

Appendix 4E Preliminary Financial Report

Name of entity

Melbourne IT Limited

ABN or equivalent company reference
21 073 716 793

Reporting Period
31 December 2015
(Comparative period – 31 December 2014)

2.0 Results for announcement to the market

				<i>\$A'000</i>
2.1 Total revenues from ordinary activities	Up	20.5%	to	150,256
2.2 Profit after tax	Up	938.3%	to	6,728
2.3 Net profit for the period attributable to members	Up	1071.2%	to	5,610
2.4 Dividends (distributions)		Amount per security		Franked amount per security
Current period				
Final dividend		4.0 cents		80%
Interim dividend		<u>1.0 cent</u> 5.0 cents		80%
Previous corresponding period				
Final dividend		4.0 cents		80%
Interim dividend		<u>1.0 cent</u> 5.0 cents		80%
2.5 Record date for determining entitlements to the dividend.		8 April 2016		

It is recommended the Appendix 4E be considered with any public announcements made by Melbourne IT Ltd and its controlled entities relating to the year ended 31 December 2015 in accordance with the continuous disclosure obligations of the ASX listing rules.

2.6 Brief explanation of any of the figures reported above necessary to enable the figures to be understood.

Review and Results of Operations

Melbourne IT Ltd - Consolidated Group

- Total consolidated revenue for the year ended 31 December 2015 was \$150.256 million (2014: \$124.706 million), an increase of 20.5%.
- Profit after tax for the year ended 31 December 2015 was \$6.728 million (2014: \$0.648 million), an increase of 938.3%.
- Profit after tax attributable to members of the parent (Statutory NPAT) for the year ended 31 December 2015 was \$5.610 million (2014: \$0.479 million), an increase of 1,071.2%. Profit after tax attributable to non-controlling interests was \$1.118 million (2014: \$0.169 million), of which Outware Systems Pty Ltd (Outware) comprised \$0.896 million (2014: \$nil). The following table shows a reconciliation of EBITDA* to the reported profit after tax attributable to members of the parent.

	31-Dec-15 \$'000	31-Dec-14 \$'000
Statutory Earnings before Net Interest, Tax, Depreciation and Amortisation (EBITDA)*	16,510	12,786
Depreciation and Amortisation	(5,576)	(4,315)
Impairment	-	(8,587)
Earnings/(Loss) before Net Interest and Tax*	10,934	(116)
Net Interest (Expense)/Revenue	(949)	406
Tax (Expense)/Benefit [^]	(3,257)	358
Profit after Tax	6,728	648
Less: Profit after Tax attributable to Non-Controlling Interests:	1,118	169
Profit after Tax attributable to Members of the Parent	5,610	479

[^] Included in 2014 tax benefit was \$2.577 million related to impairment charge.

- Underlying net profit after tax (Underlying NPAT)* was \$10.733 million (2014: \$8.849 million), an increase of 21.3%. Underlying figures have excluded transaction costs, synergy costs, 2015 warranty provision writeback, 2015 unwinding of discount on other financial liabilities, 2014 impairment charge and included the full year impact of acquisitions made during the respective years and profit after tax attributable to non-controlling interests of Outware. The following table shows a reconciliation of statutory NPAT to underlying NPAT*.

	31-Dec-15 \$'000	31-Dec-14 \$'000
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

- Statutory EBITDA* for the year ended 31 December 2015 was \$16.510 million (2014: \$12.786 million), an increase of 29.1%.

2.6 Brief explanation of any of the figures reported above necessary to enable the figures to be understood (Continued).

Review and Results of Operations (Continued)

- Underlying EBITDA* was \$21.955 million (2014: \$16.326 million), an increase of 34.5%. Underlying figures have excluded transaction costs, synergy costs, 2015 warranty provision writeback, and included the full year impact of acquisitions made during the respective years. The following table shows a reconciliation of statutory EBITDA* to underlying EBITDA*.

	31-Dec-15 \$'000	31-Dec-14 \$'000
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

- Following the acquisition completed on 30 April 2015, Uber has contributed revenue of \$9.628 million, net profit after tax of \$0.395 million and EBITDA* of \$1.272 million during the period.
- Following the acquisition completed on 16 June 2015, Outware has contributed revenue of \$9.987 million, net profit after tax of \$1.800 million and EBITDA* of \$2.649 million during the period.
- Statutory earnings per share at 31 December 2015 was 6.04 cents (2014: 0.72 cents), an increase of 738.9%.
- Operating cashflow for the year ended 31 December 2015 was \$13.623 million (2014: \$16.082 million), a decrease of 15.3%. Included in the operating cash flows are net income tax paid of \$2.042 million (2014: net income tax refunded of \$4.831 million), a difference of \$6.873 million.
- Included in cash flows from investing activities are outflows from acquisitions including transaction costs for \$38.184 million (2014: \$39.706 million).
- Cash and cash equivalents were \$12.370 million at 31 December 2015 (2014: \$18.086 million).
- Deferred Gross Margin (i.e. income received in advance net of prepaid costs) was \$27.108 million at 31 December 2015 (2014: \$24.479 million), an increase of 10.7%.

* The company believes this unaudited non-IFRS information is relevant to the user's understanding of the Group's underlying performance.

3.0 NTA Backing

	Current period 31 December 2015	Previous Period 31 December 2014
Net tangible asset backing per ordinary security	-93.33 cents	-8.54 cents

Net Assets at 31 December 2015 were \$120.583 million including \$2.523 million of net deferred tax balances and \$204.805 million of intangible assets associated with the acquisition of Domainz Limited (September 2003), WebCentral Group Pty Ltd (September 2006), Netregistry Group Limited (March 2014), Uber Global Pty Ltd (April 2015) and Outware Systems Pty Ltd (June 2015).

4.0 Control gained or lost over entities having material effect

- 4.1 Name of entity (or group of entities) of which control was gained or lost during the period.

100% of interest in Uber was acquired on 30 April 2015
50.2% of interest in Outware was acquired on 16 June 2015

4.0 Control gained or lost over entities having material effect (Continued)

4.2	Consolidated profit/(loss) from ordinary activities <u>after tax</u> of the controlled entity (or group of entities) since the date in the current period on which control was obtained.	<p>Profit after tax attributable to members of the parent of Uber from 30 April to 31 December 2015 was \$0.395 million</p> <p>Profit after tax attributable to members of the parent of Outware from 16 June to 31 December 2015 was \$0.904 million</p>
4.3	Date from which such profit has been calculated.	<p>30 April 2015 (Uber)</p> <p>16 June 2015 (Outware)</p>
4.4	Profit/(loss) from ordinary activities after tax of the controlled entity (or group of entities) disposed during the period, for the whole of the previous corresponding period.	Not applicable

5.0 Dividends

Amount per security

Dividends (distributions)	Amount per security	Franked amount per security	Amt per security of foreign sourced dividend
Current Year			
Final	4.0 cents	80%	N/A
Interim	<u>1.0 cent</u> 5.0 cents	80%	N/A
Previous Year			
Final	4.0 cents	80%	N/A
Interim	1.0 cent 5.0 cents	80%	N/A

Total Dividends (distributions) per security (interim + final)	Current Year	Previous Year
Final	4.0 cents	4.0 cents
Interim	1.0 cent	1.0 cent
Total	5.0 cents	5.0 cents

Additional information on current year dividends

Date the dividend (distribution) is payable 29 April 2016

Details of individual and total dividends or distributions and dividend or distribution payments. 4.0 cents per share totalling approximately \$3.718 million

The dividend or distribution plans shown below are in operation.

The Melbourne IT Limited Dividend Reinvestment Plan

The last date(s) for receipt of election notices for the dividend or distribution plans. 11 April 2016

6.0 Material interests in entities which are not controlled entities

Not applicable, as Melbourne IT Ltd does not have a material interest in any entity other than its subsidiaries, which are controlled entities and consolidated in this financial report.

7.0 Other Information

Subsequent Events

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 expected payment date of the dividend is 29 April 2016.

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

Annual General Meeting

The annual general meeting will be held as follows:

Date:	27 May 2016
Time:	11.00 am

8.0 Compliance Statement

The report has been prepared based on a 31 December 2015 Annual Financial Report which is in the process of being audited by an independent audit firm in accordance with the requirements of S302 of the Corporations Act.

Signed here:



Ms E Rigato
Company Secretary
Melbourne
23 February 2016

MELBOURNE IT LTD
(ABN: 21 073 716 793)

FINANCIAL INFORMATION

FOR THE YEAR ENDED
31 DECEMBER 2015

MELBOURNE IT LTD

ABN: 21 073 716 793

DIRECTORS

Mr. S.D. Jones (Chairman)
Mr. M. Mercer
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

REGISTERED OFFICE

Level 4
1-3 Smail Street
Ultimo, NSW, 2007
Tel +61 2 9215 6003

SHARE REGISTER

Link Market Services Limited
Level 1
333 Collins Street
Melbourne, Victoria, 3000
Tel +61 3 9615 9800
Fax +61 3 9615 9900

AUDITORS

Ernst & Young

INTERNET ADDRESS

<http://www.melbourneit.info>
<http://www.melbourneit.com.au>

MELBOURNE IT LTD

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MELBOURNE IT LTD

DIRECTORS' INFORMATION

The names of the company's directors in office during the year ended 31 December 2015 and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

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

COMPANY SECRETARY

Ms. E. Rigato

PRINCIPAL ACTIVITIES

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

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 development, search engine optimisation and analysis. 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 Australia's leading cloud and mobile solutions provider for Australian enterprise and government organisations.

	2015	2014
EARNINGS PER SHARE		
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.

MELBOURNE IT LTD**DIRECTORS' INFORMATION (continued)****REVIEW AND RESULTS OF OPERATIONS**

The Group recorded a 20.5% increase in consolidated revenue during the year ended 31 December 2015, from \$124.706 million to \$150.256 million. This was due to the full year contribution from Netregistry given that it joined the group from 1 April 2014 in the previous year and the newly acquired entities, Outware Systems Pty Ltd and Uber Global Pty Ltd during the year.

The Group achieved earnings before interest, tax, depreciation and amortisation (EBITDA) of \$16.510 million (2014: \$12.786 million), an increase of 29.1% from the previous year. Consolidated net profit after tax was \$6.728 million (2014: \$0.648 million), up 938.3% from the previous year. This was primarily due to the impairment charge on the transformation asset included in the previous year.

Summarised operating results are as follows:

	31-Dec-15	31-Dec-14
	\$'000	\$'000
Revenue		
Registration Revenue	55,932	53,335
Solutions, Hosting & Services	94,041	70,286
Other Revenue	<u>21</u>	<u>513</u>
	149,994	124,134
Interest Revenue	262	572
Total Revenue	150,256	124,706
<hr/>		
Total Earnings before Net Interest, Tax, Depreciation and Amortisation	16,510	12,786
Depreciation Expense	3,163	2,445
Amortisation Expense	2,413	1,870
Impairment of Intangible Asset	<u>-</u>	<u>8,587</u>
Total Earnings Before Net Interest and Tax	10,934	(116)
Net Interest	<u>(949)</u>	<u>406</u>
Profit Before Tax	9,985	290
Income Tax (Expense)/Benefit	<u>(3,257)</u>	<u>358</u>
Profit for the Year	<u>6,728</u>	<u>648</u>
Profit for the year attributable to:		
Members of the parent	5,610	479
Non-controlling interests	<u>1,118</u>	<u>169</u>
	<u>6,728</u>	<u>648</u>
Cashflow from Operations	13,623	16,082

The financial measures of EBIT and EBITDA used in the Directors Report are non-IFRS measures and unaudited. The company believes this non-IFRS information is relevant to the user's understanding of its results, given its use in determining financial performance.

MELBOURNE IT LTD

DIRECTORS' INFORMATION (continued)

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 15(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 15(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.

SUBSEQUENT EVENTS

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 expected payment date of the dividend is 29 April 2016.

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

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.

ROUNDING

The amounts contained in the accompanying financial information 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 at www.melbourneit.info.

Signed in accordance with a resolution of the directors.



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Mr Simon Jones
Chairman
Melbourne
23 February 2016

MELBOURNE IT LTD

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Notes	CONSOLIDATED	
		2015 \$'000	2014 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents		12,370	18,086
Trade and other receivables	6	12,259	8,650
Prepayment of domain name registry charges		9,384	10,045
Current tax asset		83	61
Derivative financial instruments	11	-	31
Other assets		3,624	2,521
Total Current Assets		37,720	39,394
Non-Current Assets			
Plant and equipment		7,426	4,909
Intangible assets	8	204,805	118,884
Deferred tax assets		5,298	4,524
Prepayment of domain name registry charges		5,376	5,095
Non-current financial assets	7	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	9	17,077	13,752
Interest bearing loans and borrowings	10	342	513
Provisions		3,321	4,120
Derivative financial instruments	11	117	-
Income received in advance		28,914	26,150
Other financial liabilities	12	18,885	-
Total Current Liabilities		68,656	44,535
Non-Current Liabilities			
Interest bearing loans and borrowings	10	30,000	-
Deferred tax liabilities		2,775	703
Provisions		546	628
Income received in advance		12,954	13,469
Other financial liabilities	12	27,274	-
Total Non-Current Liabilities		73,549	14,800
TOTAL LIABILITIES		142,205	59,335
NET ASSETS		120,583	114,768
EQUITY			
Contributed equity	13	35,629	35,629
Foreign currency translation reserve		(573)	(658)
Options reserve		776	5,321
Hedging reserve		(82)	31
Other reserve		3,646	-
Available-for-sale (AFS) reserve		498	-
Retained earnings		80,379	74,357
Equity attributable to members of the parent		120,273	114,680
Non-controlling interests		310	88
TOTAL EQUITY		120,583	114,768

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

MELBOURNE IT LTD

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	CONSOLIDATED	
		2015 \$'000	2014 \$'000
Revenue	2 (i)	150,256	124,706
Registry, hosting and sundry product costs		<u>(66,312)</u>	<u>(52,944)</u>
Gross profit		83,944	71,762
Salaries and employee benefits expenses	3 (a)	(50,337)	(43,224)
Depreciation expenses	3 (b)	(3,163)	(2,445)
Amortisation of intangible assets	3 (c)	(2,413)	(1,870)
Impairment of intangible assets		-	(8,587)
Transaction costs relating to acquisitions		(1,995)	(1,340)
Finance costs	3 (e)	(2,741)	(1,338)
Other expenses	3 (d)	<u>(13,310)</u>	<u>(12,668)</u>
Profit before tax		9,985	290
Income tax (expense)/benefit	4	(3,257)	358
Profit for the year		<u>6,728</u>	<u>648</u>
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		<u>498</u>	<u>-</u>
Other comprehensive income/(loss) for the period, net of tax		<u>470</u>	<u>(61)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><u>7,198</u></u>	<u><u>587</u></u>
Profit for the year attributable to:			
Members of the parent		5,610	479
Non-controlling interests		<u>1,118</u>	<u>169</u>
		<u><u>6,728</u></u>	<u><u>648</u></u>
Total comprehensive income attributable to:			
Members of the parent		6,080	418
Non-controlling interests		<u>1,118</u>	<u>169</u>
		<u><u>7,198</u></u>	<u><u>587</u></u>
Earnings per share			
		2015	2014
Basic earnings per share	14	6.04 cents	0.72 cents
Diluted earnings per share	14	5.95 cents	0.72 cents

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

MELBOURNE IT LTD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	FOREIGN CURRENCY RESERVE	OPTIONS RESERVE	HEDGING RESERVE	OTHER RESERVE	AFS RESERVE	CONTRIBUTED EQUITY	RETAINED EARNINGS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 January 2015	(658)	5,321	31	-	-	35,629	74,357	114,680	88	114,768
Profit for the period	-	-	-	-	-	-	5,610	5,610	1,118	6,728
Other comprehensive income	85	-	(113)	-	498	-	-	470	-	470
Total comprehensive income for the period	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 15)	-	-	-	-	-	-	-	-	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 period	-	-	-	-	-	-	479	479	169	648
Other comprehensive income	(92)	-	31	-	-	-	-	(61)	-	(61)
Total comprehensive income for the period	(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 15)	-	-	-	-	-	12,070	-	12,070	94	12,164
Capital return transaction costs	-	-	-	-	-	(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.

MELBOURNE IT LTD

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Notes	CONSOLIDATED	
		2015	2014
		\$'000	\$'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)
		<u>13,623</u>	<u>16,082</u>
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		(247)	(1,250)
Acquisition of Netregistry	15(c)	-	(38,366)
Acquisition of Uber	15(a)	(14,909)	-
Acquisition of Outware, net of cash acquired	15(b)	(21,301)	-
Transaction costs relating to acquisitions	15	(1,974)	(1,340)
		<u>(44,213)</u>	<u>(32,015)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	10	33,500	20,000
Repayment of borrowings	10	(3,500)	(20,000)
Transaction costs on capital return		-	(74)
Return of capital		-	(45,176)
Payment of dividend to equity holders of the parent	5	(4,647)	(929)
Payment of dividend to non-controlling interests		(224)	(175)
Payment of finance lease liabilities		(260)	(137)
		<u>24,869</u>	<u>(46,491)</u>
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
NET DECREASE IN CASH AND CASH EQUIVALENTS		(5,721)	(62,424)
Net foreign exchange differences		5	(10)
Cash and cash equivalents at beginning of period		18,086	80,520
		<u>12,370</u>	<u>18,086</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD			

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

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2015

CORPORATE INFORMATION

The financial information in this report for Melbourne IT Ltd for the year ended 31 December 2015 was authorised for issue in accordance with a resolution of the directors on 23 February 2016.

Melbourne IT Ltd is a for-profit company limited by shares and incorporated in Australia whose shares are publicly listed on the Australian Stock Exchange.

The nature of the operations and principal activities of the Group are described within this note at 1(b) Operating Segments and at note 16.

1. BASIS OF PREPARATION

The financial information in this report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is also recommended that the Annual Financial Report of Melbourne IT Limited as at 31 December 2015 be considered together with any public announcements made by Melbourne IT Limited and its controlled entities relating to the year ended 31 December 2015, in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

The accounting methods of computation are the same as those adopted in the most recent annual financial report.

(a) Changes in accounting policy

The accounting policies adopted in the preparation of the financial information are consistent with those followed in the preparation of the Group's annual report for the year ended 31 December 2015, except for the adoption of new standards and interpretations as of 1 January 2015, as noted below:

Basis of consolidation: Partial recognition of non-controlling interests

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. 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).

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

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2015**

1. BASIS OF PREPARATION (Continued)

(b) Operating Segments

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.

Operating segments have been identified based on the information provided to the chief operating decision makers.

SMB Solutions Division

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 development, search engine optimisation and analysis. 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 Australia's leading cloud and mobile solutions provider for Australian enterprise and government organisations.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2015

CONSOLIDATED
2015 2014
\$'000s \$'000s

2. REVENUE

Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:

(i) Revenue

Registration revenue	55,932	53,335
Solutions, hosting & services	94,041	70,286
Other revenue	21	513
	<u>149,994</u>	<u>124,134</u>
Interest revenue	262	572
Total revenue	<u><u>150,256</u></u>	<u><u>124,706</u></u>

3. EXPENSES

(a) Salaries and employee benefits expenses

Included in Salaries and employee benefits expenses:

Expensing of share-based payments	514	330
Superannuation expense	3,154	2,652

(b) 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	<u><u>3,163</u></u>	<u><u>2,445</u></u>

(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	<u><u>2,413</u></u>	<u><u>1,870</u></u>

(d) 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
Financial & legal	1,302	1,225
Foreign exchange loss	241	112
Bad debts and doubtful debts	337	175

(e) 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	-
	<u><u>2,741</u></u>	<u><u>1,338</u></u>

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2015

CONSOLIDATED
2015 2014
\$'000s \$'000s

4. INCOME TAX

The major components of income tax expense are:

(a) Statement of comprehensive income

<i>Current income tax</i>		
Current income tax charge	2,340	1,237
Adjustments in respect of current income tax of previous periods	57	(685)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	860	(910)
Income tax expense/(benefit) reported in the statement of comprehensive income	<u>3,257</u>	<u>(358)</u>

(b) Statement of changes in equity

<i>Deferred income tax related to items charged or credited directly to equity</i>		
Net gain on revaluation of cash flow hedges	35	-
Income tax expense reported in equity	<u>35</u>	<u>-</u>

(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	<u>3,257</u>	<u>(358)</u>
Income tax expense/(benefit) reported in the statement of comprehensive income	<u>3,257</u>	<u>(358)</u>

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.

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2015**

CONSOLIDATED
2015 **2014**
\$'000s **\$'000s**

5. DIVIDENDS PAID AND PROPOSED**Equity dividends on ordinary shares:****(a) Dividends declared and paid during the year on ordinary shares**

(i) Final franked dividend for the financial year ended 31 December 2014: 4.0 cents per share (2013: Nil)	3,718	-
(ii) Interim franked dividend for the year ended 31 December 2015: 1.0 cent per share (2014: 1.0 cent per share)	929	929
	<u>4,647</u>	<u>929</u>

(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)	<u>3,718</u>	<u>3,718</u>
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6. 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)	<u>12,259</u>	<u>8,650</u>

7. NON-CURRENT FINANCIAL ASSETS

Convertible note receivable - 20 October 2014 (a)	1,748	1,250
Convertible note receivable - 20 November 2015 (b)	247	-
	<u>1,995</u>	<u>1,250</u>

(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.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2015

CONSOLIDATED
2015 2014
\$'000s \$'000s

8. INTANGIBLE ASSETS

Carrying Amount of Intangible Assets

Goodwill	182,000	99,976
Marketing Related Intangibles	9,052	9,052
Customer Contracts (a)	7,244	2,583
Accumulated Amortisation	(1,757)	(951)
	<u>5,487</u>	<u>1,632</u>
Capitalised Software (b)	11,049	9,400
Accumulated Amortisation	(2,783)	(1,176)
	<u>8,266</u>	<u>8,224</u>
Other Intangibles	315	315
Accumulated Amortisation	(315)	(315)
	<u>-</u>	<u>-</u>
Total Intangible Assets	<u>204,805</u>	<u>118,884</u>

(a) 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.

(b) Capitalised Software

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

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.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2015

	CONSOLIDATED	
	2015 \$'000s	2014 \$'000s
9. 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 payables	17,077	13,752

Terms and conditions relating to trade and sundry 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.

The carrying amount of trade and other payables is a reasonable approximation of fair value.

10. INTEREST BEARING LOANS AND BORROWINGS

Current

Finance lease liabilities	342	513
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Non-current

Bank loan	30,000	-
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The Group has entered into finance leases for some items of equipment whereby the present value of the minimum lease payments approximate \$0.342 million (2014: \$0.513 million).

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 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. 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.

11. DERIVATIVE FINANCIAL LIABILITIES/ (ASSETS)

Foreign exchange contracts (a)	17	(31)
Interest rate swap (b)	100	-
	117	(31)

(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 was 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.

12. 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 15(b) for more details). The fair value of the put options liability has been determined based on financial performance for the periods ending 30 June 2016 and 30 June 2017, respectively and on the expected EBITDA multiple that will be paid.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2015

	CONSOLIDATED	
	2015	2014
	\$'000s	\$'000s
13. CONTRIBUTED EQUITY		
Ordinary shares		
Issued and fully paid	35,629	35,629

Movements in ordinary shares on issue

	2015		2014	
	No. of Shares	\$'000s	No. of Shares	\$'000s
Beginning of the financial period	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)
- Performance rights plans (a)	-	-	494,877	-
- Decrease due to transaction costs for capital return	-	-	-	(74)
End of the financial period	92,944,392	35,629	92,944,392	35,629

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

	CONSOLIDATED	
	2015	2014
	\$'000s	\$'000s
14. 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
	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 this report.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

15. 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.

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
	<u>4,030</u>	<u>1,552</u>	<u>5,582</u>
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
	<u>7,658</u>	<u>(922)</u>	<u>6,736</u>
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)	<u>15,269</u>	<u>(360)</u>	<u>14,909</u>

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 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.

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

15. BUSINESS COMBINATIONS (continued)

Acquisitions in 2015 (continued)

(a) Uber Global Pty Ltd

- 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 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

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 Outware as at the date of acquisition were:

	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

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

15. BUSINESS COMBINATIONS (continued)

Acquisitions in 2015 (continued)

(b) Outware Systems Pty Ltd (continued)

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 multi period excess earnings method.
- 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 financial performance and 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)
	<u>21,301</u>

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 \$50.436 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.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

15. BUSINESS COMBINATIONS (continued)

(c) Netregistry Group Limited (continued)

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
Property, plant and equipment	1,843
Intangibles	12,244
Deferred tax assets	1,063
	<u>20,950</u>
Liabilities	
Trade and other payables	1,825
Provisions	2,412
Income received in advance	13,298
Deferred tax liabilities	581
	<u>18,116</u>
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	<u>50,436</u>

As at 31 December 2014, the Group has completed the fair value assessment on the net assets acquired.

The fair value of the trade and other receivables amounts to \$0.655 million. The gross amount of trade and other receivables is \$0.851 million.

The intangibles of \$12.244 million comprise software, brand names and customer relationships. The fair values of these intangibles has been determined using the following valuation approaches:

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

From the date of acquisition, Netregistry has contributed \$25.273 million of revenue and \$1.551 million 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 million and loss before tax would have been \$0.371 million. 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	<u>50,436</u>

Analysis of the cash flows on acquisition:

Cash transaction costs of the acquisition (included in cash flows from investing activities)	<u>1,340</u>
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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 was 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 was \$12.070 million. The balance of the consideration was settled via cash.

Transaction costs of \$1.340 million have been expensed and included in the operating expenses.

MELBOURNE IT LTD**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015****16. 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.

	SMB Solutions	ES	Total
Year ended 31 December 2015	\$'000	\$'000	\$'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, tax, depreciation & 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

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16. OPERATING SEGMENTS (Continued)

Year ended 31 December 2014	SMB Solutions	ES	Total
	\$'000	\$'000	\$'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	<u>96,295</u>	<u>27,839</u>	<u>124,134</u>
Result			
Segment results	13,562	4,430	17,992
Unallocated expenses:			
- Corporate (including transaction costs relating to Netregistry acquisition)			<u>(5,206)</u>
Earnings before interest, tax, depreciation & amortisation			<u>12,786</u>
Net Interest			
Interest revenue			572
Interest expense			<u>(166)</u>
Total Net Interest			<u>406</u>
Income tax benefit			358
Depreciation & amortisation			(4,315)
Impairment of intangible asset			(8,587)
Profit after tax for the year			<u><u>648</u></u>

	CONSOLIDATED	
	2015	2014
	\$'000	\$'000
Reconciliation of revenue		
Segment revenue	149,994	124,134
Interest revenue	262	572
Total revenue	<u>150,256</u>	<u>124,706</u>

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17. EVENTS AFTER THE BALANCE SHEET 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 expected payment date of the dividend is 29 April 2016.

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

Other than the matters 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.