

MELBOURNE IT LTD

(ABN: 21 073 716 793)

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
31 DECEMBER 2012**

ABN: 21 073 716 793

DIRECTORS

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

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. T.J. Hnarakis

CHIEF FINANCIAL OFFICER

Mr P. Findlay

COMPANY SECRETARY

Ms. A. Jegathesan

REGISTERED OFFICE

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SHARE REGISTER

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AUDITORS

Ernst & Young

INTERNET ADDRESS

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DIRECTORS' REPORT

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

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

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

DETAILS OF DIRECTORS' EXPERIENCE, EXPERTISE AND DIRECTORSHIPS

Full details of the Directors' experience, expertise and directorships can be found on the Melbourne IT website at www.melbournelt.com.au and the annual report.

Interests in the shares and options of the company

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

	Ordinary Shares	Options over Ordinary Shares
Mr. Simon Jones	130,935	-
Mr. Theo Hnarakis	688,367	708,400
Mr. Tom Kling	5,721,488	-
Mr. Robert Stewart AM	685,784	-
Ms. Naseema Sparks	-	-
Mr. Andrew Walsh	48,473	-

PRINCIPAL ACTIVITIES

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

Digital Brand Services ("DBS")

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

Enterprise Services ("ES")

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

For The Record ("FTR")

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

SMB Solutions

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

DIRECTORS' REPORT (continued)

REVIEW AND RESULTS OF OPERATIONS

EARNINGS PER SHARE

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

RESULTS

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

DIVIDENDS

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

DIVIDENDS PAID IN THE YEAR

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

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

Melbourne IT Ltd - Consolidated Group

Non-IFRS information included in the summary of results below are unaudited. A table on page 5 shows a reconciliation of the pre- and post-impairment financial results included below to the reported profit after tax, but these performance measures are unaudited except for post-impairment tax expense and profit after tax.

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

DIRECTORS' REPORT (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

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

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

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

Summarised operating results are as follows:

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

DIRECTORS' REPORT (continued)

RISK MANAGEMENT

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

In addition, risk areas are reviewed by the Group's risk management staff, with consultation of external advisors on specific matters where appropriate, in order to determine the effectiveness of the risk management plan.

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SIGNIFICANT EVENTS AFTER BALANCE DATE

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

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

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

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

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

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 3,795,182 unissued ordinary shares under options (2011: 4,949,104). Refer to note 32 of the financial statements for further details of the options outstanding.

Option holders do not have any right, by virtue of the option rules, to participate in any share issue of the company or any related body corporate or in the issue of any other registered scheme.

DIRECTORS' REPORT (continued)

SHARE OPTIONS (continued)

Shares issued as a result of the exercise of options

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

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

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

Issued Options Outstanding

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

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

DIRECTORS' MEETINGS

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

(1) Audit and Risk Management Committee

(2) Human Resources, Remuneration and Nomination Committee

* by invitation

** resigned 22 May 2012

*** appointed 19 April 2012

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

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

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

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

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

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

ROUNDING

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

CORPORATE GOVERNANCE

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

The company's corporate governance statement is available on the company's website www.melbourneit.com.au and is contained in the additional ASX information section of the 2012 annual report.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited)

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

For the purposes of this report, KMP are the Chief Executive Officer/Managing Director, the Chief Financial Officer, the Company Secretary as well as the leaders of Melbourne IT's Global Business Units in SMB Solutions and Digital Brand Services ("DBS"). Directors of the company are also included in the definition of KMP.

Human Resources, Remuneration and Nomination Committee (HRRNC)

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

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

Remuneration philosophy

The performance of the company depends upon the quality of its directors, executives and staff. To prosper, the company must attract, motivate and retain highly skilled directors, executives and staff.

To this end, the company embodies the following principles in its remuneration framework for executives:

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

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

Remuneration structure

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

Non-executive director remuneration

Objective

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

Structure

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

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

DIRECTORS' REPORT (continued)**REMUNERATION REPORT (Audited) (continued)****Fixed Remuneration**

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

Non-executive directors have long been encouraged by the Board to hold shares in the company (purchased by the directors on market). It is considered good governance for directors to have a stake in a company on whose board they sit. Details of the shareholding as at the date of this report are disclosed on page 3 of the Directors Report.

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

Structure

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

Emoluments of non-executive directors of Melbourne IT Ltd:

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

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

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

Executive and senior manager remuneration**Objective**

The company aims to reward executives and senior managers with a level and mix of remuneration commensurate with their position and responsibilities within the company so as to:

- Reward them for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- Align their interests with those of shareholders;
- Link reward with the strategic goals and performance of the company; and
- Ensure total remuneration is competitive by market standards.

Structure

To assist in achieving these objectives, the HRRNC links the nature and amount of executive emoluments to the company's financial and operational performance. All executives have the opportunity to participate in the Short Term Incentive Plan as described on page 10. Some executives are also participants in the Long Term Incentive Plan as described on page 10.

Remuneration consists of the following key elements:

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

The proportion of fixed and variable remuneration (potential short term and long term incentives) is established for executives by the HRRNC. The table on page 11 details the fixed and variable components of the key management personnel of the Group and the company.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Executive and senior manager remuneration (continued)

Fixed remuneration

Objective

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

Structure

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

The fixed remuneration component of the key management personnel is detailed on page 12.

Variable Remuneration – Short Term Incentives (STI)

Objective

The objective of the STI program is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executives to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances. During the year ended 31 December 2012, 44% of the 31 December 2011 STI provision was paid. No STI will be paid in respect of the 2012 financial year except for two specific executives who joined during 2012.

Structure

In order to determine whether an executive will qualify to receive an STI payment, two hurdles need to be met. Firstly, the Earnings Before Interest and Tax ("EBIT") target set by the Company needs to be met. Assuming this occurs, actual STI awards will be made based on the extent to which specific operational targets are met. If the EBIT target is missed, then the payment for the achievement of any operational targets becomes discretionary and will only be paid if the executive has demonstrated excellent performance in meeting those operational targets. The operational targets are set at the beginning of each year and include both financial and non-financial performance metrics, such as contribution to profit, customer service, IT production and development, product and marketing management, finance, legal and human resources management, risk management and leadership/team contribution, including adherence to company values and behaviours.

Both hurdles are assessed on an annual basis, and reviewed by the HRRNC, and are taken into account when determining the amount, if any, of the STI to be paid to each executive. This assessment process usually occurs within three months of the end of our financial year.

Variable Remuneration – Long Term Incentives (LTI)

Objective

The objective of the LTI plan is to reward executives, senior management and staff in a manner that aligns this element of remuneration with the creation of shareholder wealth.

As such, LTI grants are made to executives, senior management and staff who are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance against the relevant long term performance hurdle.

Structure

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

	Equity Settled	Equity Settled	Cash Settled		2012 Number
Number of Perf. Rights	75,000	665,000	250,000	Outstanding at start of the year	4,949,104
Grant date	1/01/2012	1/07/2012	1/07/2012	Granted during the year	990,000
First Vesting date/Exercise date	1/07/2014	1/07/2015	1/07/2015	Exercised during the year	-
Weighted Average Exercise Price	-	-	-	Lapsed during the year	(2,143,922)
Fair value of Perf. Rights	1.24	1.02	1.44	Outstanding at year end	3,795,182

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

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

LTI Plans – post 1 July 2010

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

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

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

Company performance and link to remuneration*Company performance and link to short and long term incentives*

The financial performance metric on which STI payments are based is the group's Earnings Before Interest and Tax ("EBIT") result. LTI's vest on the basis of relative TSR and EPS achievements, as shown in the table above. These metrics are considered to most closely align interests of executives with those of shareholders.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Emoluments of Executives of the Company and the Consolidated Entity

Details of the nature and amount of each element of the total remuneration for each member of the key management personnel for the year ended 31 December 2012 and 2011 are set out in the tables. Where remuneration was paid in anything other than AUD, it has been translated at the average exchange rate for the financial year.

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

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

(2) Includes the cost to the business of any non-cash business benefits provided

(3) Comprises Long Service Leave accrued during the year. A credit balance in respect of leavers represents the reversal of leave accrued in prior years.

(4) Relates to the amortisation booked during the year in relation to the fair value of the 2010, 2011 and 2012 Performance Rights.

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

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

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

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

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

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

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

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

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

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

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

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

(2) Includes the cost to the business of any non-cash business benefits provided

(3) Comprises Long Service Leave accrued during the year.

(4) Relates to the amortisation booked during the year in relation to the fair value of the 2010, 2011 and 2012 Performance Rights.

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

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

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

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

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

Employment Contracts

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

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

- Mr Hnarakis' remuneration is reviewed annually.

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

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

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

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Compensation options: Options granted and Options vested during the year

2012

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

Options granted / lapsed as remuneration during the year

2012

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

(1) Represents the grant date valuation multiplied by the number of performance rights granted.

This cost is expensed over the 3 year performance period.

(2) The proportion of remuneration consisting of options is not considered meaningful for leavers, due to the fact that the current year remuneration as reported in the table on page 12 includes the reversal of prior year share based payments amortisation.

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

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

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

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

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

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

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

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

Shares Issued on exercise of options

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

Employees

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

Auditor Independence and non audit services

The Directors have received an independence declaration from the auditor of Melbourne IT Ltd, as shown on page 14.

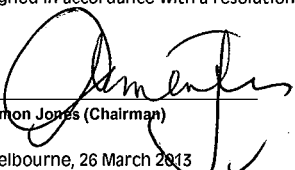
Non audit services

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

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

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

Signed in accordance with a resolution of the directors.


Simon Jones (Chairman)

Melbourne, 26 March 2013

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

In relation to our audit of the financial report of Melbourne IT Limited for the financial year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

A handwritten signature in black ink, appearing to read 'Joanne Lonergan', written over a horizontal line.

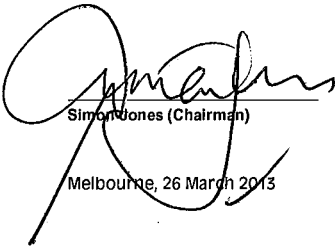
Joanne Lonergan
Partner
26 March 2013

DIRECTORS' DECLARATION

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

- (1) In the opinion of the directors:
 - (a) the financial statements and notes of Melbourne IT Ltd for the financial year ended 31 December 2012 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of its financial position as at 31 December 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and
 - (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(a).
 - (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 31 December 2012.
- (3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group, as identified in note 35, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the deed as described in note 33.

On behalf of the Board



Simon Jones (Chairman)

Melbourne, 26 March 2013

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

Report on the financial report

We have audited the accompanying financial report of Melbourne IT Limited, which comprises the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

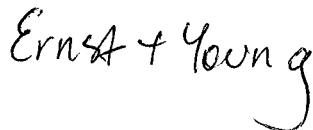
- a. the financial report of Melbourne IT Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Melbourne IT Limited for the year ended 31 December 2012, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Joanne Lonergan'.

Joanne Lonergan
Partner
Melbourne
26 March 2013

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

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

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012**

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

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012**

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

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012**

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

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

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

CORPORATE INFORMATION

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

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

The entity is a for-profit entity

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

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

(a) Compliance with IFRS

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

(b) New Accounting Standards and Interpretations

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards as of 1 January 2012.

• **AASB 1054 Australian Additional Disclosures**

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Australian Accounting Standards that have recently been issued or amended but which are not yet effective and have not been adopted by the Group for the annual reporting period ended 31 December 2012 are outlined in the table below.

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income (AASB 101)	This standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).	1-Jul-12	The amendments to the Accounting Standard relate only to disclosure requirements so will not materially impact the Group's financial position or performance.	1-Jan-13
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and IUC-112 Consolidation – Special Purpose Entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7.	1-Jan-13	The amendments to the Accounting Standard are not expected to have a material impact on the Group's financial position or performance.	1-Jan-13
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1-Jan-13	The amendments to the Accounting Standard relate only to disclosure requirements so will not materially impact the Group's financial position or performance.	1-Jan-13
AASB 119	Employee Benefits	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1-Jan-13	Whilst the impact of the application of the new standard is currently being assessed, our initial assessment is that there should be no material impact on the Group's financial position or performance.	1-Jan-13

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB 2012-2	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.	1-Jan-13	The amendments to the Accounting Standard relate only to disclosure requirements so will not materially impact the Group's financial position or performance.	1-Jan-13
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1-Jan-14	The amendments to the Accounting Standard relate only to disclosure requirements so will not materially impact the Group's financial position or performance.	1-Jan-14
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1-Jul-13	The amendments to the Accounting Standard relate only to disclosure requirements so will not materially impact the Group's financial position or performance.	1-Jan-14
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Further amendments were made by AASB 2012-6 which amends the mandatory effective date to annual reporting periods beginning on or after 1 January 2015. AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.	1-Jan-15	Whilst the impact of the application of the new Standard is currently being assessed in relation to the foreign exchange contracts and interest rate swap, our initial assessment is that there should be no material impact on the Group's financial position or performance.	1-Jan-15

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Melbourne IT Ltd and its subsidiaries as at 31 December each year ('the Group'). Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

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

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

Investments in subsidiaries held by Melbourne IT Ltd are accounted for at cost, where no fair value hedge is in place, in the separate financial statements of the parent entity, net of any impairment charges. Dividends received from subsidiaries are recorded as a component of other revenues in the separate income statement of the parent entity, and do not impact the recorded cost of the investment. Upon receipt of dividend payments from subsidiaries, the parent will assess whether any indicators of impairment of the carrying value of the investment in the subsidiary exist. Where such indicators exist, to the extent that the carrying value of the investment exceeds its recoverable amount, an impairment loss is recognised.

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

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

Where a fair value hedge is in place, the subsidiaries are restated at fair value at period end in line with AASB 139 in the separate financial statements for the parent entity.

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

(d) Business Combinations

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

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Operating Segment

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

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

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

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

Accounting policies and inter segment transactions

The accounting policies used by the group in reporting segments internally are the same as those contained in note 1.

Identification of reportable segments

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

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

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

SMB Solutions

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

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

Digital Brand Services ("DBS")

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

Enterprise Services ("ES")

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

For The Record ("FTR")

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Foreign Currency Transactions

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

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

The functional currency of each overseas subsidiary is as follows:

- | | |
|--|------------------------------|
| • Investment in Spanish, French, German and Dutch subsidiaries | - Euro |
| • Investment in Swedish subsidiaries | - SEK (Swedish Krona) |
| • Investment in New Zealand subsidiary | - NZD (New Zealand Dollar) |
| • Investment in US subsidiaries | - USD (United States Dollar) |
| • Investment in UK subsidiaries | - GBP (Great British Pound) |
| • Investment in Danish subsidiaries | - DKK (Danish Krone) |
| • Investment in South African subsidiary | - ZAR (South African Rand) |
| • Investment in Hong Kong subsidiary | - HKD (Hong Kong Dollar) |
| • Investment in Norwegian subsidiary | - NOK (Norwegian Krone) |

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

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

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

(g) Cash and Cash Equivalents

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

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

(h) Trade and Other Receivables

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

(i) Inventories

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

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

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

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

(j) Prepayment of Domain Name Registry Charges

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Derivative Financial Instruments

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

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

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

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

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

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

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

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

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

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

(l) Plant and Equipment

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

Depreciation

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

	2012	2011
Leasehold improvements	The lease term	The lease term
Plant and equipment	2 to 4 years	2 to 4 years
Furniture and Fittings	2 to 5 years	2 to 5 years

Impairment

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Recoverable Amount of Assets

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

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

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

(n) Goodwill

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

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

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

(o) Intangible Assets

Acquired both separately and from a business combination

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

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

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

Internally Generated Assets: Assets Under Construction - Transformation Projects

As explained in note 12, the Group has commenced a transformation project to develop and implement Integrated Web Services, Oracle Financials and Operational Support Systems. Costs relating to the research phase of the project are expensed while costs relating to the development phase are capitalised as Capitalised Software: Assets Under Construction - Transformation Projects. Once operational they will be amortised over a useful life of 4 years for hardware and 5 years for license, integration and labour costs.

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

Customer Contracts

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

Market Related Intangibles

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

Software Platforms

Useful lives	Finite
Amortisation	Amortised over expected useful life of 5 years
Impairment testing	Amortisation method reviewed at each financial year-end and when indicators exist.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Investments in Subsidiaries

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

(q) Trade and Other Payables

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

(r) Interest-bearing Loans and Borrowings

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

(s) Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

(t) Provisions

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

(u) Leases

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Revenue Recognition / Income Received in Advance

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

Group

Rendering of services - domain names

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

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

Melbourne IT Ltd and Domainz Ltd

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

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

Rendering of services – non domain name revenue

Non domain name registration revenue is recognised on an earned basis for all entities within the Melbourne IT Ltd Group.

Sale of goods

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

Interest

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

Dividends

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

(w) Employee Entitlements

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

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

Employee entitlement expenses arise in respect of the following categories:

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Share-based Payment Transactions

(i) Option Plans

The Melbourne IT Ltd Executive & Employee Option Plans have been established where the managing director and employees of the company are issued with options over the ordinary shares of Melbourne IT Ltd ('equity-settled transactions'). The options, issued for nil consideration, are issued in accordance with performance guidelines established by the directors of Melbourne IT Ltd.

The options cannot be transferred and will not be quoted on the ASX. The managing director and all full-time or permanent part-time employees of the company or any of its related body corporate are eligible to participate in the option plan.

Options are issued free of charge. Each option is to subscribe for one fully paid Share. When issued, the Share will rank equally with other Shares. The options are not transferable except to the legal personal representative of a deceased or legally incapacitated option holder. The options are issued for a term of 5 years.

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

The Board has adopted certain policies concerning the terms of the options to be granted under the Option Plans. The Board has the absolute discretion to change these policies at any time, although any change in its policies will have an effect only on options that are issued at or after the time of the change. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

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

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Share-based Payment Transactions (continued)

(ii) Performance Options Plan

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

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

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

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

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

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

(iii) Long Term Incentive Deferred Cash Bonus Plan

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Income Tax

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

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

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

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

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

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

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

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

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

Tax consolidation legislation

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

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

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

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

(z) Other Taxes

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

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

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

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Contributed Equity

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

(ab) Option Reserve

The options reserve is used to recognise the value of equity-settled share based payment transactions provided to employees, including key management personnel, as part of their remuneration. Refer to Note 32 for further details of these plans.

(ac) Hedging Reserve

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

(ad) Foreign Currency Translation Reserve

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

(ae) Earnings Per Share

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

Diluted earnings per share are calculated as net profit attributable to members, adjusted for:

- Cost of servicing equity;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares:

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

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

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Risk Exposures and Responses

Interest Rate Risk

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

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

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

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

Sensitivity Analysis

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

At 31 December 2012, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

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

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

Credit Risk

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

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

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

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

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Risk Exposures and Responses (Continued)

Foreign Currency Risk

Due to the prescribed global market arrangements regarding domain name registration, Melbourne IT Limited earns a substantial amount of its revenues, and incurs a substantial amount of its costs in US dollars ("USD") and is therefore exposed to movements in the AUD / USD exchange rate. The company actively manages the gross margin risk by its foreign currency risk management strategy. Please refer to Note 25 for further details.

Both the functional and presentation currency of Melbourne IT Ltd is Australian dollars (A\$). The consolidated Group contains functional currencies as disclosed in note 1(f).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

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

At 31 December 2012, the Group had the following exposures to USD denominated assets and liabilities, where the functional currency is not USD. The Group's exposure to foreign currency changes for all other currencies is not material. Assets and liabilities that are designated in cashflow hedges are not included:

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
Financial Assets		
Cash and cash equivalents	3,704	4,073
Trade and Other receivables	5,226	6,624
	8,930	10,697
Financial Liabilities		
Trade and Other Payables	10,241	9,997
Net exposure	(1,311)	700

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

At 31 December 2012, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Net Profit		Equity	
	Higher / (Lower)		Higher / (Lower)	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Consolidated				
- AUD/USD +4% (2011: +8%)	54	(57)	54	(57)
- AUD/USD -7% (2011: -5%)	(95)	34	(95)	34

The Group also has exposures to foreign exchange when retranslating foreign currency subsidiaries into Australian Dollars. The sensitivity range has been determined using an expected range of parity to 1.1 USD:AUD for the retranslation of USD denominated balances for the forthcoming year.

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

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk

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

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

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

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

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

Capital Management

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

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

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

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

Fair Value Hierarchy

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

(I) Significant accounting judgements

Taxation

The Group's accounting policy for taxation requires Management's judgement as to the type of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised in the statement of financial position. Deferred tax assets are recognised only when it is considered more likely than not that they will be recovered, which is dependant on the generation of sufficient future taxable profits.

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

(II) Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives

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

Share-based payment transactions

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

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

4. REVENUE

(a) Revenue

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
Registration Revenue	62,097	65,748
Professional Services Revenue	40,153	42,414
Hosting & Value-Added Product Sales	61,030	63,065
For The Record Revenue	6,868	7,777
Other Revenue	119	342
Total Revenue excluding Interest Income	170,267	179,346

Interest revenue	270	422
Total Revenue	170,537	179,768

(b) Other income

Other	30	10
	30	10
Total consolidated income	170,567	179,778

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2012

		CONSOLIDATED	
		2012 \$'000	2011 \$'000
5. EXPENSES AND LOSSES / (GAINS)			
(a) Depreciation expenses			
Depreciation of non-current assets			
Leasehold improvements		184	213
Plant and equipment		3,437	4,589
Furniture and Fittings		41	52
Total depreciation of non-current assets		3,662	4,854
(b) Amortisation of identifiable intangible assets			
Amortisation of customer contracts		863	982
Amortisation of capitalised software		189	184
Amortisation of Other Intangibles		-	105
Total amortisation of identifiable intangible assets		1,052	1,271
Total depreciation and amortisation expenses		4,714	6,125
(c) Impairment of intangible assets	(Note 12)	2,000	-
(d) Other Expenses			
Training & Recruitment		633	1,027
Premises		4,384	4,145
Travel & accommodation		2,005	2,368
Finance & legal		2,120	1,847
Communications		2,246	2,298
Equipment		4,160	3,862
Marketing		1,897	2,075
Net foreign currency exchange loss		1,039	1,203
Bad and doubtful debts expense / (recovered)		258	565
Interest expense		1,332	1,424
(Gain) / Loss on disposal of fixed assets		(642)	-
Other		577	381
Total other expenses		20,009	21,195
(e) Finance costs		1,040	958
Bank charges and credit card merchant fees			
(f) Expensing of share based payments		57	381
Equity & cash settled share based payments			
6. INCOME TAX			
The major components of income tax expense are:			
(a) Statement of comprehensive income			
Current income tax			
Current income tax charge		1,543	2,819
Adjustments in respect of current income tax of previous years		(1,221)	99
Deferred income tax			
Relating to origination and reversal of temporary differences		2,185	1,467
Income tax expense reported in the statement of comprehensive income		2,507	4,385
(b) Statement of changes in equity			
Deferred income tax related to items charged or credited directly to equity			
Net gain/(loss) on revaluation of cash flow hedges		(37)	(102)
Income tax expense reported in equity		(37)	(102)

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

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

Tax Consolidation

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

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

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

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

(a) Dividends paid during the year		
(i) Current year - interim		
Franked dividends (7.0 cents per share) (2011: 7.0 cents)	5,739	5,462
(ii) Previous year - final		
Franked dividends (8.0 cents per share) (2011: 8.0 cents per share)	6,507	6,508
(b) Dividends proposed and not recognised as a liability		
Partially franked dividends (7.0 cents per share) (2011: fully franked dividend: 8.0 cents per share)	5,772	6,529
(c) Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
- franking account balance as at the end of the financial year at 30% (2011: 30%)	897	6,428

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

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

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

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

Trade debtors
Allowance for impairment loss

CONSOLIDATED
2012 **2011**
\$'000 **\$'000**

24,225	30,591
(1,259)	(1,347)
<u>22,966</u>	<u>29,244</u>

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

Movements in the provision for impairment loss were as follows:

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

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

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

Receivables past due but not considered impaired are \$9.014 million (2011: \$10.717 million), and comprise balances owed from customers who have a good history of repayments or are otherwise considered recoverable.

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

9. INVENTORIES

Materials (at cost)

CONSOLIDATED
2012 **2011**
\$'000 **\$'000**

<u>539</u>	<u>463</u>
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10. OTHER ASSETS (CURRENT)

Other prepayments
GST receivable

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

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

	CONSOLIDATED	
	2012	2011
	\$'000	\$'000
11. PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT)		
Leasehold improvements		
At cost	3,536	3,394
Accumulated amortisation	(3,075)	(3,107)
	461	287
Plant and equipment		
At cost	32,265	31,794
Accumulated depreciation	(29,158)	(26,837)
	3,107	4,957
Furniture and fittings		
At cost	851	794
Accumulated depreciation	(727)	(678)
	124	116
Total property, plant and equipment		
At cost	36,652	35,982
Accumulated depreciation and amortisation	(32,960)	(30,622)
Total written down amount	3,692	5,360
Reconciliations		
Reconciliations of the carrying amounts of leasehold improvements, plant and equipment and furniture/fittings at the beginning and end of the current and previous financial year.		
Leasehold improvements		
Opening balance	287	309
Additions	329	195
Transfer / other	90	12
Disposals	(61)	(11)
Foreign exchange differences	-	(5)
Depreciation expense	(184)	(213)
Closing balance	461	287
Plant and Equipment		
Opening balance	4,957	7,231
Additions	2,030	2,484
Transfer / other	207	(12)
Disposals	(656)	(169)
Foreign exchange differences	7	12
Depreciation expense	(3,438)	(4,589)
Closing balance	3,107	4,957
Furniture and Fittings		
Opening balance	116	125
Additions	43	58
Transfer / other	5	-
Disposals	-	(6)
Foreign exchange differences	1	(9)
Depreciation expense	(41)	(52)
Closing balance	124	116
Total written down amount	3,692	5,360

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

12. INTANGIBLE ASSETS

(a) Carrying amounts of intangible assets

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

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

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

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

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

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

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

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

12. INTANGIBLE ASSETS (Continued)

(c) Goodwill and intangible assets impairment testing

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

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

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

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

Impairment booked in respect of the FTR CGU

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

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

13. DEFERRED TAX ASSET (NON-CURRENT)

Deferred tax asset at 31 December relates to the following:

Doubtful debts provision
Employee benefits
Accruals
Tax losses
Depreciation
Unrealised FX
Hedging reserve
Amortisation of intangibles
Other

CONSOLIDATED	
2012 \$'000	2011 \$'000
378	404
1,535	1,615
684	637
2,077	2,454
200	484
734	754
64	333
604	-
136	(145)
6,412	6,536

Tax losses

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

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

14. OTHER ASSETS (NON-CURRENT)

Rental bond

43	58
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15. TRADE AND OTHER PAYABLES (CURRENT)

Trade creditors
Sundry creditors
Deposits received in advance
Accrued expenses
Total payables

1,567	3,236
8,324	8,655
1,903	3,079
3,845	6,072
15,639	21,042

(a) Terms and conditions relating to trade creditors:

- (i) Trade creditors are non-interest bearing and are normally settled within agreed trading terms.
- (ii) Sundry creditors are non-interest bearing and are normally settled within agreed trading terms.

16. INTEREST-BEARING LOANS AND BORROWINGS

Current

US Dollar Currency Loan (i)

5,784	5,896
5,784	5,896

Non-current

US Dollar Currency Loan (i)

28,034	34,395
28,034	34,395

(a) Terms and conditions

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

- In July 2012, the group's \$38.0 million US Dollar Overseas Currency Loan was settled and replaced by a new USD facility of the same amount with National Australia Bank. This new loan facility has a term of 4 years to 30 June 2016.

- For the year ended 31 December 2012, the average interest rate was 3.54%.

- The Group has complied with bank covenants during the year ended 31 December 2012.

- This loan is unsecured. Repayments are USD 6 million per annum, with the remaining principal of USD 14 million due for repayment on 30 June 2016.

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

16. INTEREST-BEARING LOANS AND BORROWINGS (Continued)

(b) Financing facilities available

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

Total facilities

- Asset Finance - leasing
- Business Lending - Bank Guarantees
- Standby Letters of Credit

Facility used at reporting date

- Asset Finance - leasing
- Business Lending - Bank Guarantees
- Standby Letters of Credit

CONSOLIDATED
2012 2011
\$'000 \$'000

6,200	6,200
1,645	1,708
4,723	4,861
12,568	12,769
1,200	719
1,216	1,187
3,759	3,878
6,175	5,784

17. PROVISIONS (CURRENT)

Employee benefits

4,325	4,568
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18. CURRENT TAX LIABILITIES

Income tax

682	568
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19. DEFERRED TAX LIABILITY (NON-CURRENT)

Deferred tax liability at 31 December relates to the following:

Intangible assets
Other

6,241	4,111
46	115
6,287	4,226

20. PROVISIONS (NON-CURRENT)

Employee benefits

793	815
------------	------------

21. CONTRIBUTED EQUITY

(a) Issued and paid-up capital

Ordinary shares each fully paid

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

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

Other capital reserves

Options reserve

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

Hedging reserve

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

Foreign currency translation reserve

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

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

22. CASH FLOW STATEMENT

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

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

(b) Reconciliation of cash and cash equivalents

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

Cash and cash equivalents on hand	17,857	19,047
Closing cash and cash equivalents balances	17,857	19,047

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

23. EXPENDITURE COMMITMENTS AND OBLIGATIONS

Lease expenditure commitments

Operating leases

Minimum lease payments

- not later than one year

- later than one year and not later than five years

- later than five years

Aggregate lease expenditure contracted for at reporting date

CONSOLIDATED	
2012	2011
\$'000	\$'000
6,542	5,757
7,999	12,824
877	3,466
15,418	22,047

Financial Instruments

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

(a) Hedging Instruments

Hedges of specific commitments

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

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

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

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

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

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

(b) Financial Guarantees and other credit facilities

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

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

24. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

The aggregate employee benefit liability comprises:

Provisions (current)
Provisions (non-current)

CONSOLIDATED	
2012	2011
\$'000	\$'000
4,325	4,568
793	815
5,118	5,383

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

25. DERIVATIVE FINANCIAL INSTRUMENTS

Hedging Activities

2012

(a) Cash flow hedge

At 31 December 2012, Melbourne IT Ltd held eight foreign exchange contracts designated as cash flow hedges of expected future sales to customers in the US for which the company has firm commitments.

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

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

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

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

(b) Interest rate hedges

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

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

(c) Cross Currency Swap

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

(106,667)

Total Fair Value of Derivative financial Instruments

(447,649)

2011

(a) Cash flow hedge

At 31 December 2011, Melbourne IT Ltd held seven foreign exchange contracts designated as cash flow hedges of expected future sales to customers in the US for which the company has firm commitments.

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

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

(b) Interest rate hedges

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

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

Total Fair Value of Derivative financial Instruments

(424,551)

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

26. OPERATING SEGMENT

Operating Segment - Continuing Operations

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

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

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

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

26. OPERATING SEGMENT (Continued)

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

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

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

27. EVENTS SUBSEQUENT TO BALANCE DATE

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

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

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

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

28. EARNINGS PER SHARE

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

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

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

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

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

29. AUDITORS' REMUNERATION

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

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

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

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

30. RELATED PARTY DISCLOSURES

Ultimate parent

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

Other related party transactions

There were no other transactions with related parties during the year ended 31 December 2012 or 2011 other than detailed within the annual report.

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

31. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

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

(ii) Executives

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

(b) Remuneration of Key Management Personnel

Compensation of Key Management personnel

CONSOLIDATED

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

(c) Option holdings of Key Management Personnel

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

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

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

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

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

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

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

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

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

31 DIRECTOR AND EXECUTIVE DISCLOSURES (Continued)

(c) Option holdings of Key Management Personnel

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

(d) Shareholdings of Key Management Personnel

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

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

* On market transactions

[^] Direct and indirect holdings

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

* On market transactions

[^] Direct and indirect holdings

(e) Other Transactions and Balances with Key Management Personnel

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

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

32. SHARE OPTIONS

The Melbourne IT Executive & Employee Option Plans ("ESOP") have been established where the managing director and employees of the company are issued with options over the ordinary shares in Melbourne IT Ltd. The options, issued for nil consideration, are issued in accordance with performance guidelines established by the directors of Melbourne IT Ltd. The options cannot be transferred and will not be quoted on the ASX. The managing director and all full-time or permanent part-time employees of the company or any of its related body corporate are eligible to participate in the option plans.

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

Each option is to subscribe for one fully paid Share. When issued, the Share will rank equally with other Shares. The options are not transferable except to the legal personal representative of a deceased or legally incapacitated option holder. The options are issued for a term of 3 to 5 years.

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

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

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

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

The following table summarises information about options held by directors and employees as at 1 January 2012:

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

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

(b) Options granted during the reporting period

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

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

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

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

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

32. SHARE OPTIONS (Continued)

(c) Options exercised during the reporting period

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

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

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

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

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

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

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

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

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

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

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

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

32. SHARE OPTIONS (Continued)

(f) Weighted average remaining contractual life

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

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

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

The following table lists the inputs to the models used for the year ended 31 December 2012:

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

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

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

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

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

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

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

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

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

Name		Country of Incorporation	% Equity Interest		Cost of Investment \$'000	
			2012	2011	2012	2011
WebCentral Group Pty Ltd	(a)	Australia	100	100	78,190	78,190
Internet Names Worldwide Espana SL	(a)	Spain	100	100	5	5
Melbourne IT DBS Group AB	(a)	Sweden	100	100	4,663	4,663
Domainz Ltd	(a)	New Zealand	100	100	1,671	1,671
Internet Names Worldwide (US), Inc	(a)	USA	100	100	1	1
Melbourne IT GP Holdings Pty Ltd	(a)	Australia	100	100	-	-
Melbourne IT General Partnership	(b)	USA	100	100	16,002	16,313
Advantate Pty Ltd		Australia	100	100	-	-
					100,532	100,843

(a) Investments in controlled entities are initial capital investments and are eliminated in the consolidated financial statements.

(b) Investments in foreign entities are revalued to the year end foreign exchange spot rates.

34. CONTINGENT ASSETS AND LIABILITIES

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

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

35. CLOSED GROUP CLASS ORDER DISCLOSURES

Entities subject to class order relief

Pursuant to Class Order 98/1418, relief has been granted to Melbourne IT Ltd, WebCentral Group Pty Ltd, WebCentral Pty Ltd and For The Record Pty Ltd from the *Corporations Act 2001* requirements for the preparation, audit and lodgement of their financial reports.

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

Consolidated statement of comprehensive income

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

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

35. CLOSED GROUP CLASS ORDER DISCLOSURES (Continued)

Consolidated statement of financial position

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

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

ASX ADDITIONAL INFORMATION

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

(a) Distribution of equity securities

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

(b) Twenty largest stakeholders

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

(c) Voting rights

All ordinary shares carry one vote per share without restriction.