27,272
Unallocated expenses	(7,737)	(8,361)
<b>Total Earnings Before Net Interest and Tax</b>	<b>15,010</b>	<b>18,911</b>
Net Interest	(1,062)	(1,002)
<b>Net Profit Before Tax</b>	<b>13,948</b>	<b>17,909</b>
Tax Expense	(2,507)	(4,385)
<b>Net Profit After Tax</b>	<b>11,441</b>	<b>13,524</b>
<b>Cashflow from Operations</b>	<b>21,134</b>	<b>19,099</b>

**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 consultation of external advisors on specific matters where appropriate, in order to determine the effectiveness of the risk management plan.

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**

During the year, there were no significant changes in the state of affairs.

**SIGNIFICANT EVENTS AFTER BALANCE DATE**

At the 26 February 2013 Board Meeting, the Directors declared a 7.0 cents partially franked final dividend on ordinary shares in respect of the year ended 31 December 2012. The total amount of this final dividend is \$5.772 million, and has not been provided for in the 31 December 2012 financial statements in accordance with the Accounting Standards.

On 12 March 2013 Melbourne IT announced the sale of the DBS business to the Corporation Service Company Ltd for a cash consideration of \$152.5 million, of which 10% is to be held in escrow for 15 months. Net proceeds are expected to be \$135-140 million.

The Group's US\$ 35 million bank facility was repaid to National Australia Bank at the same time.

There has not been any other matter or circumstance, other than as referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operation of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

**LIKELY DEVELOPMENTS AND EXPECTED RESULTS**

Following the sale of the DBS business in March 2013, the Group's focus for 2013 will be on building the foundations for growth in the SMB Solutions and Enterprise Services Business units, coupled with completion of the transformation project.

Information on further developments in the Group's operations and expected results of operations have not been included in this report, as the directors believe that this would be likely to result in unreasonable prejudice to the Group.

**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 3,795,182 unissued ordinary shares under options (2011: 4,949,104). Refer to note 32 of 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.

**DIRECTORS' REPORT (continued)****SHARE OPTIONS (continued)****Shares issued as a result of the exercise of options**

During the financial year, no employees or directors have exercised the option to acquire fully paid ordinary shares in Melbourne IT Ltd. In 2011, employees and directors exercised options to acquire 92,900 fully paid ordinary shares in Melbourne IT Ltd at a weighted average exercise price of \$1.67.

In the year ended 31 December 2012 990,000 (2011: 930,000) options were granted over ordinary shares.

The weighted average exercise price per option grant is detailed in the following table:

**Issued Options Outstanding**

Number of options	Grant date	Vesting date	Expiry Date	Weighted Average Exercise Price
1,185,774	18/07/08	18/07/10	18/07/13	3.06
103,408	19/08/08	19/08/10	19/08/13	3.06
326,000	24/10/08	24/10/10	24/10/13	2.12
80,000 *	1/07/10	1/07/13	1/07/13	0.00
510,000	1/07/10	1/07/13	1/07/13	0.00
70,000 *	1/07/11	1/07/14	1/07/14	0.00
590,000	1/07/11	1/07/14	1/07/14	0.00
75,000	1/01/12	1/07/14	1/07/14	0.00
250,000 *	1/07/12	1/07/15	1/07/15	0.00
605,000	1/07/12	1/07/15	1/07/15	0.00
<u>3,795,182</u>				

\* Represents zero price shares to be settled in cash at time of vesting, offered to international staff.

**DIRECTORS' MEETINGS**

	Directors Meetings		Meetings of Committees			
	Eligible	Attended	ARMC (1)		HRRNC (2)	
No of meetings held in 2012	14		7		3	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Simon Jones	14	14	5	5	4	4
Theo Hnarakis	14	14	5*	5*	4*	4*
Robert Stewart AM	14	14	5	5		
Tom Kiing	14	13			4	4
Iain Morrison **	6	5	3	3		
Naseema Sparks ***	9	9			3	3
Andrew Walsh	14	14			4	4

(1) Audit and Risk Management Committee

(2) Human Resources, Remuneration and Nomination Committee

\* by invitation

\*\* resigned 22 May 2012

\*\*\* appointed 19 April 2012

The above table shows the numbers of meetings of directors held during 2012. The table also shows the number of meetings attended by each director and the number of meetings each director was eligible to attend.

As at the date of this report, the company had an Audit & Risk Management Committee ("ARMC") and a Human Resource, Remuneration & Nomination Committee ("HRRNC") of the Board of Directors. A Mergers and Acquisitions sub-committee ("M&A Committee") of the board was also formed for the duration of the Group's Strategic Review.

The members of the ARMC are Mr R. Stewart AM (Chairman), Mr S. Jones and Prof. I. Morrison until his resignation.

The members of the HRRNC are Mr A. Walsh (Chairman), Mr S. Jones, Ms N. Sparks and Mr. T Kiing.

The members of the M&A Committee are Mr. S Jones and Mr. T Hnarakis. The Committee held 6 meetings during November and December 2012, which were attended by all members.

The Managing Director and Chief Executive Officer, Mr Theo Hnarakis attends each ARMC and each HRRNC by invitation.

**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.com.au](http://www.melbourneit.com.au) and is contained in the additional ASX information section of the 2012 annual report.

**DIRECTORS' REPORT (continued)****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, KMP are the Chief Executive Officer/Managing Director, the Chief Financial Officer, the Company Secretary as well as the leaders of Melbourne IT's Global Business Units in SMB Solutions and Digital Brand Services ("DBS"). 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. To prosper, the company must attract, motivate and retain highly skilled directors, executives and staff.

To this end, the company embodies the following principles in its 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 benchmarks; and
- Establish appropriate, demanding performance hurdles for variable executive remuneration.

Further details of remuneration of directors and KMP are also provided in note 31 of the financial statements.

**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 maximum remuneration of \$1,000,000 per year.

The amount of aggregate maximum 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.

**DIRECTORS' REPORT (continued)****REMUNERATION REPORT (Audited) (continued)****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 22 of the Directors Report.

The remuneration of non-executive directors for the period ended 31 December 2012 is detailed below.

**Structure**

Details of the nature and amount of each element of the emolument of each non executive director of the company for the financial year are as follows:

Emoluments of non-executive directors of Melbourne IT Ltd:

2012 Directors	Short Term Salary & fees \$	Post Employment Super Cont. \$	Total \$
Mr Simon Jones	176,813	15,913	192,726
Mr Tom King	76,875	6,919	83,794
Prof. Iain Morrison (1)	30,356	2,732	33,088
Ms. Naseema Sparks (2)	53,615	4,825	58,440
Mr Robert Stewart AM	86,875	7,819	94,694
Mr Andrew Walsh	86,875	7,819	94,694
<b>Total 2012</b>	<b>511,409</b>	<b>46,027</b>	<b>557,436</b>

2011 Directors	Short Term Salary & fees \$	Post Employment Super Cont. \$	Total \$
Mr Simon Jones	176,813	15,913	192,726
Mr Tom King	76,875	6,919	83,794
Prof. Iain Morrison (1)	76,875	6,919	83,794
Mr Robert Stewart AM	86,875	7,819	94,694
Mr Andrew Walsh	86,875	7,819	94,694
<b>Total 2011</b>	<b>504,313</b>	<b>45,389</b>	<b>549,702</b>

(1) Resigned 22 May 2012  
(2) Appointed 19 April 2012

**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 29. Some executives are also participants in the Long Term Incentive Plan as described on page 29.

Remuneration consists of the following key elements:

- Fixed Remuneration
- Variable Remuneration
  - Short term Incentive (STI); and
  - Long term Incentive (LTI)

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 30 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 31.

**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. During the year ended 31 December 2012, 44% of the 31 December 2011 STI provision was paid. No STI will be paid in respect of the 2012 financial year except for two specific executives who joined during 2012.

**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 and Tax ("EBIT") target set by the Company needs to be met. Assuming this occurs, actual STI awards will be made based on the extent to which specific operational targets are met. If the EBIT target is 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 three months of the end of our financial year.

**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 options to achieve alignment between comparative shareholder return and reward for executives. LTI plans granted, exercised and lapsed during the year ended 31 December 2012 are shown below.

	Equity Settled	Equity Settled	Cash Settled	2012 Number
Number of Perf. Rights	75,000	665,000	250,000	Outstanding at start of the year
Grant date	1/01/2012	1/07/2012	1/07/2012	Granted during the year
First Vesting date/Exercise date	1/07/2014	1/07/2015	1/07/2015	Exercised during the year
Weighted Average Exercise Price	-	-	-	Lapsed during the year
Fair value of Perf. Rights	1.24	1.02	1.44	Outstanding at year end



**DIRECTORS' REPORT (continued)****REMUNERATION REPORT (Audited) (continued)****Variable Remuneration – Long Term Incentives (LTI) (continued)****LTI Plans – pre 30 June 2010**

The exercise condition for Executive LTI Options issued up to 30 June 2010, are based on the increase in basic earnings per share ('EPS') as reported in the annual financial statements against pre-determined performance targets set by the Board. Further information in relation to these plans are included in prior year Annual Reports.

**LTI Plans – post 1 July 2010**

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, 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 are 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 is dependant on the performance level achieved. Performance is measured over the 36 month period from 1 January of the respective grant year - 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 applies to the exercise of the Rights:

TSR Percentile Rank Achieved	TSR Proportion of Options Vesting	Compound annual EPS growth	Proportion of EPS Options Vesting
>= 75th percentile	100%	>= 12.5%	100%
> 50.1 percentile and < 75th percentile	Pro-rata allocation	> 7.5% and < 12.5%	Pro-rata allocation
50.1 percentile	50%	7.50%	50%
< 50.1 percentile	0%	< 7.5%	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 Earnings Before Interest and Tax ("EBIT") result. 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 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 2012 and 2011 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.

2012	Short term benefits			Post Employment benefits	Long term benefits	Share Based Payments	Other	Total	Performance related (5) %
	Salary & fees	STI (1)	Other (2)	Super Cont.	Long service leave (3)	Amortisation Expense (4)	Termination Pay		
Executives	\$	\$	\$	\$	\$	\$	\$	\$	
Mr Theo Hnarakis	589,167	-	41,307	41,635	32,395	114,083	-	818,587	13.9%
Mr Damian Walsh (6)	33,065	-	3,105	4,437	(3,726)	8,375	91,209	136,465	N/a
Mr Doug Schneider (7)	144,348	41,663	-	-	-	24,036	-	210,047	31.3%
Ms Lori Harmon (8)	156,458	-	-	4,540	-	(40,688)	19,360	139,670	N/a
Mr Damon Fieldgate (9)	98,490	-	2,873	8,683	(13,270)	(49,612)	83,582	130,746	N/a
Ms Ashe-lee Jegathesan	238,689	-	9,295	21,436	4,822	28,433	-	302,675	9.4%
Mr Kanchan Mhatre (10)	144,047	-	-	4,561	-	(45,343)	20,791	124,056	N/a
Mr Martin Burke (11)	16,451	46,062	-	-	-	-	-	62,512	0.0%
Mr Peter Findlay	303,211	-	8,103	26,550	-	31,350	-	369,214	8.5%
<b>Total 2012</b>	<b>1,723,926</b>	<b>87,724</b>	<b>64,683</b>	<b>111,842</b>	<b>20,221</b>	<b>70,634</b>	<b>214,942</b>	<b>2,293,972</b>	

(1) No STIs will be paid in respect of the 2012 financial year, except D Schneider and M Burke who were contractually entitled to receive an STI.

(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.

For leavers, the expense represents the reversal of all previous amortisation in respect of Performance Rights, as the tenure condition had not been met.

(5) Calculated as STI + Amortisation of Performance Rights, as a proportion of total remuneration.

The proportion of performance related pay is not considered meaningful for leavers, due to the fact that the current year remuneration as reported in this table includes the reversal of prior year share based payments amortisation.

(6) Mr Damian Walsh resigned from the Group, and the executive, on 24 February 2012.

He was entitled to retain his Performance Rights on a pro-rata basis in relation to the proportion of the service period during which he was employed.

(7) Mr Doug Schneider was appointed to the executive as Executive Vice President, SMB Solutions on 15 July 2012.

(8) Ms Lori Harmon resigned from the Group, and the executive, on 23 August 2012.

(9) Mr Damon Fieldgate resigned from the Group, and the executive, on 21 May 2012.

(10) Mr Kanchan Mhatre resigned from the Group, and the executive, on 22 July 2012.

(11) Mr Martin Burke was appointed to the executive as Executive Vice President - DBS on 16 December 2012.

2011	Short term benefits			Post Employment benefits	Long term benefits	Share Based Payments	Other	Total	Performance related (5) %
	Salary & fees	STI (1)	Other (2)	Super Cont.	Long service leave (3)	Amortisation Expense (4)	Termination Pay		
Executives	\$	\$	\$	\$	\$	\$	\$	\$	
Mr Theo Hnarakis	568,950	148,418	38,356	47,134	18,891	121,890	-	943,639	28.65%
Mr Damian Walsh	294,304	40,000	10,178	25,713	3,726	51,438	-	425,359	21.50%
Ms Lori Harmon	236,502	19,391	-	4,920	-	29,146	-	289,959	16.74%
Mr Damon Fieldgate	230,106	15,000	6,703	20,700	4,895	34,292	-	311,696	15.81%
Ms Ashe-lee Jegathesan	223,705	35,000	8,084	20,619	2,787	29,492	-	319,687	20.17%
Mr Kanchan Mhatre	246,806	38,782	-	7,247	-	29,146	-	321,981	21.10%
Ms Carolyn Sutton (6)	200,512	-	7,498	5,548	-	(12,000)	-	201,558	N/a
Mr Peter Findlay (7)	63,142	18,333	2,440	5,548	-	-	-	89,463	20.49%
<b>Total 2011</b>	<b>2,064,027</b>	<b>314,924</b>	<b>73,259</b>	<b>137,429</b>	<b>30,299</b>	<b>283,404</b>	<b>-</b>	<b>2,903,342</b>	

(1) Represents the STI accrued in respect of the 2011 financial year.

(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 2010, 2011 and 2012 Performance Rights.

For leavers, the expense represents the reversal of all previous amortisation in respect of Performance Rights, as the tenure condition had not been met.

(5) Calculated as STI + Amortisation of Performance Rights, as a proportion of total remuneration.

The proportion of performance related pay is not considered meaningful for leavers, due to the fact that the current year remuneration as reported in this table includes the reversal of prior year share based payments amortisation.

(6) Ms Carolyn Sutton resigned from the Group, and the executive, on 23 August 2011.

(7) Mr Peter Findlay was appointed to the executive as Chief Financial Officer on 17 October 2011.

**Employment Contracts**

The Managing Director and Chief Executive Officer, Mr Hnarakis, is employed under contract. The current employment contract commenced in November 2002 and continues until such time that employment is terminated.

- Mr Hnarakis was entitled to receive a further fixed STI amount of up to \$371,046 based on achieving annual performance criteria set by the Board.

- Mr Hnarakis' remuneration is reviewed annually.

- Mr Hnarakis may resign from his position and thus terminate this contract by giving 6 months notice.

- The company may terminate this employment agreement by providing 12 months written notice or providing payment in lieu of the notice period based on the fixed component of Mr Hnarakis' remuneration.

All other key management personnel are on standard contracts and are remunerated as stipulated in this report.

**DIRECTORS' REPORT (continued)****REMUNERATION REPORT (Audited) (continued)****Compensation options: Options granted and Options vested during the year****2012**

In the year ended 31 December 2012 485,000 (2011 : 460,000) options were granted to the KMP.

**Options granted / lapsed as remuneration during the year****2012**

	Options Granted	Value of options granted (1) \$	Value of options exercised \$	Number of options lapsed / forfeited	Remuneration consisting of options (2)
<b>Executives</b>					
Mr Theo Hnarakis	185,000	188,700	-	(250,000)	13.9%
Mr Damian Walsh (3)	-	-	-	-	N/a
Mr Doug Schneider (4)	100,000	102,000	-	-	31.3%
Ms Lori Harmon (5)	-	-	-	(100,000)	N/a
Mr Damon Fieldgate (6)	-	-	-	(138,408)	N/a
Ms Ashe-lee Jegathesan	50,000	51,000	-	-	9.4%
Mr Kanchan Mhatre (7)	-	-	-	(136,816)	N/a
Mr Martin Burke (8)	-	-	-	-	N/a
Mr Peter Findlay	150,000	169,500	-	-	8.5%
	485,000	511,200	-	(625,224)	

(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 31 includes the reversal of prior year share based payments amortisation.

(3) Mr Damian Walsh resigned from the Group, and the Executive on 24 February 2012.

(4) Mr Doug Schneider was appointed to the executive as Executive Vice President, SMB Solutions on 15 July 2012.

(5) Ms Lori Harmon resigned from the Group, and the executive on 23 August 2012.

(6) Mr Damon Fieldgate resigned from the Group, and the executive on 21 May 2012.

(7) Mr Kanchan Mhatre resigned from the Group, and the executive on 22 July 2012.

(8) Mr Martin Burke was appointed to the executive as Executive Vice President - DBS on 16 December 2012.

There were no alterations to the terms and conditions of options granted as remuneration since the grant date.

The maximum grant, which will be payable assuming that all service and performance criteria are met, is equal to the number of options 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.

**Shares issued on exercise of options**

No shares were issued to KMP's on exercise of compensation options for the year ended 31 December 2012.

**Employees**

The consolidated entity employed 585 full time equivalent ("FTE") employees as at 31 December 2012 (2011:716).

**Auditor independence and non audit services**

The Directors have received an independence declaration from the auditor of Melbourne IT Ltd, as shown on page 33.

**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:

	\$
Tax compliance services	130,116
Assurance related and due diligence services	80,413
	<u>210,529</u>

Signed in accordance with a resolution of the directors.

  
Simon Jones (Chairman)

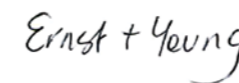
Melbourne, 26 March 2013



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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 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Joanne Loneragan  
Partner  
26 March 2013

**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 2012 are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of its financial position as at 31 December 2012 and of its performance for the year ended on that date; and
    - (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 2012.
- (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 35, 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)

Melbourne, 26 March 2013



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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 2012, 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, 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.



### 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 2012 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.

### Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2012. 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 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Joanne Lonergan  
Partner  
Melbourne  
26 March 2013

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2012

	Notes	CONSOLIDATED	
		2012 \$'000	2011 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	22(b)	17,857	19,047
Trade and other receivables	8	22,966	29,244
Inventories	9	539	463
Prepayment of domain name registry charges		9,573	11,465
Derivative financial instruments	25	-	14
Other assets	10	2,755	3,847
<b>Total Current Assets</b>		<b>53,690</b>	<b>64,080</b>
<b>Non-Current Assets</b>			
Plant and equipment	11	3,692	5,360
Intangible assets	12	130,703	130,661
Deferred income tax assets	13	6,412	6,536
Prepayment of domain name registry charges		6,255	6,534
Other assets	14	43	58
<b>Total Non-Current Assets</b>		<b>147,105</b>	<b>149,149</b>
<b>TOTAL ASSETS</b>		<b>200,795</b>	<b>213,229</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	15	15,639	21,042
Interest-bearing loans and borrowings	16	5,784	5,896
Provisions	17	4,325	4,568
Current tax liabilities	18	682	568
Income received in advance		29,144	33,093
<b>Total Current Liabilities</b>		<b>55,574</b>	<b>65,167</b>
<b>Non-Current Liabilities</b>			
Interest-bearing loans and borrowings	16	28,034	34,395
Deferred income tax liability	19	6,287	4,226
Provisions	20	793	815
Income received in advance		14,365	13,957
Derivative financial instruments	25	448	439
<b>Total Non-Current Liabilities</b>		<b>49,927</b>	<b>53,832</b>
<b>TOTAL LIABILITIES</b>		<b>105,501</b>	<b>118,999</b>
<b>NET ASSETS</b>			
		<b>95,294</b>	<b>94,230</b>
<b>EQUITY</b>			
Contributed equity	21(a)	68,794	66,900
Foreign currency translation reserve		(9,901)	(9,892)
Options reserve		4,237	4,166
Hedging reserve		(214)	(127)
Retained earnings		32,378	33,183
<b>TOTAL EQUITY</b>		<b>95,294</b>	<b>94,230</b>

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 2012**

	Notes	CONSOLIDATED	
		2012 \$'000	2011 \$'000
Revenue	4(a)	170,537	179,768
Other Income	4(b)	30	10
Registry, Hosting and Sundry Other Product Costs		(60,267)	(62,327)
<b>Gross profit</b>		<b>110,300</b>	<b>117,451</b>
Salaries and employee benefits expenses		(68,589)	(71,264)
Depreciation and amortisation expenses	5(a)	(3,662)	(4,854)
Amortisation of identifiable intangible assets	5(b)	(1,052)	(1,271)
Impairment of intangible assets	5(c)	(2,000)	-
Finance costs	5(e)	(1,040)	(958)
Other expenses	5(d)	(20,009)	(21,195)
<b>Profit before tax</b>		<b>13,948</b>	<b>17,909</b>
Income tax expense	6	(2,507)	(4,385)
<b>Net profit attributable to members of Melbourne IT Ltd</b>		<b>11,441</b>	<b>13,524</b>
<b>Other comprehensive income</b>			
Currency translation differences		(9)	(622)
Net gains/(losses) on cashflow hedges (net of tax)		(87)	(238)
<b>Other comprehensive income for the period, net of tax</b>		<b>(96)</b>	<b>(860)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>11,345</b>	<b>12,664</b>
Profit attributable to members of the parent		11,441	13,524
Total comprehensive income attributable to members of the parent		11,345	12,664
<b>EARNINGS PER SHARE</b>		<b>2012</b>	<b>2011</b>
Basic earnings per share	28	13.96 cents	16.77 cents
Diluted earnings per share	28	13.77 cents	16.60 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 2012**

	FOREIGN CURRENCY RESERVE \$'000	OPTIONS RESERVE \$'000	HEDGING RESERVE \$'000	CONTRIBUTED EQUITY \$'000	RETAINED EARNINGS \$'000	TOTAL \$'000
<b>As at 1 January 2012</b>	<b>(9,892)</b>	<b>4,166</b>	<b>(127)</b>	<b>66,900</b>	<b>33,183</b>	<b>94,230</b>
Profit for the period	-	-	-	-	11,441	11,441
Other comprehensive income	(9)	-	(87)	-	-	(96)
<b>Total comprehensive income for the period</b>	<b>(9)</b>	<b>-</b>	<b>(87)</b>	<b>-</b>	<b>11,441</b>	<b>11,345</b>
<b>Transactions with owners in their capacity as owners:</b>						
Share based payment	-	71	-	-	-	71
Dividend reinvestment plan	-	-	-	1,894	(1,894)	-
Exercise of options	-	-	-	-	-	-
Equity dividends	-	-	-	-	(10,352)	(10,352)
<b>As at 31 December 2012</b>	<b>(9,901)</b>	<b>4,237</b>	<b>(214)</b>	<b>68,794</b>	<b>32,378</b>	<b>95,294</b>
<b>As at 1 January 2011</b>	<b>(9,270)</b>	<b>3,880</b>	<b>111</b>	<b>64,839</b>	<b>31,709</b>	<b>91,269</b>
Profit for the period	-	-	-	-	13,524	13,524
Other comprehensive income	(622)	-	(238)	-	-	(860)
<b>Total comprehensive income for the period</b>	<b>(622)</b>	<b>-</b>	<b>(238)</b>	<b>-</b>	<b>13,524</b>	<b>12,664</b>
<b>Transactions with owners in their capacity as owners:</b>						
Share based payment	-	286	-	-	-	286
Dividend reinvestment plan	-	-	-	1,906	(1,906)	-
Exercise of options	-	-	-	155	-	155
Equity dividends	-	-	-	-	(10,144)	(10,144)
<b>As at 31 December 2011</b>	<b>(9,892)</b>	<b>4,166</b>	<b>(127)</b>	<b>66,900</b>	<b>33,183</b>	<b>94,230</b>

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 2012**

	Notes	CONSOLIDATED	
		2012 \$'000	2011 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipt of service revenue and recoveries (inclusive of GST)		194,872	192,108
Payments to suppliers and employees (inclusive of GST)		(171,290)	(168,016)
Interest received		270	422
Interest paid		(1,335)	(1,424)
Bank charges and credit card merchant fees		(1,040)	(958)
Income tax paid		(343)	(3,033)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	22(a)	<b>21,134</b>	<b>19,099</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of plant and equipment and intangible assets		(2,357)	(2,759)
Capitalisation of intangible expenditure		(3,593)	(5,488)
Proceeds on sale of plant and equipment		500	256
Receipt/(purchase) of deposits to be transferred to ICANN		(742)	742
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>(6,192)</b>	<b>(7,249)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of interest bearing liabilities		(43,208)	(5,934)
Proceeds from issue of ordinary shares - ESOP		-	155
Proceeds from interest bearing liabilities		37,398	-
Payment of dividend on ordinary shares		(10,352)	(10,144)
<b>NET CASH FLOWS USED IN FINANCING ACTIVITIES</b>		<b>(16,162)</b>	<b>(15,923)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1,220)</b>	<b>(4,073)</b>
Net foreign exchange differences		30	(259)
Cash and cash equivalents at beginning of period		19,047	23,379
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	22(b)	<b>17,857</b>	<b>19,047</b>

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 2012**
**CORPORATE INFORMATION**

The financial report of Melbourne IT Ltd for the year ended 31 December 2012 was authorised for issue in accordance with a resolution of the directors on 26 March 2013.

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 Notes 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 intangible assets and derivative financial instruments that have been measured at fair value. 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

**(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 2012.

- AASB 1054 Australian Additional Disclosures

This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FSRB. This standard, with AASB 2011-1 relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:

- (a) Compliance with Australian Accounting Standards;
- (b) The statutory basis or reporting framework for financial statements;
- (c) Whether the financial statements are general purpose or special purpose;
- (d) Audit fees; and
- (e) Imputation credits

This standard relates only to disclosure requirements so has not materially impacted the Group's financial position or performance.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(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 2012 are outlined in the table below.

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 101]	This standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).	1-Jul-12	The amendments to the Accounting Standard relate only to disclosure requirements so will not materially impact the Group's financial position or performance.	1-Jan-13
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and UIG-112 Consolidation – Special Purpose Entities.  The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.  Consequential amendments were also made to other standards via AASB 2011-7.	1-Jan-13	The amendments to the Accounting Standard are not expected to have a material impact on the Group's financial position or performance.	1-Jan-13
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1-Jan-13	The amendments to the Accounting Standard relate only to disclosure requirements so will not materially impact the Group's financial position or performance.	1-Jan-13
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets.  The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.  Consequential amendments were also made to other standards via AASB 2011-10.	1-Jan-13	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-13

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**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 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.	1-Jan-13	The amendments to the Accounting Standard relate only to disclosure requirements so will not materially impact the Group's financial position or performance.	1-Jan-13
AASB 2012-3	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.	1-Jan-14	The amendments to the Accounting Standard relate only to disclosure requirements so will not materially impact the Group's financial position or performance.	1-Jan-14
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1-Jul-13	The amendments to the Accounting Standard relate only to disclosure requirements so will not materially impact the Group's financial position or performance.	1-Jan-14
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. Further amendments were made by AASB 2012-6 which amends the mandatory effective date to annual reporting periods beginning on or after 1 January 2015. AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances. 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.	1-Jan-15	Whilst the impact of the application of the new Standard is currently being assessed in relation to the foreign exchange contracts and interest rate swap, our initial assessment is that there should be no material impact on the Group's financial position or performance.	1-Jan-15

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

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(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'). Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

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.

Investments in subsidiaries held by Melbourne IT Ltd are accounted for at cost, where no fair value hedge is in place, in the separate financial statements of the parent entity, net of 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 a fair value hedge is in place, the subsidiaries are restated at fair value at period end in line with AASB 139 in the separate financial statements for the parent entity.

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.

**(d) Business Combinations**

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be 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 acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through 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 should not be remeasured until it is finally settled within equity.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**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 (EBIT).

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, 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 has a focus on the Australian and New Zealand markets developing integrated online solutions for the fast-growing SME (Small to Medium Enterprise) and SOHO (Small Office and Home Office) sectors. These solutions include domain forwarding, web hosting, search engine optimisation and web site development.

SMB Solutions supplies a technical and support solution for domain name registration 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.

**Digital Brand Services ("DBS")**

The Digital Brand Services Division's core business is online brand protection including the management of domain name portfolios. Strategically, DBS services are aimed at protecting and maximising the value of brands online.

**Enterprise Services ("ES")**

The Enterprise Services Division provides business grade web application hosting services, as well as mission control hosting services to corporate and government clients throughout Australasia.

**For The Record ("FTR")**

For The Record is a supplier of rich media content management systems for courtrooms, hearing rooms, public meeting venues and law enforcement.



**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**
**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 Spanish, French, German and Dutch subsidiaries	- Euro
• Investment in Swedish subsidiaries	- SEK (Swedish Krona)
• Investment in New Zealand subsidiary	- NZD (New Zealand Dollar)
• Investment in US subsidiaries	- USD (United States Dollar)
• Investment in UK subsidiaries	- GBP (Great British Pound)
• Investment in Danish subsidiaries	- DKK (Danish Krone)
• Investment in South African subsidiary	- ZAR (South African Rand)
• Investment in Hong Kong subsidiary	- HKD (Hong Kong Dollar)
• Investment in Norwegian subsidiary	- NOK (Norwegian Krone)

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.

**(i) Inventories**

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price including other costs directly attributable to the acquisition of raw materials.
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of weighted average costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**(j) 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 1 (v).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**
**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**
**(k) Derivative Financial Instruments**

Melbourne IT Ltd conducts a substantial 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.

As at 31 December 2012, Melbourne IT Ltd has entered into a number of foreign currency option contracts ('derivative financial instruments') with the primary objective of minimising the impact of currency fluctuations on the company. The strategy provides more certainty over earned USD sales transactions.

The Group has also entered into an interest rate swap agreement with the primary objective of minimising the impact of interest rate fluctuations on the company. The strategy provides more certainty over the interest rate charged on the US Dollar loan.

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 special 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 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.

**(l) 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:

	<b>2012</b>	<b>2011</b>
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

*Impairment*

The carrying values of plant and equipment 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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(m) Recoverable Amount of 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.

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.

**(n) 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.

**(o) 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: Assets Under Construction - Transformation Projects*

As explained in note 12, the Group has commenced 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: Assets Under Construction - Transformation Projects. Once operational they will be amortised over a useful life of 4 years for hardware and 5 years for license, integration and labour costs.

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

<b>Customer Contracts</b>	
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.
<b>Market Related Intangibles</b>	
Useful lives	Indefinite
Amortisation	No amortisation.
Impairment testing	Annually and more frequently when indicator exists.
<b>Software Platforms</b>	
Useful lives	Finite
Amortisation	Amortised over expected useful life of 5 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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(p) Investments in Subsidiaries**

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

**(q) Trade and Other Payables**

Trade and other payables are carried at amortised 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 Borrowings**

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.

**(s) Borrowing Costs**

Borrowing costs are recognised as an expense when incurred.

**(t) 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.

**(u) Leases**

Finance leases, which transfer to Melbourne IT Ltd substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. 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 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(v) 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".

*Melbourne IT Ltd and Domainz Ltd*

The following table summarises the domain name registration revenue and registry cost recognition policy for Melbourne IT Ltd and Domainz Ltd:

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 on an earned basis for all entities within the Melbourne IT Ltd Group.

*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.

**(w) 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(x) Share-based Payment Transactions**

**(i) Option Plans**

The Melbourne IT Ltd Executive & Employee Option Plans have been established where the managing director and employees of the company are issued with options over the ordinary shares of Melbourne IT Ltd ('equity-settled transactions'). 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 all full-time or permanent part-time employees of the company or any of its related body corporate are eligible to participate in the option plan.

Options are issued free of charge. 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 5 years.

Under the Option Plans, the options have other terms specified at the time the options are offered. These terms differ between the managing director, senior executives and general employees ('employees'). The terms may include conditions, which set out the number or percentage of options able to be exercised at certain time periods or under certain circumstances. For the managing director and senior executives performance conditions may require that the number of options able to be exercised be reduced or that some or all of the options lapse under specified circumstances.

The Board has adopted certain policies concerning the terms of the options to be granted under the Option Plans. 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. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

The fair value is determined by an external valuer using a binomial 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').

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

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

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

Executive LTI Options will vest on a sliding scale so that the amount of options vesting to the individual is dependant on the performance level achieved. Performance is measured over the 24 month period immediately following the grant of the Options, with the following sliding scale applying to the exercise of Executive LTI Options:

- If the minimum annual compound EPS growth rate of 7.5% per annum is not achieved, no Executive LTI Options will vest;
- If the annual compound EPS growth rate is equivalent to 7.5% per annum, 50% of the Executive LTI Options will vest;
- If the annual compound EPS growth rate is equivalent to 12.5% per annum, 100% of the Executive LTI Options will vest; and
- For annual compound EPS growth rate between 7.5% and 12.5% the number of Executive LTI Options which will vest increases pro-rata between 50% and 100%.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(x) Share-based Payment Transactions (continued)**

**(ii) Performance Options Plan**

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, 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 are 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 is dependant on the performance level achieved. Performance is 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 applies to the exercise of the Rights:

TSR Percentile Rank Achieved	TSR Proportion of Options Vesting	Compound annual EPS growth	Proportion of EPS Options Vesting
>= 75th percentile	100%	>= 12.5%	100%
> 50.1 percentile and < 75th percentile	Pro-rata allocation	> 7.5% and < 12.5%	Pro-rata allocation
50.1 percentile	50%	7.50%	50%
< 50.1 percentile	0%	< 7.5%	0%

The fair value is determined by an external valuer using a 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').

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

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

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is 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 Options is reflected as additional share dilution in the computation of earnings per share.

**(iii) Long Term Incentive Deferred Cash Bonus Plan**

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

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

- At each reporting date between grant and settlement, the fair value of the award is determined
- During the vesting period, the liability recognised at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period
- From the end of the vesting period until settlement, the liability recognised is the full fair value of the liability at the reporting date
- All changes in the liability are recognised in employee benefits expense for the period. The fair value of the liability is determined, initially and at each reporting date until it is 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.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(y) 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.

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.

**(z) 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 Cash Flow Statement 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.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**(aa) 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.

**(ab) 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 32 for further details of these plans.

**(ac) Hedging Reserve**

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

**(ad) 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.

**(ae) Earnings Per Share**

Basic earnings per share is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity, 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:

- Cost of servicing equity;
- 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 2012**

**2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group's principal financial instruments comprise receivables, payables, promissory notes, 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.

**Risk Exposures and Responses**

**Interest Rate Risk**

The Group's exposure to market interest rates related primarily to the Group's interest bearing debt, as well as short term deposits held.

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.

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>		
Cash and cash equivalents	17,857	19,047
<b>Financial Liabilities</b>		
Interest bearing loans (current and non-current)	33,818	40,291
Less Hedged amounts (Interest Rate Swap) (1)	(19,279)	(19,654)
Interest bearing loans - unhedged	14,539	20,637

(1) The Group has a US\$ 20.0 million interest rate swap, exchanging the variable interest rate payable on the US dollar loan for a fixed interest rate. The amount of US\$ 20.0 million has been translated at the year end exchange rate.

**Sensitivity Analysis**

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

At 31 December 2012, 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:

	<b>Net Profit</b>		<b>Equity</b>	
	<b>Higher / (Lower)</b>		<b>Higher / (Lower)</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Consolidated				
Assets + 0.25% (25 basis points), Liabilities + 0.10% (10 basis points), (2011: Assets + 0.25% (25 basis points), Liabilities + 0.75% (75 basis points)).	22	(71)	22	(73)
Assets - 1.25% (- 125 basis points), Liabilities - 0.10% (-10 basis points), (2011: Assets - 0.25% (25 basis points), Liabilities - 0.25% (25 basis points)).	(368)	(23)	(367)	(22)

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 whilst interest bearing liabilities are predominantly sensitive to movements in US 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

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.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**
**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 substantial amount of its revenues, and incurs a substantial 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 25 for further details.

Both the functional and presentation currency of Melbourne IT Ltd is 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 2012, 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	
	2012 \$'000	2011 \$'000
<b>Financial Assets</b>		
Cash and cash equivalents	3,704	4,073
Trade and Other receivables	5,226	6,624
	<b>8,930</b>	<b>10,697</b>
<b>Financial Liabilities</b>		
Trade and Other Payables	10,241	9,997
<b>Net exposure</b>	<b>(1,311)</b>	<b>700</b>

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

At 31 December 2012, 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)	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Consolidated				
- AUD/USD +4% (2011: +8%)	54	(57)	54	(57)
- AUD/USD -7% (2011: -5%)	(95)	34	(95)	34

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 parity to 1.1 USD:AUD for the retranslation of USD denominated balances for the forthcoming year.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**
**2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)**
**Liquidity Risk**

Liquidity risk is managed through the establishment of a minimum cash balance and a review of this balance to maximise returns on the available funds. In setting this minimum balance, Management under the supervision of the Audit and Risk Management Committee reviewed the various risks that Melbourne IT faces in achieving its objectives and considered the liquidity required to manage the day-to-day activities of the Group.

The set balance is the specified minimum acceptable surplus of committed facilities/accessible for the next 12 months in each company and globally and will be reviewed annually or earlier upon the occurrence of a significant event. As at 31 December 2012, the Group had external interest bearing debt of US\$35.0 million (2011: US\$41.0 million).

**Maturity Analysis of Financial Assets and Liabilities based on Management's Expectation**

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 worldwide business units that reflects expectations of Management's expected settlement of financial assets and liabilities.

Consolidated	< 6 Months \$'000	6 - 12 Months \$'000	1 to 5 years \$'000	> 5 Years \$'000	Total \$'000
<b>31 December 2012</b>					
<b>Financial assets</b>					
Cash and cash equivalents	17,857	-	-	-	17,857
Trade and other receivables	22,966	-	-	-	22,966
	<b>40,823</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>40,823</b>
<b>Financial liabilities</b>					
Trade and other payables	(15,639)	-	-	-	(15,639)
Interest and loan liabilities	(2,892)	(2,892)	(28,034)	-	(33,818)
	<b>(18,531)</b>	<b>(2,892)</b>	<b>(28,034)</b>	<b>-</b>	<b>(49,457)</b>
<b>Net inflow/(outflow)</b>	<b>22,292</b>	<b>(2,892)</b>	<b>(28,034)</b>	<b>-</b>	<b>(8,634)</b>
<b>31 December 2011</b>					
<b>Financial assets</b>					
Cash and cash equivalents	19,047	-	-	-	19,047
Trade and other receivables	29,244	-	-	-	29,244
	<b>48,291</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,291</b>
<b>Financial liabilities</b>					
Trade and other payables	(21,042)	-	-	-	(21,042)
Interest and loan liabilities	(3,512)	(3,476)	(34,645)	-	(41,633)
	<b>(24,554)</b>	<b>(3,476)</b>	<b>(34,645)</b>	<b>-</b>	<b>(62,675)</b>
<b>Net inflow/(outflow)</b>	<b>23,737</b>	<b>(3,476)</b>	<b>(34,645)</b>	<b>-</b>	<b>(14,384)</b>

**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 2012, the Group paid dividends of \$10.352 million after the dividend reinvestment plan (2011: \$10.144 million).

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

**Fair Value Hierarchy**

Financial instruments at fair value comprise derivative financial instruments whose fair value is derived using valuation techniques whose inputs are based on observable market data.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**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 as to the type of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required 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 dependant on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depends on Management's estimates of future cash flows. These depend on estimates of future sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and liabilities recognised in the statement of financial position. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to profit and loss.

**(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. 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').

	CONSOLIDATED	
	2012 \$'000	2011 \$'000
<b>4. REVENUE</b>		
<b>(a) Revenue</b>		
Registration Revenue	62,097	65,748
Professional Services Revenue	40,153	42,414
Hosting & Value-Added Product Sales	61,030	63,065
For The Record Revenue	6,868	7,777
Other Revenue	119	342
Total Revenue excluding Interest Income	170,267	179,346
Interest revenue	270	422
Total Revenue	170,537	179,768
<b>(b) Other income</b>		
Other	30	10
	30	10
Total consolidated Income	170,567	179,778

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**5. EXPENSES AND LOSSES / (GAINS)**

**(a) Depreciation expenses**

Depreciation of non-current assets		
Leasehold Improvements	184	213
Plant and equipment	3,437	4,589
Furniture and Fittings	41	52
<b>Total depreciation of non-current assets</b>	<b>3,662</b>	<b>4,854</b>

**(b) Amortisation of identifiable intangible assets**

Amortisation of customer contracts	863	982
Amortisation of capitalised software	189	184
Amortisation of Other Intangibles	-	105
<b>Total amortisation of identifiable intangible assets</b>	<b>1,052</b>	<b>1,271</b>

**Total depreciation and amortisation expenses**

**(c) Impairment of intangible assets (Note 12)**

**(d) Other Expenses**

Training & Recruitment	633	1,027
Premises	4,384	4,145
Travel & accommodation	2,005	2,368
Finance & legal	2,120	1,847
Communications	2,246	2,298
Equipment	4,160	3,862
Marketing	1,897	2,075
Net foreign currency exchange loss	1,039	1,203
Bad and doubtful debts expense / (recovered)	258	565
Interest expense	1,332	1,424
(Gain) / Loss on disposal of fixed assets	(642)	-
Other	577	381
<b>Total other expenses</b>	<b>20,009</b>	<b>21,195</b>

**(e) Finance costs**

Bank charges and credit card merchant fees

**(f) Expensing of share based payments**  
Equity & cash settled share based payments

**6. INCOME TAX**

The major components of income tax expense are:

**(a) Statement of comprehensive income**

Current income tax		
Current income tax charge	1,543	2,819
Adjustments in respect of current income tax of previous years	(1,221)	99
Deferred income tax		
Relating to origination and reversal of temporary differences	2,185	1,467
<b>Income tax expense reported in the statement of comprehensive income</b>	<b>2,507</b>	<b>4,385</b>

**(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

Income tax expense reported in equity

	(37)	(102)
<b>Income tax expense reported in equity</b>	<b>(37)</b>	<b>(102)</b>

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	CONSOLIDATED	
	2012 \$'000	2011 \$'000
<b>6. INCOME TAX (Continued)</b>		
<b>(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:</b>		
Accounting profit before income tax	13,948	17,909
At the group's statutory income tax rate of 30% (2011: 30%)	4,184	5,373
Adjustments in respect of current income tax of previous years	(1,221)	99
Options cost	17	114
Impairment of intangibles	600	-
Amortisation of intangibles	-	(119)
Other Foreign Deductions	(319)	(412)
Entertainment	10	26
Tax Losses not previously brought to account	(406)	(384)
Estimated future tax claims	(442)	-
Other	84	(312)
Income tax expense reported in the statement of comprehensive income	<b>2,507</b>	<b>4,385</b>

**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.

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 (y)).

**7. DIVIDENDS PAID OR PROVIDED FOR  
ON ORDINARY SHARES**

(a) Dividends paid during the year		
(i) Current year - interim		
Franked dividends (7.0 cents per share) (2011: 7.0 cents)	5,739	5,462
(ii) Previous year - final		
Franked dividends (8.0 cents per share) (2011: 8.0 cents per share)	6,507	6,508
(b) Dividends proposed and not recognised as a liability		
Partially franked dividends (7.0 cents per share) (2011: fully franked dividend: 8.0 cents per share)	5,772	6,529
(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% (2011: 30%)	897	6,428

At the 26 February 2013 Board Meeting, the directors declared a 7.0 cents franked to 40% final dividend on ordinary shares in respect of the year ended 31 December 2012.

In accordance with the accounting standards, the total amount of this final dividend of \$5.772 million has not been provided for in the 31 December 2012 financial statements.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**8. TRADE AND OTHER RECEIVABLES  
(CURRENT)**

Trade debtors  
Allowance for impairment loss

CONSOLIDATED	
2012 \$'000	2011 \$'000
24,225	30,591
(1,259)	(1,347)
<b>22,966</b>	<b>29,244</b>

*Terms and conditions*

Terms and conditions relating to the above financial instruments

- Trade debtors are non-interest bearing and generally on 14-60 day terms.
- Allowance for impairment loss

Movements in the provision for impairment loss were as follows:

Opening Balance	1,347	1,471
Additional Provision / (Released)	(187)	215
Amounts (Written off) / Recovered	92	(333)
Foreign currency translation impact	7	(6)
Closing Balance	<b>1,259</b>	<b>1,347</b>

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

Consolidated	2012		2011	
	Gross \$'000	Allowance \$'000	Gross \$'000	Allowance \$'000
<b>Current</b>	13,952	-	18,527	-
0 - 30 days past due	4,998	-	6,637	-
31 - 60 days past due	1,881	-	2,164	-
Past due 61 days +	3,394	(1,259)	3,263	(1,347)
<b>Closing Balance</b>	<b>24,225</b>	<b>(1,259)</b>	<b>30,591</b>	<b>(1,347)</b>

Receivables past due but not considered impaired are \$9.014 million (2011: \$10.717 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.

**9. INVENTORIES**

Materials (at cost)

CONSOLIDATED	
2012 \$'000	2011 \$'000
539	463

**10. OTHER ASSETS (CURRENT)**

Other prepayments  
GST receivable

2,677	3,674
78	173
<b>2,755</b>	<b>3,847</b>



**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	CONSOLIDATED	
	2012 \$'000	2011 \$'000
<b>11. PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT)</b>		
Leasehold improvements		
At cost	3,536	3,394
Accumulated amortisation	(3,075)	(3,107)
	<b>461</b>	<b>287</b>
Plant and equipment		
At cost	32,265	31,794
Accumulated depreciation	(29,158)	(26,837)
	<b>3,107</b>	<b>4,957</b>
Furniture and fittings		
At cost	851	794
Accumulated depreciation	(727)	(678)
	<b>124</b>	<b>116</b>
Total property, plant and equipment		
At cost	36,652	35,982
Accumulated depreciation and amortisation	(32,960)	(30,622)
Total written down amount	<b>3,692</b>	<b>5,360</b>

**Reconciliations**

Reconciliations of the carrying amounts of leasehold improvements, plant and equipment and furniture/fittings at the beginning and end of the current and previous financial year.

Leasehold improvements		
Opening balance	287	309
Additions	329	195
Transfer / other	90	12
Disposals	(61)	(11)
Foreign exchange differences	-	(5)
Depreciation expense	(184)	(213)
<b>Closing balance</b>	<b>461</b>	<b>287</b>
Plant and Equipment		
Opening balance	4,957	7,231
Additions	2,030	2,484
Transfer / other	207	(12)
Disposals	(656)	(169)
Foreign exchange differences	7	12
Depreciation expense	(3,438)	(4,589)
<b>Closing balance</b>	<b>3,107</b>	<b>4,957</b>
Furniture and Fittings		
Opening balance	116	125
Additions	43	58
Transfer / other	5	-
Disposals	-	(6)
Foreign exchange differences	1	(9)
Depreciation expense	(41)	(52)
<b>Closing balance</b>	<b>124</b>	<b>116</b>
Total written down amount	<b>3,692</b>	<b>5,360</b>

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	CONSOLIDATED	
	2012 \$'000	2011 \$'000
<b>12. INTANGIBLE ASSETS</b>		
<b>(a) Carrying amounts of intangible assets</b>		
Goodwill	100,265	102,406
Market Related Intangibles	9,982	9,982
Customer Contracts	10,446	10,627
Accumulated amortisation	(4,847)	(4,050)
	<b>5,599</b>	<b>6,577</b>
Capitalised Software	952	970
Accumulated amortisation	(854)	(694)
	<b>98</b>	<b>276</b>
Assets Under Construction	14,759	11,367
Total Capitalised Software	<b>14,857</b>	<b>11,643</b>
Other Intangibles	315	315
Accumulated amortisation	(315)	(262)
	<b>-</b>	<b>53</b>
Total Intangible Assets	<b>130,703</b>	<b>130,661</b>

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

	Other Intangibles	Capitalised Software	Customer Contracts	Market Related Intangibles	Goodwill	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year ended 31 December 2012</b>						
Net balance at 1 January 2012	53	11,643	6,577	9,982	102,406	130,661
Acquisitions and Additions	-	3,408	-	-	-	3,408
Amortisation	(53)	(189)	(810)	-	-	(1,052)
Impairment	-	-	-	-	(2,000)	(2,000)
Foreign exchange impact	-	(5)	(168)	-	(141)	(314)
<b>Net balance at 31 December 2012</b>	<b>-</b>	<b>14,857</b>	<b>5,599</b>	<b>9,982</b>	<b>100,265</b>	<b>130,703</b>
<b>Year ended 31 December 2011</b>						
Net balance at 1 January 2011	158	6,122	7,509	9,982	102,870	126,641
Acquisitions and Additions	-	5,710	-	-	-	5,710
Amortisation	(105)	(184)	(982)	-	-	(1,271)
Foreign exchange impact	-	(5)	50	-	(464)	(419)
<b>Net balance at 31 December 2011</b>	<b>53</b>	<b>11,643</b>	<b>6,577</b>	<b>9,982</b>	<b>102,406</b>	<b>130,661</b>

**(b) Capitalised Software: Assets Under Construction - Transformation Projects**

Melbourne IT Ltd is currently undertaking a significant investment in a transformation project which will provide the platform for the Group's next phase of growth.

The most significant part of the project is Integrated Web Services (IWS), which will enable Melbourne IT to fully leverage the value of the Group's customer base by allowing the business to sell customers the full suite of services across business units and geographies. A common financial reporting system (Oracle Financials) has also been implemented across all entities as part of this project. Depreciation expense of \$234,000 has been booked during 2012 (2011: \$nil) in relation to Oracle Financials.

Costs capitalised in relation to the Transformation Project are added to the "Assets Under Construction" account. Once operational, hardware will be written off over 4 years while software and staff costs will be written off over 5 years.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**12. INTANGIBLE ASSETS (Continued)**

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

The following table shows the carrying amount of goodwill and intangible assets allocated to each of the CGUs:

	2012 \$ 000	2011 \$ 000	Basis for valuation	Discount rate	Growth rate yrs 1 - 5	Growth rate after year 5
SMB Solutions	43,155	43,118	Value in use *	13.16%	3 - 5%	3%
DBS	44,491	44,527	Value in use	13.16%	3 - 5%	3%
ES	9,167	9,159	Value in use	13.16%	3 - 5%	3%
FTR	3,451	5,601	Value in use	11.30%	3%	3%
<b>Total Goodwill</b>	<b>100,265</b>	<b>102,406</b>				
SMB Solutions	5,845	5,845	Value in use	13.16%	3 - 5%	3%
ES	1,283	1,283	Value in use	13.16%	3 - 5%	3%
FTR	2,854	2,854	Value in use	11.30%	3%	3%
<b>Total Market Related Intangibles</b>	<b>9,982</b>	<b>9,982</b>				
SMB Solutions	-	58	Value in use	13.16%	3 - 5%	3%
DBS	5,599	6,518	Value in use	13.16%	3 - 5%	3%
<b>Total Customer Contract Intangible</b>	<b>5,599</b>	<b>6,577</b>				

\* All value in use calculations are based on the 2013 Operating Plan as approved by the board, with growth rates as noted in the table applied to years 2-5. These budgets are most sensitive to assumptions around revenue growth, in particular the timescale for implementation of new products, and the evolution of ICANN's new TLD project. Cash flows beyond the five year period are extrapolated using a 3% growth rate (2011: 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. As the FTR CGU has been impaired in this year, any negative change in assumption could result in further impairment.

With the exception of the For The Record CGU, management believe that no reasonably possible change in any of the above assumptions would cause the recoverable value of goodwill or other intangible assets to fall materially below their carrying amounts.

**Impairment booked in respect of the FTR CGU**

Following a review of the carrying value of intangible assets, an impairment charge of \$2.0 million has been recorded in respect of the group's investment in FTR. The ongoing weakness in the US economy, and continued curbs on government expenditure, has led to a reduction in the expected cashflows to be generated by FTR in the future.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**13. DEFERRED TAX ASSET (NON-CURRENT)**

Deferred tax asset at 31 December relates to the following:

	CONSOLIDATED	
	2012 \$'000	2011 \$'000
Doubtful debts provision	378	404
Employee benefits	1,535	1,615
Accruals	684	637
Tax losses	2,077	2,454
Depreciation	200	484
Unrealised FX	734	754
Hedging reserve	64	333
Amortisation of intangibles	604	-
Other	136	(145)
	<b>6,412</b>	<b>6,536</b>

**Tax losses**

The following table details tax losses available for offset against future taxable profits in the Denmark and UK subsidiaries. These losses have not been recognised as an asset because they do not meet the recognition criteria, as they have arisen in subsidiaries which have been loss-making in the past and do not have taxable temporary differences or tax planning opportunities available to support recognition of the losses as

Entity	Tax losses available at 31 Dec 2012	Increase in profit after tax if tax loss was recognised
Melbourne IT DBS ApS	992	248
Melbourne IT DBS Ltd	684	137
		<b>385</b>

	CONSOLIDATED	
	2012 \$'000	2011 \$'000

**14. OTHER ASSETS (NON-CURRENT)**

Rental bond	43	58
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**15. TRADE AND OTHER PAYABLES (CURRENT)**

Trade creditors	1,567	3,236
Sundry creditors	8,324	8,655
Deposits received in advance	1,903	3,079
Accrued expenses	3,845	6,072
<b>Total payables</b>	<b>15,639</b>	<b>21,042</b>

(a) 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.

**16. INTEREST-BEARING LOANS AND BORROWINGS**

**Current**

US Dollar Currency Loan (i)	5,784	5,896
	<b>5,784</b>	<b>5,896</b>

**Non-current**

US Dollar Currency Loan (i)	28,034	34,395
	<b>28,034</b>	<b>34,395</b>

(a) Terms and conditions

(i) The US Dollar Overseas Currency Loan US\$35.0 million:

- In July 2012, the group's \$38.0 million US Dollar Overseas Currency Loan was settled and replaced by a new USD facility of the same amount with National Australia Bank. This new loan facility has a term of 4 years to 30 June 2016.
- For the year ended 31 December 2012, the average interest rate was 3.54%.
- The Group has complied with bank covenants during the year ended 31 December 2012.
- This loan is unsecured. Repayments are USD 6 million per annum, with the remaining principal of USD 14 million due for repayment on 30 June 2016.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**16. INTEREST-BEARING LOANS AND BORROWINGS (Continued)**

**(b) Financing facilities available**

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

	CONSOLIDATED	
	2012 \$'000	2011 \$'000
Total facilities		
- Asset Finance - leasing	6,200	6,200
- Business Lending - Bank Guarantees	1,645	1,708
- Standby Letters of Credit	4,723	4,861
	<b>12,568</b>	<b>12,769</b>
Facility used at reporting date		
- Asset Finance - leasing	1,200	719
- Business Lending - Bank Guarantees	1,216	1,187
- Standby Letters of Credit	3,759	3,878
	<b>6,175</b>	<b>5,784</b>

**17. PROVISIONS (CURRENT)**

Employee benefits	<b>4,325</b>	<b>4,568</b>
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**18. CURRENT TAX LIABILITIES**

Income tax	<b>682</b>	<b>568</b>
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**19. DEFERRED TAX LIABILITY (NON-CURRENT)**

Deferred tax liability at 31 December relates to the following:

Intangible assets	6,241	4,111
Other	46	115
	<b>6,287</b>	<b>4,226</b>

**20. PROVISIONS (NON-CURRENT)**

Employee benefits	<b>793</b>	<b>815</b>
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**21. CONTRIBUTED EQUITY**

(a) Issued and paid-up capital  
Ordinary shares each fully paid

	<b>68,794</b>	<b>66,900</b>
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(b) Movements in shares on issue

	2012		2011	
	No. of Shares	\$'000	No. of Shares	\$'000
Beginning of the financial year	81,352,178	66,900	80,031,955	64,839
Issued during the year:				
- Dividend Reinvestment Plan	1,099,185	1,894	1,227,323	1,906
- Executive and employee options exercised	-	-	92,900	155
<b>End of the financial year</b>	<b>82,451,363</b>	<b>68,794</b>	<b>81,352,178</b>	<b>66,900</b>

**Other capital reserves**

*Options reserve*

During the financial year, 990,000 (2011: 930,000) options were issued over ordinary shares. At the end of the year, there were 3,795,182 (2011: 4,949,104) unissued ordinary shares in respect of which options were outstanding. (Details are provided in Note 32).

*Hedging reserve*

The hedge reserve contains the effective portion of the hedge relationships incurred as at the reporting date. The \$87,000 reduction in the reserve is made up of the net 2012 movements in forward currency contracts, the effective portion of the interest rate swap contract and the effective portion of the cross currency swap contract, net of tax. The 2011 reduction in reserve of \$238,000 corresponds to the forward currency contracts and the effective portion of the interest rate swap contract, net of tax.

*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.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**22. CASH FLOW STATEMENT**

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

	CONSOLIDATED	
	2012 \$'000	2011 \$'000
Operating profit after tax	11,441	13,524
Depreciation of non-current assets	3,662	4,854
Amortisation of non-current assets	1,052	1,271
Impairment of non-current assets	2,000	-
Expense of share based payments	57	381
Changes in assets and liabilities		
(Increase)/decrease in trade debtors	6,278	(4,354)
(Increase)/decrease in inventories	(76)	99
Decrease in prepayments	2,171	2,927
Decrease in deferred revenue	(3,541)	(5,475)
Increase/(decrease) in provision for employee entitlements	(265)	502
(Increase)/decrease in deferred tax asset	124	(565)
Increase in deferred tax liability	2,061	2,032
Increase/(decrease) in accounts payable	(3,864)	3,942
Increase/(decrease) in income tax provision	114	(336)
Increase (decrease) in income received in advance	(1,187)	1,346
(Increase)/decrease in other assets	1,107	(1,049)
	<b>21,134</b>	<b>19,099</b>

**Net cash flow from operating activities**

(b) Reconciliation of cash and cash equivalents

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

Cash and cash equivalents on hand	17,857	19,047
<b>Closing cash and cash equivalents balances</b>	<b>17,857</b>	<b>19,047</b>

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**23. EXPENDITURE COMMITMENTS AND OBLIGATIONS**

**Lease expenditure commitments**

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
Operating leases		
Minimum lease payments		
- not later than one year	6,542	5,757
- later than one year and not later than five years	7,999	12,824
- later than five years	877	3,466
Aggregate lease expenditure contracted for at reporting date	<b>15,418</b>	<b>22,047</b>

**Financial instruments**

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

**(a) Hedging instruments**

*Hedges of specific commitments*

Melbourne IT Ltd earns a substantial amount of its revenues, and incurs a substantial 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.

As at 31 December 2012, Melbourne IT Ltd has entered into a number of foreign currency exchange contracts with the primary objective of minimising the impact of foreign currency fluctuations on the Group's ability to achieve its objectives in the financial year.

The contracts have been treated in accordance with cashflow hedge accounting, as the approximate value of the purchase and entities with which the transactions will be entered is presently known.

The Group has also entered into a USD \$20.0 million interest rate swap, exchanging the variable rate payable on USD \$20.0 million of the USD \$35.0 million interest bearing liability for a fixed rate. The transaction reduces the Group's exposure to fluctuation in variable interest rates over the longer term.

The Group has also entered into a USD \$1.0 million cross currency swap, to fix the equivalent amount in Swedish Krona in relation to the repayments due to be made on the Group's USD bank borrowings. This cross currency swap expires in March 2013.

The derivatives have been determined as being effective hedges and have been accounted for in accordance with AASB 139.

**(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\$1.216 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\$2.7 million in accordance with various Registry Licence Agreements. These Standby Letters of Credit are due to expire on 30 June 2013, at which time it is expected that they will be renewed for another 12 months.
- (c) A Standby Letter of Credit of US\$1.2 million has been issued in favour of Wells Fargo Bank Inc. in accordance with the provision of Domain Name Registry Credit Card commitments as well as other banking facilities within the United States. Total AUD equivalent for all Standby Letters of Credit is \$3.759 million.

**24. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS**

The aggregate employee benefit liability comprises:

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
Provisions (current)	4,325	4,568
Provisions (non-current)	793	815
	<b>5,118</b>	<b>5,383</b>

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**25. DERIVATIVE FINANCIAL INSTRUMENTS**

**Hedging Activities**

**2012**

**(a) Cash flow hedge**

At 31 December 2012, Melbourne IT Ltd held eight 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 exchange contracts are being used to reduce the exposure of foreign exchange risk. The terms of these contracts are as follows:

Sell	Maturity Date	Protection Rate	Advantage Rate	Value of Hedge as at 31 Dec 2012 (\$)
US\$125,000	31 January 2013	A\$/US\$ 1.0450	A\$/US\$1.0000	(500)
US\$100,000	31 January 2013	A\$/US\$ 1.0650	A\$/US\$1.0390	781
US\$100,000	28 February 2013	A\$/US\$ 0.9900	A\$/US\$ 0.9515	(4,801)
US\$100,000	28 February 2013	A\$/US\$ 1.6500	A\$/US\$ 1.0390	1,105
US\$200,000	29 March 2013	A\$/US\$ 1.0400	A\$/US\$ 0.9987	(1,156)
US\$200,000	30 April 2013	A\$/US\$ 1.0400	A\$/US\$ 0.9987	(967)
US\$200,000	31 May 2013	A\$/US\$ 1.0450	A\$/US\$ 1.0261	1,363
US\$220,000	28 June 2013	A\$/US\$ 1.0650	A\$/US\$ 1.0315	3,854
Total value of unrealised foreign exchange contracts				(321)

The terms of these foreign exchange contracts have been negotiated to match the terms of the commitments.

As at 31 December 2012, an unrealised loss of \$321 (2011: gain of \$14,204) is included in other comprehensive income in respect of these contracts.

**(b) Interest rate hedges**

As at 31 December 2012, the Group held two interest rate swap contracts designed to hedge the variable interest rate exposure relating to the interest bearing liabilities of US\$35.0 million (2011: US\$41.0 million). The first interest rate swap is for US\$20.0 million (2011: US\$20.0 million) and expires on 30 April 2013. The second commences on 1 May 2013 and expires on 30 June 2016, commencing at the same notional amount USD\$20.0 million, falling to USD\$7.0 million by 30 June 2016.

Notional amount	Termination Date	Fixed Rate	Floating Rate	
US\$20,000,000	30 April 2013	2.14%	USD LIBOR BBA	(123,627)
falling to USD\$7,000,000	30 June 2016	0.93%	USD LIBOR BBA	(217,034)

**(c) Cross Currency Swap**

The Group has also entered into a USD \$1.0 million cross currency swap, to fix the equivalent amount in Swedish Krona in relation to the repayments due to be made on the Group's USD bank borrowings. This cross currency swap expires in March 2013.

(106,667)

**Total Fair Value of Derivative financial instruments**

**(447,649)**

**2011**

**(a) Cash flow hedge**

At 31 December 2011, Melbourne IT Ltd held seven 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 exchange contracts are being used to reduce the exposure of foreign exchange risk. The terms of these contracts are as follows:

Sell	Maturity Date	Protection Rate	Advantage Rate	Value of Hedge as at 31 Dec 2011 (\$)
US\$325,000	31 January 2012	A\$/US\$ 0.9990	A\$/US\$ 0.9730	7,972
US\$325,000	27 February 2012	A\$/US\$ 1.0590	A\$/US\$ 1.0335	(10,266)
US\$325,000	30 March 2012	A\$/US\$ 1.0300	A\$/US\$ 0.9920	(493)
US\$150,000	30 April 2012	A\$/US\$ 0.9480	A\$/US\$ 0.9100	10,391
US\$175,001	26 April 2012	A\$/US\$ 1.0375	A\$/US\$ 1.0025	(3,124)
US\$325,000	29 May 2011	A\$/US\$ 0.9950	A\$/US\$ 0.9670	4,257
US\$325,000	29 June 2011	A\$/US\$ 1.0000	A\$/US\$ 0.9600	5,467
Total value of unrealised foreign exchange contracts				14,204

**(b) Interest rate hedges**

As at 31 December 2011, the Group held one interest rate swap contract of US\$20.0 million (2010: US\$20.0 million) designed to hedge the variable interest rate exposure relating to the interest bearing liabilities of US\$41.0 million (2010: US\$47.0 million).

Notional amount	Termination Date	Fixed Rate	Floating Rate	
US\$20,000,000	30 April 2013	2.14%	USD LIBOR BBA	(438,755)

**Total Fair Value of Derivative financial instruments**

**(424,551)**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**26. OPERATING SEGMENT**

**Operating Segment - Continuing Operations**

The following table presents the revenue and profit information regarding business unit segments for the years ended 31 December 2012 and 31 December 2011.

	SMB Solutions *	DBS	ES	FTR	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year ended 31 December 2012</b>					
<b>Segment revenue</b>					
Revenue from operating activities					
Registration Revenue	48,331	13,766	-	-	62,097
Professional Services Revenue	-	40,153	-	-	40,153
Hosting & Value-Added Product Sales	33,797	1,242	25,991	-	61,030
For The Record Revenue	-	-	-	6,868	6,868
Other Revenue	31	-	88	-	119
Total segment revenue	82,159	55,161	26,079	6,868	170,267
Interest revenue					270
Other income					30
<b>Total consolidated revenue</b>					<b>170,567</b>
<b>Result</b>					
Segment results	12,801	9,541	2,304	101	24,747
Goodwill impairment					(2,000)
					22,747
Unallocated expenses					
- Corporate					(5,515)
- Transformation Projects					(2,222)
Earnings before interest and tax					15,010
<b>Net Interest</b>					
Interest revenue					270
Interest expense					(1,332)
Total Net Interest					(1,062)
Income tax expense					(2,507)
<b>Net Profit for the year</b>					<b>11,440</b>

\*The segments previously referred to as SMB and GPS have been combined into the SMB Solutions segment, in order to reflect how the business reports on performance to the Chief Operating Decision Maker.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**26. OPERATING SEGMENT (Continued)**

	SMB Solutions *	DBS	ES	FTR	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year ended 31 December 2011</b>					
<b>Segment revenue</b>					
Revenue from operating activities					
Registration Revenue	53,951	11,797	-	-	65,748
Professional Services Revenue	-	42,414	-	-	42,414
Hosting & Value-Added Product Sales	35,133	1,115	26,817	-	63,065
For The Record Revenue	-	-	-	7,777	7,777
Other Revenue	334	8	-	-	342
Total segment revenue	89,418	55,334	26,817	7,777	179,346
Interest revenue					422
Other income					10
<b>Total consolidated revenue</b>					<b>179,778</b>
<b>Result</b>					
Segment results	15,386	8,978	1,710	1,198	27,272
Unallocated expenses					
- Corporate					(5,363)
- Transformation Projects					(2,998)
Earnings before interest and tax					18,911
<b>Net Interest</b>					
Interest revenue					422
Interest expense					(1,424)
Total Net Interest					(1,002)
Income tax expense					(4,385)
<b>Net Profit for the year</b>					<b>13,524</b>

\*The segments previously referred to as SMB and GPS have been combined into the SMB Solutions segment, in order to reflect how the business reports on performance to the Chief Operating Decision Maker.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**
**27. EVENTS SUBSEQUENT TO BALANCE DATE**

At the 26 February 2013 Board Meeting, the Directors declared a 7.0 cents partially franked final dividend on ordinary shares in respect of the year ended 31 December 2012. The total amount of this final dividend is \$5.772 million and in accordance with Accounting Standards it has not been provided for in the 31 December 2012 financial statements.

On 12 March 2013 Melbourne IT announced the sale of the DBS business to the Corporation Service Company Ltd for a cash consideration of \$152.5 million, of which 10% is to be held in escrow for 15 months. Net proceeds are expected to be \$135-140 million.

The Group's US\$ 35 million bank facility was repaid to National Australia Bank at the same time.

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.

**28. EARNINGS PER SHARE**

	2012 \$'000	2011 \$'000
- Basic earnings per share (cents per share)	13.96 cents	16.77 cents
- Diluted earnings per share (cents per share)	13.77 cents	16.60 cents

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

	2012 Number of shares	2011 Number of shares
Net Profit attributable to ordinary equity holders of the parent	<u>11,441</u>	<u>13,524</u>
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share		
Effect of dilution:		
Share options	81,962,847	80,647,185
	1,117,500	840,000
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	<u>83,080,347</u>	<u>81,487,185</u>

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 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.

**29. AUDITORS' REMUNERATION**

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

	CONSOLIDATED	
	2012 \$	2011 \$
- Audit or review of the financial statements of the entity and any other entity in the consolidated entity	411,828	515,298
Other services in relation to the entity and any other entity in the consolidated entity entity:		
- Tax Compliance	130,116	73,178
- Assurance and advisory related	80,413	24,200
	<u>622,357</u>	<u>612,676</u>

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

- Review of the financial report	59,584	36,625
- Taxation services	306,606	16,460
- Other non-audit services	1,666	14,308
	<u>367,856</u>	<u>67,393</u>

**30. 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 2012 or 2011 other than detailed within the annual report.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**
**31. DIRECTOR AND EXECUTIVE DISCLOSURES**
**(a) Details of Key Management Personnel**
*(i) Directors*

Mr Simon Jones	Chairman (non-executive)
Mr Tom Kiing	Director (non-executive)
Prof. Iain Morrison	Director (non-executive), resigned 22 May 2012
Ms Naseema Sparks	Director (non-executive), appointed 19 April 2012
Mr Robert Stewart AM	Director (non-executive)
Mr Andrew Walsh	Director (non-executive)

*(ii) Executives*

Mr Theo Hnarakis	Managing Director / Chief Executive Officer
Mr Damian Walsh	Chief Operating Officer (resigned 24 February 2012)
Mr Doug Schneider	Executive Vice President, SMB Solutions (appointed 15 July 2012)
Mr Damon Fieldgate	Executive General Manager - SMB (resigned 21 May 2012)
Ms Lori Harmon	Executive Vice President - GPS (resigned 23 August 2012)
Mr Martin Burke	Executive Vice President - DBS (appointed 16 December 2012)
Mr Kanchan Mhatre	Executive Vice President - DBS (resigned 22 July 2012)
Ms Ashe-lee Jegathesan	Company Secretary and General Counsel
Mr Peter Findlay	Chief Financial Officer

**(b) Remuneration of Key Management Personnel**

Compensation of Key Management personnel

	CONSOLIDATED	
	2012 \$'000	2011 \$'000
Short term benefits	2,388	2,957
Post Employment	158	183
Long term benefits	20	30
Termination payments	215	-
Share-based Payment	71	283
	<u>2,852</u>	<u>3,452</u>

**(c) Option holdings of Key Management Personnel**

	Balance at 1 Jan 2012			Balance at 31 Dec 2012		
	2012	Granted as Rem'n	Options Lapsed	2012	Not Exercisable	Exercisable
Executives						
Mr Theo Hnarakis	773,400	185,000	(250,000)	708,400	555,000	153,400
Mr Damian Walsh (1)	150,000	-	-	150,000	150,000	-
Mr Doug Schneider (2)	-	100,000	-	100,000	100,000	-
Ms Lori Harmon (3)	100,000	-	(100,000)	-	-	-
Mr Damon Fieldgate (4)	138,408	-	(138,408)	-	-	-
Ms Ashe-lee Jegathesan	90,000	50,000	-	140,000	140,000	-
Mr Kanchan Mhatre (5)	136,816	-	(136,816)	-	-	-
Mr Martin Burke (6)	-	-	-	-	-	-
Mr Peter Findlay	-	150,000	-	150,000	150,000	-
<b>Total 2012</b>	<b>1,388,624</b>	<b>485,000</b>	<b>- 625,224</b>	<b>1,248,400</b>	<b>1,095,000</b>	<b>153,400</b>

(1) Mr Damian Walsh resigned from the Group, and the executive on 24 February 2012.

(2) Mr Doug Schneider was appointed to the executive as Executive Vice President, SMB Solutions on 15 July 2012.

(3) Ms Lori Harmon resigned from the Group, and the executive on 23 August 2012.

(4) Mr Damon Fieldgate resigned from the Group, and the executive on 21 May 2012.

(5) Mr Kanchan Mhatre resigned from the Group, and the executive on 22 July 2012.

(6) Mr Martin Burke was appointed to the executive as Executive Vice President - DBS on 16 December 2012.

	Balance at 1 Jan 2011			Balance at 31 Dec 2011		
	2011	Granted as Rem'n	Options Lapsed	2011	Not Exercisable	Exercisable
Executives						
Mr Theo Hnarakis	838,400	185,000	(250,000)	773,400	370,000	403,400
Mr Damian Walsh	75,000	75,000	-	150,000	150,000	-
Ms Lori Harmon	50,000	50,000	-	100,000	100,000	-
Mr Damon Fieldgate	88,408	50,000	-	138,408	100,000	38,408
Ms Ashe-lee Jegathesan	40,000	50,000	-	90,000	90,000	-
Mr Kanchan Mhatre	86,816	50,000	-	136,816	100,000	36,816
Ms Carolyn Sutton	50,000	-	(50,000)	-	-	-
Mr Peter Findlay	-	-	-	-	-	-
<b>Total 2011</b>	<b>1,228,624</b>	<b>460,000</b>	<b>- 300,000</b>	<b>1,388,624</b>	<b>910,000</b>	<b>478,624</b>

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**31 DIRECTOR AND EXECUTIVE DISCLOSURES (Continued)**

**(c) Option holdings of Key Management Personnel**

No options were issued to non-executive Directors of Melbourne IT Ltd during the year ended 31 December 2012.

**(d) Shareholdings of Key Management Personnel**

2012	Balance as at 1 Jan 2012	Granted as Rem'n	On Exercise of Options	Net Change Other*	Balance as at 31 Dec 2012
<b>Shares held in Melbourne IT Ltd ^</b>					
Directors					
Mr Simon Jones	125,118	-	-	5,817	130,935
Mr Tom Kiing	5,721,488	-	-	-	5,721,488
Prof. Iain Morrison (1)	53,559	-	-	1,000	48,559
Mr Robert Stewart AM	578,744	-	-	107,040	685,784
Mr Andrew Walsh	48,473	-	-	-	48,473
Ms Naseema Sparks (app. 19 April 2012)	-	-	-	-	-
Executives					
Mr Theo Hnarakis	688,125	-	-	242	688,367
<b>Total 2012</b>	<b>7,215,507</b>	<b>-</b>	<b>-</b>	<b>114,099</b>	<b>7,323,606</b>

(1) Resigned 22 May 2012. Closing shareholding represents his holding on the date he ceased to be a director of Melbourne IT Ltd.

\* On market transactions

^ Direct and indirect holdings

2011	Balance as at 1 Jan 2011	Granted as Rem'n	On Exercise of Options	Net Change Other*	Balance as at 31 Dec 2011
<b>Shares held in Melbourne IT Ltd ^</b>					
Directors					
Mr Simon Jones	98,698	-	-	26,420	125,118
Mr Tom Kiing	5,721,488	-	-	-	5,721,488
Prof. Iain Morrison	48,559	-	-	5,000	53,559
Mr Robert Stewart AM	403,882	-	-	174,862	578,744
Mr Andrew Walsh	48,473	-	-	-	48,473
Executives					
Mr Theo Hnarakis	687,881	-	-	244	688,125
<b>Total 2011</b>	<b>7,008,981</b>	<b>-</b>	<b>-</b>	<b>206,526</b>	<b>7,215,507</b>

\* On market transactions

^ Direct and indirect holdings

**(e) 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 2012**

**32. SHARE OPTIONS**

The Melbourne IT Executive & Employee Option Plans ("ESOP") have been established where the managing director and employees of the company are issued with options 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 all full-time or permanent part-time employees of the company or any of its related body corporate are eligible to participate in the option plans.

During the year, no options under the Melbourne IT Executive & Employee Option Plans were exercised. During 2011, 92,900 options were exercised at an average price of \$1.67, with a total cash consideration received by Melbourne IT Ltd of \$155,143.

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 to 5 years.

Under the Option Plans, the options have other terms specified at the time the options are offered. These terms differ between the Managing Director, senior executives and general employees. The terms may include conditions, which set out the number or percentage of options able to be exercised at certain time periods or under certain circumstances. For the managing director and senior executives, performance conditions may require that the number of options able to be exercised be reduced or that some or all of the options lapse under specified circumstances.

The Board has adopted certain policies concerning the terms of the options to be granted under the Option Plans. 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.

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.

**(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 2012:

Number of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price
1,111,000	27/04/07	27/04/09	27/04/12	\$3.42
177,066	11/09/07	11/09/09	11/09/12	\$3.60
1,433,814	18/07/08	18/07/10	18/07/13	\$3.06
142,224	19/08/08	19/08/10	19/08/13	\$3.06
405,000	24/10/08	24/10/10	24/10/13	\$2.12
180,000	1/07/10	1/07/13	1/07/13	\$0.00
610,000	1/07/10	1/07/13	1/07/13	\$0.00
180,000	1/07/11	1/07/14	1/07/14	\$0.00
710,000	1/07/11	1/07/14	1/07/14	\$0.00
<b>4,949,104</b>				<b>\$2.04</b>

As at 1 January 2012, 3,269,104 shares were exercisable.

**(b) Options granted during the reporting period**

In the year ended 31 December 2012, 990,000 (2011:930,000) options were granted over ordinary shares.

	1-Jul-12 Cash Settled	1-Jul-12 Equity Settled	1-Jan-12 Equity Settled
Number of Options	250,000	665,000	75,000
Grant date	1/07/2012	1/07/2012	1/01/2012
First Vesting date	1/07/2015	1/07/2015	1/07/2014
Weighted Average Fair Value	1.02	1.02	1.24
Expected Volatility	33.0%	33.0%	38.0%
Risk-free interest rate	2.4%	2.4%	4.8%
Expected life of option	2.5 years	2.5 years	1.5 years
Dividend yield	9.3%	9.3%	7.8%

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

	2012 Number	2011 Number
Outstanding at the beginning of the year	4,949,104	5,101,654
Granted during the year	990,000	930,000
Exercised during the year	-	(92,900)
Lapsed during the year	(2,143,922)	(989,650)
Outstanding at year end	3,795,182	4,949,104

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**
**32. SHARE OPTIONS (Continued)**
**(c) Options exercised during the reporting period**

No options were exercised during the year ended 31 December 2012.

The following table summarises information about options exercised by employees during the year ended 31 December 2011:

No. of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price	Issue Date	Fair Value of Shares Issued (1)
4,900	28/04/2006	28/04/2006	28/04/2011	\$ 1.67	28/04/2011	\$ 1.89
5,000	28/04/2006	28/04/2006	28/04/2011	\$ 1.67	28/01/2011	\$ 1.95
7,000	28/04/2006	28/04/2006	28/04/2011	\$ 1.67	28/01/2011	\$ 1.95
7,000	28/04/2006	28/04/2006	28/04/2011	\$ 1.67	28/04/2011	\$ 1.89
25,695	28/04/2006	28/04/2006	28/04/2011	\$ 1.67	21/04/2011	\$ 1.88
14,305	28/04/2006	28/04/2006	28/04/2011	\$ 1.67	27/04/2011	\$ 1.88
15,000	28/04/2006	28/04/2006	28/04/2011	\$ 1.67	28/04/2011	\$ 1.89
7,000	28/04/2006	28/04/2006	28/04/2011	\$ 1.67	28/04/2011	\$ 1.89
7,000	28/04/2006	28/04/2006	28/04/2011	\$ 1.67	21/04/2011	\$ 1.88
92,900				\$ 1.67		

(1) Fair values of shares during the reporting period is estimated to be the market prices of shares in Melbourne IT Limited on the ASX as at the close of trading on their respective issue dates net of brokerage fee.

During the year, cash received from options exercised was nil (2011: \$0.155 million).

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

A total of 2,143,922 (2011: 989,650) options lapsed or were forfeited with a weighted average exercise price of \$2.56 (2011: \$2.00), by directors and employees during the year ended 31 December 2012.

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

The following table summarises information about options held by directors and employees as at 31 December 2012:

Number of Options	Ref	Grant Date	Vesting Date	Expiry Date	Weighted Avg. Exercise Price
1,185,774		18/07/08	18/07/10	18/07/13	\$ 3.06
103,408		19/08/08	19/08/10	19/08/13	\$ 3.06
326,000		24/10/08	24/10/10	24/10/13	\$ 2.12
80,000	*	1/07/10	1/07/13	1/07/13	\$ -
510,000		1/07/10	1/07/13	1/07/13	\$ -
70,000	*	1/07/11	1/07/14	1/07/14	\$ -
590,000		1/07/11	1/07/14	1/07/14	\$ -
75,000		1/01/12	1/07/14	1/07/14	\$ -
250,000	*	1/07/12	1/07/15	1/07/15	\$ -
605,000		1/07/12	1/07/15	1/07/15	\$ -
3,795,182					\$ 1.22

\* Represents zero price shares to be settled in cash at time of vesting, offered to international staff. As at 31 December 2012, 1,615,182 shares were exercisable.

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**
**32. SHARE OPTIONS (Continued)**
**(f) Weighted average remaining contractual life**

The weighted average remaining contractual life for the share options outstanding as at 31 December 2012 is 1.19 years (2011: 1.43 years).

**(g) Option pricing model: Performance Options Plan and Long Term Incentive Deferred Cash Bonus Plan**

The fair value of the equity-settled share based payments granted under the Performance Options Plan is estimated as at the date of grant using a combination of the Black-Scholes 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 year ended 31 December 2012:

	Performance Options Plan	Long Term Incentive Deferred Cash Bonus Plan
Dividend yield	9.3%	9.3%
Expected volatility	33.0%	33.0%
Risk-free interest rate	2.4%	2.4%

The dividend yield is based on historic and future yield estimates. The expected volatility was determined using the group's 5 year share price. The risk-free rate is derived from the yield on Australian Government Bonds of an appropriate term.

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

	2012 \$'000	2011 \$'000
Current assets	24,597	21,080
Total assets	148,239	142,627
Current liabilities	57,693	49,538
Total liabilities	72,091	63,507
Contributed equity	68,794	66,900
Options reserve	4,233	4,113
Hedging reserve	87	127
Retained earnings	3,034	7,980
	<b>76,148</b>	<b>79,120</b>
Profit of parent entity	7,299	16,376
Total comprehensive income of the parent entity	7,259	16,043

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 For The Record Pty Ltd 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.



**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**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		Cost of Investment \$000		
		2012	2011	2012	2011	
WebCentral Group Pty Ltd	(a)	Australia	100	100	78,190	78,190
Internet Names Worldwide Espana SL	(a)	Spain	100	100	5	5
Melbourne IT DBS Group AB	(a)	Sweden	100	100	4,663	4,663
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	16,002	16,313
Advantate Pty Ltd		Australia	100	100	-	-
					<b>100,532</b>	<b>100,843</b>

- (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.

**34. 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.

**35. 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, WebCentral Pty Ltd and For The Record Pty Ltd 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:

**Consolidated statement of comprehensive income**

	Closed group	
	2012 \$'000	2011 \$'000
Profit before income tax	6,701	13,218
Income tax benefit/(expense)	940	(2,168)
Profit after tax, net profit for the period	7,641	11,050
Retained earnings at the beginning of the period	23,144	24,144
Dividends provided for or paid	(10,352)	(10,144)
Dividend reinvestment plan	(1,894)	(1,906)
Retained earnings at the end of the period	<b>18,539</b>	<b>23,144</b>

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**35. CLOSED GROUP CLASS ORDER DISCLOSURES (Continued)**

**Consolidated statement of financial position**

	Closed group	
	2012 \$'000	2011 \$'000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	9,909	8,586
Trade and other receivables	11,396	14,027
Inventories	122	70
Prepayments of domain name registry charges	7,364	8,107
Derivatives financial instruments	-	14
Other assets	1,513	2,217
<b>Total current assets</b>	<b>30,304</b>	<b>33,021</b>
<b>Non-current assets</b>		
Other financial assets	23,262	31,686
Property, plant and equipment	2,965	4,381
Intangible assets	94,966	85,633
Deferred tax assets	3,112	3,065
Current tax asset	58	282
Prepayments of domain name registry charges	5,518	6,408
Other assets	47	56
<b>Total non-current assets</b>	<b>129,928</b>	<b>131,511</b>
<b>TOTAL ASSETS</b>	<b>160,232</b>	<b>164,532</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	14,543	15,856
Provisions	3,407	3,839
Income received in advance	20,596	22,586
<b>Total current liabilities</b>	<b>38,546</b>	<b>42,281</b>
<b>Non-current liabilities</b>		
Interest-bearing loans and borrowings	15,134	13,365
Deferred tax income liability	1,806	130
Provisions	793	810
Income received in advance	12,349	13,662
<b>Total non-current liabilities</b>	<b>30,082</b>	<b>27,967</b>
<b>TOTAL LIABILITIES</b>	<b>68,628</b>	<b>70,248</b>
<b>NET ASSETS</b>	<b>91,604</b>	<b>94,284</b>
<b>EQUITY</b>		
Contributed equity	68,794	66,900
Options reserve	4,184	4,113
Hedging reserve	87	127
Retained earnings	18,539	23,144
<b>TOTAL EQUITY</b>	<b>91,604</b>	<b>94,284</b>

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**ASX ADDITIONAL INFORMATION**

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. The below information is current as at 26 February 2013.

**(a) Distribution of equity securities**

	Number of Holders	Number of Shares
1-1,000	1,702	984,690
1,001-5,000	2,917	7,814,441
5,001-10,000	977	7,367,306
10,001 –100,000	904	21,370,631
100,001 – and over	50	44,914,295
<b>Total</b>	<b>6,550</b>	<b>82,451,363</b>
The number of shareholders holding less than a marketable parcel of shares are	381	48,669

**(b) Twenty largest stakeholders**

The names of the twenty largest holders of quoted shares are:	Number of shares	Percentage of ordinary shares
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,330,065	11.32%
NATIONAL NOMINEES LIMITED	4,676,545	5.67%
WILCROW PTY LIMITED	4,647,840	5.64%
J P MORGAN NOMINEES AUSTRALIA LIMITED	3,692,629	4.48%
SIEANA PTY LTD	3,187,665	3.74%
BNP PARIBAS NOMS PTY LTD	3,095,443	3.75%
CITICORP NOMINEES PTY LIMITED	2,553,354	3.10%
YORK INVESTMENTS LIMITED	2,533,823	3.07%
EQUITAS NOMINEES PTY LIMITED	1,376,131	1.67%
MICROEQUITIES ASSET MANAGEMENT PTY LTD	1,315,274	1.60%
SANDHURST TRUSTEES LTD	888,507	1.08%
MR THEO HNARAKIS & MRS SANDRA ANNE HNARAKIS	688,367	0.83%
MOUNT IDA HOLDINGS PTY LTD	633,371	0.77%
TURNBULL & PARTNERS PTY LIMITED	581,696	0.71%
S M & R W BROWN PTY LTD	400,000	0.49%
FORSYTH BARR CUSTODIANS LTD	307,899	0.37%
TONER HOLDINGS PTY LTD	303,809	0.37%
MRS MELINDA HESSION	301,824	0.37%
JACANA GLEN PTY LTD	298,149	0.36%
ANZ TRUSTEES LIMITED	273,000	0.33%
	<b>41,085,391</b>	<b>49.70%</b>

**(c) Voting rights**

All ordinary shares carry one vote per share without restriction.

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## MELBOURNE IT LTD

ABN: 21 073 716 793

## DIRECTORS

Mr. S.D. Jones (Chairman)  
Mr. T.J. Hnarakis (Managing Director and Chief Executive Officer)  
Mr. T. Kiing  
Prof. I. Morrison (Resigned 22 May 2012)  
Mr. R.J. Stewart AM  
Ms. N Sparks (Appointed 19 April 2012)  
Mr. A. Walsh

## SHARE REGISTRY

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Fax: +61 3 9615 9900

## MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. T.J. Hnarakis

## CHIEF FINANCIAL OFFICER

Mr P. Findlay

## COMPANY SECRETARY

Ms. A. Jegathesan

## AUDITORS

Ernst & Young

## IMPORTANT INFORMATION FOR SHAREHOLDERS

In 2012, Melbourne IT has produced two shareholder documents – an Annual Review and an Annual Report. The Annual Review is a more succinct shareholder overview designed to provide a high level summary of the strategic and operational performance of the company during 2012. The Annual Review cannot be expected to provide as full an understanding of the financial performance, financial position and investing activities of the company as the Annual Report.

In addition to the information in the Annual Review, the Annual Report contains a full financial report and our auditors' report. Shareholders wishing to receive a copy of the more detailed Annual Report may do so by visiting <http://annualreport.melbourneit.info>

The Annual Review can also be accessed online at <http://annualreport.melbourneit.info>

... visit us online!  
<http://annualreport.melbourneit.info>

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