

MELBOURNE IT LTD

(ABN: 21 073 716 793)

Annual Financial Report



FOR THE YEAR ENDED 31 DECEMBER 2015

Melbourne It Ltd

ABN: 21 073 716 793

Directors

Mr. S.D. Jones (Chairman)
Mr. M. Mercer (Managing Director and CEO)
Mr. T. Kiing
Mr. R.J. Stewart AM
Ms. N. Sparks
Mr. L. Bloch
Mr. J. Armstrong (Appointed 23 February 2016)

Managing Director & Chief Executive Officer

Mr M. Mercer

Chief Financial Officer

Mr P. Findlay

Company Secretary

Ms. E. Rigato

Stock Exchange Listing

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

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Corporate Governance Statement

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

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Directors' Report

Your directors submit their report for the year ended 31 December 2015.
Directors were in office for the entire period unless otherwise noted.

Directors

Mr Simon Jones
Mr Tom Kiing
Mr Robert Stewart AM
Ms Naseema Sparks
Mr Larry Bloch
Mr John Armstrong (Appointed 23 February 2016)

Managing Director

Mr Martin Mercer

Company Secretary

Ms Edelvine Rigato

Details of directors' experience, expertise and directorships

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

Interests in the shares and options of the company

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

	Ordinary Shares	Options over Ordinary Shares
Mr Simon Jones	155,935	-
Mr Tom Kiing	5,721,488	-
Mr Robert Stewart AM	810,784	-
Ms Naseema Sparks	-	-
Mr Larry Bloch	9,458,363	-
Mr John Armstrong	-	-
Mr Martin Mercer	-	581,862

Principal activities

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

Enterprise Services (ES)

Enterprise Services is a cloud and mobile solutions provider for Australian enterprise and government organisations.

SMB Solutions

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

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

Directors' Report (continued)

Review and results of operations

Earnings per share

Total operations	2015	2014
Basic earnings per share	6.04 cents	0.72 cents
Diluted earnings per share	5.95 cents	0.72 cents

Dividends

During the year, a final dividend of 4.0 cents per share, amounting to \$3.718 million was paid on 23 April 2015 and an interim dividend of 1.0 cent per share, amounting to \$0.929 million was paid on 30 September 2015.

After 31 December 2015, a final dividend of 4.0 cents per share amounting to \$3.718 million was declared by the directors. The final dividend has not been recognised as a liability as at 31 December 2015.

Review of operations

Overview

Consolidated Group Revenue for the year ended 31 December 2015 was \$150.3m (2014: \$124.7m), an increase of 20.5%. This was primarily due to the acquisitions of Uber Global Pty Ltd on 30 April 2015 and Outware Systems Pty Ltd on 16 June 2015 as well as continued growth of the Enterprise Services business.

The Uber acquisition contributed \$9.6m to Group Revenue and \$1.3m to Group EBITDA, adding scale in the core SMB division. The Outware acquisition contributed \$10.0m to Group Revenue and \$2.6m to Group EBITDA, adding capability in the Enterprise Services division.

The integration of Netregistry and Uber is forecast to deliver \$10.0m of annualised synergies savings by the end of 2017, with annualised synergy savings of \$6.0m already achieved by the end of 2015, \$1.0m ahead of target.

Strong performance continued to generate cash, with \$13.6m of cash flows from operating activities achieved in 2015. The cash balance of \$12.4m as at 31 December 2015 demonstrates the strength of our balance sheet.

The Group believes that the inclusion of non-IFRS, unaudited information in the following tables are relevant to the user's understanding of its results as it provides a better measure of underlying operating performance.

Directors' Report (continued)

Summarised operating results are as follows:

	2015 \$'000	2014 \$'000
Revenue		
Registration Revenue	55,932	53,335
Solutions, hosting & services	94,041	70,286
Other Revenue	21	513
Total Revenue excluding Interest Revenue	149,994	124,134
Interest Revenue	262	572
Total Consolidated Income	150,256	124,706
Earnings Before Net Interest, Tax, Depreciation and Amortisation ('EBITDA')	16,510	12,786
Depreciation Expense	(3,163)	(2,445)
Amortisation Expense	(2,413)	(1,870)
Impairment of Intangible Asset	-	(8,587)
Total Earnings Before Net Interest and Tax ('EBIT')	10,934	(116)
Net Interest (Expense)/Revenue	(949)	406
Profit Before Tax	9,985	290
Income Tax (Expense)/Benefit	(3,257)	358
Profit for the Year	6,728	648
Profit for the year attributable to:		
Members of the parent	5,610	479
Non-controlling interests	1,118	169
	6,728	648
Cashflow from Operations	13,623	16,082
Statutory EBITDA of \$16.5m, was 28% better than 2014, with underlying EBITDA achieving \$22.0m, 34.5% better than 2014.		
Statutory EBITDA	16,510	12,786
Adjustments to calculate underlying EBITDA:		
Transaction costs	1,995	1,340
Synergy costs	1,417	1,000
Provision writeback	(1,067)	-
Contribution from acquisitions (assuming acquisitions owned since 1 Jan)	3,100	1,200
Underlying EBITDA	21,955	16,326

Directors' Report (continued)

	2015 \$'000	2014 \$'000
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Underlying Net Profit after Tax ('Underlying NPAT') for the year ended 31 December 2015 was \$10.7m (2014: \$8.8m), an increase of 22%. This resulted in strong underlying EPS growth in 2015, achieving 11.55 cents, an increase of 21.3% from the prior year.

Profit after Tax attributable to Members of the Parent	5,610	479
Adjustments to calculate underlying NPAT:		
Profit after Tax attributable to Non-Controlling Interests of Outware	896	-
Transaction costs (tax effected)	1,738	1,300
Synergy costs (tax effected)	992	700
Impairment (tax effected)	-	6,010
Unwinding of discount on other financial liabilities	467	-
Provision writeback	(1,067)	-
Contribution from acquisitions (assuming acquisitions 100% owned since 1 January) (tax effected)	2,097	360
Underlying NPAT	10,733	8,849

Outlook 2016 and beyond

Melbourne IT will continue to focus on the following four key areas in 2016:

- Integrating our acquisitions to generate operational, financial and cultural benefits throughout the organisation;
- Arresting revenue decline in core SMB product categories and returning the SMB business to growth. Drive growth in core product offerings such as .AU domain names and deliver higher attachment rates with better customer lifecycle management;
- Continued development of our SMB solutions business driven by "Do-It-For-Me" ('DIFM') website solutions and social media marketing tools such as Tiger Pistol managed social media offering; and
- Continued development of Enterprise Services managed services and new capabilities to offer clients a complete suite of digital services.

Risks review

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

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

Directors' Report (continued)

Risk management

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

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

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

Significant changes in the state of affairs

On 30 April 2015, Melbourne IT completed the acquisition of Uber Global Pty Ltd ('Uber'), a major domains and hosting service provider. The purchase consideration paid was \$14.9 million (including working capital adjustment) and an earn out based on EBITDA performance to 30 June 2015. There was no consideration paid on the earn out based on EBITDA performance to 30 June 2015. The acquisition was funded by cash. The accounting for the acquisition in accordance with AASB 3 'Business Combinations' is as disclosed in Note 22(a) in the notes to the financial statements.

On 16 June 2015, Melbourne IT acquired 50.2% shareholding of Outware Systems Pty Ltd ('Outware') for \$22.7 million (including working capital adjustment) with put and call options in place to acquire up to 100% of Outware over the next two years. Outware is a leader in the design and development of mobile applications for enterprise and government customers. To facilitate the acquisition, Melbourne IT entered into a cash advance facility with Australia and New Zealand Banking Group Limited ('ANZ') in June 2015. The bank facility was drawn down by \$30.0 million at 31 December 2015. The accounting for the acquisition in accordance with AASB 3 'Business Combinations' is as disclosed in Note 22(b) in the notes to the financial statements.

Other than as stated above, there have been no other significant changes in the state of affairs during the year ended 31 December 2015.

Significant events after balance date

On 23 February 2016, the directors declared a final dividend of 4.0 cents per ordinary share, franked at 80%, amounting to \$3.718 million. The dividend will be paid on 29 April 2016.

The directors also decided to reactivate the Melbourne IT Limited Dividend Reinvestment Plan from 23 February 2016.

Melbourne IT announced that the Board of Directors appointed Mr John Armstrong as a non-executive director effective 23 February 2016. Mr Armstrong is a company director and financial professional, with over 25 years' experience in various financial and commercial management roles. The Board also announced that Mr Robert Stewart will retire at the next Annual General Meeting to be held on 27 May 2016. Mr Armstrong will succeed Mr Stewart as Chairman of the ARMC.

Directors' Report (continued)

On 16 March 2016, Melbourne IT announced a package of transactions. The details are:

- (1) Melbourne IT has agreed to acquire 100% ownership interest in privately owned InfoReady Pty Ltd ('Infoready'), a leading data and analytics provider for the enterprise and government market for a consideration of \$15.4 million;
- (2) Melbourne IT has agreed to dispose of its International Domain Name Registration Business for a sale consideration of USD6 million; and
- (3) Melbourne IT has undertaken an underwritten placement to professional and sophisticated investors to raise \$15 million at a price of \$2.00 per share to fund the balance of the purchase consideration for InfoReady and to strengthen its balance sheet. Placement shares will rank pari passu with current fully paid ordinary shares on issue.

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

Likely developments and expected results

For further information about the likely developments and expected results of the Group, refer to the 'Outlook 2016' section on page 6 of this report.

Indemnification and insurance of directors and officers

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

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Share options

Unissued shares

As at the date of this report, there were 1,388,914 unissued ordinary shares under options (2014: 296,610). Refer to Note 30 to the Financial Statements for further details of the options outstanding. Option holders do not have any right, by virtue of the option rules, to participate in any share issue of the Company or any related body corporate or in the issue of any other registered scheme.

Directors' Report (continued)

Shares issued as a result of the exercise of performance rights

No performance rights were vested/exercised during the year ended 31 December 2015 (2014: 571,215 rights).

During the financial year, there were 1,177,383 rights granted (2014: 296,610 rights).

Directors meetings

Directors' Meetings			Meetings of Committees			
			ARMC (1)		HRRNC (2)	
No. of meetings held in 2015	17		5		4	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Mr Simon Jones	17	17	5	5	4	4
Mr Martin Mercer	17	17				
Mr Robert Stewart AM	17	17	5	5		
Mr Tom Kiing	17	17			4	4
Ms Naseema Sparks	17	16			4	4
Mr Larry Bloch	17	16	3	3	4	4

(1) Audit and Risk Management Committee

(2) Human Resources, Remuneration and Nomination Committee

The above table shows the numbers of meetings of directors held during 2015. The table also shows the number of meetings attended by each director and the number of meetings each committee member was eligible to attend.

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

The members of the ARMC are Mr R. Stewart AM (Chairman), Mr S. Jones, Mr L. Bloch and Mr J. Armstrong.

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

The Managing Director and Chief Executive Officer 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.info).

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, the KMP are the Chief Executive Officer/Managing Director, the Chief Financial Officer, the Chief Technology Officer, Chief Strategy Officer, Chief Sales Officer, Chief Marketing Officer, Chief Customer Officer, Chief People Officer and Executive General Manager, Enterprise Services ('ES'). Directors of the Company are also included in the definition of KMP.

Human Resources, Remuneration and Nomination Committee (HRRNC)

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

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

Remuneration philosophy

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

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

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

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

Directors' Report (continued)

Remuneration structure

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

Non-executive director remuneration

Objective

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

Structure

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

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

Fixed remuneration

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

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

The remuneration of non-executive directors is reviewed annually and for the period ended 31 December 2015 is detailed below.

Structure

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

2015 Directors	Short Term Salary & fees \$	Post Employment Superannuation Contribution \$	Total \$
Mr Simon Jones	176,813	16,797	193,610
Mr Tom Kiing	76,875	7,303	84,178
Ms Naseema Sparks	86,875	8,253	95,128
Mr Robert Stewart AM	86,875	8,253	95,128
Mr Larry Bloch	86,875	8,253	95,128
Total 2015	514,313	48,859	563,172

Directors' Report (continued)

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

(1) Appointed 3 April 2014

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. The CEO and Direct Reports to the CEO have the opportunity to participate in the Short Term Incentive Plan as described on page 13, additionally, the CEO and Direct Reports to the CEO are also participants in the Long Term Incentive Plan as described on page 14.

Remuneration consists of the following key elements:

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

The proportion of fixed and variable remuneration (potential short term and long term incentives) is established for executives by the HRRNC. The table on page 16 details the fixed and variable components of the Key Management Personnel of the Group and the Company.

Directors' Report (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 16.

Variable remuneration – Short Term Incentives (STI)

Objective

The objective of the STI program is to link the achievement of the Group's operational and financial 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 targets and such that the cost to the Group is reasonable in the circumstances.

Structure

STI payments will only be made if the target relating to Earnings before Interest, Tax, Depreciation, and Amortisation ('EBITDA') is met. In the event that the EBITDA target is not achieved, then any STI payment is discretionary and will only be made if the executive has demonstrated exceptional performance in meeting the other targets.

In the event that the EBITDA target is met then the total STI payment amount for a scheme participant is determined by reference to performance against Group and Individual targets (collectively known as 'performance targets'). The Group targets include measures pertaining to Revenue, People and Net Promoter Score. Individual targets comprise operational and financial measures pertaining to the executive's role and accountabilities and may include measures, such as contribution to profit, customer service, IT production and development, product and marketing management, finance, legal and human resources management, risk management and leadership/team contribution, including adherence to company values and behaviours. The chosen performance targets represent the key performance indicators for the short term success of the business and provide a framework for delivering long term value.

Achievement against the performance targets is assessed on an annual basis, and all payments are both reviewed and approved by the HRRNC. This assessment process usually occurs within three months of the end of our financial year. The limits that are applied to the STI payment ranges from nil to 150% of the Group measures, and nil to 100% of the Individual measures. During the year, 83.7% of the potential STI pool was paid in respect of the 31 December 2014 financial year. For the financial year ended 31 December 2015, 80% of the potential STI pool is payable (with payment occurring in 2016).

Directors' Report (continued)

In addition, in 2015 the Board of Directors (following a recommendation from the HRRNC) exercised their discretion to pay an incentive to certain executives in recognition of their exceptional efforts relating to the acquisitions of Uber Global and Outware Systems.

Variable remuneration – Long Term Incentives (LTI)

Objective

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

Structure

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

Performance Rights Plan

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

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

Following the end of the performance period the MLB Board reviews the achievement against the Performance Rights Plan and gives consideration to those factors that may unfairly advantage or disadvantage eligible employees. The Board may exercise discretion in the interests of shareholders in light of factors such as, transaction costs for acquisitions and disposals, integration and synergy costs etc.

Performance Rights relating to the 31 December 2015 financial year (hereafter referred to as 2015 LTI Plan) were granted to all eligible staff on 30 March 2015, with the exception of the CEO. On 29 June 2015, the CEO received a grant of Performance Rights in respect of the 2015 LTI Plan, which was approved by shareholders at the Annual General Meeting on 27 May 2015. The following sliding scale is applied to the exercise of the Rights in relation to the 2015 LTI Plan:

TSR Percentile Rank Achieved	TSR Proportion of Rights Vesting	Compound annual EPS growth	Proportion of EPS Rights Vesting
>75th percentile	100%	>20%	100%
>50.1 percentile and <75th percentile	Pro-rata allocation	>12% and <20%	Pro-rata allocation
<50 percentile	0%	<12%	0%

Directors' Report (continued)

Performance Rights relating to the 31 December 2014 financial year (hereafter referred to as 2014 LTI Plan) were granted to all eligible staff on 12 January 2015, with the exception of the CEO. On 27 May 2014, the CEO received a grant of Performance Rights in respect of the 2014 LTI Plan, which was approved by shareholders at the Annual General Meeting on 27 May 2014. The following sliding scale is applied to the exercise of the Rights in relation to the 2014 LTI Plan:

TSR Percentile Rank Achieved	TSR Proportion of Rights Vesting	Compound annual EPS growth	Proportion of EPS Rights Vesting
>75th percentile	100%	>17%	100%
>50.1 percentile and <75th percentile	Pro-rata allocation	>12% and <17%	Pro-rata allocation
<50 percentile	0%	<12%	0%

Company performance and link to STI and LTI

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

The table below sets out information about the Group's financial performance metric for the past two years up to and including the current financial year.

	2015	2014
Revenue (\$m)	150.26	124.71
Statutory EBITDA (\$m)	16.51	12.80
Statutory EPS (cents per share)	6.04	0.72
Underlying EBITDA (\$m)	21.96	16.33
Underlying EPS (cents per share)	11.55	9.52

Directors' Report (continued)

Remuneration 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 2015 and 2014 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.

2015	Short term benefits			Post Employment benefits	Long term benefits	Share Based Payments	Other		
Executives	Salary & fees	STI (1)	Other (2)	Superannuation contribution	Long service leave (3)	Amortisation Expense (4)	Termination Pay	Total	Performance related (5)
	\$	\$	\$	\$	\$	\$	\$	\$	%
Mr Martin Mercer (CEO)	590,276	208,602	5,634	36,615	-	224,149	-	1,065,276	40.6%
Mr Peter Findlay	369,501	108,057	10,566	28,422	3,744	68,937	-	589,227	30.0%
Dr Bruce Tonkin	252,212	47,218	12,703	25,706	8,835	38,826	-	385,500	22.3%
Mr Peter Wright	295,867	78,366	5,368	29,663	4,827	41,865	-	455,956	26.4%
Ms Amy Rixon	185,918	37,495	5,368	17,971	-	34,968	-	281,720	25.7%
Mr Brett Fenton	218,016	58,183	5,368	20,900	4,214	55,269	-	361,950	31.3%
Ms Verity Meagher	192,035	45,385	5,368	18,999	7,451	37,683	-	306,921	27.1%
Ms Catherine Hodgson-Crocker	240,126	86,173	5,368	22,379	-	12,998	-	367,044	27.0%
Mr Simon Smith (6)	176,240	-	3,255	16,935	-	-	-	196,430	0.0%
Total 2015	2,520,191	669,479	58,998	217,590	29,071	514,695	-	4,010,024	

(1) Represent STIs accrued in relation to 2015 financial year and STIs paid to executives who worked on the acquisition of Outware.

(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 2014 and 2015 Performance Rights.

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

These two elements represent the at-risk and discretionary amount payable which will vary depending on the financial performance of the Company. They are in addition to the fixed remuneration.

(6) Mr Simon Smith resigned from the Group and executive on 28 August 2015.

Directors' Report (continued)

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

(1) Represent STIs accrued in relation to 2014 financial year and STIs paid to executives who worked on the acquisition of Netregistry.

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

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

(4) Relates to the amortisation booked during the year in relation to the fair value of the 2011, 2012 and 2014 Performance Rights.

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

These two elements represent the at-risk and discretionary amount payable which will vary depending on the financial performance of the Company. They are in addition to the fixed remuneration.

(6) Mr Martin Mercer, CEO and Managing Director was appointed to the Group and the executive on 7 April 2014.

(7) Mr Arnaud Desprets resigned as Company Secretary on 11 November 2014.

(8) Ms Amy Rixon was appointed to the executive on 4 June 2014. She holds the position of Chief People Officer.

(9) Mr Brett Fenton was appointed to his current executive position of Chief Customer Officer on 14 July 2014, however he held an executive position from 1 April 2014.

(10) Ms Verity Meagher was appointed to her current executive position of Chief Marketing Officer on 14 July 2014, however she held an executive position from 1 April 2014.

(11) Ms Catherine Hodgson-Crocker was appointed to the executive on 3 November 2014. She holds the position of Chief Sales Officer.

(12) Mr Simon Smith was appointed to the executive on 1 December 2014. He holds the position of Chief Technology Officer.

(13) Mr Doug Schneider resigned from the Group and the executive on 9 May 2014.

(14) Ms Edelvine Rigato was appointed as Company Secretary on 11 November 2014.

Employment contracts

The Managing Director and Chief Executive Officer, Mr Martin Mercer, is employed under an ongoing contract from 7 April 2014 and continues until such time that employment is terminated. Under the terms of the contract:

- He receives fixed remuneration plus superannuation per year. This remuneration will be reviewed annually.
- He is eligible for discretionary annual STI opportunity up to a maximum of 35% of fixed remuneration.
- He is eligible to participate in the LTI plans on terms determined by the Board, subject to receiving shareholders' approval.
- He may resign from this position and thus terminate the contract by giving six months' notice.
- The Company may terminate this employment contract by providing 12 months' notice.

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

Directors' Report (continued)

Compensation options/rights: options/rights granted and options/rights vested during the year 2015

During the year ended 31 December 2015, there were 1,177,383 rights granted to the KMP (2014 : 296,610).

Shares issued on exercise of rights

No performance rights were vested/exercised during the year ended 31 December 2015. In the previous year, shareholders approved a resolution to vary the vesting dates of the 2011 and 2012 Performance Rights such that both Performance Rights vested on 31 January 2014. As a consequence, 266,777 shares were issued to KMP upon vesting on 28 January 2014.

Options/Rights granted/vested/exercised/lapsed as remuneration during the year 2015

	Options/ Rights Granted	Value of options/ rights granted (1) \$	Value of options/rights vested/ exercised \$	Number of options/rights lapsed / forfeited	Value of options/rights lapsed / forfeited \$	Remuneration consisting of options/rights (2) %
Directors						
Mr Simon Jones	-	-	-	-	-	0.0%
Mr Martin Mercer	285,252	319,482	-	-	-	30.0%
Mr Robert Stewart AM	-	-	-	-	-	0.0%
Mr Tom Kiing	-	-	-	-	-	0.0%
Ms Naseema Sparks	-	-	-	-	-	0.0%
Mr Larry Bloch	-	-	-	-	-	0.0%
Executives						
Mr Peter Findlay	193,748	206,811	-	-	-	35.1%
Dr Bruce Tonkin	107,554	116,478	-	-	-	30.2%
Mr Peter Wright	116,763	125,595	-	-	-	27.5%
Ms Amy Rixon	95,670	104,906	-	-	-	37.2%
Mr Brett Fenton	150,985	165,807	-	-	-	45.8%
Ms Verity Meagher	102,944	113,050	-	-	-	36.8%
Ms Edelvine Rigato	-	-	-	-	-	N/A
Ms Catherine Hodgson- Croker	39,388	38,994	-	-	-	10.6%
Mr Simon Smith	85,079	84,228	-	85,079	84,228	0.0%
	1,177,383	1,275,352	-	85,079	84,228	

(1) Represents the grant date valuation multiplied by the number of performance rights granted.
This cost is expensed over the 3 year performance period.

Out of the 1,177,383 performance rights granted in 2015, 363,303 rights was granted to the Executives listed in the above table on 12 January 2015 in respect of 2014 LTI Plan.

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

Directors' Report (continued)

Option/ Rights holdings of Key Management Personnel as at 31 December 2015

	Opening balance	Options/ Rights granted	Options/ Rights vested/ exercised	Options/ Rights lapsed	Closing balance	Vested and exercisable at year end
Directors						
Mr Simon Jones	-	-	-	-	-	-
Mr Martin Mercer	296,610	285,252	-	-	581,862	-
Mr Robert Stewart AM	-	-	-	-	-	-
Mr Tom Kiing	-	-	-	-	-	-
Ms Naseema Sparks	-	-	-	-	-	-
Mr Larry Bloch	-	-	-	-	-	-
Executives						
Mr Peter Findlay	-	193,748	-	-	193,748	-
Dr Bruce Tonkin	-	107,554	-	-	107,554	-
Mr Peter Wright	-	116,763	-	-	116,763	-
Ms Amy Rixon	-	95,670	-	-	95,670	-
Mr Brett Fenton	-	150,985	-	-	150,985	-
Ms Verity Meagher	-	102,944	-	-	102,944	-
Ms Edelvine Rigato	-	-	-	-	-	-
Ms Catherine Hodgson-Crocker	-	39,388	-	-	39,388	-
Mr Simon Smith	-	85,079	-	(85,079)	-	-
	296,610	1,177,383	-	(85,079)	1,388,914	-

Shareholdings of Key Management Personnel as at 31 December 2015

	Opening balance	Granted as remuneration	Net change other*	Shares issued **	Closing balance
Directors					
Mr Simon Jones	155,935	-	-	-	155,935
Mr Martin Mercer	-	-	-	-	-
Mr Tom Kiing	5,721,488	-	-	-	5,721,488
Mr Robert Stewart AM	810,784	-	-	-	810,784
Ms Naseema Sparks	-	-	-	-	-
Mr Larry Bloch	9,208,363	-	-	-	9,208,363
Executives					
Mr Peter Findlay	114,333	-	-	-	114,333
Mr Bruce Tonkin	228,722	-	-	-	228,722
Mr Peter Wright	76,222	-	-	-	76,222
Ms Amy Rixon	-	-	-	-	-
Mr Brett Fenton	-	-	-	-	-
Ms Verity Meagher	-	-	-	-	-
Ms Edelvine Rigato	-	-	-	-	-
Ms Catherine Hodgson-Crocker	-	-	-	-	-
Mr Simon Smith	-	-	-	-	-
	16,315,847	-	-	-	16,315,847

* On market transactions

** Represents shares issued to satisfy Performance Rights Plans

Directors' Report (continued)

Employees

The consolidated entity employed 505 full time equivalent ('FTE') employees as at 31 December 2015 (2014: 368 FTE).

Auditor independence and non audit services

The Directors have received an independence declaration from the auditor of Melbourne IT Ltd, as shown on page 82.

Non audit services

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

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

	\$
Taxation advice services	92,250
Tax due diligence services	70,500
Assurance related services	86,000
	248,750

Modification of auditor rotation requirements

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

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

Signed in accordance with a resolution of the directors.


Simon Jones (Chairman)

Sydney, 22 March 2016

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 2015 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of its financial position as at 31 December 2015 and of its performance for the year ended on that date;
 - (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and Corporations Regulations 2001; and
 - (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).
 - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 31 December 2015.
- (3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group, as identified in Note 34, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the deed as described in Note 33.

On behalf of the Board



Simon Jones (Chairman)

Sydney, 22 March 2016

Financial Statements

Consolidated statement of financial position

As at 31 December 2015

		CONSOLIDATED	
	Notes	2015 \$'000	2014 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	21(b)	12,370	18,086
Trade and other receivables	8	12,259	8,650
Prepayment of domain name registry charges		9,384	10,045
Current tax asset		83	61
Derivative financial instruments	24	-	31
Other assets	9	3,624	2,521
Total Current Assets		37,720	39,394
Non-Current Assets			
Plant and equipment	11	7,426	4,909
Intangible assets	12	204,805	118,884
Deferred tax assets	10	5,298	4,524
Prepayment of domain name registry charges		5,376	5,095
Non-current financial assets	13	1,995	1,250
Other assets		168	47
Total Non-Current Assets		225,068	134,709
TOTAL ASSETS		262,788	174,103
LIABILITIES			
Current Liabilities			
Trade and other payables	14	17,077	13,752
Interest-bearing loans and borrowings	15	198	218
Provisions	16	3,321	4,120
Derivative financial instruments	24	117	-
Income received in advance		28,914	26,150
Other financial liabilities	17	18,885	-
Total Current Liabilities		68,512	44,240
Non-Current Liabilities			
Interest-bearing loans and borrowings	15	30,144	295
Deferred tax liabilities	18	2,775	703
Provisions	16	546	628
Income received in advance		12,954	13,469
Other financial liabilities	17	27,274	-
Total Non-Current Liabilities		73,693	15,095
TOTAL LIABILITIES		142,205	59,335
NET ASSETS		120,583	114,768
EQUITY			
Contributed equity	19(a)	35,629	35,629
Foreign currency translation reserve	20	(573)	(658)
Options reserve	20	776	5,321
Hedging reserve	20	(82)	31
Other reserve	20	3,646	-
Available-for-sale (AFS) reserve	20	498	-
Retained earnings		80,379	74,357
Equity attributable to Equity holders of the parent		120,273	114,680
Non-controlling interest		310	88
TOTAL EQUITY		120,583	114,768

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 2015

	Notes	CONSOLIDATED	
		2015 \$'000	2014 \$'000
Continuing operations			
Revenue	4	150,256	124,706
Registry, Hosting and Sundry Other Product Costs		(66,312)	(52,944)
Gross profit		83,944	71,762
Salaries and employee benefit expenses	5(a)	(50,337)	(43,224)
Depreciation expenses	5(b)	(3,163)	(2,445)
Amortisation of identifiable intangible assets	5(c)	(2,413)	(1,870)
Impairment of intangible assets	12(a)	-	(8,587)
Transaction costs relating to the acquisitions	22	(1,995)	(1,340)
Finance costs	5(d)	(2,741)	(1,338)
Other expenses	5(e)	(13,310)	(12,668)
Profit before tax		9,985	290
Income tax (expense)/ benefit	6	(3,257)	358
Profit for the year		6,728	648
Other comprehensive income			
<u>Items that are reclassified to the profit or loss:</u>			
Currency translation differences		85	(92)
<u>Items that may be reclassified to the profit or loss:</u>			
Net gains/(losses) on cashflow hedges (net of tax)		(113)	31
Net gain on available-for-sale financial assets		498	-
Other comprehensive income/ (loss) for the year, net of tax		470	(61)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		7,198	587
Profit for the year attributable to:			
Equity holders of the parent		5,610	479
Non-controlling interests		1,118	169
		6,728	648
Total comprehensive income attributable to:			
Equity holders of the parent		6,080	418
Non-controlling interests		1,118	169
		7,198	587
Earnings per share		2015	2014
Basic earnings per share	26	6.04 cents	0.72 cents
Diluted earnings per share	26	5.95 cents	0.72 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 2015

	FOREIGN CURRENCY RESERVE \$'000	OPTIONS RESERVE \$'000	HEDGING RESERVE \$'000	OTHER RESERVES \$'000	AFS RESERVE \$'000	CONTRIBUTED EQUITY \$'000	RETAINED EARNINGS \$'000	TOTAL \$'000	NON- CONTROLLING INTEREST \$'000	TOTAL EQUITY \$'000
As at 1 January 2015	(658)	5,321	31	-	-	35,629	74,357	114,680	88	114,768
Profit for the year	-	-	-	-	-	-	5,610	5,610	1,118	6,728
Other comprehensive income	85	-	(113)	-	498	-	-	470	-	470
Total comprehensive income for the year	85	-	(113)	-	498	-	5,610	6,080	1,118	7,198
Transactions with owners in their capacity as owners:										
Share based payment	-	514	-	-	-	-	-	514	-	514
Equity dividends	-	-	-	-	-	-	(4,647)	(4,647)	-	(4,647)
Acquisition of subsidiary (Note 22)	-	-	-	-	-	-	-	-	45,266	45,266
Transfer to other reserve	-	-	-	3,646	-	-	-	3,646	(3,646)	-
Transfer from/(to) financial liabilities	-	-	-	-	-	-	-	-	(42,516)	(42,516)
Transfer to/(from) options reserve	-	(5,059)	-	-	-	-	5,059	-	-	-
As at 31 December 2015	(573)	776	(82)	3,646	498	35,629	80,379	120,273	310	120,583
As at 1 January 2014	(566)	5,017	-	-	-	68,809	74,807	148,067	-	148,067
Profit for the year	-	-	-	-	-	-	479	479	169	648
Other comprehensive income	(92)	-	31	-	-	-	-	(61)	-	(61)
Total comprehensive income for the year	(92)	-	31	-	-	-	479	418	169	587
Transactions with owners in their capacity as owners:										
Share based payment	-	304	-	-	-	-	-	304	-	304
Capital return	-	-	-	-	-	(45,176)	-	(45,176)	-	(45,176)
Acquisition of subsidiary (Note 22)	-	-	-	-	-	12,070	-	12,070	94	12,164
Capital return transaction costs (net of tax)	-	-	-	-	-	(74)	-	(74)	-	(74)
Equity dividends	-	-	-	-	-	-	(929)	(929)	(175)	(1,104)
As at 31 December 2014	(658)	5,321	31	-	-	35,629	74,357	114,680	88	114,768

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 2015

	Notes	CONSOLIDATED	
		2015 \$'000	2014 \$'000
Cash flows from operating activities			
Receipt of service revenue and recoveries		163,004	134,707
Payments to suppliers and employees		(145,317)	(122,690)
Interest received		262	572
Interest paid		(754)	(166)
Bank charges and credit card merchant fees		(1,530)	(1,172)
Income tax refunds		835	5,980
Income tax paid		(2,877)	(1,149)
Net cash flows from operating activities	21(a)	13,623	16,082
Cash flows from investing activities			
Purchase of plant and equipment and intangible assets		(5,782)	(6,309)
Sale of DBS business, net of cash disposed		-	15,250
Purchase of financial asset	13	(247)	(1,250)
Acquisition of Netregistry	22(c)	-	(38,366)
Acquisition of Uber	22(a)	(14,909)	-
Acquisition of Outware, net of cash acquired	22(b)	(21,301)	-
Transaction costs relating to acquisitions	22(b)	(1,974)	(1,340)
Net cash flows from/ (used in) investing activities		(44,213)	(32,015)
Cash flows from financing activities			
Proceeds from borrowings	15	33,500	20,000
Repayment of borrowings	15	(3,500)	(20,000)
Transaction costs on capital return	19(b)	-	(74)
Return of capital	19(b)	-	(45,176)
Payment of dividend to equity holders of the parent		(4,647)	(929)
Payment of dividend to non-controlling interests		(224)	(175)
Payment of finance lease liabilities		(260)	(137)
Net cash flows used in/ (from) financing activities		24,869	(46,491)
Net decrease in cash and cash equivalents		(5,721)	(62,424)
Net foreign exchange differences		5	(10)
Cash and cash equivalents at beginning of year		18,086	80,520
CASH AND CASH EQUIVALENTS AT END OF YEAR	21(b)	12,370	18,086

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 2015

Corporate information

The financial report of Melbourne IT Ltd for the year ended 31 December 2015 was authorised for issue in accordance with a resolution of the directors on 22 March 2016.

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

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

1. Summary of significant accounting policies

Basis of preparation

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

The entity is a for-profit entity.

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

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

The financial report has been prepared on a going concern basis which assumes that the Group will be able to meet its obligations as and when they fall due. The Group's current liabilities exceed current assets by \$30,792,000 as at 31 December 2015 (2014: \$4,846,000). This mainly arises due to the revenue recognition policy (refer note 1(v)) for domain names resulting in income in advance of \$28,614,000 being recognised as a current liability. Furthermore, a \$18,885,000 liability relating to the fair value of the put liability for the earn out payable to Outware on completion of the 30 June 2016 results has also been recognised as a current liability. The Group has un-used bank facilities of \$53,600,000 which the Group will use to pay this earn out if necessary. Refer to Note 15.

(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 2015.

Notes to the Financial Statements

For the year ended 31 December 2015

Annual Improvements 2010-2012 Cycle

The Group has applied these improvements for the first time in these consolidated financial statements. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions.

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- (i) An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'; and
- (ii) The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments

The Standard contains three main parts and makes amendments to a number of Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards. Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 Financial Instruments.

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

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

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

Australian Accounting Standards that have recently been issued or amended but which are not yet effective and have not been adopted by the Group for the annual reporting period ended 31 December 2015 are outlined in the table below.

Notes to the Financial Statements

For the year ended 31 December 2015

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
IFRS 16	Leases	The key features of IFRS 16 are as follows: Lessee accounting • Lessees are required to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. • A lessee measures right-of-use assets similarly to other non-financial assets and lease liabilities similarly to other financial liabilities. • Assets and liabilities arising from a lease are initially measured on a present value basis. The measurement includes non-cancellable lease payments (including inflation-linked payments), and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. • IFRS 16 contains disclosure requirements for lessees Lessor accounting • IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently • IFRS 16 also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk.	1-Jan-19	The impact of the application of the new Standard is currently being assessed.	1-Jan-19

Notes to the Financial Statements

For the year ended 31 December 2015

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

Notes to the Financial Statements

For the year ended 31 December 2015

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB 9 (Cont'd)	Financial instruments	Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10. The AASB issued a revised version of AASB 9 (AASB 2013-9) during December 2013. The revised standard incorporates three primary changes: 1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures; 2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time; and 3. The mandatory effective date moved to 1 January 2018.	1-Jan-18	Whilst the impact of the application of the new Standard is currently being assessed, our initial assessment is that there should be no material impact on the Group's financial position or performance.	1-Jan-18
AASB 2014-4	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to AASB 116 and AASB 138)	AASB 116 Property Plant and Equipment and AASB 138 Intangible Assets both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The amendment also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1-Jan-16	The amendments to the Accounting Standard are not expected to have a material impact on the Group's financial position or performance.	1-Jan-16

Notes to the Financial Statements

For the year ended 31 December 2015

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB15	Revenue from Contracts with Customers	AASB 15 Revenue from Contracts with Customers replaces the existing revenue recognition standards AASB 111 Construction Contracts, AASB 118 Revenue and related Interpretations (Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers, Interpretation 131 Revenue—Barter Transactions Involving Advertising Services and Interpretation 1042 Subscriber Acquisition Costs in the Telecommunications Industry). AASB 15 incorporates the requirements of IFRS 15 Revenue from Contracts with Customers issued by the International Accounting Standards Board (IASB) and developed jointly with the US Financial Accounting Standards Board (FASB).	1-Jan-18	The impact of the application of the new Standard is currently being assessed.	1-Jan-18

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

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Melbourne IT Ltd and its subsidiaries as at 31 December each year ('the Group'). The Group controls a subsidiary if and only if the Group has:

- (1) power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the subsidiary);
- (2) exposure, or rights, to variable returns from its involvement with the subsidiary; and
- (3) the ability to use its power over the subsidiary to affect its returns.

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

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.

Acquisition of subsidiaries which includes put options to acquire non-controlling interests in the future is accounted for in accordance with AASB 10 *Consolidated Financial Statements (AASB 10)*. During the period the non-controlling interests put options remain unexercised, the non-controlling interests are calculated and immediately derecognised as though it was acquired at that date. A financial liability with respect to the put options is recognised in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. The difference between derecognition of the non-controlling interests and recognition of the financial liabilities is accounted for as an equity transaction, and disclosed as a separate reserve within equity (refer to 'Other Reserve' disclosed in the Statement of Changes in Equity).

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

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

(d) Business Combinations

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

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

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

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

(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, tax, depreciation and amortisation ('EBITDA').

Notes to the Financial Statements

For the year ended 31 December 2015

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

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

Accounting policies and inter segment transactions

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

Identification of reportable segments

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

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

Where operating segments meet the aggregation criteria, these are aggregated into reported segments. Operating segments are aggregated based on similar products and services provided to same type of customers using the same distribution method. The Group's reportable segments are as described below:

SMB Solutions

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

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

Enterprise Services (ES)

Enterprise Services is a cloud and mobile solutions provider for Australian enterprise and government organisations.

Notes to the Financial Statements

For the year ended 31 December 2015

(f) Foreign Currency Transactions

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

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

The functional currency of each overseas subsidiary is as follows:

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

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

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

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

(g) Cash and Cash Equivalents

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

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

(h) Trade and Other Receivables

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

(i) Financial assets

(a) Recognition and measurement

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

AFS financial assets

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

Notes to the Financial Statements

For the year ended 31 December 2015

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

Loans and receivables

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

(b) Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

Available-for-sale ('AFS') financial assets

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

(j) Fair Value Measurement

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within their fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

(k) Prepayment of Domain Name Registry Charges

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

(l) Derivative Financial Instruments

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

Melbourne IT Ltd uses derivative financial instruments, such as forward currency contracts 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 currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

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.

(m) Plant and Equipment

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

Depreciation

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

	2015	2014
Leasehold improvements	The lease term	The lease term
Plant and equipment	2 to 4 years	2 to 4 years
Furniture and Fittings	2 to 5 years	2 to 5 years

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

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

(n) Impairment of non-financial assets

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

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

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

(o) Goodwill

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

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

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

(p) Investments in Subsidiaries

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

(q) Trade and Other Payables

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

(r) Interest-bearing Loans and Borrowing Costs

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

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

(s) Leases

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

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

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For the year ended 31 December 2015

(f) 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

Costs relating to the research phase of the project are expensed while costs relating to the development phase are capitalised as Capitalised Software. The costs capitalised are being amortised over a useful life of 4-6 years.

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.
Capitalised Software Projects	
Useful lives	Finite
Amortisation	Amortised over expected useful life of 4-6 years
Impairment testing	Amortisation method reviewed at each financial year-end and when indicators exist.

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

(u) Provisions

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

(v) 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.

Notes to the Financial Statements

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

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

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

Rendering of services

Revenue from provision of services is recognised when the services are performed or by reference to the stage of completion. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract.

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 corporate 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.

(x) Share-based Payment Transactions

Performance Rights Plan

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

Notes to the Financial Statements

For the year ended 31 December 2015

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

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

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

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

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

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

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

(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.

Notes to the Financial Statements

For the year ended 31 December 2015

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

Notes to the Financial Statements

For the year ended 31 December 2015

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

(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) Options Reserve

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

(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) Available-for-sale (AFS) Reserve

The available-for-sale reserve is used to record the change to the fair value of the embedded derivative component of the non-current financial asset.

(af) Other Reserve

Other reserve is used to record the difference between derecognition of the non-controlling interests and recognition of the financial liabilities.

(ag) Earnings Per Share

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

Diluted earnings per share are calculated as net profit attributable to members, divided by the weighted average number of ordinary shares and the dilutive potential ordinary shares.

2. Financial risk management objectives and policies

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

Notes to the Financial Statements

For the year ended 31 December 2015

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

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

Capital Management

For the purpose of the Group's capital management, capital includes issued capital, and all other equity reserves attributable to the equity holders of the parent. 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 Group manages its capital structure and makes adjustments in light of changes in economic conditions and requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During 2015, the Group paid dividends of \$4.647 million (2014: \$0.929 million). During 2014, the Group made a return to shareholders amounting to approximately \$45.2 million.

On 23 February 2016, the directors declared a final dividend amounting to \$3.718 million.

Risk Exposures and Responses

Interest Rate Risk

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

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

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	12,370	18,086
Financial Liabilities		
Bank loan	30,000	-
Interest bearing loans (current and non-current)	342	513

Notes to the Financial Statements

For the year ended 31 December 2015

Sensitivity Analysis

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

At 31 December 2015, 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		Equity	
	Higher / (Lower)	Higher / (Lower)	Higher / (Lower)	Higher / (Lower)
	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000
Consolidated				
Assets + 0.25% (25 basis points), , Liabilities + 0.25% (25 basis points) Liabilities (no change), (2014: Assets + 0.25% (25 basis points)).	(5)	31	(5)	31
Assets - 0.25% (25 basis points), Liabilities - 0.25% (25 basis points) Liabilities (no change), (2014: Assets - 0.25% (25 basis points)).	5	(31)	5	(31)

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

Credit Risk

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

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

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

Liquidity Risk

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

Foreign Currency Risk

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

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 2015, 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	
	2015	2014
	\$'000	\$'000
Financial Assets		
Cash and cash equivalents	1,650	338
Trade and other receivables	198	1,242
	1,848	1,580
Financial Liabilities		
Trade and other payables	(1,725)	(1,739)
Net exposure	123	(159)

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

At 31 December 2015, 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)	
	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000
Consolidated				
- AUD/USD +1% (2014: +1%)	(1)	1	(1)	1
- AUD/USD -10% (2014: -10%)	14	(12)	14	(12)

The Group also has exposures to foreign exchange when retranslating foreign currency subsidiaries into Australian Dollars. The sensitivity range has been determined using an expected range of 0.656 to 0.736 USD/AUD for the retranslation of USD denominated balances for the forthcoming year.

Notes to the Financial Statements

For the year ended 31 December 2015

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. trade receivables. These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, the Company has established comprehensive risk reporting covering its business units that reflects expectations of settlement of financial assets and liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

Consolidated	< 6 Months \$'000	6 - 12 Months \$'000	1 to 5 Years \$'000	> 5 Years \$'000	Total \$'000
31 December 2015					
Financial assets					
Cash and cash equivalents	12,370	-	-	-	12,370
Trade and other receivables	12,259	-	-	-	12,259
Other financial assets	-	-	1,995	-	1,995
	24,629	-	1,995	-	26,624
Financial liabilities					
Trade and other payables	(17,077)	-	-	-	(17,077)
Interest bearing loans and	(119)	(106)	(30,151)	-	(30,376)
Other financial liabilities	-	(18,885)	(27,274)	-	(46,159)
	(17,196)	(18,991)	(57,425)	-	(93,612)
Net inflow/(outflow)	7,433	(18,991)	(55,430)	-	(66,988)
31 December 2014					
Financial assets					
Cash and cash equivalents	18,086	-	-	-	18,086
Trade and other receivables	8,650	-	-	-	8,650
Other financial assets	-	-	1,250	-	1,250
	26,736	-	1,250	-	27,986
Financial liabilities					
Trade and other payables	(13,752)	-	-	-	(13,752)
Interest bearing loans and	(124)	(94)	(354)	-	(572)
	(13,876)	(94)	(354)	-	(14,324)
Net inflow/(outflow)	12,860	(94)	896	-	13,662

Fair Value Hierarchy

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

Notes to the Financial Statements

For the year ended 31 December 2015

3. Significant accounting judgements, estimates and assumptions

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

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

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

(i) Significant accounting judgements

Taxation

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

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

Control of Outware Systems Pty Ltd

On 16 June 2015, Melbourne IT acquired 50.2% ownership interest in Outware Systems Pty Ltd ('Outware'). Management's judgement in assessing that Melbourne IT has control of Outware is based on the consideration of (1) the size of the Melbourne IT's holding of voting rights relative to the size and dispersion of holdings of the three independent shareholders; (2) Melbourne IT's potential voting rights via the put options to acquire the remaining 49.8% in two years' time; and (3) the power and rights that Melbourne IT has obtained as a result of the strategy outlined in the Business Plan agreed by all shareholders, and its ability to affect the returns and exposures from Outware, are much greater than simply having significant influence.

(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.

Notes to the Financial Statements

For the year ended 31 December 2015

Share-based payment transactions

The fair value is determined by an external valuer using a binomial model and/or Monte Carlo simulation model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Melbourne IT Ltd ('market conditions'). The cost of equity-settled transactions is recognised, together with a corresponding increase in equity over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

Refer to note 30 for further details.

Convertible note receivable

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

Refer to note 13 for further details.

Put options liability

The fair value of the put options liability has been determined based on forecast financial performance for the periods ending 30 June 2016 and 30 June 2017, respectively and on the expected EBITDA multiple that will be paid. Refer to notes 17 and 22(b) for further details.

Notes to the Financial Statements

For the year ended 31 December 2015

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
4. Revenue		
Registration revenue	55,932	53,335
Solutions, hosting & services	94,041	70,286
Other revenue	21	513
Total revenue excluding interest income	149,994	124,134
Interest revenue	262	572
Total consolidated revenue	150,256	124,706
5. Expenses		
(a) Salaries and employee benefits expense		
Included in Salaries and employee benefits expenses:		
Expensing of share-based payments	514	330
Superannuation expense	3,154	2,652
(b) Depreciation expenses		
Depreciation of non-current assets		
Fit out	127	308
Plant and equipment	3,000	2,112
Furniture	36	25
Total depreciation of non-current assets	3,163	2,445
(c) Amortisation of identifiable intangible assets		
Transformation Asset	-	406
Capitalised software	1,607	1,176
Customer contracts	806	288
Total amortisation of identifiable intangible assets	2,413	1,870
(d) Finance costs		
Bank charges and credit card merchant fees	1,530	1,172
Interest expense on debt and borrowings	744	166
Unwinding of discount on other financial liabilities	467	-
Total finance costs	2,741	1,338
(e) Other Expenses		
Included in other expenses:		
Premises	3,452	2,721
Communications	1,308	1,243
Marketing	2,832	2,157
Equipment	2,480	2,819
Finance & legal	1,302	1,225
Foreign exchange	241	112
Bad debts and doubtful debts	337	175

Notes to the Financial Statements

For the year ended 31 December 2015

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000

6. Income tax

The major components of income tax expense are:

(a) Statement of comprehensive income

Current income tax

Current income tax charge	2,340	1,237
Adjustments in respect of current income tax of previous years	57	(685)

Deferred income tax

Relating to origination and reversal of temporary differences	860	(910)
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Income tax (benefit)/ expense reported in the statement of comprehensive income	3,257	(358)
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(b) Statement of changes in equity

Deferred income tax related to items charged or credited directly to equity

Net gain on revaluation of cash flow hedges	35	-
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Income tax expense reported in equity	35	-
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(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	9,985	290
At the Group's statutory income tax rate of 30% (2014: 30%)	2,996	87
Adjustments in respect of current income tax of previous years	57	(685)
Non-deductible expenses	513	504
Deductions from shares issued via Employee Share Trust	-	(283)
Unwinding of discount on other financial liabilities	140	-
Estimated R&D tax incentive claims	(510)	-
Other	61	19
Income tax expense/ (benefit) at the effective income tax rate	3,257	(358)

Income tax expense/ (benefit) reported in the statement of comprehensive income	3,257	(358)
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As at 31 December 2015, Melbourne IT Group had unused carry forward tax losses of \$3.329 million (2014: \$Nil). These carry forward tax losses arose on the acquisition of Uber Global Pty Ltd.

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.

Notes to the Financial Statements

For the year ended 31 December 2015

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

On 1 May 2015, Uber entered into the tax consolidation Group of Melbourne IT following the acquisition of Uber.

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

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

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000

7. Dividends paid or provided for on ordinary shares

(a) Dividends paid during the year

Interim franked dividends for 2015: 1.0 cent per share (2014: 1.0 cent per share) 929 929

Final franked dividends for 2014: 4.0 cents per share (2013: Nil) 3,718 -

(b) Dividends proposed and not recognised as a liability

Final franked dividend for the year ended 31 December 2015:
4.0 cents per share (2014: 4.0 cents per share) 3,718 3,718

(c) Franking credit balance

The amount of franking credits available for the subsequent financial year are:
- franking account balance as at the end of the financial year at 30% (2014: 30%) 76 1,032

8. Trade and other receivables (current)

Trade debtors	13,335	9,684
Allowance for impairment loss	(1,076)	(1,034)
Total trade and other receivables (Current)	12,259	8,650

Trade debtors are non-interest bearing and generally on 14-60 day terms.

Movements in the allowance for impairment loss were as follows:

Opening Balance	1,034	639
Additional Provision / (Released)	139	160
Amount written off	(150)	-
Acquisitions	53	229
Foreign currency translation impact	-	6
Closing Balance	1,076	1,034

Notes to the Financial Statements

For the year ended 31 December 2015

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

	2015		2014	
	Gross \$'000	Allowance \$'000	Gross \$'000	Allowance \$'000
Consolidated				
Current	6,255	-	4,106	-
0 - 30 days past due	3,430	-	2,131	-
31 - 60 days past due	1,349	-	1,323	-
Past due 61 days +	2,301	(1,076)	2,124	(1,034)
Closing Balance	13,335	(1,076)	9,684	(1,034)

Receivables past due but not considered impaired are \$6.004 million (2014: \$4.544 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.

	CONSOLIDATED	
	2015 \$'000	2014 \$'000

9. Other assets (current)

Other prepayments	2,375	2,492
Accrued income	1,249	29
Total other assets (Current)	3,624	2,521

10. Deferred tax asset (non-current)

Deferred tax asset at 31 December relates to the following:

Doubtful debts provision	308	307
Employee benefits and make good	1,153	1,097
Accruals	1,132	1,318
Unrealised foreign exchange losses	492	39
Transformation asset	908	1,498
Blackhole expenditure	204	194
Carry forward tax losses	999	-
Other	102	71
	5,298	4,524

Notes to the Financial Statements

For the year ended 31 December 2015

11. Plant and equipment (non current)

	Leasehold Improvements \$'000	Plant and Equipment \$'000	Furniture and fittings \$'000	CWIP \$'000	Total \$'000
Cost					
At 1 January 2014	661	6,987	159	-	7,807
Acquisition of Netregistry (note 22)	28	1,776	39	-	1,843
Additions	69	1,517	10	958	2,554
Disposals	(40)	(1,331)	-	-	(1,371)
At 31 December 2014	718	8,949	208	958	10,833
Acquisitions of Uber & Outware (note 22)	-	1,915	10	-	1,925
Additions	280	3,231	92	152	3,755
Transfers	173	738	47	(958)	-
At 31 December 2015	1,171	14,833	357	152	16,513
Depreciation and impairment					
At 1 January 2014	191	4,582	77	-	4,850
Depreciation charge for the year	308	2,112	25	-	2,445
Disposals	(40)	(1,331)	-	-	(1,371)
At 31 December 2014	459	5,363	102	-	5,924
Depreciation charge for the year	127	3,000	36	-	3,163
At 31 December 2015	586	8,363	138	-	9,087
Net book value					
At 31 December 2014	259	3,586	106	958	4,909
At 31 December 2015	585	6,470	219	152	7,426

Notes to the Financial Statements

For the year ended 31 December 2015

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
12. Intangible assets (non current)		
Goodwill	182,000	99,976
Market Related Intangibles	9,052	9,052
Customer Contracts	7,244	2,583
Accumulated amortisation	(1,757)	(951)
	5,487	1,632
Capitalised Software	11,049	9,400
Accumulated amortisation	(2,783)	(1,176)
	8,266	8,224
Other Intangibles	315	315
Accumulated amortisation	(315)	(315)
	-	-
Total Intangible Assets	204,805	118,884

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

	Other Intangibles \$'000	Capitalised Software \$'000	Customer Contracts \$'000	Market Related Intangibles \$'000	Goodwill \$'000	Total \$'000
Net balance at 1 January 2014	-	9,904	-	7,128	52,280	69,312
Acquisition of Netregistry (note 22)	-	8,400	1,920	1,924	47,696	59,940
Additions	-	89	-	-	-	89
Amortisation	-	(1,582)	(288)	-	-	(1,870)
Impairment	-	(8,587)	-	-	-	(8,587)
Net balance at 31 December 2014	-	8,224	1,632	9,052	99,976	118,884
Acquisitions of Uber & Outware (not	-	-	4,283	-	82,024	86,307
Additions	-	1,649	378	-	-	2,027
Amortisation	-	(1,607)	(806)	-	-	(2,413)
Net balance at 31 December 2015	-	8,266	5,487	9,052	182,000	204,805

(b) Customer Contracts

Following the acquisitions of Uber Global Pty Ltd ('Uber') and Outware Systems Pty Ltd ('Outware') during the year, customer contracts amounting to \$1.145 million relating to Uber and \$3.138 million relating to Outware were recognised based on the external valuation. The customer contracts are amortised over the period of 5 years based on the historical attrition rate.

Notes to the Financial Statements

For the year ended 31 December 2015

(c) Capitalised Software

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

In the previous year, following the acquisition of Netregistry, Melbourne IT completed an assessment of both the IWS asset and the existing platform used by Netregistry, to determine the most suitable platform to support the operations of the enlarged group. The conclusion of this assessment was that existing Netregistry platform, referred to as the "console", was the preferred platform. As a result of this decision, the IWS platform was decommissioned. However, Oracle Financials will continue to be used as a common financial reporting system for the enlarged group. An impairment charge of \$8.587 million has been recorded to reduce the carrying value of the IWS asset to \$1.0 million (being the carrying value of Oracle Financials) as at 31 March 2014.

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

(d) Goodwill and other intangible assets impairment testing

Carrying amount of intangible assets allocated to each of the CGUs:

	SMB Solutions		ES		Total	
	2015	2014	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Goodwill	103,666	90,995	78,334	8,981	182,000	99,976
Market Related Intangibles	7,769	7,794	1,283	1,258	9,052	9,052
Customer Contracts	2,470	1,632	3,017	-	5,487	1,632
Capitalised Software	6,200	6,168	2,066	2,056	8,266	8,224

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

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

	SMB Solutions	ES
Growth rate year 2-5 *	2.50%	2.50%**
Growth rate after year 5 ***	2.50%	2.50%
Discount rate ^	11.78%	11.78%

* All value in use calculations are based on management's estimates of achievable EBITDAs for the respective CGUs, with growth rates as noted in the table applied to years 2-5. These estimates are most sensitive to assumptions around revenue growth, in particular the timescale for implementation of new products and initiatives in the SMB Solutions business. Year 1 results are based on Board approved budgets.

** ES CGU's year 2 growth rate is expected to be greater than 2.5% as it is within the earn out period of Outware Systems Pty Ltd ('Outware'). ES CGU continues its cloud solutions expansion strategy and leverages on revenue synergies with Outware.

*** Cash flows beyond the 5 year period are extrapolated using a 2.5% growth rate (2014: 3%) to determine terminal value, which is the company's estimate of the long term average growth rate for the industry in which the company operates.

^ The discount rate used reflects risks specific to the Group and its operating segments and is derived from its weighted average cost of capital. Segment-specific risk is incorporated by applying individual beta which is assessed annually based on publicly available data.

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

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

If all assumptions remain the same, the base year EBITDA would need to decline from the current expected EBITDA by 22% for the SMB Solutions CGU and 25% for the ES CGU for the recoverable amounts of the CGUs to equal their carrying values respectively.

Notes to the Financial Statements

For the year ended 31 December 2015

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
13. Non-current financial assets		
Convertible note receivable - 20 October 2014 (a)	1,748	1,250
Convertible note receivable - 20 November 2015 (b)	247	-
	1,995	1,250

(a) The Group entered into a Convertible Note Agreement ('Agreement') with Tiger Pistol Pty Ltd ('Tiger Pistol') on 20 October 2014. The convertible note contains an embedded derivative and a loan receivable component. These components are accounted for together in accordance with AASB 139. A recent capital raising exercise conducted by Tiger Pistol resulted in a change to the fair value of the embedded derivative which was recorded against the available-for-sale reserve.

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

(b) The Group entered into a second Convertible Note Agreement ('Agreement') with Tiger Pistol Pty Ltd on 20 November 2015 pursuant to the recent capital raising exercise. The convertible note contains an embedded derivative and a loan receivable component. These components are accounted for together in accordance with AASB 139.

The maturity date of the convertible note receivable is 1 February 2018. Upon maturity, or earlier subject to satisfaction of early redemption or conversion conditions as stipulated in the Agreement, this financial asset may be converted into a minimum of 85,649 ordinary shares with the final number of shares dependant on conditions stipulated in the Agreement.

14. Trade and other payables (current)

Trade creditors	3,408	1,146
Sundry creditors	3,109	3,077
Deposits received in advance	2,412	3,138
Accrued expenses	8,148	6,391
Total trade and other payables (Current)	17,077	13,752

Terms and conditions relating to trade creditors:

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
15. Interest bearing loans and borrowings		
Current		
Finance lease liabilities	198	218
Non current		
Finance lease liabilities	144	295
Bank loan	30,000	-
	30,144	295

The Group has entered into finance leases for some items of equipment whereby the present value of the minimum lease payments approximate \$342,000 (2014: \$513,000). Refer to note 23 for further details.

In the current year, the Group entered into a \$83.6 million cash advance facility with ANZ. The \$20.0 million revolving credit facility with National Australia Bank (NAB) entered in the previous year to partly fund the acquisition of Netregistry Group Limited was extinguished in June 2015. Prior to the extinguishment of the NAB bank facility, the Group had drawn down \$3.5 million.

In June 2015, \$30.0 million was drawn down from the ANZ banking facility to fund the acquisition of a 50.2% interest in Outware Systems Pty Ltd and to assist with working capital requirements of which \$3.5 million was used to repay NAB. The ANZ bank facility has a maturity date of 1 January 2019. The interest rate is based on the relevant period BBSY rate. The cash advance facility balance is approximate to fair value given that it is a interest bearing loan at floating interest rate.

(b) Financing facilities available

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

	Total facilities		Facility used at reporting date	
	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000
- Business Lending - Cash advance facility	83,600	-	30,000	-
- Business Lending - Bank Guarantees	3,030	7,042	2,192	1,885
- Business Lending - Revolving credit facility	-	20,000	-	-
- Asset Finance - Leasing	5,000	5,000	-	-
- Standby Letters of Credit	3,200	3,103	2,944	2,443
	94,830	35,145	35,136	4,328

Notes to the Financial Statements

For the year ended 31 December 2015

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
16. Provisions		
Current		
Employee benefits	3,151	2,882
Other	170	1,238
	3,321	4,120
Non current		
Employee benefits	546	628
Total provisions	3,867	4,748

The aggregate employee benefit liability comprises:

Provisions (current)	3,151	2,882
Provisions (non current)	546	628
	3,697	3,510

17. Other financial liabilities

Current		
Put options liability	17,030	-
Dividend liability to non-controlling interests	1,855	-
	18,885	-
Non-current		
Put options liability	25,953	-
Dividend liability to non-controlling interests	1,321	-
	27,274	-

The other financial liabilities represent the fair value of the put options to acquire the remaining 49.8% interest in Outware Systems Pty Ltd and estimated dividend liability due to non-controlling interests over the next two years (refer to Note 22(b) for more details). The fair value of the put options liability has been determined based on forecast financial performance for the periods ending 30 June 2016 and 30 June 2017, respectively and on the expected EBITDA multiple that will be paid.

Notes to the Financial Statements

For the year ended 31 December 2015

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
18. Deferred tax liabilities		
Deferred tax liability at 31 December relates to the following:		
Intangible assets	2,374	669
Unrealised foreign exchange gains	373	-
Other	28	34
	2,775	703

19. Contributed equity

(a) Issued and paid-up capital				
Ordinary shares each fully paid		35,629		35,629
(b) Movements in shares on issue				
	2015		2014	
	Number of shares	\$'000	Number of shares	\$'000
Beginning of the financial year	92,944,392	35,629	83,164,371	68,809
Issued during the year:				
- Acquisition of Netregistry Group Limited (Netregistry)	-	-	9,285,144	12,070
- Return of capital	-	-	-	(45,176)
- Executive and employee options exercised	-	-	-	-
- Performance rights plans (a)	-	-	494,877	-
- Decrease due to transaction costs for capital return	-	-	-	(74)
End of the financial year	92,944,392	35,629	92,944,392	35,629

(a) Represents shares issued to satisfy the vesting of the Performance Rights Plans issued on 1 July 2011 and 1 July 2012 pursuant to a resolution approved by shareholders in a General Meeting on 28 January 2014.

The ordinary shares have no par value in accordance with *Corporations Act 2001*.

Notes to the Financial Statements

For the year ended 31 December 2015

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
20. Reserves		
Options reserve	776	5,321
Foreign currency translation reserve	(573)	(658)
Hedging reserve	(82)	31
Other reserves	3,646	-
Available-for-sale (AFS) reserve	498	-
	4,265	4,694

Options reserve

During the financial year, there were 1,177,383 rights granted (2014: 296,610). Refer to note 30 for details relating to the 2014 Long Term Incentive Plan.

Foreign currency translation reserve

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

Hedging reserve

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

Available-for-sale (AFS) reserve

A change to the fair value of the embedded derivative component of the non-current financial asset was recorded against the available-for-sale reserve. Refer to note 13 for further details.

Other reserve

Other reserve is used to record the difference between derecognition of the non-controlling interests and recognition of the financial liabilities.

Notes to the Financial Statements

For the year ended 31 December 2015

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000

21. Cash flow statement

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

Profit for the year	6,728	648
Depreciation of non-current assets	3,163	2,445
Amortisation of non-current assets	2,413	1,870
Impairment of non-current assets	-	8,587
Expense of share based payments	514	330
Transaction costs	1,995	1,340
Unwinding of discount on other financial liabilities	467	-
Changes in assets and liabilities		
Decrease in trade debtors	442	938
Decrease in prepayments	887	1,092
(Increase)/decrease in current tax receivables	(186)	5,377
Decrease in provisions	(881)	(1,196)
Decrease/(increase) in deferred tax asset	774	(200)
Increase/(decrease) in deferred tax liability	785	(575)
Decrease in accounts payable	(1,225)	(1,308)
Decrease in income received in advance	(1,050)	(2,778)
Increase in other assets	(1,203)	(488)
Net cash flow from operating activities	13,623	16,082

(b) Reconciliation of cash and cash equivalents

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

Cash and cash equivalents on hand	12,370	18,086
Closing cash and cash equivalents balances	12,370	18,086

22. Business combinations

Acquisitions in 2015

(a) Uber Global Pty Ltd

On 30 April 2015, Melbourne IT acquired 100% of Uber Global Pty Ltd and its controlled entities (Uber), a major domains and hosting services provider, for purchase consideration of \$14.909 million (including working capital adjustment) and an earn out based on EBITDA performance to 30 June 2015. There was no consideration paid on the earn out based on EBITDA performance to 30 June 2015. The acquisition was funded through cash. The combined enlarged group will be able to offer best in class domain names and hosting products and to compete more effectively against strong, price driven, foreign competition.

Notes to the Financial Statements

For the year ended 31 December 2015

Assets acquired and liabilities assumed

The net assets recognised in the 30 June 2015 half year financial report were based on a provisional assessment of their fair value while the Group completed the fair value assessment. The fair values of the identifiable assets and liabilities of Uber as at the date of acquisition were:

	Fair value recognised on acquisition		
	Provisional \$'000s	Adjustments \$'000s	Final \$'000s
Assets			
Trade and other receivables	1,153	(433)	720
Plant and equipment	2,253	(495)	1,758
Intangibles	-	1,145	1,145
Deferred tax assets	603	634	1,237
Current tax receivable	-	271	271
Other assets	21	430	451
	4,030	1,552	5,582
Liabilities			
Trade and other payables	2,029	632	2,661
Income received in advance	3,136	593	3,729
Deferred tax liabilities	2,493	(2,147)	346
	7,658	(922)	6,736
Total identifiable net liabilities at fair value	(3,628)	2,474	(1,154)
Goodwill arising on acquisition	18,897	(2,834)	16,063
Purchase consideration transferred (cash paid)	15,269	(360)	14,909

As at 31 December 2015, the Group has completed the fair value assessment on the net assets acquired. The nature of the changes arising from the fair value assessment are as described below.

- The fair value of the trade and other receivables amounts to \$0.720 million, based on an assessment of the recoverability of the receivables at acquisition date. The gross amount of trade and other receivables was \$0.773 million.
- The Group sought an independent valuation for intangibles other than goodwill and \$1.145 million of customer contracts and relationships were identified. The fair value of the intangibles was determined using the income approach that is the multi period excess earnings method.
- The Group carried out an assessment of existing plant and equipment and wrote off those not used at acquisition date.
- Income received in advance and prepayment on domain names registry charges (included in Other assets) were adjusted to follow the Group's accounting policy where performance obligations remain.
- Based on the final tax return of Uber at acquisition date, a tax refund of \$0.270 million was calculated, resulting in a current tax receivable.
- The Group carried out an assessment of the trade and other payables and adjusted for those arising at acquisition date. This included a supplier claim that was not recorded by Uber at acquisition date of \$0.360 million, which also resulted in the working capital adjustment.

Notes to the Financial Statements

For the year ended 31 December 2015

- Changes to deferred tax balances were based on the tax provision calculated at acquisition date and taking into account changes in net assets arising from the fair value assessment.

From the date of acquisition, Uber has contributed \$9.628 million to the revenue and \$0.395 million to the profit after tax attributable to members of the parent. If the combination had taken place at the beginning of the year, Group revenue would have been \$155.138 million and profit after tax attributable to members of the parent would have been \$5.861 million.

The goodwill comprises the fair value of expected synergies and future earnings arising from acquisition.

(b) Outware Systems Pty Ltd

On 16 June 2015, Melbourne IT acquired a 50.2% shareholding of Outware Systems Pty Ltd ('Outware') for \$22.722 million (including working capital adjustment) with put and call options in place to acquire up to 100% of Outware over the next two years. Outware is a leader in the design and development of mobile applications for enterprise and government customers. To facilitate the acquisition, Melbourne IT entered into a cash advance facility with Australia and New Zealand Banking Group Limited ('ANZ') in June 2015. The Outware acquisition is firmly in line with the Group's strategy of building its Enterprise Services into the leading software enabled cloud solutions provider in Australia.

Assets acquired and liabilities assumed

	Fair value recognised on acquisition		
	Provisional \$'000s	Adjustments \$'000s	Final \$'000s
Assets			
Cash	1,421	-	1,421
Trade and other receivables	3,331	-	3,331
Plant and equipment	167	-	167
Intangibles	-	3,138	3,138
Deferred tax assets	95	216	311
Other assets	507	-	507
	5,521	3,354	8,875
Liabilities			
Trade and other payables	2,072	-	2,072
Current tax liability	329	106	435
Deferred tax liabilities	-	941	941
	2,401	1,047	3,448
Total identifiable net assets at fair value	3,120	2,307	5,427
Non-controlling interests measured at fair value	45,266	-	45,266
Dividend liability to non-controlling interests	3,400	-	3,400
Purchase consideration (including working capital adjustment)	22,722	-	22,722
	71,388	-	71,388
Goodwill arising on acquisition	68,268	(2,307)	65,961

As at 31 December 2015, the Group has completed the fair value assessment on the net assets acquired. The nature of the changes arising from the fair value assessment are as described below.

- The Group sought an independent valuation for intangibles other than goodwill and \$3.138 million of customer contracts and relationships were identified. The fair value of the intangibles was determined using the income approach that is the multi period excess earnings method.

Notes to the Financial Statements

For the year ended 31 December 2015

- Changes to current tax liability and deferred tax balances were based on the tax provision estimated at acquisition date and taking into account changes in net assets arising from the fair value assessment.

The fair value and gross amount of the trade and other receivables amounts to \$3.331 million.

From the date of acquisition, Outware has contributed \$9.987 million to the revenue and \$0.904 million to the profit after tax attributable to members of the parent. If the combination had taken place at the beginning of the year, Group revenue would have been \$158.056 million and profit after tax attributable to members of the parent would have been \$6.537 million.

The goodwill comprises the fair value of future earnings arising from acquisition.

The minimum and maximum EBITDA multiple payable is 3.75 times and 15.75 times, respectively. As at the acquisition date, the fair value of put/call options which entitle Melbourne IT to acquire (and the non-controlling interest to sell) the remaining 49.8% shareholding over the next two years are based on forecast financial performance and an expected EBITDA multiple as stipulated in the agreement for the periods ending 30 June 2016 and 30 June 2017, respectively. The anticipated combined consideration is \$45.3 million. This will bring the total purchase consideration (assuming Melbourne IT moves to 100% ownership of Outware) to be \$67 million approximately, implying a forward EBITDA multiple of 8.6 times. The face value of the put options liability has been reassessed at reporting date to be \$43.7 million, implying a forward EBITDA multiple of 8.5 times.

The dividend liability represents the estimated amount to be paid out to non-controlling interests for the financial periods ending 30 June 2016 and 30 June 2017 as stipulated in the Shareholders Agreement entered between Melbourne IT and non-controlling interests shareholders.

Analysis of cash flow on acquisition of Outware, net of cash acquired as at 31 December 2015:

	\$'000s
Cash paid	22,722
Net cash acquired with Outware	(1,421)
	21,301

Transaction costs on acquisition of Uber and Outware

Transaction costs of \$1.995 million have been expensed and are included in other operating expenses. As at 31 December 2015, \$1.974 million has been paid and this is included in the cash flows from investing activities.

Acquisition in 2014

(c) Netregistry Group Limited

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

Notes to the Financial Statements

For the year ended 31 December 2015

Assets acquired and liabilities assumed

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

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

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

The intangibles of \$12,244,000 comprise software, brand names and customer relationships. The fair values of these intangibles has been determined using the following valuation approaches:

- Replacement cost approach was utilised to value the software;
- Income approach that is relief from royalty method was utilised to value the brand names; and
- Income approach that is the multi period excess earnings method to value the customer relationships.

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

Purchase consideration

Shares issued, at fair value	12,070
Cash paid	38,366
Total consideration	50,436

Analysis of the cash flows on acquisition:

Cash transaction costs of the acquisition (included in cash flows from investing activities)	1,340
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The Group issued 9,285,144 ordinary shares as consideration for the 100% interest in Netregistry. The fair value of the shares is calculated with reference to the average daily volume weighted average price (VWAP) of the quoted price over the period of 4 February 2014 to 24 February 2014 as stipulated in the Share Purchase Agreement dated 27 February 2014, which was \$1.30 each. The total value of scrip consideration given is therefore \$12,070,000. The balance of the consideration is settled via cash.

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

Notes to the Financial Statements

For the year ended 31 December 2015

	CONSOLIDATED	
	2015 \$'000	2014 \$'000
23. Expenditure commitments and obligations		
Operating lease commitments		
Operating leases		
Minimum lease payments		
- not later than 1 year	3,085	3,142
- later than 1 year and not later than 5 years	8,436	8,618
- later than 5 years	1,559	1,145
Aggregate lease expenditure contracted for at reporting date	13,080	12,905

Finance lease commitments

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

	2015		2014	
	Minimum payments \$ '000	Present value of payments \$ '000	Minimum payments \$ '000	Present value of payments \$ '000
Within 1 year	225	198	218	218
After 1 year but not more than 5 years	151	144	354	295
More than 5 years	-	-	-	-
Total minimum lease payments	376	342	572	513
Less amounts representing finance charges	(34)	-	(59)	-
Present value of minimum lease payments	342	342	513	513

Financial instruments

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

(a) Hedges of specific commitments

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

(b) Financial Guarantees and other credit facilities

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

- (a) Bank Guarantees of AU\$2.192 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\$2.0 million (equivalent to AU\$2.944 million) in accordance with various Registry Licence Agreements.

Notes to the Financial Statements

For the year ended 31 December 2015

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
24. Derivative financial liabilities/(assets)		
Foreign exchange contracts (a)	17	(31)
Interest rate swap (b)	100	-
	117	(31)

Hedging Activities

2015

(a) Foreign exchange contracts

At 31 December 2015, Melbourne IT Limited held 7 foreign exchange contracts designated as cash flow hedges of expected net USD cash payments which the Company has firm commitments. The terms of these foreign exchange contracts was negotiated to match the terms of the commitments. The exchange contracts were used to reduce the exposure of foreign exchange risk.

(b) Interest rate swap

At 31 December 2015, the Group held one interest rate swap contract of \$15 million designed to hedge the variable interest rate exposure relating to the interest bearing liabilities of \$30 million.

As at 31 December 2015, an unrealised loss of \$113,000 was included in other comprehensive income in respect of these contracts.

2014

Foreign exchange contracts

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

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

Notes to the Financial Statements

For the year ended 31 December 2015

Fair value measurement

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

Fair value measurement hierarchy for assets as at 31 December 2015:

		Fair value measurement using			
	Date of valuation	Total \$'000	Quoted prices in active markets (Level 1) \$'000	Significant observable inputs (Level 2) \$'000	Significant unobservable inputs (Level 3) \$'000
Assets/ (liabilities) measured at fair value:					
Derivative financial instruments					
Foreign exchange forward					
contracts - USD (i)	31 December 2015	(17)	-	(17)	-
Interest rate swap (ii)	31 December 2015	(100)	-	(100)	-
AFS financial assets (Note 13)					
Convertible note receivable (iii)	31 December 2015	1,995	-	1,995	-
Other financial liabilities (Note 17)					
Put options liability (iv)	31 December 2015	(42,983)	-	(42,983)	-
Dividend liability to non-controlling interests (v)	31 December 2015	(3,176)	-	(3,176)	-

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

- (i) Reflects the fair value of foreign exchange contracts, designated as cash flow hedges.
- (ii) Reflects the fair value of the interest rate swap, designated as a cash flow hedge.
- (iii) The fair value of the embedded derivative component of the convertible note receivable is determined by reference to share price observed in a recent transaction prior to 31 December 2015. The fair value of the remainder of the convertible note has been determined using a discounted cash flow model. The face value of the convertible note is \$1,497,000.
- (iv) The fair value of put options liability which entitle Melbourne IT to acquire (and the non-controlling interest to sell) the remaining 49.8% shareholding over the next two years are based on forecast financial performance and expected EBITDA multiple as stipulated in the agreement for the periods ending 30 June 2016 and 30 June 2017, respectively.
- (v) The dividend liability represents the estimated amount to be paid out to non-controlling interests for the financial periods ending 30 June 2016 and 30 June 2017 as stipulated in the Shareholders Agreement entered between Melbourne IT and non-controlling interests shareholders.

Notes to the Financial Statements

For the year ended 31 December 2015

25. Operating segments

The following tables present the revenue and profit information regarding business unit segments for the years ended 31 December 2015 and 31 December 2014.

Year ended 31 December 2015	SMB Solutions \$'000	ES \$'000	Total \$'000
Segment revenue			
Revenue from operating activities			
Registration revenue	55,932	-	55,932
Solutions, hosting & services	53,294	40,746	94,040
Other revenue	22	-	22
Total segment revenue	109,248	40,746	149,994
Result			
Segment results	16,324	7,554	23,878
Unallocated expenses:			
- Corporate (including transaction costs relating to Uber and Outware acquisitions)			(7,368)
Earnings before interest and tax & amortisation			16,510
Net Interest			
Interest revenue			262
Interest expense on debt and borrowings			(744)
Unwinding of discount on other financial liabilities			(467)
Total Net Interest			(949)
Income tax expense			(3,257)
Depreciation & amortisation			(5,576)
Profit after tax for the year			6,728

Notes to the Financial Statements

For the year ended 31 December 2015

Year ended 31 December 2014	SMB Solutions \$'000	ES \$'000	Total \$'000
Segment revenue			
Revenue from operating activities			
Registration revenue	53,335	-	53,335
Solutions, hosting & services	42,447	27,839	70,286
Other revenue	513	-	513
Total segment revenue	96,295	27,839	124,134
Result			
Segment results	13,562	4,430	17,992
Unallocated expenses:			
- Corporate (including transaction costs relating to Netregistry acquisition)			(5,206)
Earnings before interest,tax,depreciation & amortisation			12,786
Net Interest			
Interest revenue			572
Interest expense			(166)
Total Net Interest			406
Income tax expense			358
Depreciation & amortisation			(4,315)
Impairment of intangible asset			(8,587)
Profit after tax for the year			648
	CONSOLIDATED		
	2015	2014	
	\$'000	\$'000	
Reconciliation of revenue			
Segment revenue	149,994	124,134	
Interest revenue	262	572	
Total revenue	150,256	124,706	

Notes to the Financial Statements

For the year ended 31 December 2015

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
26. Earnings per share		
Basic earnings per share	6.04 cents	0.72 cents
Diluted earnings per share	5.95 cents	0.72 cents
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Profit for the year attributable to members of the parent	5,610	479
	5,610	479
	Number of shares	
Weighted average number of ordinary shares used in the calculation of basic earnings per share	92,944,392	90,647,389
Effect of dilution:		
Share options/rights	1,388,914	296,610
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	94,333,306	90,943,999

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

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

27. Related party disclosures

Ultimate parent

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

Other related party transactions

There were no other transactions with related parties during the year ended 31 December 2015 or 2014 other than detailed within the annual report.

Notes to the Financial Statements

For the year ended 31 December 2015

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
28. Auditors' remuneration		
Amounts received or due and receivable by the auditors of Melbourne IT Ltd for:		
Audit or review of the financial statements of the entity and any other entity in the consolidated entity	328,700	325,000
Other services in relation to the entity and any other entity in the consolidated entity:		
- Taxation advice	92,250	56,750
- Tax compliance	70,500	-
- Assurance and advisory related	86,000	-
	577,450	381,750

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

Tax compliance services	94,132	43,384
Other non-audit services	154,000	140,909
	248,132	184,293

29. Key Management Personnel (KMP) disclosures

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

(a) Remuneration of Key Management Personnel

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
<i>Compensation of Key Management Personnel</i>		
Short term benefits	3,838	3,357
Post Employment	274	200
Long term benefits	29	24
Termination payments	-	-
Share-based Payment	515	312
	4,656	3,893

(b) Other Transactions and Balances with Key Management Personnel

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

Notes to the Financial Statements

For the year ended 31 December 2015

30. Share options

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

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

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

Performance Rights relating to the 31 December 2015 financial year (hereafter referred to as 2015 LTI Plan) were issued on 27 May 2015 in respect to the performance rights granted to the Chief Executive Officer (CEO), while the performance rights granted to other eligible employees were issued on 30 March 2015. The 2015 LTI Plan and the performance rights granted to the CEO were approved by shareholders in the Annual General Meeting on 27 May 2015.

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

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) Rights held at the beginning of the reporting period:

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

As at 1 January 2015, no options were exercisable.

Notes to the Financial Statements

For the year ended 31 December 2015

(b) Rights granted during the reporting period:

The following table summarises the movement in Performance Rights issued during the year:

	2015 Number	2014 Number
Outstanding at the beginning of the year	296,610	765,938
Granted during the year	1,177,383	296,610
Vested/exercised during the year	-	(571,215)
Lapsed/forfeited during the year	(85,079)	(194,723)
Outstanding at year end	1,388,914	296,610

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

No Rights were vested/exercised during the year ended 31 December 2015 (2014: 571,215).

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

A total of 85,079 (2014: 194,723) Rights were lapsed/forfeited with a weighted average exercise price of Nil (2014: Nil), by employees during the year.

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

The following table summarises information about options held by directors and employees as at 31 December 2015:

LTI Plan	Number of Rights	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price
2014 LTI Plan	296,610	27/05/14	31/03/17	31/03/17	\$ -
2014 LTI Plan	363,303	12/01/15	31/03/17	31/03/17	\$ -
2015 LTI Plan	443,749	30/03/15	31/03/18	31/03/18	\$ -
2015 LTI Plan	285,252	27/05/15	31/03/18	31/03/18	\$ -
	1,388,914				

(f) Option pricing model: LTI Plans

The fair value of the equity-settled share based payments granted under the 2014 and 2015 LTI Plans is estimated as at the date of grant using a combination of the Monte Carlo simulation methodology (for market based vesting conditions) and discounted cashflow approach (for non-market based vesting conditions).

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

	2015 LTI Plan	2014 LTI Plan
Dividend yield	3.5%	4.0%
Expected volatility	31% - 32%	34.0%
Risk-free interest rate	1.73% - 2.02%	2.2%

The dividend yield is based on historic and future yield estimates. The expected volatility was determined using the group's 3 year share price.

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

Notes to the Financial Statements

For the year ended 31 December 2015

31. Contingent assets and liabilities

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

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

32. Events subsequent to balance date

On 23 February 2016, the directors declared a final dividend of 4.0 cents per ordinary share, franked at 80%, amounting to \$3.718 million. The dividend will be paid on 29 April 2016.

The directors also decided to reactivate the Melbourne IT Limited Dividend Reinvestment Plan from 23 February 2016.

Melbourne IT announced that the Board of Directors appointed Mr John Armstrong as a non-executive director effective 23 February 2016. Mr Armstrong is a company director and financial professional, with over 25 years' experience in various financial and commercial management roles. The Board also announced that Mr Robert Stewart will retire at the next Annual General Meeting to be held on 27 May 2016. Mr Armstrong will succeed Mr Stewart as Chairman of the ARMC.

On 16 March 2016, Melbourne IT announced a package of transactions. The details are:

- (1) Melbourne IT has agreed to acquire 100% ownership interest in privately owned InfoReady Pty Ltd ('InfoReady'), a leading data and analytics provider for the enterprise and government market for a consideration of \$15.4 million;
- (2) Melbourne IT has agreed to dispose of its International Domain Name Registration Business for a sale consideration of USD6 million; and
- (3) Melbourne IT has undertaken an underwritten placement to professional and sophisticated investors to raise \$15 million at a price of \$2.00 per share to fund the balance of the purchase consideration for InfoReady and to strengthen its balance sheet. Placement shares will rank pari passu with current fully paid ordinary shares on issue.

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

Notes to the Financial Statements

For the year ended 31 December 2015

33. Information relating to Melbourne IT Ltd ("the parent entity")

	2015 \$'000	2014 \$'000
Current assets	13,798	21,662
Total assets	195,259	164,031
Current liabilities	69,223	61,777
Total liabilities	108,428	70,912
Contributed equity	35,629	35,629
Options reserve	776	5,341
Hedging reserve	(82)	31
AFS reserve	498	-
Retained earnings	50,010	52,118
	86,831	93,119
(Loss) of parent entity	(2,509)	(11,750)
Total comprehensive (loss) of the parent entity	(2,124)	(11,719)

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

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	
		2015	2014	2015	2014
WebCentral Group Pty Ltd	(a) Australia	100	100	78,190	78,190
Netregistry Group Limited	(a), (c) Australia	100	100	50,436	50,436
Uber Global Pty Ltd	(a) Australia	100	-	14,909	-
Outware Systems Pty Ltd	(a) Australia	50.2	-	22,722	-
Domainz Ltd	(a) New Zealand	100	100	1,671	1,671
Internet Names Worldwide (US), Inc	(a) USA	100	100	1	1
Melbourne IT GP Holdings Pty Ltd	(a) Australia	100	100	-	-
Melbourne IT General Partnership	(b) USA	100	100	758	758
Advantate Pty Ltd	Australia	100	100	-	-
				168,687	131,056

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

On 31 March 2014, Melbourne IT acquired 100% of Netregistry Group Limited and its controlled entities ('Netregistry'). Refer to note 22(c) for further details.

On 30 April 2015, Melbourne IT acquired 100% of Uber Global Pty Ltd and its controlled entities ('Uber'). Refer to note 22(a) for further details.

Notes to the Financial Statements

For the year ended 31 December 2015

Material partly-owned subsidiary

On 16 June 2015, Melbourne IT acquired 50.2% of Outware Systems Pty Ltd ('Outware'). Refer to note 22(b) for further details.

Summarised statement of profit or loss for 2015

	\$000
Revenue	9,987
Cost of sales	(4,215)
Operating expenses	(3,512)
Profit before tax	2,260
Income tax	(460)
Profit for the year	1,800
Total comprehensive income	1,800
Attributable to non-controlling interests	896
Dividends paid to non-controlling interests	224

Summarised statement of financial position as at 31 December 2015

	\$000
Current assets	6,810
Non-current assets	1,060
Current liabilities	(2,509)
Non-current liabilities	(890)
Total equity	4,471
Attributable to:	
Equity holders of the parent	2,244
Non-controlling interests	2,227

Summarised cash flow information for year ended 31 December 2015

Operating	188
Investing	(100)
Financing	(450)
Net decrease in cash and cash equivalents	(362)

2014 comparatives have not been included as Outware was acquired during 2015.

Notes to the Financial Statements

For the year ended 31 December 2015

34. Closed group class order disclosures

Entities subject to class order relief

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

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

	Closed Group	
	2015	2014
	\$'000	\$'000
Consolidated statement of comprehensive income		
Profit before income tax	7,577	1,784
Income tax (expense)/ benefit	(2,708)	74
Net profit for the period	4,869	1,858
Retained earnings at the beginning of the period	82,163	81,234
Transfer from options reserve	5,059	-
Dividends provided for or paid	(4,647)	(929)
Retained earnings at the end of the period	87,444	82,163
Consolidated statement of financial position		
ASSETS		
Current assets		
Cash and cash equivalents	11,235	17,907
Trade and other receivables	6,731	8,425
Prepayments of domain name registry charges	9,086	9,709
Current tax receivable	424	-
Derivative financial instruments	-	31
Other assets	2,874	2,520
Total current assets	30,350	38,592
Non-current assets		
Property, plant and equipment	7,196	4,853
Intangible assets	134,652	118,075
Deferred tax assets	4,955	4,418
Prepayments of domain name registry charges	4,987	4,699
Non-current financial assets	1,995	1,250
Other assets	32,519	9,688
Total non-current assets	186,304	142,983
TOTAL ASSETS	216,654	181,575

Notes to the Financial Statements

For the year ended 31 December 2015

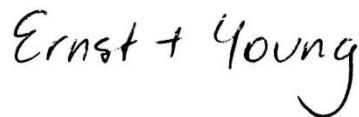
	Closed Group	
	2015	2014
	\$'000	\$'000
LIABILITIES		
Current liabilities		
Trade and other payables	16,778	14,978
Interest bearing loans and borrowings	198	218
Current tax payable	-	55
Provisions	3,016	4,081
Derivative financial instruments	117	-
Income received in advance	27,550	25,043
Total current liabilities	47,659	44,375
Non-current liabilities		
Interest bearing loans and borrowings	30,144	295
Deferred tax liability	1,935	703
Provisions	495	628
Income received in advance	11,846	12,342
Total non-current liabilities	44,420	13,968
TOTAL LIABILITIES	92,079	58,343
NET ASSETS	124,575	123,232
EQUITY		
Contributed equity	35,629	35,629
Options reserve	776	5,321
Hedging reserve	(82)	31
Non-controlling interest	310	88
AFS reserve	498	-
Retained earnings	87,444	82,163
TOTAL EQUITY	124,575	123,232

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

As lead auditor for the audit of Melbourne IT Limited for the financial year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Melbourne IT Limited and the entities it controlled during the financial year.



Ernst & Young



Joanne Lonergan
Partner
22 March 2016

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 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

Opinion

In our opinion:

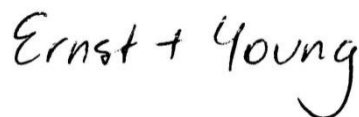
- a. the financial report of Melbourne IT Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1(a).

Report on the remuneration report

We have audited the Remuneration Report included on pages 10 to 19 of the directors' report for the year ended 31 December 2015. 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 2015, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Joanne Lonergan
Partner
Melbourne
22 March 2016