Melbourne IT Ltd

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Dear Shareholder

2009 Annual Report

Melbourne IT has emerged from a challenging 2009 in good shape to realise the exciting opportunities 2010 provides.

I am pleased to present a copy of the 2009 Melbourne IT Annual Report, which contains performance highlights from a corporate and divisional level, the Directors' Report and detailed financial statements.

Annual General Meeting

Please also find enclosed the Notice of Meeting and Proxy Form in relation to the 2009 Melbourne IT Annual General Meeting, which will be held at 11am on Tuesday, 25 May 2010 at the Spring Street Conference Centre, 1 Spring Street, Melbourne.

Yours sincerely

Simon Jones
Chairman

MELBOURNE IT

Opportunity:

Melbourne IT looks to a bright future

2009

< Annual Report >

OUR SERVICES

For small & medium businesses

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

www.domainz.co.nz
www.melbourneit.com.au
www.webcentral.com.au
www.advantate.com.au

For corporate, government and enterprise clients

Digital recording, multimedia and content management solutions — www.fortherecord.com
Corporate domain management and digital brand protection — www.melbourneitdbs.com
Enterprise-grade IT and infrastructure solutions — www.melbourneitenterprise.com

For partners & resellers

Domain names and online services — www.melbourneit.com.au/programs/
Web hosting and online services — www.webcentral.com.au/partner

AGM DETAILS

The Annual General Meeting (AGM) will be held at
Level 2, Spring Street Conference Centre, 1 Spring Street, Melbourne, Australia on Tuesday, 25 May 2010 at 11:00am.

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

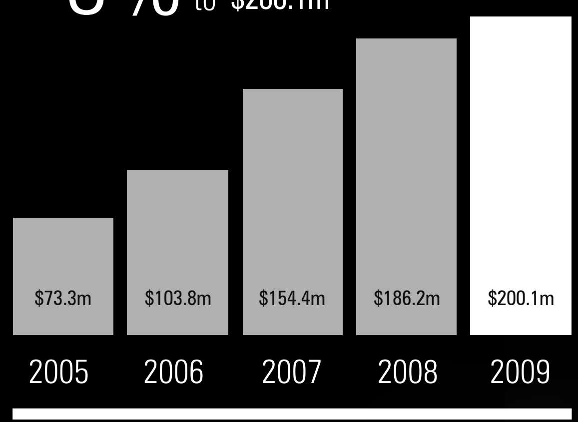
This report has been produced using recycled paper.

Contents

Performance over 5 years

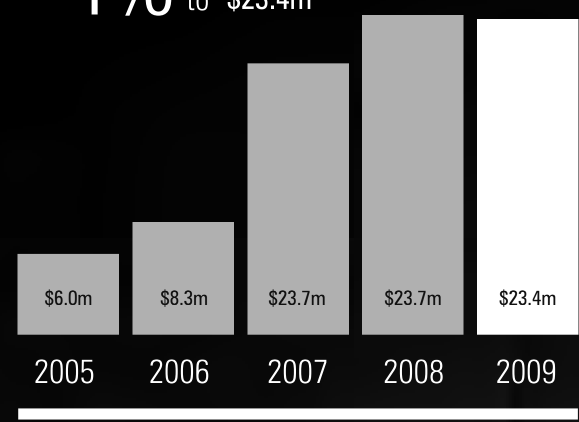
Revenue up

↑ 8 % to $200.1m



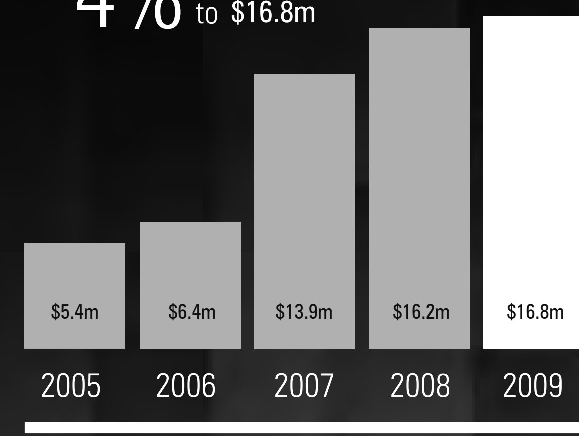
Earnings before interest and tax down

↓ 1% to $23.4m



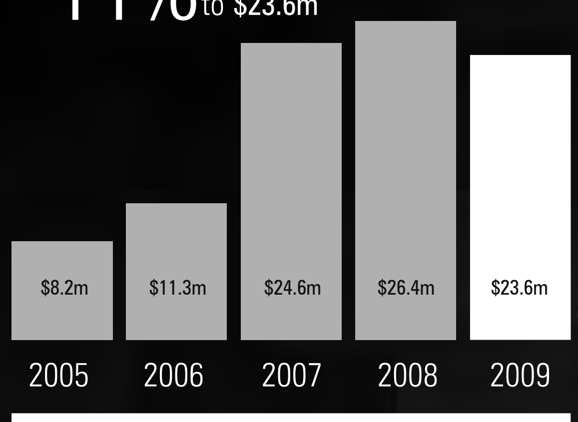
Net profit after tax up

↑ 4% to $16.8m



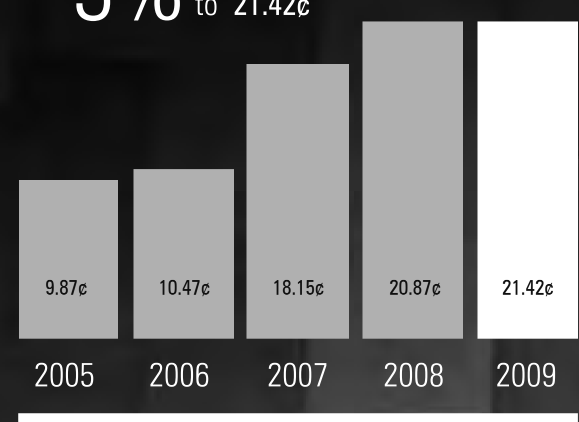
Operating cash down

↓ 11% to $23.6m



Earnings per share up

↑ 3% to 21.42¢



Dividend unchanged

15.0¢

For the first time in my new role as Chairman, on behalf of the Board of Melbourne IT, I am pleased to present the 2009 Annual Review. The Annual Review is a concise overview of the past year and the complete 2009 Annual Report is available at corporate.melbourneit.com.au.

Before looking back at 2009, I'd like to take this opportunity to thank my fellow Board member and Melbourne IT's former Chairman, Rob Stewart, who held the post for 10 years before handing the reins to me this year. Rob has overseen Melbourne IT's emergence as a global IT services business since the company listed on the Australian Stock Exchange in 1999, and I'm delighted he remains on the Board as his experience and advice will prove invaluable as Melbourne IT enters its next phase of growth.

Simon Jones
Chairman

The benefits of Melbourne IT's continued strategic shift to higher-margin IT services was highlighted in 2009.

Growing Revenue in a Challenging Year

Melbourne IT has emerged from a challenging 2009 in good shape to realise the exciting opportunities 2010 provides.

A strong second half performance delivered record full year revenue of $200.1 million, up 8 per cent on the previous year, which allowed the company to virtually match 2008's earnings before interest & tax (EBIT) result of $23.7 million with $23.4 million in EBIT in 2009. The 2009 result marks the eighth consecutive year of revenue growth.

Importantly, net profit after tax (NPAT) was up 4 per cent year-on-year to $16.8 million in 2009 which meant earnings per share also rose 3 per cent to 21.42c, allowing the Board to maintain 2008's full year dividend of 15c in 2009.

Deferred revenue remained solid at $55.7 million while deferred margin – which reflects income received in advance less pre-paid costs – was up 9 per cent to $31.1 million, underscoring the continued strength of Melbourne IT's annuity business.

Melbourne IT's primary debt facility is serviced by US dollar revenue and earnings, which helped reduce net debt substantially in 2009 to $27.5 million due to weakness in the US dollar. The company also retired $3.5 million in debt. Strong cash flows continued at $23.6 million, however operating cash was down 11 per cent on 2008's $26.4 million. This was primarily the result of the economic climate as more corporate customers were billed on account and SMB customers shifted from yearly to monthly packages.

In addition, the final result was influenced by the decisive action to control operating costs during 2009, including the renegotiation of key supplier contracts, greater operating efficiencies across the company's global offices and the fact that no executive bonuses were paid for the year.

Considering the headwinds the business faced in the form of a strong Australian dollar, the ill-effects of the global financial crisis, service outages in the first half and a one-off integration cost of $3.5 million as a result of the Digital Brand Management Services (DBMS) acquisition, the full year result is a pleasing achievement.

Shift to IT Services Continues

The benefits of Melbourne IT's continued strategic shift to higher-margin IT services was highlighted in 2009 as the unfavourable economic conditions around the globe further tightened price pressures on the increasingly competitive domain registration business.

IT services revenue now represents 59.7 per cent of total revenue at Melbourne IT, compared to just 13.4 percent four years ago. The benefit of services revenue boosting performance was clear across several divisions, particularly Digital Brand Services (DBS).

2010 Outlook

We believe the rebound in revenue and EBIT which the company saw in the second half of 2009 will continue in 2010, and Melbourne IT's underlying growth will strengthen. In particular, the momentum experienced in the DBS and Enterprise Services divisions should be maintained and provide a strong foundation for the 2010 results.

We expect the robust growth in DBS's brand promotion and protection services and web traffic services to continue in 2010, replicating the levels of EBIT we saw in the second half of 2009. Equally, we expect Enterprise Services' momentum in the second half to continue in 2010 as more innovative products and services are brought to market and the causes of service outages which hindered operations in 2009 have been rectified.

SMB eBusiness Solutions remains an important cash generator for the business. The success of the SMB eBusiness Centre consultative sales strategy to upsell customers to higher margin products is working, with revenue from services such as premium email, search engine marketing and software-as-a-service offerings growing 29 per cent to $6.4 million in 2009. The aim is to continue focusing on selling these premium services to SMBs in 2010 to offset pricing pressures on the base level products.

The strength of the Australian dollar will impact revenue from international partners in 2010, however, the contribution from Global Partner Solutions is expected to remain significant.

2010 is also a major year of investment for Melbourne IT with two large transformational projects beginning in earnest. The operational expenses of these two projects – Integrated Web Services (IWS) and Operational Support Systems (OSS) – are estimated to be $3.9 million in 2010.

While the bottom line will show modest net growth for Melbourne IT 2010, the expense impact of these investments masks the fact that underlying growth will be robust and the business continues to perform strongly. As the results of these investments begin to bear fruit in 2011 and their costs begin to be neutralised, the Board expects the strong underlying growth to become more apparent.

In Appreciation

On behalf of the Board I would like to thank all the staff of Melbourne IT for their efforts during what has been a busy and, at times, difficult year. While Melbourne IT faced more challenges than ever before in 2009, the ability of the company's employees to adeptly handle those challenges demonstrates the strength of talent in the organisation.

I'd also like to thank my colleagues on the Board for their shared wisdom and advice which helped Melbourne IT accomplish this year's result. Last but by no means least, my thanks go to CEO and Managing Director, Theo Hnarakis, and the Melbourne IT executive team whose single-minded determination to drive the company over the line was fundamental to the full year result being achieved.

The array of opportunities facing Melbourne IT promise a bright future ahead. I look forward to reporting many years of growth to shareholders as Chairman of Melbourne IT.

Melbourne IT looks to 2010 with renewed optimism following a challenging 2009.

Most of those challenges – the effects of the global economic crisis, service outages and integration issues – are now behind us and we can look forward to a year of solid growth. One challenge we cannot sidestep is the ongoing strength of the Australian dollar; but our continued growth in higher margin IT services and our US dollar hedging will help limit its unavoidable impact in 2010.

I see more positive opportunities in 2010 for Melbourne IT than I ever have before. The investments made in evolving our company to an IT services-focused business will yield significant upside for many years to come. We are well equipped to take advantage of the short-term opportunities to drive revenue in 2010; and we are investing in significant transformation projects this year to ensure the company can realise its long-term opportunities too.

Within Our Grasp: 2010 Opportunities

With the integration work now almost complete, our Digital Brand Services division is ready to begin realising its potential. DBS has a compelling portfolio of online brand security/protection and brand optimisation services to take advantage of market trends which indicate increased global spending on online services in 2010.

The global eCommerce market is predicted to grow 24.5 per cent in 2010 to $623 billion USD, with global search engine spend expected to grow 17.8 per cent to $37 billion USD as companies battle it out to secure as much online market share as possible. While investing heavily in promoting their brand and capturing web traffic, organisations are also keen to ensure their online brand is protected by increasing security spend – 42 per cent of enterprises expect to increase IT security spending by 5 per cent or more this year.

Put simply, these investments underscore our view that the Internet has become the primary marketing, communications and sales vehicle for businesses. Digital Brand Services is ideally positioned to grow in this environment through new customers and by up-selling services to its existing customer base of 3,300 companies which includes some of the world's most respected brands such as LEGO, GlaxoSmithKline, Sanofi Aventis, Société Générale, Volvo, and Twitter.

In addition, the long-awaited liberalisation of top-level domains (TLDs), which will allow organisations to invest in ".brand" extensions rather than existing TLDs such as .com or .net, provides DBS with revenue opportunities in 2011 and beyond at both a consulting and domain management level. We are leading the world in educating global brand managers on successfully applying for and running their own .brand which we believe will help our growth for many years to come.

The ongoing attraction for organisations – large or small – to outsource IT to enjoy lower costs and greater reliability rather than managing in-house will continue in 2010. Melbourne IT's Enterprise Services and SMB eBusiness Solutions divisions are well-placed to benefit as the service outages which previously hampered operations have now been put behind us and we continue to introduce new services to support the demands of online businesses.

Enterprises are looking beyond traditional website and email hosting, increasingly turning to IT service businesses such as Melbourne IT to manage online business continuity and backups, help market to their customer base with online tools, improve database performance, and harness the power of streaming video to better communicate with stakeholders.

Agile small businesses are becoming increasingly web-savvy, taking a more sophisticated approach to doing business online through investing in eCommerce tools, Search Engine Marketing and targeted online promotional activity. The ability to rapidly scale their web capacity up or down – paying only for what they use – through a cloud computing approach is also gaining traction among fast growth SMBs.

On the Horizon: Investing for Long Term Gain

While there are good opportunities for growth in 2010, this year will also see significant investments – in processes, people, infrastructure and innovation – which will provide the platform for the future prosperity of Melbourne IT.

More than $25 million over three years will be invested in two transformational IT projects, Integrated Web Services (IWS) and Operational Support Systems (OSS).

IWS is an IT integration project which will help Melbourne IT fully leverage the value of the company's customer base by allowing the business to sell customers the full suite of services across business units and geographies. The 'single view of the customer' will not only improve the ability for sales team to up-sell and cross-sell, but help the company realise revenue faster through stronger billing processes and generate significant cost savings by reducing the number of back office systems.

Operational Support Systems (OSS) will improve infrastructure stability and provide the capability for more proactive monitoring of our IT environment. OSS will build upon the vast improvements the company has made in service stability and allow Melbourne IT to manage the delivery of a greater variety of products and services in future.

We continue to invest in our infrastructure to improve performance and provide capacity for growth. The refresh of our data centre storage technology which is currently underway will provide us with 47 per cent more capacity at the same cost, and with lower ongoing power consumption.

Staying at the top of our industry through investing in innovation remains core to the business. We have several new products planned for release this year and our strong relationships with large international technology vendors on joint research and development – we are often one of only a handful of trusted partners globally – allows us to launch new services faster than the competition.

A Bright Future

Recently I was interviewed on the significance on the 25th anniversary of .com, and I talked about how the Internet and new online technologies have completely changed the way we all live and do business. While we have seen rapid change over the past 25 years, I am certain that we have only begun to scratch the surface of what is possible with the Internet.

Just as the move from dial-up Internet access to broadband sparked a new wave of online possibilities, with government investments in next generation high speed networks occurring around the world – including Australia with the NBN – I believe we are about to witness another wave of online growth in the coming years which will create new services, new business models, enhance productivity, and deliver new wealth.

In this environment, with our culture of innovation and customer centricity, Melbourne IT and its customers only stand to benefit.

Special Thanks

I would like take the opportunity to thank Rob Stewart, Melbourne IT's outgoing Chairman, for all his help during the past 10 years in the role. Rob has been a great sounding board for me during my time as CEO and his strategic advice has been invaluable during what has been some of the most exciting (and turbulent) times in the industry.

His decision to remain involved as a Director only serves to strengthen Melbourne IT's Board, now ably led by our new Chairman, Simon Jones. I look forward to working with Simon who has already added significant value to our strategic planning for the future.

Finally, I would like to thank our executive team and staff, who continue to inspire with their ingenuity and passion for our industry.

Theo Hnarakis
Managing Director & CEO

Overview

Melbourne IT Digital Brand Services (DBS) helps corporations manage, protect and promote 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 trust Melbourne IT DBS to help them manage their online brands.

2009 Highlights

Despite the strong Australian dollar impacting revenues, the performance of DBS in its first full financial year as a combined entity (Melbourne IT's previous Corporate Brand Services division + VeriSign DBMS acquisition) was pleasing with revenue of $56.0 million and contribution margin of $6.4 million. The performance was driven by a strong second half rebound with earnings before income tax (EBIT) in the second half of the year up 226 per cent to $4.9 million, from $1.5 million in the first half, reflecting the division's shifting focus from managing integration activities to sales and profit generation.

The DBMS integration is now almost complete and the company booked one-off integration charges of $3.5 million in 2009.

Names Under Management (NUM) were up 11 per cent from the previous year to 557,000. Services revenues contributed $8.6 million to the final result, with Brand and Reputation Protection Services comprising $7.5 million of this figure and Web Traffic Services the remainder.

As a result, Melbourne IT DBS remains one of the leading players in this market globally. DBS's customer base of global, blue-chip organisations swelled by another 150 new clients in 2009, including Sanofi Aventis, Schweppes Australia, Tetley Group Ltd, Societe Generale, Blaupunkt GmbH, Trelleborg AB, GKN plc, Warner Music Australia and Twitter. The division now boasts more than 3,300 customers and a customer retention rate of 99.9 per cent.

The division now boasts more than 3,300 customers and a customer retention rate of 99.9%.

Outlook

Digital Brand Services has a bright future with significant market opportunities to spur growth.

The momentum from the second half rebound in revenues and EBIT is expected to continue as online trends continue to fuel demand for DBS services. Companies continue to invest in online as their primary route to market with global search engine marketing spend predicted to grow 17.8 per cent to $37 billion (USD) and the global eCommerce market predicted to grow 24.5 per cent in 2010 to $623 billion (USD) . Forty-two per cent of global enterprises expect to increase spending on online security by a minimum of 5 per cent in 2010 .

In addition, the proposed changes to the rules governing generic top level domains (gTLDs) will make .brand domain names a reality and present new branding and marketing opportunities for corporations.

Melbourne IT expects the growth in services revenues will continue in 2010 as we further leverage the existing customer base to upsell web traffic services and brand and reputation protection opportunities.

Expanding DBS's operations to new geographical locations also remains a priority in 2010, with a focus on Asia and South America.

DIGITAL BRAND SERVICES	FY09	FY08*	CHANGE*
Revenues	$56.0m	$44.9m	25%
Contribution Margin	$6.4m	$4.3m	49%

Please note these numbers are not like for like as FY08 only included 8 months of revenue associated with the VeriSign DBMS acquisition.

Overview

Melbourne IT SMB eBusiness Solutions (formerly Business & Consumer) helps small and medium-sized businesses across Australia and New Zealand to be successful online.

More than 350,000 customers rely on the division's broad range of online services and expert advice – from registering their domain names, hosting their email and website, promoting their business online through to harnessing online collaboration tools and building successful eCommerce platforms.

With a network of offices across Australia and New Zealand, easy to use online tools and a large team of eBusiness Consultants, SMB eBusiness Solutions has the skills to help its SMB customers grow and the resources to support them as they successfully expand.

2009 Highlights

The impact of the global financial crisis on small businesses, coupled with the continuing commoditisation of basic IT services and service outages in the first half, combined to create a challenging year for SMB eBusiness Solutions.

Against this backdrop, SMB eBusiness Solutions' performance remained steady with the division experiencing only a slight decrease in revenue to $42.8 million compared with $43.2 million in 2008.

Competitive price pressures on domain names, email and basic hosting packages, and an increase in customers opting for monthly service packages over yearly in 2009 impacted average revenue per user (ARPU) which decreased to $307 from $329 in the previous financial year. This also impacted gross margin, which declined to 74.8 per cent in 2009 from 80.7 per cent in 2008.

Service delivery issues in the first half increased customer churn however by the close of 2009, improvements driven by process changes and investments in new technologies stabilised service delivery.

The focus on upselling customers to higher margin services through the consultative sales approach of Melbourne IT's eBusiness Centre model continued to pay dividends with premium email, search engine marketing and software-as-a-service revenues increasing 29 per cent to $6.4 million in 2009 from $4.6 million in 2008. Combined eBusiness Centre sales grew 9.3 per cent year on year to $18.7 million.

Our 'customer first' service approach also contributed to domain renewal rates being 4 per cent higher than the average of the company's top global industry competitors.

The consultative sales approach of Melbourne IT's eBusiness Centre model continued to pay dividends.

Outlook

SMB eBusiness Solutions remains well placed in the Australian and New Zealand markets with an enviable range of services offered by its respected brands - Melbourne IT, WebCentral, and Domainz – and is still Australia's number one SMB hosting company.

Melbourne IT expects the continued focus on upselling higher margin IT services through the successful eBusiness Centre consultative model should ensure SMB eBusiness Solutions' gross margin is maintained and ARPU increases.

The company's continuing investments in service stability will deliver lower customer churn, increased focus on sales and improved customer satisfaction and open the door to greater upsell and cross sell opportunities.

SMB EBUSINESS SERVICES	FY09	FY08	CHANGE
Revenues	$42.8m	$43.2m	-1%
Contribution Margin	$10.1m	$11.8m	-14%

Overview

Melbourne IT Enterprise Services (formerly Corporate & Government) is a market leader in the delivery of mission critical managed infrastructure and IT services to more than 900 large corporate and government organisations across Australia.

In February 2009, the Corporate & Government division rebranded to Melbourne IT Enterprise Services, transitioning WebCentral and Melbourne IT services to a single unified brand, to better reflect the full range of IT services it provides.

2009 Highlights

Enterprise Services achieved $25.6 million in revenue in 2009, down 2 per cent from $26.2 million in 2008. While earnings before interest and tax (EBIT) was down 31 per cent year on year, the second half performance of $1.9 million - compared to $0.3 million in the first half – showed the return of enterprise demand in the market as economic pressures lifted.

The division experienced a 100 per cent increase in the average total contract value to $256,000 during 2009, up from $127,000 in 2008. Total contract value signed in 2009 rose to $39.9 million in 2009 from $27 million in 2008.

Improvements in service delivery management initiated in 2009 dramatically reduced customer churn, which dropped down to 6.4 per cent in the final quarter of the year from 24.3 per cent in the first quarter. Enterprise Services signed more than 150 new clients in 2009 and renewed the major contract with the Queensland Department of Education and Training.

In April 2009, Melbourne IT launched VMware's vSphere 4, becoming the first company in the world to go live with VMware's new virtual infrastructure platform. Following in September 2009, the company launched VMware's vCloud Express – Australia's first true cloud computing service.

The division also introduced a number of innovative product offerings including video asset management service, MediaPoint, and collaboration and analytics technologies.

Enterprise Services signed more than 150 new clients in 2009.

Outlook

Melbourne IT Enterprise Services is forecasting solid growth in revenues, EBIT and gross margin in 2010.

Enterprises continue to be increasingly attracted to outsourcing IT to enjoy lower costs and greater reliability than in-house deployment, and Melbourne IT is ideally placed to capitalise on this trend.

Enterprise Services will continue to invest in innovative technologies and expects to introduce a number of new products and services to the market including Hosted Desktop, expanded email solutions, and support for the upcoming refresh of Microsoft's productivity suite.

The company's significant investment in technology and service delivery improvements over the next three years will deliver major benefits to Enterprise Services in 2010 and beyond, improving customer satisfaction and further reducing customer churn.

ENTERPRISE SERVICES	FY09	FY08	% CHANGE
Revenue	$25.6m	$26.2m	-2%
Contribution Margin	$2.2m	$3.2m	-31%

Overview

Melbourne IT's Global Partner Solutions division supplies revenue-generating technical and support solutions for domain name registrations and other value-added online business services to a global network of reseller clients.

The division has developed strong partnerships with more than 3,000 resellers worldwide including leading global companies such as Yahoo! and Microsoft.

As the 5th largest domain name registrar in the world, Melbourne IT provides reseller partners with access to a state-of-the-art domain registry and management system, as well as a comprehensive array of innovative online products and services.

2009 Highlights

Despite a slowdown in international partner revenues, Global Partner Solutions achieved 6 per cent growth in revenue to $64.9 million in 2009 and 16 per cent growth in EBIT to $8.6 million. These results were boosted by the company's exchange rate hedging of the Australian dollar at an average of 70 US cents.

In US dollar terms, international partner revenues were down 2 per cent, to USD $35.7 million from USD $35.5 million in the previous financial year. Australian partner revenue remained steady at $17.5m.

Despite domain renewal rates being 4 per cent higher than the average of the company's top global industry competitors, names under management (NUM) declined to 4.5 million from 5 million in 2008. The gross margin impact associated with the decline of NUM for this division was not material and was able to be offset through cost controls and operational efficiencies. Furthermore, foreign exchange hedging of our gross margin helped deliver an improved result for 2009.

The suite of online services offered to resellers, including Managed Exchange email and Promotions Manager email marketing, was strengthened in 2009 with the addition of PC Backup services. The combination of strong relationships and value delivered by Melbourne IT to partners was illustrated by the 100 per cent retention rate of its global partners in 2009.

Global Partner Solutions achieved 6 per cent growth in revenue to $64.9 million in 2009 and 16 per cent growth in EBIT to $8.6 million.

Outlook

The exchange rate benefits which Global Partner Solutions enjoyed in 2009 will be impacted in 2010 with Australian Dollar hedging locked in at the high 80c range. As a result, Melbourne IT is forecasting a lower EBIT contribution from the division in 2010.

Expanding into new markets in India and Japan to drive new revenue streams will be a priority for Global Partner Solutions in 2010 with Yahoo! India already signed.

The division also plans to leverage the Australian partner business model to grow value-added sales internationally for web hosting, web design and software-as-a-service products.

GLOBAL PARTNER SOLUTIONS	FY09	FY08	% CHANGE
Revenues	$64.9m	$61.3m	6%
Contribution Margin	$8.6m	$7.4m	16%

Overview

ForTheRecord (FTR) is a leading global provider of digital recording and content management solutions for judicial and civic venues globally.

FTR solutions are sold through a global network of more than 250 authorised resellers and systems integrators, servicing customers across 48 countries. The division has built a solid reputation over more than 15 years, for providing quality, easy to use, reliable, cost-effective and innovative solutions which enable customers to capture, index, access, and manage digital audio and video recordings and linked notes. More than 22,500 solutions have been sold worldwide.

2009 Highlights

In 2009, FTR achieved $9.6 million in revenue, representing an increase of 8 per cent year-on-year. While the division experienced a strong first half, second half earnings were weaker due to government budgets tightening globally as a result of the unwinding of stimulus packages and increasing public debt.

FTR has a reputation for innovation and product excellence and expanded its product offerings substantially in 2009, releasing new versions of its FTR Reporter, FTR Hearings, FTR Monitor, FTR Interrogator, TheRecord Online and TheRecord Player products, allowing the company to broaden its focus into the law enforcement market while maintaining leadership in the judicial arena.

FTR continued to grow its presence internationally, expanding its operations into new countries in Eastern Europe, Central and Sub-Saharan Africa during the course of 2009. Sales initiatives launched within Saudi Arabia and the United Arab Emirates region are expected to drive benefits in 2010.

Key customer wins included Government of Manitoba – Department of Justice, the United States District Court, Southern Missisippi, and the deployment of a high-value, customised browser-based Hansard recording system for the Australian Federal Parliament.

ForTheRecord expanded its product offerings substantially in 2009, building on its reputation for innovation and product excellence.

Outlook

While market conditions remain challenging, FTR will continue to focus on international expansion within the legal and law enforcement markets in 2010 to drive revenues.

In January 2010, FTR appointed Mr Daniel Bennett as Executive Vice President – FTR, with responsibility for leading FTR's operations globally and driving adoption of the company's world-leading digital recording technologies by public organisations.

Mr Bennett has strong sales, marketing and management skills and a wealth of international experience, having been with Melbourne IT for 12 years in a variety of senior roles throughout Europe and the US. Most recently he was Vice President Global Sales at FTR, a role he had held since 2007.

FOR THE RECORD	FY09	FY08	% CHANGE
Revenues	$9.6m	$8.9m	8%
Contribution Margin	$1.0m	$0.5m	100%

Overview

Melbourne IT is committed to creating innovative and dynamic products which both excite customers and help educate them on how the Internet can help grow their business. The Product & Innovation team at Melbourne IT is continuously looking to improve the way existing products and services are delivered while at the same time, bringing new technology solutions to the market which solve customers' business needs.

2009 Highlights

In 2009, Melbourne IT continued to extend its virtual infrastructure offerings and reinforced its position at the forefront of delivering Cloud Computing products and services to the market.

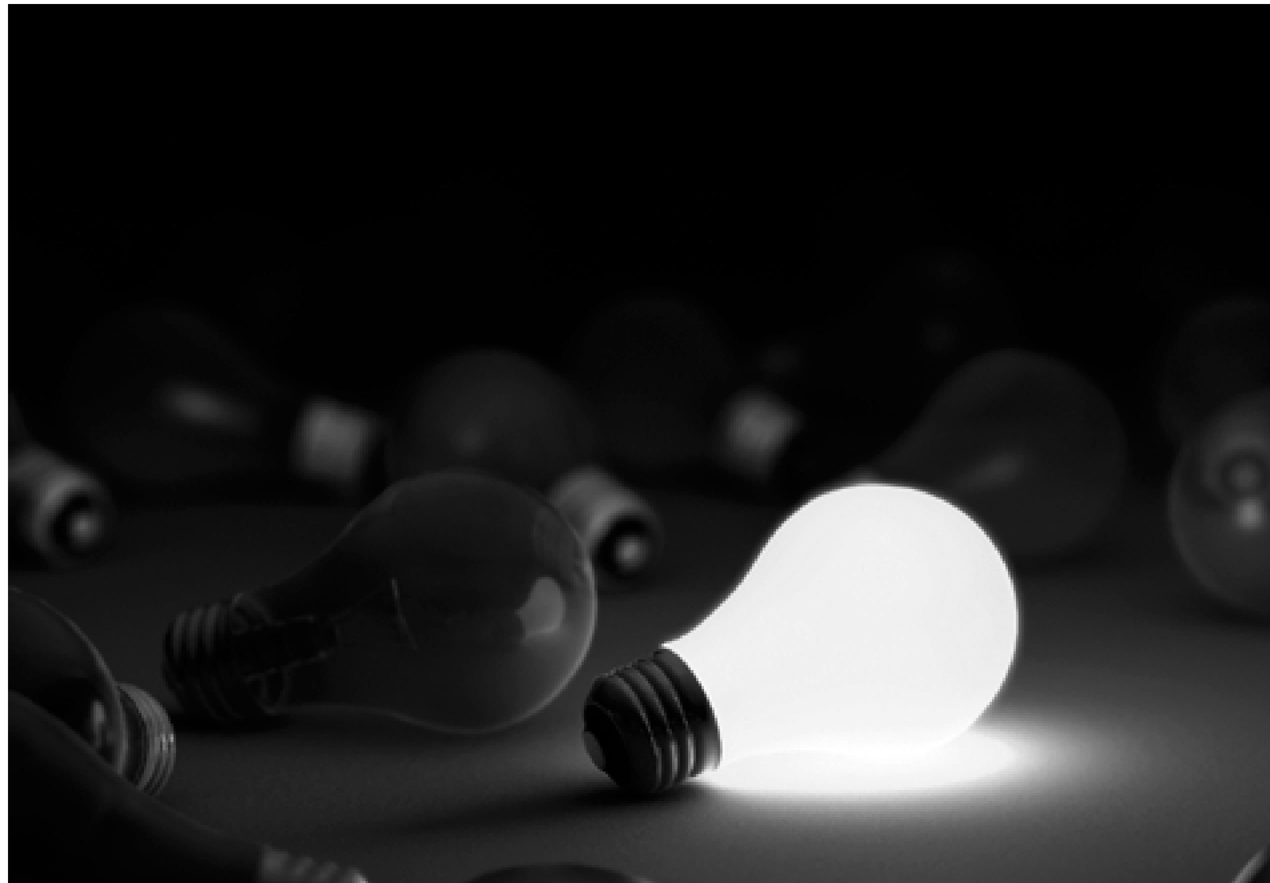
In May 2009, Melbourne IT became the first company in the world to go live with VMware's new virtual infrastructure platform, vSphere 4. In September, Melbourne IT launched services using VMware's vCloud Express product, as the first service provider in the Asia Pacific market and one of just five service providers globally.

Melbourne IT was presented with the VMware Virtual Champion of the Year Award, at the VMware Virtualisation Forum in October 2009, as recognition for its achievements in the Cloud Computing space.

2009 was also an exciting year for Melbourne IT from a messaging and collaboration standpoint. The company released a number of services using Microsoft products to help companies improve the sharing of information, including data, documents, and processes. These releases included a number of variants of Corporate SharePoint, Corporate Exchange (email), and both shared and dedicated versions of Microsoft Office SharePoint Server, aimed at different market segments and user profiles across multiple channels.

The domain landscape has experienced a vast evolution in the past 12 months. With more than 200 Country Code Top Level Domains (ccTLDs) on offer around the world, new opportunities continued as domains became de-regulated or changed policies, broadening availability on an international scale. Some examples include the launch of .mx (Mexico), and .cm (Cameroon).

Other ccTLD product offerings throughout 2009 were focused around automating our connection to registries to enable real time and more secure order placement and maintenance of these domain names.



Brand protection

Melbourne IT's Brand Protection Services 2.0 (BPS 2.0) suite leads the way in addressing the online concerns of large corporates by allowing surveillance for domain level and web content level violations of their brands, logos and trademarks. Using BPS 2.0 helps Melbourne IT identify potential infringements for clients so that appropriate remedial action can be taken to protect the brand.

vCloud Express

Melbourne IT launched vCloud Express as a beta offering in September 2009, elevating hosting to higher levels of accessibility, cost effectiveness and scale and allowing small businesses in particular access to technology that grows with them at an affordable price.

Melbourne IT's vCloud Express product is the first Australian-based, on-demand cloud computing service, with elastic computing (processing power and memory) resources that automatically scale within limits, depending on real-time demand.

PC Backup

PC Backup is an easy to use, secure and affordable online data protection solution which provides an easy way for consumers and SMBs to back up data from their desktop or servers to local, secure environments in 'set and forget mode', giving peace of mind that crucial information is backed up.

New gTLD Consulting Service

In 2010, Melbourne IT's Digital Brand Services division will launch new global consulting services to help customers take advantage of upcoming changes surrounding generic top level domains (gTLDs). These changes will allow companies to register brand names as a .brand instead of using traditional domains such as .com, .net or .org.

Melbourne IT's joint product development with international partners ensures customers reap the benefits of new technology faster.

Outlook

Melbourne IT's innovation focus in 2010 will centre on mobility services, cloud computing, brand protection, consulting services and analytics to help our customers improve the way they do business.

Melbourne IT will support the 2010 versions of Microsoft Exchange and SharePoint in the coming year, as well as additional value-add functionalities such as archiving and identity management. We are also working with a partner on a hosted desktop solution that will allow customers the ability to access their desktop from anywhere, anytime, securely and consistently.

We continue to work closely with international partners on joint product development – often as one of a handful of trusted partners globally – which means we understand new technologies before they are released to market and can ensure our customers reap the benefits faster.

With more than 690 employees spread across 18 offices in 10 countries, Melbourne IT draws upon a diverse range of skills, abilities and cultural influences to help foster our culture of innovation and success. The human resources 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.

2009 Highlights

During a challenging year which saw forced staff reductions among many other technology companies, Melbourne IT successfully concentrated on staff retention and thereby protected the intellectual capital of our staff.

The stronger availability of candidates in the industry allowed Melbourne IT to recruit significant new talent into the business, from front line customer service staff through to key executives. The launch of Melbourne IT's new online recruitment portal helped the company manage 3,500 applications for jobs at the company in 2009 – more than 67 people per week.

The online recruitment portal, linked to a new global recruitment process and a rich-media induction website, has helped drive efficiencies in recruiting and onboarding new staff. The third part of the automation process will be a new online learning centre which will go live in early 2010.

Our successful Confident Manager training program continued to be rolled out across the company in 2009 and new training initiatives such as the Technical Coaching Program for IT staff went live. These programs were part of more than 3,665 hours of internal training and 2,225 house of external training which was delivered in 2009.

Towards the end of the year, Melbourne IT HR and representatives from Australian staff began work on creating the Melbourne IT Agreement. This is an enterprise bargaining agreement certified by Fair Work Australia to ensure the company met its obligations under the Australian Government's new Fair Work Act which came into force on 1 January 2010.

Excellent input and co-operation between employees and HR ensured the new agreement, which provides more transparency and consistency of conditions of employment across Australia, was developed smoothly and approved by a 97 per cent staff vote.

Outlook

A range of new initiatives are set to launch in 2010 to keep building on the successful innovations delivered in 2009. The first of which is the new online learning centre which will allow employees to access a range of training courses online and track their progress against training goals set by their managers.

The company's investment in training will increase significantly in 2010, with a particular focus on sales enablement to help teams better sell the full range of Melbourne IT services. We will also continue to build on the values and behaviours training work from 2009, maintaining the focus on reinforcing the company's Customer First approach.

Short term and long term employee incentive schemes will both be revised for 2010. The highly competitive new schemes will provide greater clarity on performance goals and will encourage staff to achieve beyond their set goals in 2010. New competency profiles are also set to be introduced at a leadership level to enhance career path planning and management.

Finally, in 2010 the HR team will continue to build on the efficiencies created by the automated talent management systems with further improvements in the online recruitment portal and induction processes. This will ensure both candidates and staff alike have the best possible experience when dealing with Melbourne IT.

Full details of the Directors' experience, expertise and directorships can be found on the Melbourne IT website at

> ***www.melbourneit.com.au***

Simon Jones
Chairman

Mr Jones was appointed Chairman of the Board on 1 November 2009, having served as a Non-Executive Director since 12 March 2003. 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).

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 Audit & Risk Management Committee (ARMC).

Professor Iain Morrison
Non-Executive Director

Professor Morrison is Head of Bond University's School of Information Technology. He was a founding director of Melbourne IT and was appointed to the Board in 1996. He is a member of the Audit & Risk Management Committee (ARMC).

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).

Lucy Turnbull
Non-Executive Director

Ms Turnbull has extensive experience in private equity investment, commercial legal practice and investment banking. She was appointed to the Board in September 2006 and she is a member the Human Resources, Remuneration and Nominations Committee (HRRNC).

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).

Sustainability Review

Our commitment to the environment

As Melbourne IT grows, the company continues to work hard at reducing its environmental impact through innovation and industry best practice.

Energy usage is a primary focus for Melbourne IT 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.

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 increased the level of virtualised hardware in 2009 for greater efficiencies.

During 2009 the company continued its data centre consolidation strategy by evacuating data centres in San Jose and Hong Kong and consolidating four data centres in Brisbane into two (the East Brisbane facility will be fully decommissioned in 2010). The consolidation process has allowed the company to decommission older equipment and transfer data to newer, more energy efficient servers and storage.

In that vein, the company began a multi-million dollar investment in new EMC storage hardware in 2009 which will be completely rolled out by the second half of 2010 to replace ageing data storage equipment across the company's datacentres. The new hardware is the very latest technology which allows us to store data at a higher density while consuming less power.

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

Our sustainability efforts also target behaviour in the organisation. Employees are encouraged to adopt personal working practices that support energy conservation, such as switching off their PCs and laptops, 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 automated, with the new online recruitment portal introduced in 2009 now making the entire recruitment process electronic only.

The company remains committed to recycling with general recycling facilities for paper and cardboard 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 e-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 2010 we will continue to investigate new initiatives to further mitigate the environmental impact of our business operations.

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.

This Corporate Governance statement reflects a summary of Melbourne IT's corporate governance framework, policies and procedures during the 2009 year, reported against the ASX Corporate Governance Council's revised "Corporate Governance Principles and Recommendations". It is the view of Melbourne IT that its corporate governance practices are consistent with the revised Principles.

This statement, together with Company's corporate governance policies and Board committee charters, are set out in the Corporate Governance website at http://corporate.melbourneit.com.au/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. The last formal performance evaluation was conducted during the 2008 financial year.

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.

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 six non-executive directors are considered by the Board to be independent directors (Simon Jones, Iain Morrison, Rob Stewart and Andrew Walsh). As Tom Kiing and Lucy Turnbull are both substantial shareholders in Melbourne IT, they are not considered by the Board to be independent directors. 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.

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.

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 three non-executive directors: Andrew Walsh (Chairperson), Lucy Turnbull, and Simon Jones. Andrew Walsh and Simon Jones are both independent directors. The General Manager, Human Resources and the Managing Director & CEO attend all meetings by invitation. The HRRNC meets at least 4 times a year.

The performance of the Board, its committees and individual directors was formally reviewed during the 2008 financial year, with the assistance of an external facilitator. Their performance will next be formally reviewed in the 2010 financial year.

Principle 3 – Promote Ethical and Responsible Decision Making

The Company has a Code of Conduct to guide the directors, the Managing Director & CEO, the Chief Operating 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.

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. A copy 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 (and those others who have performed the Chief Financial Officer function during the course of the year) have stated in writing to the Board for the 2009 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 four non-executive directors: Rob Stewart (Chairman), Simon Jones, Iain Morrison and Tom Kiing. The ARMC Chairman is not the Chairman of the Board. The Chairman of the ARMC is an independent director, as are the majority of other members.

The Managing Director & CEO, Chief Operating Officer, Chief Financial Officer and the General Manager, Risk, 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 at least four 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 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).

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://corporate.melbourneit.com.au;
- Periodic analyst briefings, which are released to the ASX; and
- Periodic shareholder newsletters, which are also released to the ASX.

Melbourne IT's external auditor attends the Company's Annual General Meeting and is 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 2009 by the Managing Director & CEO and by the Chief Financial Officer (and other persons who performed a chief financial officer function for the company during the 2009 financial year).

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 a regular review of the Board's performance – both of the Board as a whole and of individual directors. In recent years, the reviews of the Board and of the Managing Director & CEO respectively, have been conducted with the assistance of an external facilitator, including '360 degree' feedback.

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 2009 comprised two elements:

1.Fixed fee

2.Variable remuneration: long-term incentive via a Deferred Share Plan.

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. 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.

The long-term incentive for non-executive directors is membership of a Share Purchase Plan. Under this Plan those directors who are eligible (which is all directors other than those who hold more than 5% of the issued capital of the company) must contribute a minimum of 15% (subject to legislative caps) of their directors' fees to purchase shares on market each quarter. This Plan is designed to encourage share ownership in the company by directors. It is proposed that this Plan be suspended or terminated in 2010 as a result of recent legislative changes effecting share plans.

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 Employee Performance Share Option Plan (which has 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 2009

Directors	Managing Director	Company Secretary
Mr. Simon Jones	Mr. Theo Hnarakis	Ms. Ashe-lee Jegathesan
Mr. Tom Kiing		
Prof. Iain Morrison		
Mr. Robert Stewart		
Ms. Lucy Turnbull		
Mr. Andrew Walsh		

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	92,694	-
Mr. Theo Hnarakis	687,689	750,000
Mr. Tom Kiing	5,721,488	-
Prof. Iain Morrison	48,559	-
Mr. Robert Stewart	391,964	-
Ms. Lucy Turnbull	5,477,694	-
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, consulting and enforcement.
- Analysis and development of website traffic.

Enterprise Services ("ES") - formerly Corporate and Government
- 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.

Global Partner Solutions ("GPS") - formerly Reseller
Provider of products through the extensive global network of partners which include:
- Registration of generic Top Level Domain (gTLD) names (.com, .net, .org, .biz, .info, .name).
- Registration of .au and .nz domain names through the reseller channel.
- Registration of other country code (ccTLD) domain names (eg. .us,.co.uk,.fr,.de and .eu).
- Web and application hosting including Software and Services.

SMB eBusiness Solutions ("SMB") - formerly Business and Consumer
- Registration of .au and .nz domain names.
- Registration of other country code (ccTLD) domain names (eg. .us, .it, .de, .to .uk and .eu).
- Registration of generic Top Level Domain (gTLD) names (.com, .net, .org, .biz, .info, .name).
- Consultative and fulfilment services for Search Engine Marketing and Web site design and development.
- Website and email application hosting.
- 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

	2009	2008
Basic earnings per share	21.42 cents	20.87 cents
Diluted earnings per share	21.40 cents	20.71 cents

RESULTS

The profit after tax of the Melbourne IT Group for the year ended 31 December 2009 was $16.808 million (2008: $16.193 million).

DIVIDENDS

	Cents	$'000
Final Dividends Recommended on ordinary shares	8.0	6,318

DIVIDENDS PAID IN THE YEAR

Final Dividend – 2008 on ordinary shares	8.0	6,238
Interim Dividend – 2009 on ordinary shares	7.0	5,503

At the 23 February 2010 Board Meeting, the directors declared a final dividend of 8.0 cents per share, fully franked. The total amount of this final dividend is $6.318 million. This dividend has not been provided for at 31 December 2009.

Melbourne IT Ltd - Consolidated Group

- Total consolidated Revenue for the year ended 31 December 2009 was $200.102 million (2008: $186.224 million), an increase of 7.5%.
- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for the year ended 31 December 2009 was $32.271 million (2008: $31.874 million), an increase of 1.2%.
- Earnings Before Interest and Tax ('EBIT') for the year ended 31 December 2009 was $23.413 million (2008: $23.738 million), a decrease of 1.4%.
- Included within EBIT for the year ended 31 December 2009 is an amortisation charge totalling $1.394 million (2008: $1.068 million) relating to the amortisation of identifiable intangible assets following the acquisition of DBMS (May 2008), IDR Management Services Ltd (January 2007) and the WebCentral Group Pty Ltd (September 2006).
- Profit after Tax for the year ended 31 December 2009 was $16.808 million (2008: $16.193 million), an increase of 3.8%.
- Cash and cash equivalents was $30.377 million at 31 December 2009 (2008: $28.382 million).
- Positive Operating Cashflow for the year ended 31 December 2009 was $23.572 million (2008: $26.410 million) a decrease of 10.7%. Included within the operating cashflow at 31 December 2009 is an interest expense totalling $2.063 million (2008: $1.870 million) of which $1.701 million (2008: $1.677 million) related to borrowing costs associated with the acquisition of DBMS.
- Deferred Gross Margin (i.e.: income received in advance net of prepaid costs) was $31.141 million at 31 December 2009 (December 2008: $28.546 million) an increase of 9.1%.
- Total external debt was $57.861 million (US $52.0 million) at 31 December 2009 (2008: $79.629 million (US $55.0 million)), with net debt of $27.484 million (2008: $51.247 million). Total external debt repayments were $3.501 million (US $3.0 million) with the balance of movement due to the changes in the USD exchange rate between 31 December 2008 and 2009.
- At the 23 February 2010 Board Meeting, the directors declared a 8.0 cents fully franked final dividend on ordinary shares in respect of the year ended 31 December 2009 (year ended 31 December 2008: 8.0 cents).
- In accordance with accounting standards, the total amount of this final dividend of $6.318 million has not been provided for in the 31 December 2009 financial statements.

DIRECTORS' REPORT (continued)

REVIEW AND RESULTS OF OPERATIONS

Summarised operating results are as follows:

	31-Dec-09 $'000	31-Dec-08 $'000
Revenue		
Registration Revenue	80,227	77,243
Consulting Revenue	46,605	35,482
Website & Email Hosting Revenue	53,749	54,865
Value-Added Product Revenue	8,444	7,460
For The Record Revenue	9,609	8,903
Other Revenue	319	586
Total Revenue excluding Interest Revenue	198,953	184,539
Interest Revenue	778	939
Total Revenue	**199,731**	**185,478**
Other Income	371	746
Total consolidated Revenue	**200,102**	**186,224**
Earnings Before Interest and Tax		
Operating segment results	28,282	27,306
Share of loss in Advantate Pty Ltd before income tax expense (50% owned)	(564)	(687)
Unallocated expenses	(4,305)	(2,881)
Total Earnings Before Interest and Tax	**23,413**	**23,738**
Net Interest	(1,285)	(931)
Net Profit Before Tax	**22,128**	**22,807**
Tax Expense	(5,320)	(6,614)
Net Profit After Tax	**16,808**	**16,193**
Cashflow from Operations	**23,572**	**26,410**

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 and/or external advisors, 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 THE BALANCE SHEET DATE

At the 23 February 2010 Board Meeting, the Directors declared a 8.0 cents fully franked final dividend on ordinary shares in respect of the year ended 31 December 2009. In accordance with Accounting Standards, the total amount of this final dividend is $6.318 million, and has not been provided for in the 31 December 2009 financial statements.

Ms Carolyn Sutton commenced as Chief Financial Officer with effect from 1 February 2010.

Mr Daniel Bennett was appointed Executive Vice President of For The Record on 22 January 2010, following the resignation of Mr Gunnar Light.

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

The Melbourne IT Group expects a strong rise in the underlying profit of the company in 2010, however due to significant transformational investments the company is making, we expect net profit growth to be modest. The Group expects robust net profit growth to return in 2011. 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 5,204,235 unissued ordinary shares under options (2008: 6,573,735). Refer to note 34 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 interest 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, employees and directors have exercised the option to acquire 136,000 (2008: 603,800) fully paid ordinary shares in Melbourne IT Limited at a weighted average exercise price of $1.01 (2008: $1.23).

During the year ended 31 December 2009, no options were granted over ordinary shares.

The weighted average exercise price per option for those options vesting after 1 January 2005 are:

Options Issued

Number of options	Grant date	Vesting date	Weighted Average Exercise Price
52,600	22/04/05	22/10/05	1.28
120,800	28/10/05	28/10/06	1.16
118,600	28/04/06	28/04/07	1.67
530,400	17/07/06	17/07/08	1.85
1,293,350	27/04/07	27/04/09	3.42
182,066	11/09/07	11/09/09	3.60
2,109,419	18/07/08	18/07/10	3.06
242,000	19/08/08	19/08/10	3.06
555,000	24/10/08	24/10/10	2.12
5,204,235			

DIRECTORS' MEETINGS

	Directors Meetings		Meetings of Committees			
			ARMC (1)		HRRNC (2)	
No of meetings held	**9**		**5**		**5**	
	Eligible	**Attended**	**Eligible**	**Attended**	**Eligible**	**Attended**
Simon Jones	9	9	5	5	1	1
Theo Hnarakis	9	9	5*	5*	5*	5*
Robert Stewart	9	9	5	5	4	4
Tom Kiing	9	9	5	4		
Iain Morrison	9	9	5	4		
Lucy Turnbull	9	9			5	5
Andrew Walsh	9	9			5	5

(1) Audit and Risk Management Committee
(2) Human Resources, Remuneration and Nomination Committee
* by invitation

The above table shows the numbers of meetings of directors held during 2009. 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.

The members of the ARMC are Mr R. Stewart (Chairman appointed November 2009), Mr S. Jones (Chairman resigned November 2009), Prof. I. Morrison and Mr T. Kiing.

The members of the HRRNC are Mr A. Walsh (Chairman appointed November 2009), Ms. L. Turnbull (Chairman resigned November 2009), Mr R. Stewart (resigned November 2009) and Mr S. Jones (appointed November 2009).

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

DIRECTORS' REPORT (continued)

ROUNDING

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

CORPORATE GOVERNANCE

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

The company's corporate governance statement is available on the company's website www.melbourneit.com.au and is contained in the additional ASX information section of the 2009 annual report.

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 purpose of this report, key management personnel are the Chief Executive Officer/Managing Director, the Chief Operating Officer, the Chief Financial Officer, the Company Secretary as well as the leaders of each of Melbourne IT's Global Business Units in Global Partner Solutions ("GPS"), SMB eBusiness Solutions ("SMB"), Digital Brand Services ("DBS"), Enterprise Services ("ES") and For the Record ("FTR").

Human Resources, Remuneration and Nomination Committee

The HRRNC is responsible for determining and reviewing remuneration arrangements for the directors and executives.

The HRRNC assesses the appropriateness of the nature and amount of remuneration of 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.

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 with the overall objective of ensuring maximum stakeholder benefit from the recruitment and retention of a high quality Board and executive team. Further details of remuneration of directors and key management personnel are also provided in note 33 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 remuneration of $1,000,000 per year.

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

The remuneration of non-executive directors for the period ending 31 December 2009 is detailed below.

Variable Remuneration – Long Term Incentives (LTI)

Objective
The objective of the LTI plan is to reward directors in a manner that aligns this element of remuneration with the creation of shareholder wealth. As such, LTI grants have been made to directors because they are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance.

Deferred Share Plan
The purpose of the Deferred Share Plan (DSP) is to facilitate ownership of equity in Melbourne IT by the non executive directors and align the interests of non executive directors and shareholders. The number of DSP shares to be offered to each non executive director will be from pre tax salary sacrifice and will have a minimum annual value that is up to 15% of a participant's fee. As significant shareholders Mr Tom Kiing and Ms Lucy Turnbull do not participate in the DSP.

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:

2009	Short Term		Share Based	Post Employment	
Directors	Salary & fees	Other (1)	Deferred Share Plan	Super Cont.	Total
	$	$	$	$	$
Mr Simon Jones	85,705	-	11,277	7,713	104,695
Mr Tom Kiing	72,000	-	-	6,480	78,480
Prof. Iain Morrison	61,601	-	10,401	6,480	78,482
Mr Robert Stewart	134,247	6,540	17,421	13,650	171,858
Ms Lucy Turnbull	80,333	-	-	7,230	87,563
Mr Andrew Walsh	63,268	-	10,401	6,630	80,299
Total 2009	**497,154**	**6,540**	**49,500**	**48,183**	**601,377**

(1) The category "Other" includes the value of any non-cash benefits provided.

2008	Short Term		Share Based	Post Employment	
Directors	Salary & fees	Other (1)	Deferred Share Plan	Super Cont.	Total
	$	$	$	$	$
Mr Simon Jones	69,700	-	12,300	7,380	89,380
Mr Tom Kiing	72,000	-	-	6,480	78,480
Prof. Iain Morrison	61,200	-	10,800	5,940	77,940
Mr Robert Stewart	140,760	16,528	24,840	16,146	198,274
Dr Mark Toner (2)	22,178	-	9,504	2,236	33,918
Ms Lucy Turnbull	78,174	-	-	6,495	84,669
Mr Andrew Walsh (3)	34,366	-	6,064	3,639	44,069
Total 2008	**478,378**	**16,528**	**63,508**	**48,316**	**606,730**

(1) The category "Other" includes the value of any non-cash benefits provided.
(2) Mark Toner resigned as a director on 20 May 2008.
(3) Andrew Walsh was appointed as a director on 6 June 2008.

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.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Executive and senior manager remuneration (continued)

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 qualify for participation in the Executive Incentive Plan which currently provides a cash incentive where specified criteria are met (including criteria relating to cost control, profitability and cash flow).

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 below details the fixed and variable components of the key management personnel of the Group and the company.

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 below.

Variable Remuneration – Short Term Incentives (STI)

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

Structure
Actual STI cash payments granted to each executive depend on the extent to which Earnings Before Interest and Tax ("EBIT") and specific operational targets set at the beginning of the year are met. The operational targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial measures of performance. Typically included are measures 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. The Group has predetermined benchmarks that must be met in order to trigger payments under the STI scheme.

On an annual basis, after consideration of performance against KPIs, an overall performance rating for the Group and each individual business unit is approved by the HRRNC. The individual performance of each executive is also rated and all three ratings are taken into account when determining the amount, if any, of the short term incentive that is to be paid to each executive. This process usually occurs within 3 months after the reporting date.

The aggregate of annual STI payments available for executives across the Group is subject to recommendation of HRRNC and Board approval.

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.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

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

LTI Plans – Pre 21 April 2006

Executive LTI options are only exercisable under the Long Term Incentive Plan if the company achieves an Earnings Before Interest and Tax ("EBIT") for the most recent half year, at least equal to 10% greater than the average of the four (4) half year EBIT's, previous to the most recent half year, as reported to the ASX.

LTI Plans – Post 21 April 2006

The exercise condition for Executive LTI Options issued after April 2006, 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.

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 months 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%.

Hedging of equity awards

The Company prohibits executives from entering into arrangements to protect the value of unvested LTI awards. The prohibition includes entering into contracts to hedge their exposure to options awarded as part of their remuneration package.

Emoluments of Executives of the Company and the Consolidated Entity

Details of the nature and amount of each element of the emolument of the key management personnel of the company for the financial year are as follows:

2009	**Short term benefits**			**Post Employment**	**Long term benefits**	**Share Based Payments**		
Executives	Salary & fees	STI (10)	Other (11)	Super Cont.	Long service leave	Amortisation Expense (12)	**Total**	**Performance related**
	$	$	$	$	$	$	**$**	%
Mr Theo Hnarakis	477,065	155,480	19,538	42,935	14,471	91,076	800,565	30.80%
Mr Damian Walsh (1)	78,615	-	1,635	7,075	-	-	87,325	-
Mr Andrew Field (2)	168,718	46,000	3,096	15,185	5,071	(38,404)	199,666	3.80%
Ms Lori Harmon (3) (4)	240,263	-	-	20,844	-	-	261,107	-
Mr Phillip Wilson	225,000	23,250	-	20,250	2,277	16,556	287,333	13.85%
Mr Bernard Blake (5)	93,750	23,250	-	8,438	479	(31,421)	94,496	-8.65%
Mr Anders Eriksson (6) (7)	47,365	41,665	-	-	-	(22,334)	66,696	28.98%
Mr Gunnar Light (4)	240,020	39,518	-	20,844	-	11,953	312,335	16.48%
Mr Damon Fieldgate	209,999	16,000	-	18,571	1,383	10,045	255,998	10.17%
Ms Ashe-lee Jegathesan	201,923	3,467	5,100	18,173	-	-	228,663	1.52%
Mr Kanchan Mhatre (4) (8)	326,379	53,995	-	14,528	-	11,953	406,855	16.21%
Mr Brian Smart (9)	18,000	-	-	1,620	-	-	19,620	-
Total 2009	**2,327,097**	**402,625**	**29,369**	**188,463**	**23,681**	**49,424**	**3,020,659**	

(1) Mr Damian Walsh was appointed as Chief Operating Officer on 21 September 2009
(2) Mr Andrew Field resigned as Chief Operating Officer on 7 August 2009
(3) Ms Lori Harmon was appointed Executive Vice President and General Manager of GPS on 2 March 2009
(4) These personnel are paid in USD equivalents
(5) Mr Bernard Blake resigned as Group Manager of SMB Markets on 29 May 2009
(6) Mr Anders Eriksson resigned as Chief Executive of DBS on 27 February 2009
(7) Paid in equivalent Swedish Krona (SEK) through Melbourne IT DBS Group AB
(8) Mr Kanchan Mhatre was appointed to the executive as Executive Vice President of DBS on 1 January 2009
(9) Mr Brian Smart was appointed to the executive as Acting Chief Financial Officer on 16 November 2009
(10) The STI amounts represent the cash amounts paid with respect to the 2008 year. The directors have determined that no STI's are due and payable in respect of the 2009 financial year
(11) The category of "Other" includes the value of any non-cash business benefits provided
(12) The expense relates to the amortisation of the fair value of options granted prior to the year ended 31 December 2009

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

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

2008	**Short term benefits**			**Post Employment**	**Long term benefits**	**Share Based Payments**		
Executives	Salary & fees	STI	Other (2)	Super Cont.	Long service leave	Amortisation Expense (3)	**Total**	**Performance related**
	$	$	$	$	$	$	**$**	%
Mr Theo Hnarakis	458,075	218,500	16,528	39,518	13,648	82,996	829,265	36.36%
Mr Andrew Field	280,000	66,750	15,172	25,200	7,855	19,919	414,896	20.89%
Mr Tom Mackey (1), (7)	236,574	48,381	-	7,097	-	16,567	308,619	21.04%
Mr Phillip Wilson	225,000	-	-	20,250	-	3,680	248,930	1.48%
Mr Bernard Blake	225,000	66,625	-	20,250	2,495	8,359	322,729	23.23%
Mr Anders Eriksson (4)	276,180	39,112	-	-	-	7,361	322,653	14.40%
Mr Gunnar Light (1), (9)	223,529	-	-	1,547	-	4,009	229,085	1.75%
Mr Damon Fieldgate (5)	52,499	-	-	4,725	1,763	-	58,987	-
Ms Ashe-lee Jegathesan (6)	78,077	-	3,861	7,027	-	-	88,965	-
Mr Ben Lehman (8)	105,087	31,850	-	8,434	-	-	145,371	21.91%
Total 2008	**2,160,021**	**471,218**	**35,561**	**134,048**	**25,761**	**142,891**	**2,969,500**	

(1) These personnel are paid in USD equivalents
(2) The category of "Other" includes the value of any non-cash business benefits provided
(3) The expense relates to the amortisation of the fair value of options granted prior to the year ended 31 December 2008
(4) Paid in equivalent Swedish Krona (SEK) through Melbourne IT DBS Group AB
(5) Mr Damon Fieldgate was appointed to the Executive on 1 October 2008
(6) Ms Ashe-lee Jegathesan was appointed Company Secretary on 19 August 2008
(7) Mr Tom Mackey resigned 26 September 2008
(8) Mr Ben Lehman resigned as Company Secretary on 19 August 2008
(9) Mr Gunnar Light was appointed to the Executive on 1 January 2008

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.

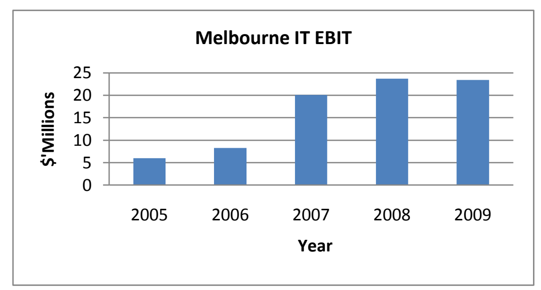
- In 2009, Mr Hnarakis received a fixed remuneration package (inclusive of superannuation) of $520,000.
- Mr Hnarakis was entitled to receive up to a further 65% of this base remuneration based on achieving annual performance criteria set by the Board.
- Mr Hnarakis' remuneration is reviewed annually.
- 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).

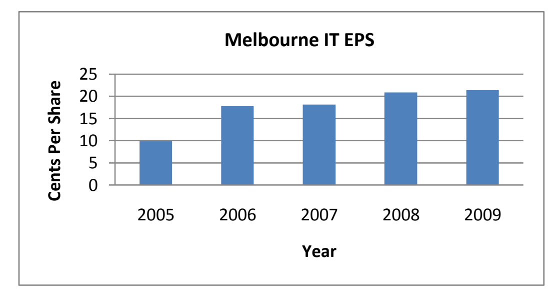
All other key management personnel are on standard contracts remunerated as stipulated in this report.

Company performance and link to remuneration

Company performance and link to short and long term incentives

The financial performance measure driving STI and LTI payment outcomes is EBIT and EPS respectively. The following tables outlines the Group's EBIT and EPS over the five year period from 1 January 2005 to 31 December 2009:





DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Compensation options: Options granted and Options vested during the year

2009
No options were granted for the year ended 31 December 2009.

Options granted / lapsed as remuneration during the year

2009

	Options Granted	Value of options granted $	Value of options exercised $	Number of options lapsed / forfeited	Remuneration consisting of options (1)
Executives					
Mr Theo Hnarakis	-	-	-	-	11.38%
Mr Andrew Field (2)	-	-	-	(180,000)	-19.23%
Mr Phillip Wilson	-	-	-	-	5.76%
Mr Damon Fieldgate	-	-	-	-	3.92%
Mr Bernard Blake (2)	-	-	-	(110,000)	-33.25%
Mr Anders Eriksson (2)	-	-	-	(60,000)	-33.49%
Mr Kanchan Mhatre	-	-	-	-	2.94%
Mr Gunnar Light	-	-	-	-	3.83%

(1) Amortisation expense of employee shares options
(2) Resigned during year - details in remuneration table

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 or rights granted multiplied by the fair value at the grant date. The minimum grant payable assuming that service and performance criteria are not met is zero.

Shares issued on exercise of compensation options

2009
No shares were issued to KMP's on exercise of compensation options for the year ended 31 December 2009.

Employees
The consolidated entity employed 688 (2008:661) full time equivalent ("FTE") employees as at 31 December 2009.

Auditor independence and non audit services

The Directors have received an audit independence declaration from the auditor of Melbourne IT Ltd.

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 standard 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	193,429
Assurance related and due diligence services	224,353
	417,782

Signed in accordance with a resolution of the directors.

Simon Jones (Chairman)

Melbourne, 30 March 2010

ERNST & YOUNG

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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 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

Joanne Lonergan
Partner
Melbourne
30 March 2010

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 the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the company's and the consolidated entity's financial position as at 31 December 2009 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards and Corporations Regulations 2001; and

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

(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 2009.

On behalf of the Board

Simon Jones (Chairman)

Melbourne, 30 March 2010

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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 statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our 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, we consider 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 met 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.

ERNST & YOUNG

Auditor's Opinion

In our opinion:

1. 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 financial position of Melbourne IT Limited and the consolidated entity at 31 December 2009 and of their performance for the year ended on that date; and

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

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 12 of the directors' report for the year ended 31 December 2009. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Melbourne IT Limited for the year ended 31 December 2009, complies with section 300A of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

Lonergan

Joanne Lonergan
Partner
Melbourne
30 March 2010

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2009

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	MELBOURNE IT 2009 $'000	MELBOURNE IT 2008 $'000
ASSETS					
Current Assets					
Cash and cash equivalents	23(b)	30,377	28,382	14,107	9,458
Trade and other receivables	8	25,831	28,437	8,113	17,866
Inventories	9	582	598	-	-
Prepayment of domain name registry charges		15,138	16,032	10,084	11,284
Derivative financial instruments	27	115	946	144	946
Other assets	10	2,584	2,467	435	366
Total Current Assets		**74,627**	**76,862**	**32,883**	**39,920**
Non-Current Assets					
Other financial assets	11	-	-	109,530	108,564
Plant and equipment	13	11,174	14,141	1,001	1,194
Intangible assets	14	129,522	148,376	-	-
Deferred income tax assets	15	2,581	2,333	1,612	1,022
Prepayment of domain name registry charges		9,433	10,626	8,238	8,728
Investments in associates	12(d)	-	519	-	519
Other assets	16	7	7	-	-
Total Non-Current Assets		**152,717**	**176,002**	**120,381**	**120,027**
TOTAL ASSETS		**227,344**	**252,864**	**153,264**	**159,947**
LIABILITIES					
Current Liabilities					
Trade and other payables	17	19,656	24,872	19,524	23,913
Interest-bearing loans and borrowings	18	4,451	4,345	18,471	24,034
Provisions	19	3,649	4,525	1,673	1,951
Current tax liabilities	20	2,053	3,647	1,637	2,457
Income received in advance		37,536	37,811	21,367	21,220
Total Current Liabilities		**67,345**	**75,200**	**62,672**	**73,575**
Non-Current Liabilities					
Interest-bearing loans and borrowings	18	53,410	75,284	2,128	-
Provisions	21	605	601	176	143
Income received in advance		18,176	17,393	16,281	16,244
Derivative financial instruments		-	322	-	-
Total Non-Current Liabilities		**72,191**	**93,600**	**18,585**	**16,387**
TOTAL LIABILITIES		**139,536**	**168,800**	**81,257**	**89,962**
NET ASSETS		**87,808**	**84,064**	**72,007**	**69,985**
EQUITY					
Contributed equity	22(a)	63,005	61,204	63,005	61,204
Foreign currency translation reserve		(5,900)	(2,440)	-	-
Options reserve		3,095	2,247	2,801	2,193
Hedging reserve		69	581	88	902
Retained earnings		27,539	22,472	6,113	5,686
TOTAL EQUITY		**87,808**	**84,064**	**72,007**	**69,985**

The above balance sheet should be read in conjunction with the accompanying notes.

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2009

	Notes	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	MELBOURNE IT 2009 $'000	MELBOURNE IT 2008 $'000
Revenue	4(a)	199,731	185,478	82,756	77,466
Other Income	4(b)	371	746	8,537	10,751
Registry, Hosting and Sundry Other Product Costs		(77,746)	(70,626)	(49,020)	(45,971)
Gross profit		122,356	115,598	42,273	42,246
Salaries and employee benefits expenses		(69,603)	(63,121)	(18,627)	(18,921)
Depreciation and amortisation expenses	5(a)	(7,464)	(7,068)	(659)	(636)
Amortisation of identifiable intangible assets	5(b)	(1,394)	(1,068)	-	-
Other expenses from ordinary activities	5(c)	(21,203)	(20,847)	(9,132)	(7,965)
Share of net (loss) of an associate	12(c)	(564)	(687)	(564)	(687)
Profit from continuing operations before tax		22,128	22,807	13,291	14,037
Income tax expense	6	(5,320)	(6,614)	(1,123)	(1,507)
Net Profit attributable to members of Melbourne IT Ltd		16,808	16,193	12,168	12,530
Other comprehensive income					
Currency translation differences		(3,460)	(1,815)	-	-
Net gains/(losses) on cashflow hedges		(512)	603	(814)	924
Other comprehensive income for the period, net of tax		(3,972)	(1,212)	(814)	924
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		12,836	14,981	11,354	13,454
Profit attributable to members of the parent		16,808	16,193	12,168	12,530
Total comprehensive income attributable to members of the parent		12,836	14,981	11,354	13,454

EARNINGS PER SHARE

	Notes	2009	2008
Basic earnings per share	30	21.42 cents	20.87 cents
Diluted earnings per share	30	21.40 cents	20.71 cents

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

CONSOLIDATED

	FOREIGN CURRENCY RESERVE $'000	OPTIONS RESERVE $'000	HEDGING RESERVE $'000	CONTRIBUTED EQUITY $'000	RETAINED EARNINGS $'000	TOTAL $'000
As at 1 January 2008	**(625)**	**1,448**	**(22)**	**58,873**	**17,089**	**76,763**
Profit for the period	-	-	-	-	16,193	**16,193**
Other comprehensive income	(1,815)	-	603	-	-	**(1,212)**
Total comprehensive income for the period	(1,815)	-	603	-	16,193	**14,981**
Transactions with owners in their capacity as owners:						
Share based payment	-	799	-	-	-	**799**
Dividend Reinvestment Plan	-	-	-	1,706	(1,706)	**-**
Exercise of Options	-	-	-	625	-	**625**
Equity Dividends	-	-	-	-	(9,104)	**(9,104)**
As at 31 December 2008	**(2,440)**	**2,247**	**581**	**61,204**	**22,472**	**84,064**
As at 1 January 2009	**(2,440)**	**2,247**	**581**	**61,204**	**22,472**	**84,064**
Profit for the period	-	-	-	-	16,808	**16,808**
Other comprehensive income	(3,460)	-	(512)	-	-	**(3,972)**
Total comprehensive income for the period	(3,460)	-	(512)	-	16,808	**12,836**
Transactions with owners in their capacity as owners:						
Share based payment	-	848	-	-	-	**848**
Dividend Reinvestment Plan	-	-	-	1,549	(1,549)	**-**
Exercise of Options	-	-	-	252	-	**252**
Equity Dividends	-	-	-	-	(10,192)	**(10,192)**
As at 31 December 2009	**(5,900)**	**3,095**	**69**	**63,005**	**27,539**	**87,808**

MELBOURNE IT

	FOREIGN CURRENCY RESERVE $'000	OPTIONS RESERVE $'000	HEDGING RESERVE $'000	CONTRIBUTED EQUITY $'000	RETAINED EARNINGS $'000	TOTAL $'000
As at 1 January 2008	**-**	**939**	**(22)**	**58,873**	**3,966**	**63,756**
Profit for the period	-	-	-	-	12,530	**12,530**
Other comprehensive income	-	-	924	-	-	**924**
Total comprehensive income for the period	-	-	924	-	12,530	**13,454**
Transactions with owners in their capacity as owners:						
Share based payment	-	1,254	-	-	-	**1,254**
Dividend Reinvestment Plan	-	-	-	1,706	(1,706)	**-**
Exercise of Options	-	-	-	625	-	**625**
Equity Dividends	-	-	-	-	(9,104)	**(9,104)**
As at 31 December 2008	**-**	**2,193**	**902**	**61,204**	**5,686**	**69,985**
As at 1 January 2009	**-**	**2,193**	**902**	**61,204**	**5,686**	**69,985**
Profit for the period	-	-	-	-	12,168	**12,168**
Other comprehensive income	-	-	(814)	-	-	**(814)**
Total comprehensive income for the period	-	-	(814)	-	12,168	**11,354**
Transactions with owners in their capacity as owners:						
Share based payment	-	608	-	-	-	**608**
Dividend Reinvestment Plan	-	-	-	1,549	(1,549)	**-**
Exercise of Options	-	-	-	252	-	**252**
Equity Dividends	-	-	-	-	(10,192)	**(10,192)**
As at 31 December 2009	**-**	**2,801**	**88**	**63,005**	**6,113**	**72,007**

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

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

		CONSOLIDATED		MELBOURNE IT	
	Notes	2009 $'000	2008 $'000	2009 $'000	2008 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt of service revenue and recoveries (inclusive of GST)		222,752	203,426	102,302	93,095
Payments to suppliers and employees (inclusive of GST)		(189,530)	(168,731)	(84,239)	(80,099)
Interest received		778	939	516	447
Interest paid		(2,063)	(1,870)	(578)	(480)
Bank charges and credit card merchant fees		(1,358)	(1,558)	(822)	(728)
Income tax paid		(7,007)	(5,796)	(2,378)	(3,080)
NET CASH FLOWS FROM OPERATING ACTIVITIES	23(a)	23,572	26,410	14,801	9,155
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of plant and equipment		(3,867)	(10,027)	(251)	(709)
Acquisition of subsidiary, net of cash acquired - DBMS	24	(340)	(56,704)	-	-
Investment in Joint Venture - Advantate Pty Ltd	12(d)	(200)	(1,000)	(200)	(1,000)
Acquisition of subsidiary, net of cash acquired - IDR Management Services Ltd		-	(250)	-	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(4,407)	(67,981)	(451)	(1,709)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from interest bearing liabilities		-	58,870	-	-
Repayment of interest bearing liabilities		(3,501)	-	-	-
Dividends Received		-	-	239	-
Proceeds from issue of ordinary shares - ESOP		252	625	252	625
Payment of dividend on ordinary shares		(10,192)	(9,104)	(10,192)	(9,104)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		(13,441)	50,391	(9,701)	(8,479)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		5,724	8,820	4,649	(1,033)
Net foreign exchange differences		(3,729)	1,671	-	-
Cash and cash equivalents at beginning of period		28,382	17,891	9,458	10,491
CASH AND CASH EQUIVALENTS AT END OF PERIOD	23(b)	30,377	28,382	14,107	9,458

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

CORPORATE INFORMATION

The financial report of Melbourne IT Ltd for the year ended 31 December 2009 was authorised for issue in accordance with a resolution of the directors on 30 March 2010.

Melbourne IT Limited 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 11 & 28.

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, applicable Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis, except for 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 under ASIC Class Order 98/0100. The company is an entity to which the class order applies.

(a) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ('IFRS').

(b) New Accounting Standards and Interpretations

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 and AASB Interpretations as of 1 January 2009.

AASB 7 Financial Instruments: Disclosures
The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to all financial instruments recognised and measured at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures are presented in note 2.

AASB 8 Operating Segments
AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 1(e).

AASB 101 Presentation of Financial Statements
The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owners in equity presented in a recompilation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, in two linked statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) New Accounting Standards and Interpretations (Continued)

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 2009 are outlined in the table below.

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB 3 (Revised)	Business Combinations	The revised Standard introduces a number of changes to the accounting for business combinations, the most significant of which includes the requirement to have to expense transaction costs and a choice (for each business combination entered into) to measure a non-controlling interest (formerly a minority interest) in the acquire either at its fair value or at its proportionate interest in the acquiree's net assets. This choice will effectively result in recognising goodwill relating to 100% of the business (applying the fair value option) or recognising goodwill relating to the percentage interest acquired. The changes apply prospectively.	1-Jul-09	The amendments to the Accounting Standard are not expected to have a direct impact on the amounts included in the Group's financial statements.	1-Jan-10
AASB 127 (Revised)	Consolidated and Separate Financial Statements	There are a number of changes arising from the revision to AASB 127 relating to changes in ownership interest in a subsidiary without loss of control, allocation of losses of a subsidiary and accounting for the loss of control of a subsidiary. Specifically in relation to a change in the ownership interest of a subsidiary (that does not result in loss of control) – such a transaction will be accounted for as an equity transaction.	1-Jul-09	The Accounting Standard is not expected to have a direct impact on the amounts included in the Group's financial statements. At this stage there are no plans to reduce the ownership interests in any of the Group's subsidiaries.	1-Jan-10
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending Standard issued as a consequence of revisions to AASB 3 and AASB 127. Refer above.	1-Jul-09	The amendments to the Accounting Standard are not expected to have a direct impact on the amounts included in the Group's financial statements.	1-Jan-10
AASB 2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items	The amendment to AASB 139 clarifies how the principles underlying hedge accounting should be applied when (i) a one-sided risk in a hedged item is being hedged and (ii) inflation in a financial hedged item existed or was likely to exist.	1-Jul-09	The amendments to the Accounting Standard are not expected to have a direct impact on the amounts included in the Group's financial statements as the Group does not have any one sided risks in a hedged items or hedged items in a hedged item.	1-Jan-10
AASB 2009-4	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]	This Standard makes amendments to Australian Accounting Standards AASB 2 Share-based Payment and AASB 138 Intangible Assets and AASB Interpretations 9 Reassessment of Embedded Derivatives and 16 Hedges of a Net Investment in a Foreign Operation. These amendments are as a consequence of the annual improvements project.	1-Jul-09	The amendments to the Accounting Standard are not expected to have a direct impact on the amounts included in the Group's financial statements as the Group holds all its derivative instruments in the appropriate legal entity and does not intend to re-assign any hedged items within the Group	1-Jan-10
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting.	1-Jan-10	The amendments to the Accounting Standard are not expected to have a direct impact on the amounts included in the Group's financial statements.	1-Jan-10
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: two categories for financial assets being amortised cost or fair value, removal of the requirement to separate embedded derivatives in financial assets, strict requirements to determine which financial assets can be classified as amortised cost or fair value, an option for investments in equity instruments, reclassifications between amortised cost and fair value, and changes to the accounting and additional disclosures for equity instruments.	1-Jan-13	The assessment of the impact of the amendments is yet to be performed.	1-Jan-13
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. The amendment to AASB 124 clarifies and simplifies the definition of a related party	1-Jan-11	The assessment of the impact of the amendments is yet to be performed.	1-Jan-11

* 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 2009

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. The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

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.

(d) Business Combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the profit and loss statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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 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 decision maker, being the chief executive officer.

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 eBusiness Solutions ("SMB") - formerly Business and Consumer

This Division 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.

Global Partner Solutions ("GPS") - formerly Reseller

Melbourne IT 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") - formerly Corporate and Government

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 2009

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 in 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 balance sheet 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 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)

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 balance sheet 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 income statement, 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 balance sheet 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 Cash Flow Statement, 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) Expenditure carried forward - prepayment of domain name registry charges

Significant items of expenditure having a benefit or relationship to more than one period are written off over the periods to which such expenditure relates.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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 2009, 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, 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:-

	2009	2008
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 2009

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.

Intangible assets created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred. Intangible assets are tested for impairment where an indicator of impairment exists, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

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.

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

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

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

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

The carrying value of intangible assets dominating 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 reverse.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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 balance sheet 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 income.

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.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Revenue recognition

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 Balance Sheet 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 shareholders' 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 and revenues arising 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 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Share-based payment transactions

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 Limited ('equity-settled transactions'). The options, issued for nil consideration, are issued in accordance with performance guidelines established by the directors of Melbourne IT Limited.

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 balance 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 options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet 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 balance sheet 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.

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 balance sheet date. Income taxes relating to items recognised directly in equity are recognised in equity and not in profit and loss.

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 entitie'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;
- 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 balance sheet.

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 2009

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) 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 service 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.

(ac) Investment in Associates

The Group's investment in associates (50% interest in Advantate Pty Ltd) is accounted for using the equity method of accounting in the Group's consolidated financial statements. An associate is an entity over which the Group has a significant influence.

Under the equity method, the investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the associate entity. Goodwill (if applicable) is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Groups' net investment in the associate entity.

The Group's share of its associate entity's profit or loss is recognised directly in the profit and loss and its share of movements in reserves is recognised in reserves. The cumulative movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in the associate entity equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate entity.

The reporting date for the associate entity is 30th June and the accounting policies are consistent to those of the Group for like transactions and events in similar circumstances.

(ad) Comparatives

Where necessary comparatives have been reclassified and repositioned for consistency with current period disclosures.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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.

	CONSOLIDATED		MELBOURNE IT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Financial assets				
Cash and cash equivalents	30,377	28,382	14,107	9,458
Financial Liabilities				
Interest bearing loans (current and non-current)	57,861	79,629	20,599	24,034
Less Hedged amounts (Interest Rate Swap) (1)	(28,818)	(31,884)	-	-
Interest bearing loans - unhedged	29,043	47,745	20,599	24,034

(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.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Risk Exposures and Responses (Continued)

Interest Rate Risk (Continued)

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

At 31 December 2009, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Net Profit Higher / (Lower)		Equity Higher / (Lower)	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Consolidated				
+ 2.0% (200 basis points) (2008: + 0.25% (25 basis points))	(399)	(53)	(405)	(53)
- 0.50% (- 50 basis points) (2008: - 2% (- 200 basis points))	100	420	101	420
Parent				
+ 2.0% (200 basis points) (2008: + 0.25% (25 basis points))	(67)	(11)	(67)	(11)
- 0.50% (- 50 basis points) (2008: - 2% (- 200 basis points))	17	89	17	89

The sensitivities have been calculated based on average holdings of interest bearing assets and liabilities restated at year end exchange rates.

Credit Risk

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

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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 27 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 balance sheet 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 2009, the Group had the following exposures to US foreign currency that are not designated in cashflow hedges:

	CONSOLIDATED		MELBOURNE IT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Financial Assets				
Cash and cash equivalents	1,426	5,900	144	1,774
Trade and Other receivables	4,420	6,924	2,777	1,845
	5,846	**12,824**	**2,921**	**3,619**
Financial Liabilities				
Trade and Other Payables	5,413	7,888	3,226	3,609
Net exposure	**433**	**4,936**	**(305)**	**10**

The following sensitivity is based on foreign currency risk exposures in existence at the balance sheet date.
At 31 December 2009, 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)	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Consolidated				
- AUD/USD +10% (2008: + 5%)	(841)	(486)	(904)	(486)
- AUD/USD -10% (2008: - 10%)	274	585	101	585

The sensitivity has been calculated based on US Dollar earnings restated at average exchange rates for the year ended 31 December 2009.

Despite the large sensitivity in foreign exchange, there is minimal impact on equity as significant USD investments are offset by a USD loan which acts as natural hedge.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

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 31 December 2009, the Group had external interest bearing debt of US$52.0 million (2008: US$55.0 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**	**6 - 12 Months**	**1 to 5 years**	**> 5 Years**	**Total**
	$'000	$'000	$'000	$'000	$'000
Year ended 31 December 2009					
Financial assets					
Cash and cash equivalents	30,377	-	-	-	**30,377**
Trade and other receivables	25,831	-	-	-	**25,831**
	56,208	-	-	-	**56,208**
Financial liabilities					
Trade and other payables	(19,656)	-	-	-	**(19,656)**
Interest and loan liabilities	(3,199)	(3,150)	(61,010)	-	**(67,359)**
	(22,855)	(3,150)	(61,010)	-	**(87,015)**
Net inflow/(outflow)	**33,353**	**(3,150)**	**(61,010)**	**-**	**(30,807)**
Year ended 31 December 2008					
Financial assets					
Cash and cash equivalents	28,382	-	-	-	**28,382**
Trade and other receivables	28,437	-	-	-	**28,437**
	56,819	-	-	-	**56,819**
Financial liabilities					
Trade and other payables	(24,872)	-	-	-	**(24,872)**
Interest and loan liabilities	(2,249)	(3,763)	(82,884)	-	**(88,896)**
	(27,121)	(3,763)	(82,884)	-	**(113,768)**
Net inflow/(outflow)	**29,698**	**(3,763)**	**(82,884)**	**-**	**(56,949)**

Parent	**< 6 Months**	**6 - 12 Months**	**1 to 5 years**	**> 5 Years**	**Total**
	$'000	$'000	$'000	$'000	$'000
Year ended 31 December 2009					
Financial assets					
Cash and cash equivalents	14,107	-	-	-	**14,107**
Trade and other receivables	8,113	-	-	-	**8,113**
	22,220	-	-	-	**22,220**
Financial liabilities					
Trade and other payables	(19,524)	-	-	-	**(19,524)**
Interest and loan liabilities	(57)	(57)	(569)	(2,128)	**(2,811)**
	(19,581)	(57)	(569)	(2,128)	**(22,335)**
Net inflow/(outflow)	**2,639**	**(57)**	**(569)**	**(2,128)**	**(115)**
Year ended 31 December 2008					
Financial assets					
Cash and cash equivalents	9,458	-	-	-	**9,458**
Trade and other receivables	17,866	-	-	-	**17,866**
	27,324	-	-	-	**27,324**
Financial liabilities					
Trade and other payables	(23,913)	-	-	-	**(23,913)**
Interest and loan liabilities	-	-	-	-	**-**
	(23,913)	-	-	-	**(23,913)**
Net inflow/(outflow)	**3,411**	**-**	**-**	**-**	**3,411**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Capital management

When managing capital, Management'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.

Management may change the amount of dividends to be paid to shareholders, issue new shares or sell assets to reduce debt.

During 2009, Management paid dividends of $10.192m after the dividend reinvestment plan (2008: $9.104m).

Management 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.

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 balance sheet. 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 balance sheet. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in 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.

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').

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	MELBOURNE IT 2009 $'000	MELBOURNE IT 2008 $'000
4. REVENUE				
(a) Revenue				
Registration Revenue	80,227	77,243	72,168	66,277
Consulting Revenue	46,605	35,482	-	1,553
Website & Email Hosting Revenue	53,749	54,865	7,895	4,381
Value-Added Product Revenue	8,444	7,460	2,179	4,808
For The Record Revenue	9,609	8,903	-	-
Other Revenue	319	586	-	-
Total Revenue excluding Interest Income	198,953	184,539	82,242	77,019
Interest revenue	778	939	514	447
Total Revenue	199,731	185,478	82,756	77,466
(b) Other income				
Dividend Income	-	-	8,537	10,000
Other	371	746	-	751
	371	746	8,537	10,751
Total consolidated Revenue	200,102	186,224	91,293	88,217
5. EXPENSES AND LOSSES / (GAINS)				
(a) Depreciation expenses				
Depreciation of non-current assets				
Fit out	900	148	50	104
Plant and equipment	6,346	6,344	607	522
Furniture	218	576	2	10
Total depreciation of non-current assets	7,464	7,068	659	636
(b) Amortisation of identifiable intangible assets				
Amortisation of customer contracts	1,024	937	-	-
Amortisation of capitalised software	370	131	-	-
Total amortisation of identifiable intangible assets	1,394	1,068	-	-
Total depreciation and amortisation expenses	8,858	8,136	659	636
(c) Other Expenses				
Travel & accommodation	1,672	2,038	674	583
Finance & legal	2,670	1,352	1,688	1,029
Rental – operating leases	3,028	3,257	506	473
Communications	2,534	2,462	572	644
Maintenance costs	898	803	639	602
Marketing	1,991	1,845	1,111	1,209
External consultants / systems	792	3,177	611	1,194
Net foreign currency exchange loss	771	197	1,214	124
Bad and doubtful debts expense / (recovered)	547	851	(147)	93
Interest expense	2,063	1,870	609	954
Bank charges and credit card merchant fees	1,358	1,558	822	728
Other	2,879	1,437	833	332
Total other expenses from ordinary activities	21,203	20,847	9,132	7,965
(d) Other				
Expensing of share based payments	848	799	608	456

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	MELBOURNE IT 2009 $'000	MELBOURNE IT 2008 $'000
6. INCOME TAX				
The major components of income tax expense are:				
(a) Statement of comprehensive income				
Current income tax				
Current income tax charge	5,886	6,127	2,031	1,123
Adjustments in respect of current income tax of previous years	(318)	(119)	(318)	(119)
Deferred income tax				
Relating to origination and reversal of temporary differences	(248)	606	(590)	503
Income tax expense reported in the statement of comprehensive income	5,320	6,614	1,123	1,507
(b) A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:				
Accounting profit before income tax	22,128	22,807	13,291	14,037
At the groups statutory income tax rate of 30% (2008: 30%)	6,638	6,842	3,987	4,211
Adjustments in respect of current income tax of				
Previous years	(318)	(119)	(318)	(119)
Research and development concession	-	(100)	-	-
Share of net loss of Associate	169	-	169	-
Non-assessable dividend	-	-	(2,561)	(3,000)
Options cost	254	240	182	137
Amortisation of intangibles	418	320	-	-
Other Foreign Deductions	(496)	-	(496)	-
Non Deductible intercompany interest	-	-	88	-
Entertainment	72	115	7	17
Tax Losses not previously brought to account	(419)	-	-	-
Other	(998)	(684)	65	261
Income tax expense reported in the statement of comprehensive income	5,320	6,614	1,123	1,507

Tax Consolidation

The parent company and its wholly owned Australian resident controlled entities have formed a tax consolidated Group with effect from 1 January 2006. Melbourne IT Ltd is the head entity of the tax consolidated Group. In accordance with Note 1, members of the Group calculate income tax expense and income tax liability on a stand alone basis. The income tax liability is then allocated to the parent entity. Should the parent entity default on its tax obligations, income tax liabilities can be allocated back to the Group entities. At report date, the possibility of default 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.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

	CONSOLIDATED		MELBOURNE IT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
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) (2008: 7.0 cents)	5,503	5,430	5,503	5,430
(ii) Previous year - final				
Franked dividends (8.0 cents per share) (2008: 7.0 cents per share)	6,238	5,380	6,238	5,380
(b) Dividends proposed and not recognised as a liability				
Franked dividends (8.0 cents per share) (2008: 8.0 cents)	6,318	6,271	6,318	6,271
(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% (2008: 30%)			9,463	10,234

At the 23 February 2010 Board Meeting, the directors declared a 8.0 cents fully franked final dividend on ordinary shares in respect of the year ended 31 December 2009.

In accordance with accounting standards the total amount of this final dividend of $6.318 million has not been provided for in the 31 December 2009 financial statements.

8. TRADE AND OTHER RECEIVABLES (CURRENT)

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	MELBOURNE IT 2009 $'000	MELBOURNE IT 2008 $'000
Trade debtors	27,661	29,876	8,537	18,050
Allowance for impairment loss	(1,830)	(1,439)	(424)	(184)
	25,831	**28,437**	**8,113**	**17,866**

Terms and conditions
Terms and conditions relating to the above financial instruments
i. Trade debtors are non-interest bearing and generally on 14-60 day terms.

ii. Allowance for impairment loss
A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $547,000 (2008: $851,000) has been recognised by the Group and $147,000 (2008: $93,000 loss) has been recovered due to customer reversals in the current year. These amounts have been included in the bad and doubtful debts expense line item.

Movements in the provision for impairment loss were as follows:

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	MELBOURNE IT 2009 $'000	MELBOURNE IT 2008 $'000
Opening Balance	1,439	1,616	184	91
Additional Provision / (Released)	547	851	(147)	93
Amounts (Written off) / Recovered	(156)	(1,028)	387	-
Closing Balance	**1,830**	**1,439**	**424**	**184**

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

	2009		2008	
Consolidated	**Gross $'000**	**Allowance $'000**	**Gross $'000**	**Allowance $'000**
Current	13,233	(5)	18,501	-
31 – 60 days	5,545	(5)	5,609	-
61 – 90 days	2,250	-	2,077	(4)
91 days and over	6,633	(1,820)	3,689	(1,435)
Closing Balance	**27,661**	**(1,830)**	**29,876**	**(1,439)**
Parent				
Current	5,921	-	15,666	-
31 – 60 days	1,028	-	243	-
61 – 90 days	422	-	176	-
91 days and over	1,166	(424)	1,965	(184)
Closing Balance	**8,537**	**(424)**	**18,050**	**(184)**

As at 31 December 2009 the consolidated entity had current debts that were not past due and not doubtful in the amount of $13.228 million (2008: $18.501 million). These trade receivables comprise trade receivables that have a good debt history and are considered recoverable. The past due but not doubtful balance of $12.603 million (2008: $9.936 million) consists of $5.540 million in 31 to 60 days (2008: $5.609 million), $2.250 million in 61 to 90 days (2008: $2.073 million) and $4.813 million in 91 days and over (2008: $2.254 million).

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

	CONSOLIDATED		MELBOURNE IT	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
9. INVENTORIES				
Materials (at cost)	**582**	**598**	**-**	**-**
10. OTHER ASSETS (CURRENT)				
Other prepayments	2,306	2,184	356	293
GST receivable	278	283	79	73
	2,584	**2,467**	**435**	**366**
11. OTHER FINANCIAL ASSETS (NON-CURRENT)				
Investments in Share Capital:				
At cost				
Investment in WebCentral Group Pty Ltd	-	-	78,190	78,190
Investment in INWW Espana (Spain)	-	-	5	5
Investment in Melbourne IT DBS Group AB	-	-	4,663	4,663
Investment in Domainz Ltd	-	-	1,671	1,671
Investment in INWW Inc (USA)	-	-	1	1
			84,530	84,530
Investments in Foreign Entities				
Investment in Melbourne IT General Partnership			18,471	24,034
Investment in Melbourne IT DBS Limited	-	-	1,990	-
Investment in Melbourne IT DBS Group AB	-	-	2,423	-
Investment in Melbourne IT DBS Inc	-	-	2,116	-
	-	-	25,000	24,034
	-	-	**109,530**	**108,564**

Principal Activities
(i) WebCentral Group Pty Ltd is a provider of Web and application hosting including Software and Service.
(ii) Melbourne IT DBS Group AB is the provider of Consulting and Management services to large public and private enterprises with offices in Melbourne, Stockholm, London, San Francisco, Paris and Amsterdam and Denmark. DBS 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 on-line.
(iii) Domainz Ltd is a provider of domain name registry services to the internet community, predominantly within New Zealand.
(iv) Investments in controlled entities are initial capital investments and are eliminated in the consolidated financial statements.
(v) Investments in foreign entities are revalued to the year end foreign exchange spot rates.

Interests in subsidiaries	**Country of Incorporation**	**Percentage of equity interest held by the consolidated entity**	
		2009 %	**2008 %**
WebCentral Group Pty Ltd - Ordinary shares	Australia	100	100
Internet Names Worldwide Espana SL - Ordinary shares	Spain	100	100
Melbourne IT DBS Group AB - Ordinary shares	Sweden	100	100
Domainz Ltd - Ordinary Shares	New Zealand	100	100
Internet Names Worldwide (US), Inc - Ordinary shares	USA	100	100
Melbourne IT GP Holdings Pty Ltd - Ordinary shares	Australia	100	100
Melbourne IT General Partnership	USA	100	100
Digital Brand Services Inc (US) - Ordinary shares	USA	100	100

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

12. INVESTMENTS IN ASSOCIATES

(a) Interests in Associates		**Ownership Interest held by Consolidated Entity**		**Ownership Interest held by Parent Entity**	
Name	**Balance Date**	**2009 %**	**2008 %**	**2009 %**	**2008 %**
Advantate Pty Ltd	30 June	50	50	50	50

Principal activity

Advantate Pty Ltd provides access to search engine marketing services to small to medium sized businesses. The company was established in 2008 as a joint venture between Melbourne IT and Fairfax Digital Ltd.

	CONSOLIDATED		**MELBOURNE IT**	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
(b) Share of associate's balance sheet				
Current assets	156	448	156	448
Non-current assets	103	341	103	341
Current liabilities	(490)	(268)	(490)	(268)
Non-current liabilities	(4)	(2)	(4)	(2)
Net (liabilities) / assets	**(235)**	**519**	**(235)**	**519**
(c) Share of associate's (losses)				
Share of associate's:				
- losses before income tax	(564)	(687)	(564)	(687)
- income tax (expense)\benefit	(155)	206	(155)	206
- losses after income tax benefit	**(719)**	**(481)**	**(719)**	**(481)**
(d) Movements in carrying amount of investment in associate				
Balance at the beginning of the year	519	-	519	-
- new investment during financial year	200	1,000	200	1,000
- share of associate's net losses for the financial year	(719)	(481)	(719)	(481)
Balance at the end of the year	**-**	**519**	**-**	**519**

Melbourne IT has recognised in the balance sheet its share of Advantate's loss to the point where the investment is equal to NIL.

Melbourne IT has a 50% fixed percentage of ownership in the joint venture, Advantate. As at 31 December 2009, Advantate had a net asset deficiency of approximately $0.235 million. Melbourne IT has committed to fund this shortfall to the extent of its ownership interest.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

	CONSOLIDATED		**MELBOURNE IT**	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
13. PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT)				
Leasehold improvements				
At cost	5,369	5,356	1,742	1,742
Accumulated amortisation	(4,693)	(3,373)	(1,680)	(1,599
	676	**1,983**	**62**	**143**
Plant and equipment				
At cost	52,219	56,663	3,671	6,531
Accumulated depreciation	(41,823)	(44,665)	(2,753)	(5,612
	10,396	**11,998**	**918**	**919**
Furniture and fittings				
At cost	1,116	1,947	152	248
Accumulated depreciation	(1,014)	(1,787)	(131)	(116)
	102	**160**	**21**	**132**
Total property, plant and equipment				
At cost	58,704	63,966	5,565	8,521
Accumulated depreciation and amortisation	(47,530)	(49,825)	(4,564)	(7,327)
Total written down amount	**11,174**	**14,141**	**1,001**	**1,194**

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.

	CONSOLIDATED		**MELBOURNE IT**	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Leasehold improvements				
Carrying amount at beginning	1,983	2,162	143	162
Additions	109	182	-	85
Transfer / other	-	(213)	-	-
Disposals	(126)	-	(31)	-
Foreign exchange differences	(390)	-	-	-
Depreciation expense	(900)	(148)	(50)	(104)
	676	**1,983**	**62**	**143**
Plant and Equipment				
Carrying amount at beginning	11,998	8,827	919	811
Additions	3,732	9,515	244	630
Transfer / other	-	-	362	-
Disposals	(244)	-	-	-
Foreign exchange differences	1,256	-	-	-
Depreciation expense	(6,346)	(6,344)	(607)	(522)
	10,396	**11,998**	**918**	**919**
Furniture and Fittings				
Carrying amount at beginning	160	207	132	128
Additions	26	316	7	14
Transfer / other	-	213	-	-
Disposals	(60)	-	(116)	-
Foreign exchange differences	194	-	-	-
Depreciation expense	(218)	(576)	(2)	(10)
	102	**160**	**21**	**132**
Total written down amount	**11,174**	**14,141**	**1,001**	**1,194**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

	CONSOLIDATED		MELBOURNE IT	
	2009	2008	2009	2008
	$'000	$'000	$'000	$'000
14. INTANGIBLE ASSETS				
Goodwill	109,070	123,546	-	-
Marketing Related Intangibles	9,982	9,982	-	-
Accumulated amortisation	-	-	-	-
	9,982	9,982	-	-
Customer Contracts	11,904	15,245	-	-
Accumulated amortisation	(2,425)	(1,675)	-	-
	9,479	13,570	-	-
Capitalised Software	1,098	1,429	-	-
Accumulated amortisation	(370)	(151)	-	-
	728	1,278	-	-
Other Intangibles	315	-	-	-
Accumulated amortisation	(52)	-	-	-
	263	-	-	-
Total Intangible Assets	**129,522**	**148,376**	**-**	**-**

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

	Other Intangibles	Capitalised Software	Customer Contracts	Marketing Related Intangibles	Goodwill	Total
Year ended 31 December 2009	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Net balance at 1 January 2009	-	1,278	13,570	9,982	123,546	148,376
Acquisitions and Additions	315	-	-	-	340	655
Amortisation	(52)	(319)	(1,023)	-	-	(1,394)
Foreign exchange impact	-	(231)	(3,068)	-	(14,816)	(18,115)
Net balance at 31 December 2009	**263**	**728**	**9,479**	**9,982**	**109,070**	**129,522**
Year ended 31 December 2008						
Net balance at 1 January 2008	-	-	423	9,982	65,748	76,153
Acquisitions and Additions	-	1,039	10,316	-	42,864	54,219
Amortisation	-	(117)	(951)	-	-	(1,068)
Foreign exchange impact	-	356	3,782	-	14,934	19,072
Net balance at 31 December 2008	**-**	**1,278**	**13,570**	**9,982**	**123,546**	**148,376**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

14. INTANGIBLE ASSETS (Continued)

Goodwill -Domainz Ltd
Goodwill of the amount of $0.720 million has been allocated to this cash generating unit ('CGU') for the purposes of impairment testing. The recoverable amount of Domainz Ltd has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by Management covering a five year period.

The discount rate applied to cash flow projections is 11% (2008: 14%) and cash flows beyond the five year period are extrapolated using a 3% growth rate (2008: 2%) 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. At the current time, Management believe that no reasonably possible change in any of the above assumptions would cause the carrying value of goodwill relating to Domainz Ltd to materially exceed its recoverable amount.

Goodwill - Melbourne IT DBS Group (including Melbourne IT DBS Group AB, IDR Management Services Ltd & DBMS Group - "Melbourne IT DBS Group")
Goodwill of the amount of $51.123 million has been allocated to this CGU for impairment testing purposes. The recoverable amount of Melbourne IT DBS Group has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by Management covering a five year period.

The discount rate applied to cash flow projections is 11% (2008: 14%) and cash flows beyond the five year period are extrapolated using a 3% growth rate (2008: 2%) 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. At the current time, Management believe that no reasonably possible change in any of the above assumptions would cause the carrying value of goodwill relating to the Melbourne IT DBS Group to materially exceed its recoverable amount.

Goodwill and Marketing Related Intangibles - WebCentral Group Pty Ltd
Goodwill and marketing related intangibles of the amount of $67.209 million have been allocated to the CGUs for the purposes of impairment testing. WebCentral Group Pty Ltd contains two legal entities, being WebCentral and For the Record:

- Webcentral
The WebCentral ($50.885 million goodwill and $7.128 million marketing related intangibles) legal entity's performance is measured at both a legal entity level and also measured as participating in the following business units: SMB, GPS and ES, which include the cash flows from both WebCentral and Melbourne IT legal entities. These disclosed business unit segments represents the lowest level at which Management views the WebCentral business, and therefore the lowest level at which goodwill attributable to WebCentral is monitored and tested for impairment. The recoverable amount of the WebCentral Group Pty Ltd CGUs is based on a value in use calculation using cash flow projections and financial budgets provided by Management covering a five year period.

The discount rate applied to cash flow projections is 11% (2008: 14%) and cash flows beyond the five year period are extrapolated using a 3% growth rate (2008: 2%) 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. At the current time, Management believe that no reasonably possible change in any of the above assumptions would cause the carrying value of goodwill relating to the WebCentral Group Pty Ltd to materially exceed its recoverable amount.

- For the Record
For the Record ($6.342 million goodwill and $2.854 million marketing related intangibles) is a stand-alone business unit and represents a single CGU which is tested for impairment. The recoverable amount of For the Record has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by Management covering a five year period.

The discount rate applied to cash flow projections is 11% (2008: 14%) and cash flows beyond the five year period are extrapolated using a 3% growth rate (2008: 2%) 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. At the current time, Management believe that no reasonably possible change in any of the above assumptions would cause the carrying value of goodwill relating to the For the Record to exceed its recoverable amount.

Key assumptions used in value in use calculations
Value in use calculations used cash flow projections based on financial budgets approved by Management covering a five year period. These budgets are most sensitive to the following assumptions:
- Revenue growth
- Wage growth
- Foreign exchange rates

The assumptions by Management were based on historical experience in the industry with a view of the current and future economic climate.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	MELBOURNE IT 2009 $'000	MELBOURNE IT 2008 $'000
15. DEFERRED INCOME TAX ASSET (NON-CURRENT)				
Deferred income tax at 31 December relates to the following:				
Deferred tax assets				
Doubtful debts provision	459	555	-	-
Employee benefits	1,236	1,127	555	628
Accruals	886	442	930	394
Other	-	209	127	-
	2,581	2,333	1,612	1,022
16. OTHER ASSETS (NON-CURRENT)				
Rental bond	7	7	-	-
17. TRADE AND OTHER PAYABLES (CURRENT)				
Trade creditors	4,659	8,647	544	722
Sundry creditors	6,832	6,885	3,795	4,517
Deposits received in advance	3,746	3,363	3,484	3,344
Accrued expenses	4,419	5,977	1,420	1,328
	19,656	24,872	9,243	9,911
Aggregate amounts payable to related parties:				
- controlled entities	-	-	10,281	14,002
Total payables	19,656	24,872	19,524	23,913

(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.
(iii) Amounts payable to related parties are non-interest bearing and payable on demand.

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	MELBOURNE IT 2009 $'000	MELBOURNE IT 2008 $'000
18. INTEREST-BEARING LOANS AND BORROWINGS				
Current				
Promissory Note	-	-	18,471	24,034
US Dollar Currency Loan	4,451	4,345	-	-
	4,451	4,345	18,471	24,034
Non-current				
Loan - Domainz Ltd (i)	-	-	2,128	-
US Dollar Currency Loan (ii)	53,410	75,284	-	-
	53,410	75,284	2,128	-

The fair value of interest bearing loans and borrowings is equal to its carrying amounts.

(a) Terms and conditions

(i) During the year, Melbourne IT entered into a long term loan agreement with a subsidiary.

(ii) The US Dollars Overseas Currency Loan US$52.0 million:

- In line with the loan agreement, Melbourne IT has made three repayments of USD $1.0 million, total USD $3.0 million.

- The average rate for the period from initial drawdown until 31 December 2009 was 2.04%.

- The Group has met all bank covenants during the year ended 31 December 2009.

(b) Financing facilities available

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	MELBOURNE IT 2009 $'000	MELBOURNE IT 2008 $'000
At reporting date, the following financing facilities had been negotiated and were available:				
Total facilities				
- Asset Finance - leasing	5,500	5,000	5,000	5,000
- Business Lending - Bank Guarantees	1,179	935	1,075	935
- Business Lending - Credit card facility	1,586	1,375	1,375	1,375
- Standby Letters of Credit	5,809	6,059	4,256	4,256
	14,074	13,369	11,706	11,566
Facility used at reporting date				
- Asset Finance - leasing	-	-	-	-
- Business Lending - Bank Guarantees	1,171	930	1,070	930
- Business Lending - Credit card facility	119	61	92	61
- Standby Letters of Credit	4,802	4,080	3,249	2,853
	6,092	5,071	4,411	3,844

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FOR THE YEAR ENDED 31 DECEMBER 2009

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	MELBOURNE IT 2009 $'000	MELBOURNE IT 2008 $'000
19. PROVISIONS (CURRENT)				
Employee benefits	3,649	4,525	1,673	1,951
20. CURRENT TAX LIABILITIES				
Income tax	2,053	3,647	1,637	2,457
21. PROVISIONS (NON-CURRENT)				
Employee benefits	605	601	176	143
22. CONTRIBUTED EQUITY				
(a) Issued and paid-up capital				
Ordinary shares each fully paid	63,005	61,204	63,005	61,204

(b) Movements in shares on issue

	2009 No. of Shares	2009 $'000	2008 No. of Shares	2008 $'000
Beginning of the financial year	77,960,832	61,204	76,751,244	58,873
Issued during the year				
- Dividend Reinvestment Plan	873,587	1,549	605,788	1,706
- Executive and employee options exercised	136,000	252	603,800	625
End of the financial year	78,970,419	63,005	77,960,832	61,204

Share Options

Options over ordinary shares

During the financial year no (2008: 3,851,872) options were issued over ordinary shares. At the end of the year there were 5,204,235 (2008: 6,573,735) unissued ordinary shares in respect of which options were outstanding. (Details are provided in Note 34)

23. CASH FLOW STATEMENT

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

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	MELBOURNE IT 2009 $'000	MELBOURNE IT 2008 $'000
Operating profit after tax	16,808	16,193	12,168	12,530
Depreciation of non-current assets	7,464	7,068	659	636
Amortisation of non-current assets	1,394	1,068	-	-
Non-cash derivative income	31	(44)	31	(44)
Expense of share based payments	848	799	608	456
Loss from associate	564	687	564	687
Changes in assets and liabilities				
Trade debtors	2,606	(10,979)	2,127	(6,261)
Inventories	16	705	-	-
Prepayments	2,087	(4,564)	1,689	30
Income received in advance	383	10,907	139	1,052
Provision for employee entitlements	(872)	986	(246)	104
Deferred income tax asset	(249)	606	(590)	503
Other Assets	(116)	-	(68)	-
Accounts payable	(6,305)	2,561	(1,641)	(741)
Income tax provision	(1,594)	417	(820)	203
Deferred revenue	507	-	181	-
Net cash flow from operating activities	23,572	26,410	14,801	9,155

(b) Reconciliation of cash and cash equivalents

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

	CONSOLIDATED 2009 $'000	CONSOLIDATED 2008 $'000	MELBOURNE IT 2009 $'000	MELBOURNE IT 2008 $'000
Cash and cash equivalent balances comprise:				
Cash and cash equivalents on hand	30,377	28,382	14,107	9,458
Closing cash and cash equivalents balances	30,377	28,382	14,107	9,458

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

24. BUSINESS COMBINATIONS

2009
During the period ended 31 December 2009, Melbourne IT Ltd incurred $0.340 million in additional costs relating to the acquisition of VeriSign Inc's global Digital Brand Management Services (DBMS) business. In accordance with AASB 3, these costs were recognised as an increase in goodwill.

2008 - Acquisition of the Assets of VeriSign, Inc.'s global Digital Brand Management Services (DBMS) business
On the 1st May 2008, Melbourne IT Ltd acquired the assets of VeriSign, Inc.'s global Digital Brand Management Services (DBMS) business for $54.779 million (USD$51.224 million), plus acquisition costs of $1.925 million. Consideration for the acquisition was cash funded through a 5 year US Dollar Currency Loan.

The business assets of DBMS were acquired through the creation of new legal entities in each of the United States, Germany, Norway and South Africa, with other assets acquired by existing companies within the Group in Sweden, France and the United Kingdom. The principal activities of DBMS are online brand protection including the management of domain name portfolios. Strategically, DBS services are aimed at protecting and maximising the value of brands online.

Effective 1st May 2008, the DBMS business was consolidated into the existing Corporate Brand Services (CBS) business of Melbourne IT Ltd, with the combined business re-named Digital Brand Services (DBS).

The carrying amounts of tangible assets and liabilities at acquisition equalled fair value. The carrying amount of separately identifiable customer contracts is measured at fair value. As at 30 June 2008 goodwill was disclosed as $53.180 million. As a result of identifying intangible assets (customer lists) with a value of $10.316 million, goodwill amounts to $42.864 million as at 31 December 2008.

For the eight months ended 31 December 2008, revenue from the DBMS division was $24.028 million contributing $1.564 million in profit before interest and tax (inclusive of $2.9 million in planned integration costs). The DBMS division contributed $0.113 million in losses after interest and tax for the period.

DBMS contributed $0.249 million in operating cash losses (inclusive of interest expense of $1.677 million) to the Melbourne IT Ltd Group during this period. The combined DBS division contributed $44.892 million in revenue and $4.278 million in profit before interest and tax and unallocated expenses.

25. EXPENDITURE COMMITMENTS AND OBLIGATIONS

	CONSOLIDATED		MELBOURNE IT	
	2009 $'000	**2008 $'000**	**2009 $'000**	**2008 $'000**
Lease expenditure commitments				
Operating leases				
Minimum lease payments				
- not later than one year	6,343	3,013	1,065	289
- later than one year and not later than five years	8,738	4,790	3,877	-
Aggregate lease expenditure contracted for at reporting date	**15,081**	**7,803**	**4,942**	**289**

Commitments and Obligations

In connection with the audit of the financial statements of Advantate Pty Ltd for the year ended 30 June 2009, Melbourne IT has committed to provide continuing financial support for a period of twelve months to the extent of its ownership interest.

Financial instruments

The details of hedging instruments held and guarantees issued is 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 2009, Melbourne IT Limited 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 options 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 Melbourne IT Ltd Group has also entered into a USD $20.0 million interest rate swap, exchanging the variable rate payable on the USD $52.0 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 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

Financial guarantees and other credit facilities have been assessed at fair value and are disclosed as follows.

(a) The company has Standby Letters of Credit totalling US$2.700 million in accordance with various Registry Licence Agreements. These Standby Letters of Credit are due to expire on 30 June 2010, at which time it is expected that they will be renewed for another 24 months.

(b) Bank Guarantees of AU$1.179 million have been issued in favour of various parties in accordance with the Group's property commitments.

(c) A Standby Letter of Credit of GBP£0.137 million has been issued in favour of National Westminster Bank PLC in accordance with the provisions of lease commitments as well as other banking facilities within the United Kingdom.

(d) A Standby Letter of Credit of US$1.396 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.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

26. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

Employee Benefits	CONSOLIDATED		MELBOURNE IT	
The aggregate employee benefit liability comprises:	**2009 $'000**	**2008 $'000**	**2009 $'000**	**2008 $'000**
Provisions (current)	3,649	4,525	1,673	1,951
Provisions (non-current)	605	601	176	143
	4,254	**5,126**	**1,849**	**2,094**

27. DERIVATIVE FINANCIAL INSTRUMENTS

Hedging Activities

2009

(a) Cash flow hedge

At 31 December 2009, Melbourne IT Ltd held six foreign exchange contracts designated as cash flow hedges of expected future sales to customers in the United States 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	Advantage Rate	Value of Hedge as at 31 Dec 2009
US$600,000	29 January 2010	A$/US$ 0.8200	A$/US$ 0.8000	62,589
US$600,000	26 February 2010	A$/US$ 0.8455	A$/US$ 0.8255	40,351
US$600,000	31 March 2010	A$/US$ 0.8370	A$/US$ 0.8070	45,333
US$600,000	30 April 2010	A$/US$ 0.9140	A$/US$ 0.8660	1,560
US$600,000	28 May 2010	A$/US$ 0.9300	A$/US$ 0.8850	(11,926)
US$600,000	30 June 2010	A$/US$ 0.8895	A$/US$ 0.8570	6,036
Total value of unrealised foreign exchange contracts				143,943

The terms of these foreign exchange contracts have been negotiated to match the terms of the commitments.
As at 31 December 2009, an unrealised gain of $143,943 (2008: gain of $945,721) is included in other comprehensive income in respect of these contracts.

(b) Interest rate hedges

As at 31 December 2009, the Group held one interest rate swap contract of US$20.0 million (2008: US$20.0 million) designed to hedge the variable interest rate exposure relating to the interest bearing liabilities of US$52.0 million (2008: US$55.0 million).

Notional amount	Termination Date	Fixed Rate	Floating Rate	
US$20,000,000	30 April 2013	2.14%	USD LIBOR BBA	(28,818)
Total Derivative financial instruments				**115,125**

2008

(a) Cash flow hedge

At 31 December 2008, Melbourne IT Ltd held twelve foreign exchange contracts designated as cash flow hedges of expected future sales to customers in the United States for which the company has firm commitments.

The exchange contracts were being used to reduce the exposure of foreign exchange risk. The terms of these contracts were as follows:

Sell	Maturity Date	Protection Rate	Advantage Rate	Value of Hedge as at 31 Dec 2008
US$620,000	30 January 2009	A$/US$ 0.7245	A$/US$ 0.7010	(4,093)
US$620,000	27 February 2009	A$/US$ 0.7235	A$/US$ 0.7000	(10,356)
US$560,000	31 March 2009	A$/US$ 0.7080	A$/US$ 0.6865	3,678
US$600,000	30 April 2009	A$/US$ 0.6312	A$/US$ 0.6112	81,662
US$600,000	29 May 2009	A$/US$ 0.6207	A$/US$ 0.6007	112,255
US$600,000	30 June 2009	A$/US$ 0.6207	A$/US$ 0.6007	110,822
US$600,000	31 July 2009	A$/US$ 0.6207	A$/US$ 0.6007	109,532
US$600,000	31 August 2009	A$/US$ 0.6207	A$/US$ 0.6007	108,267
US$600,000	30 September 2009	A$/US$ 0.6187	A$/US$ 0.5987	110,004
US$600,000	30 October 2009	A$/US$ 0.6187	A$/US$ 0.5987	106,818
US$600,000	30 November 2009	A$/US$ 0.6187	A$/US$ 0.5987	107,885
US$600,000	31 December 2009	A$/US$ 0.6187	A$/US$ 0.5987	109,247
Total value of unrealised foreign exchange contracts				**945,721**

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

(b) Interest rate hedges

As at 31 December 2008, the Group held one interest rate swap contract designed to hedge the variable interest rate exposure relating to the interest bearing liabilities of US$55.0 million.

Notional amount	Termination Date	Fixed Rate	Floating Rate	Value of Hedge as at 31 Dec 2008
US$20,000,000	30 April 2013	2.14%	USD LIBOR BBA	**(321,959)**

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28. 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 2009 and 31 December 2008.

Year ended 31 December 2009	SMB	GPS	DBS	ES	FTR	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Segment revenue						
Revenue from operating activities						
Registration Revenue	21,330	49,493	9,404	-	-	**80,227**
Consulting Revenue	-	-	46,605	-	-	**46,605**
Website & Email Hosting Revenue	14,309	13,975	14	25,451	-	**53,749**
Value-Added Product Revenue	6,982	1,462	-	-	-	**8,444**
For The Record Revenue	-	-	-	-	9,609	**9,609**
Other Revenue	154	-	22	143	-	**319**
Total segment revenue	42,775	64,930	56,045	25,594	9,609	**198,953**
Interest revenue						**778**
Other income						**371**
Total consolidated revenue						**200,102**
Result						
Segment results	10,137	8,552	6,367	2,216	1,010	**28,282**
Share of loss in Advantate Pty Ltd - (50% owned)						**(564)**
Unallocated expenses						**(4,305)**
Earnings before interest and tax						**23,413**
Net Interest						
Interest revenue						**778**
Interest expense						**(2,063)**
Total Net Interest						**(1,285)**
Income tax expense						**(5,320)**
Net Profit for the year						**16,808**

Year ended 31 December 2008	SMB	GPS	DBS	ES	FTR	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Segment revenue						
Revenue from operating activities						
Registration Revenue	22,486	45,250	9,507	-	-	**77,243**
Consulting Revenue	304	-	35,178	-	-	**35,482**
Website & Email Hosting Revenue	13,611	15,019	67	26,168	-	**54,865**
Value-Added Product Revenue	6,264	1,056	140	-	-	**7,460**
For The Record Revenue	-	-	-	-	8,903	**8,903**
Other Revenue	569	-	-	17	-	**586**
Total segment revenue	43,234	61,325	44,892	26,185	8,903	**184,539**
Interest revenue						**939**
Other income						**746**
Total consolidated revenue						**186,224**
Result						
Segment results	11,839	7,419	4,278	3,235	535	**27,306**
Share of Advantate Pty Ltd - (50% owned)						**(687)**
Unallocated expenses						**(2,881)**
Earnings before interest and tax						**23,738**
Net Interest						
Interest revenue						**939**
Interest expense						**(1,870)**
Total Net Interest						**(931)**
Income tax expense						**(6,614)**
Net Profit for the year						**16,193**

The 2008 operating segment note has been restated on a consistent basis with the 2009. This restatement reflects how Management view the business and also reflects various operating segment name changes in line with Note 1(e).

The sales from the Australian operations were $136.879 million (2008: $132.625 million). The sales from the foreign operations were $62.445 million (2008: $52.661 million). The Non Current Assets within the Australian operations were $143.892 million (2008: $169.922 million). The Non Current Assets within the foreign operations were $8.825 million (2008: $6.080 million).

NOTES TO FINANCIAL STATEMENTS
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29. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

At the 23 February 2010 Board Meeting, the Directors declared a 8.0 cents fully franked final dividend on ordinary shares in respect of the year ended 31 December 2009. The total amount of this final dividend is $6.318 million and in accordance with Accounting Standards it has not been provided for in the 31 December 2009 financial statements.

Ms Carolyn Sutton commenced as Chief Financial Officer with effect from 1 February 2010.

Mr Daniel Bennett was appointed Executive Vice President of For The Record on 22 January 2010, following the resignation of Mr Gunnar Light.

No significant events have occurred after the balance date and up to the date of this report that require disclosure.

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.

30. EARNINGS PER SHARE

	2009 $'000	2008 $'000
- Basic earnings per share (cents per share)	21.42 cents	20.87 cents
- Diluted earnings per share (cents per share)	21.40 cents	20.71 cents
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net Profit	16,808	16,193
	Number of shares	
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	78,472,540	77,574,600
Effect of dilution:		
Share options	67,760	609,210
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	78,540,300	78,183,810

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.

31. AUDITORS' REMUNERATION

	CONSOLIDATED		MELBOURNE IT	
	2009 $	2008 $	2009 $	2008 $
Amounts received or due and receivable by the auditors of Melbourne IT Ltd for:				
- Audit or review of the financial statements of the entity and any other entity in the consolidated entity	560,193	482,027	265,000	243,000
Other services in relation to the entity and any other entity in the consolidated entity				
- Tax Compliance	193,429	107,610	109,493	92,720
- Assurance and advisory related	224,353	364,779	1,200	101,610
	977,975	954,416	375,693	437,330

32. 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
During the year enovIT Pty Ltd, a company of which Prof. Iain Morrison is a director, has received $36,631 for consultancy services provided during the year. All transactions were on an "arm's length" basis with standard terms and conditions.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2008

33. 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)
Mr Robert Stewart	Director (non-executive)
Ms Lucy Turnbull	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 (Appointed 21 September 2009)
Mr Andrew Field	Chief Operating Officer (Resigned 7 August 2009)
Mr Bernard Blake	Group Manager – SMB (Resigned 29 May 2009)
Mr Anders Eriksson	Chief Executive – DBS (Resigned 27 February 2009)
Mr Damon Fieldgate	General Manager - SMB
Ms Lori Harmon	Executive Vice President and General Manager - GPS (Appointed 2 March 2009)
Ms Ashe-lee Jegathesan	Company Secretary
Mr Gunnar Light	Executive Vice President - FTR
Mr Kanchan Mhatre	Chief Executive – DBS (Appointed to the Executive 1 January 2009)
Mr Phillip Wilson	General Manager – ES
Mr Brian Smart	Acting Chief Financial Officer (Appointed 16 November 2009)

(b) Remuneration of Key Management Personnel

Compensation of Key Management personnel

	CONSOLIDATED	
	2009 $'000	2008 $'000
Short term benefits	3,263	3,162
Post Employment	237	182
Long term benefits	24	26
Share-based Payment	99	206
	3,623	3,576

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

2009	Balance at 1 January 2009	Granted as Remuneration	Options Exercised / Lapsed	Balance at 31 December 2009	Not Exercisable	Exercisable
Executives						
Mr Theo Hnarakis	750,000	-	-	750,000	500,000	250,000
Mr Damian Walsh (1)	-	-	-	-	-	-
Mr Andrew Field (2)	180,000	-	(180,000)	-	-	-
Mr Bernard Blake (3)	110,000	-	(110,000)	-	-	-
Mr Anders Eriksson (4)	60,000	-	(60,000)	-	-	-
Mr Damon Fieldgate	50,000	-	-	50,000	30,000	20,000
Ms Lori Harmon (5)	-	-	-	-	-	-
Ms Ashe-lee Jegathesan	-	-	-	-	-	-
Mr Gunnar Light	60,000	-	-	60,000	60,000	-
Mr Kanchan Mhatre (6)	60,000	-	-	60,000	60,000	-
Mr Brian Smart (7)	-	-	-	-	-	-
Mr Phillip Wilson	60,000	-	-	60,000	60,000	-
Total 2009	**1,330,000**	**-**	**(350,000)**	**980,000**	**710,000**	**270,000**

(1) Mr Damian Walsh was appointed as Chief Operating Officer on 21 September 2009
(2) Mr Andrew Field resigned as Chief Operating Officer on 7 August 2009
(3) Mr Bernard Blake resigned as Group Manager – SMB Markets on 29 May 2009
(4) Mr Anders Eriksson resigned as Chief Executive – DBS on 27 February 2009
(5) Ms Lori Harmon was appointed Executive Vice President and General Manager - GPS on 2 March 2009
(6) Mr Kanchan Mhatre was appointed to the Executive as Executive Vice President of DBS on 1 January 2009
(7) Mr Brian Smart was appointed to the Executive as Acting Chief Financial Officer on 16 November 2009

2008	Balance at 1 January 2008	Granted as Remuneration	Options Exercised	Balance at 31 December 2008	Not Exercisable	Exercisable
Executives						
Mr Theo Hnarakis	500,000	250,000	-	750,000	750,000	-
Mr Andrew Field	120,000	60,000	-	180,000	180,000	-
Mr Bernard Blake	50,000	60,000	-	110,000	110,000	-
Mr Anders Eriksson	20,000	60,000	(20,000)	60,000	60,000	-
Mr Damon Fieldgate (1)	-	50,000	-	50,000	50,000	-
Mr Gunnar Light	-	60,000	-	60,000	60,000	-
Mr Tom Mackey (2)	170,000	60,000	(230,000)	-	-	-
Mr Phillip Wilson	-	60,000	-	60,000	60,000	-
Total 2008	**860,000**	**660,000**	**(250,000)**	**1,270,000**	**1,270,000**	**-**

(1) Options were issued prior to Mr Damon Fieldgate being appointed as an Executive.
(2) Mr Tom Mackey resigned on 30 September 2008.

No options were issued to non-executive Directors of Melbourne IT Ltd during the year ended 31 December 2009.

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33 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(d) Shareholdings of Key Management Personnel (consolidated)

2009 Shares held in Melbourne IT Ltd^	Balance as at 1 January 2009	Granted as Remuneration	On Exercise of Options	Net Change Other*	Balance as at 31 December 2009
Directors					
Mr Simon Jones	73,002	6,266	-	13,426	92,694
Mr Tom Kiing	5,638,642	-	-	82,846	5,721,488
Prof. Iain Morrison	41,258	5,869	-	1,432	48,559
Mr Robert Stewart	167,762	9,589	-	214,613	391,964
Ms Lucy Turnbull	5,477,694	-	-	-	5,477,694
Mr Andrew Walsh	41,172	5,869	-	1,432	48,473
Executives					
Mr Theo Hnarakis	687,505	-	-	184	687,689
Mr Andrew Field (2)	144,875	-	-	(144,875)	-
Mr Bernard Blake (3)	1,500	-	-	(1,500)	-
Mr Anders Eriksson (4)	20,000	-	-	(20,000)	-
Total 2009	**12,293,410**	**27,593**	**-**	**147,558**	**12,468,561**

(2) Mr Andrew Field resigned as Chief Operating Officer on 7 August 2009
(3) Mr Bernard Blake resigned as Group Manager – SMB Markets on 29 May 2009
(4) Mr Anders Eriksson resigned as Chief Executive – DBS on 27 February 2009
* On market transactions
^ Direct and indirect holdings

2008 Shares held in Melbourne IT Ltd^	Balance as at 1 January 2008	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance as at 31 December 2008
Directors					
Mr Robert Stewart	136,081	-	-	31,681	167,762
Mr Simon Jones	57,478	-	-	15,524	73,002
Mr Tom Kiing	5,486,547	-	-	152,095	5,638,642
Prof. Iain Morrison	38,482	-	-	2,776	41,258
Dr Mark Toner*	150,654	-	-	(150,654)	-
Ms Lucy Turnbull	5,257,694	-	-	220,000	5,477,694
Mr Andrew Walsh	-	-	-	41,172	41,172
Executives					
Mr Theo Hnarakis	662,240	-	-	25,265	687,505
Mr Andrew Field	141,179	-	-	3,696	144,875
Mr Bernard Blake	1,500	-	-	-	1,500
Mr Anders Eriksson	20,000	-	-	-	20,000
Mr Tom Mackey*	-	-	60,000	(60,000)	-
Total 2008	**11,951,855**	**-**	**60,000**	**281,555**	**12,293,410**

* Resigned during the year
^ 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
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34. 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 Limited. The options, issued for nil consideration, are issued in accordance with performance guidelines established by the directors of Melbourne IT Limited. 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 136,000 (2008: 603,800) options under the Melbourne IT Executive & Employee Option Plans were exercised at an average price of $1.01 (2008: $1.23), with a total cash consideration received by Melbourne IT Ltd of $252,000 (2008: $625,000), of which $115,000 relates to options exercised from the prior year.

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. 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 2009:

Number of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price
21,000	14/04/04	14/10/04	14/04/09	$0.82
38,000	10/05/04	10/11/04	10/05/09	$0.76
51,200	5/11/04	5/05/05	5/11/09	$1.19
59,600	22/04/05	22/10/05	22/04/10	$1.28
146,600	28/10/05	25/10/06	25/10/10	$1.16
135,400	28/04/06	21/04/07	21/04/11	$1.67
657,400	17/07/06	17/07/08	17/07/11	$1.85
1,542,650	27/04/07	27/04/09	24/04/12	$3.42
232,066	11/09/07	11/09/09	11/09/12	$3.60
2,814,819	18/07/08	18/07/10	18/07/13	$3.06
289,000	19/08/08	19/08/10	19/08/13	$3.06
586,000	24/10/08	24/10/10	24/10/13	$2.12
6,573,735				$2.84

(b) Options granted during the reporting period

2009
During the year ended 31 December 2009, no options were granted over ordinary shares.

2008

	18-Jul-08	19-Aug-08	24-Oct-08
Number of Options	2,894,872	371,000	586,000
Grant date	18-Jul-08	19-Aug-08	24-Oct-08
First Vesting date	18-Jul-10	19-Aug-10	27-Oct-10
Weighted Average Price	3.06	3.06	2.12
Expected volatility	30%	30%	29%
Historical volatility	30%	30%	29%
Risk-free interest rate	6.38%	5.72%	4.55%
Expected life of option	5 years	5 years	5 years
Dividend yield	3.60%	7.00%	7.00%

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

	2009 Number	2008 Number
Outstanding at the beginning of the year	6,573,735	4,285,816
Granted during the year	-	3,851,872
Exercised during the year	(136,000)	(603,800)
Lapsed during the year	(1,233,500)	(960,153)
Outstanding at year end	5,204,235	6,573,735

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

34. SHARE OPTIONS (continued)

(c) Options exercised during the reporting period

The following table summarises information about options exercised by employees during the year ended 31 December 2009:

No. of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price	Issue Date	Fair Value of Shares Issued (1)
7,000	19/04/2004	19/10/2004	19/04/2009	$ 0.82	3/03/2009	$ 1.87
7,000	19/04/2004	19/10/2004	19/04/2009	$ 0.82	16/03/2009	$ 1.81
7,000	24/05/2004	24/11/2004	24/05/2009	$ 0.76	9/04/2009	$ 2.21
7,000	19/04/2004	19/10/2004	19/04/2009	$ 0.82	9/04/2009	$ 2.21
6,000	24/05/2004	24/11/2004	24/05/2009	$ 0.76	9/04/2009	$ 2.21
10,000	28/10/2005	28/10/2006	28/10/2010	$ 1.16	20/04/2009	$ 2.35
15,000	24/05/2004	24/11/2004	24/05/2009	$ 0.76	4/05/2009	$ 2.20
20,000	5/11/2004	5/05/2005	5/11/2009	$ 1.19	6/05/2009	$ 2.19
5,000	24/05/2004	24/11/2004	24/05/2009	$ 0.76	19/05/2009	$ 1.98
5,000	24/05/2004	24/11/2004	24/05/2009	$ 0.76	19/05/2009	$ 1.98
2,800	28/10/2005	28/10/2006	28/10/2010	$ 1.16	9/06/2009	$ 1.79
13,000	28/10/2005	28/10/2006	28/10/2010	$ 1.16	27/07/2009	$ 1.79
20,000	5/11/2004	5/05/2005	5/11/2009	$ 1.19	8/10/2009	$ 1.62
3,200	5/11/2004	5/05/2005	5/11/2009	$ 1.19	4/11/2009	$ 1.68
8,000	5/11/2004	5/05/2005	5/11/2009	$ 1.19	4/11/2009	$ 1.68
136,000				$ 1.01		

(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 $0.252 million, of which $0.115 million relates to options exercised during the prior year.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

34. SHARE OPTIONS (continued)

(c) Options exercised during the reporting period (continued)

The following table summarises information about options exercised by directors and employees during the year ended 31 December 2008:

No. of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price		Issue Date	Fair Value of Shares Issued (1)	
36,000	28/10/2005	28/10/2007	28/10/2010	$	1.16	18/01/2008	$	2.84
2,000	23/10/2003	23/10/2006	23/10/2008	$	0.55	4/02/2008	$	2.86
4,200	28/10/2005	28/10/2007	28/10/2010	$	1.16	13/02/2008	$	2.89
6,000	24/05/2004	24/05/2007	24/05/2009	$	0.76	26/02/2008	$	3.11
1,500	28/04/2006	28/04/2008	28/04/2011	$	1.67	14/03/2008	$	2.72
3,500	19/03/2003	19/03/2006	19/03/2008	$	0.33	17/03/2008	$	2.67
50,000	19/03/2003	19/03/2006	19/03/2008	$	0.33	18/03/2008	$	2.65
2,100	28/04/2006	28/04/2008	28/04/2011	$	1.67	2/04/2008	$	2.80
8,000	5/11/2004	5/11/2007	5/11/2009	$	1.19	21/04/2004	$	3.01
8,000	19/04/2004	19/04/2007	19/04/2009	$	0.82	21/04/2004	$	3.01
12,000	28/10/2005	28/10/2007	28/10/2010	$	1.16	21/04/2004	$	3.01
2,800	22/04/2005	22/04/2008	22/04/2010	$	1.28	14/05/2008	$	3.29
8,000	5/11/2004	5/11/2007	5/11/2009	$	1.19	14/05/2008	$	3.29
7,000	22/04/2005	22/04/2008	22/04/2010	$	1.28	14/05/2008	$	3.29
3,000	28/10/2005	28/10/2007	28/10/2010	$	1.16	19/05/2008	$	3.25
6,000	10/05/2004	10/05/2007	10/05/2009	$	0.76	19/05/2008	$	3.25
4,500	28/10/2005	28/10/2007	28/10/2010	$	1.16	2/06/2008	$	3.37
10,000	24/05/2004	24/05/2007	24/05/2009	$	0.76	2/06/2008	$	3.37
2,100	28/04/2006	28/04/2008	28/04/2011	$	1.67	3/06/2008	$	3.29
10,000	5/11/2004	5/11/2007	5/11/2009	$	1.19	17/06/2008	$	3.34
70,000	24/05/2004	24/05/2007	24/05/2009	$	0.76	24/06/2008	$	3.01
4,200	28/10/2005	28/10/2007	28/10/2010	$	1.16	10/07/2008	$	2.97
42,000	28/04/2006	28/04/2008	28/04/2011	$	1.67	30/07/2007	$	3.03
1,500	23/10/2003	23/10/2006	23/10/2008	$	0.55	30/07/2008	$	3.03
5,000	17/07/2006	17/07/2008	17/07/2010	$	1.85	5/08/2008	$	3.00
20,000	17/07/2006	17/07/2008	17/07/2011	$	1.85	5/08/2008	$	3.00
4,200	28/04/2006	28/04/2008	28/04/2011	$	1.67	5/08/2008	$	3.00
5,000	24/05/2004	24/05/2007	24/05/2009	$	0.76	25/08/2008	$	3.02
30,000	17/07/2006	17/07/2008	17/07/2010	$	1.85	25/08/2008	$	3.02
1,000	23/10/2003	23/10/2006	23/10/2008	$	0.55	1/09/2008	$	3.00
4,000	28/04/2006	28/04/2006	28/04/2011	$	1.67	1/09/2008	$	3.00
2,000	17/07/2006	17/07/2008	17/07/2011	$	1.85	1/09/2008	$	3.00
15,000	22/04/2005	22/04/2008	22/04/2010	$	1.28	8/09/2008	$	3.19
12,000	28/04/2006	28/04/2008	28/04/2011	$	1.67	8/09/2008	$	3.19
4,000	23/10/2003	23/10/2006	23/10/2008	$	0.55	8/09/2008	$	3.19
7,000	19/04/2004	19/04/2007	19/04/2009	$	0.82	15/09/2008	$	3.05
7,000	22/04/2005	22/04/2008	22/04/2010	$	1.28	15/09/2008	$	3.05
7,000	24/05/2004	24/05/2007	24/05/2009	$	0.76	18/09/2008	$	2.90
8,000	22/04/2005	22/04/2008	22/04/2010	$	1.28	18/09/2008	$	2.90
20,000	24/05/2004	24/05/2007	24/05/2009	$	0.76	19/09/2008	$	2.95
30,000	17/07/2006	17/07/2008	17/07/2010	$	1.85	22/09/2008	$	2.91
12,000	28/10/2005	28/10/2007	28/10/2010	$	1.19	22/09/2008	$	2.91
12,000	28/10/2005	28/10/2007	28/10/2010	$	1.16	24/09/2008	$	2.87
2,000	28/04/2006	28/04/2008	28/04/2011	$	1.67	25/09/2008	$	2.89
2,200	28/04/2006	28/04/2008	28/04/2011	$	1.85	25/09/2008	$	2.88
2,000	17/07/2006	17/07/2008	17/07/2010	$	1.67	29/09/2008	$	2.93
60,000	17/07/2006	17/07/2008	17/07/2011	$	1.85	23/10/2008	$	2.04
5,000	17/07/2006	17/07/2008	17/07/2011	$	1.85	7/11/2008	$	2.09
16,000	28/10/2005	28/10/2008	28/10/2010	$	1.16	7/11/2008	$	2.09
7,000	24/05/2004	24/05/2007	24/05/2009	$	0.76	19/09/2008	$	1.65
603,800				$	1.23			

(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.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

34. SHARE OPTIONS (continued)

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

A total of 1,233,500 (2008: 960,153) options lapsed or were forfeited with a weighted average exercise price of $2.84, by directors and employees during the year ended 31 December 2009

(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 2009:

Number of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price	
52,600	22/04/05	22/10/05	22/04/10	$	1.28
120,800	28/10/05	28/10/06	28/10/10	$	1.16
118,600	28/04/06	28/04/07	28/04/11	$	1.67
530,400	17/07/06	17/07/08	17/07/11	$	1.85
1,293,350	27/04/07	27/04/09	27/04/12	$	3.42
182,066	11/09/07	11/09/09	11/09/12	$	3.60
2,109,419	18/07/08	18/07/10	18/07/13	$	3.06
242,000	19/08/08	19/08/10	19/08/13	$	3.06
555,000	24/10/08	24/10/10	24/10/13	$	2.12
5,204,235				$	2.85

(f) Weighted average remaining contractual life

The weighted average remaining contractual life for the shares options outstanding as at 31 December 2009 is 2.90 years (2008: 3.85 years).

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 1 March 2010.

(a) Distribution of equity securities

	Number of Holders	Number of Shares
1-1,000	1,874	1,131,508
1,001-5,000	3,218	8,245,918
5,001-10,000	911	6,904,293
10,001 –100,000	723	16,684,435
100,001 – and over	48	46,032,065
Total	6,774	78,998,219
The number of shareholders holding less than a marketable parcel of shares are	386	58,233

(b) Twenty largest stakeholders

The names of the twenty largest holders of quoted shares are:	Number of shares	Percentage of ordinary shares
RBC Dexia Investor Services Australia Nominees Pty Limited	9,884,937	12.51%
National Nominees Limited	8,125,034	10.29%
Wilcrow Pty Limited	4,647,840	5.88%
J P Morgan Nominees Australia Limited	4,432,549	5.61%
Citicorp Nominees Pty Limited	3,243,078	4.11%
Sieana Pty Ltd	3,083,340	3.90%
York Investments Limited	2,533,823	3.21%
ANZ Nominees Limited	2,392,804	3.03%
Dulwich Storage Company Limited	997,245	1.26%
Turnbull & Partners Pty Limited	781,696	0.99%
Mr Theo Hnarakis & Mrs Sandra Anne Hnarakis	687,689	0.87%
Principal Funds Management Co Pty Ltd	606,459	0.77%
Mount Ida Holdings Pty Ltd	341,551	0.43%
M F Custodians Ltd	325,731	0.41%
Ankla Pty Ltd	301,204	0.38%
Mr Kenneth Heung	280,000	0.35%
Sunstar Australia Pty Ltd	240,963	0.31%
Samatar Pty Ltd	235,698	0.30%
Mrs Melinda Hession	201,824	0.26%
Toner Holdings Pty Ltd	201,651	0.26%
	43,545,116	55.12%

(c) Voting rights

All ordinary shares carry one vote per share without restriction.

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IMPORTANT INFORMATION FOR SHAREHOLDERS
In 2009, 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 2009. 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 arrange delivery free of charge by contacting the company by email investor.relations@melbourneit.com.au or by telephone on +61 7 3230 7157.

The Annual Report and Annual Review can also be accessed online at http://annualreport.melbourneit.com.au.

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Mr. T.J. Hnarakis (Managing Director)
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Prof. I. Morrison
Mr. R. J. Stewart
Ms. L. Turnbull
Mr. A. Walsh

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CHIEF OPERATING OFFICER
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