



MELBOURNE IT

25 February 2015

ASX Announcement

Melbourne IT Ltd
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MELBOURNE IT ACQUIRES UBER GLOBAL, RELEASE OF 2014 FINANCIAL RESULTS

Acquisition of Uber Global by Melbourne IT.

- Melbourne IT is acquiring cloud services provider Uber Global Group for an initial purchase price of \$AUD 15.5M
- Uber Global provides direct domain registration, hosting and cloud applications together with white label “Business” services through channel partners and bespoke cloud solutions
- Significant customer base: 70,000 customers plus 400+ resellers (to over 1,500 organisations)
- Leading brands: Uber Enterprise, Uber Wholesale, ilisys Web Hosting, SmartyHost
- Forecast normalised EBITDA of \$2.0M (YE 30/06/2015), plus material annualized synergies of \$2.5M pa post integration (realised in 2017)
- Small contribution to MLB FY15 EBITDA after transaction and integration costs taken into account
- Shareholders of Uber Global will receive an additional “earn-out” payment if normalised 2015 EBITDA exceeds \$2.1M (capped at \$5M)
- Consideration to be paid from cash reserves
- Earnings accretive “from day one”
- Transaction is expected to complete by 30 April 2015 (subject to satisfaction of conditions precedent)
- Acquiring Uber Global will create further scale for Melbourne IT, significantly expand our customer base, strengthen the core domains and hosting business and deliver material synergy benefits

Melbourne IT Headline Financial Results for FY14

- Revenue of \$124 million (+21% v pcp)
- EBITDA of \$12.8 million (+ 121% v pcp)
- Normalised Net Profit \$7.9 million (+27% v pcp)
- Final dividend declared of 4.0 cents per share (80% franked)

MELBOURNE, Australia – 25 February 2015 – Melbourne IT (ASX: MLB) is announcing today that it has entered into a Share Purchase Agreement for the purchase of 100% of the issued capital of Uber Global Pty Ltd. The deal will have an initial value of \$15.5 million, with a potential earn out to follow based on EBITDA performance to 30 June 2015.

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“The proposed transaction is consistent with the growth strategy approved by the Melbourne IT Board”, said Martin Mercer CEO of Melbourne IT. “Acquiring Uber Global will significantly expand our customer base and deliver material synergy benefits of approximately \$3.5M pa”.

Simon Jones, Melbourne IT’s Chairman said, “Melbourne IT’s Board sees the acquisition as a major opportunity to achieve additional scale and to strengthen the core domains and hosting business. It also aligns with the Board’s stated requirement that such acquisitions be earnings accretive from day one.”

The acquisition will be funded from existing cash reserves.

2014 Financial Results

FY14 Year ended 31 Dec (A\$)	FY14	FY13*	↕%
Revenue	\$124.7m	\$103.4m	21%
EBITDA	\$12.8m	\$5.8m	121%
EBIT	-\$0.1m	\$3.0m	-103%
NPAT	\$0.6m	\$6.2m	-90%
Normalised NPAT	\$7.9m**	\$6.2m	27%
Total shareholder distribution	\$46.1m	\$26.4m	75%

* Continuing operations for FY13 financial results

** adjusted for tax effected impairment cost and transaction costs

Figures throughout this document may not total exactly due to rounding and includes non-IFRS financial information that is relevant for users understanding of underlying performance

Melbourne IT is also pleased to announce its full year results for the year ending 31 December 2014, reporting strong increases in revenue (up 21% to \$124.7m) and EBITDA (up 121% to \$12.8m). Net profit after tax (after normalising for impairment and transaction costs arising from the acquisition of NRG) was up 27% to \$7.9m.

Mr Mercer noted that the results were supported by the full year impact of cost savings realised in late 2013 and the acquisition of Netregistry. Mr Mercer reaffirmed that total synergies of \$7.5m (being fully realized during 2016FY) are anticipated from the integration of Melbourne IT and Netregistry.

In light of the sound financial performance, the Board of Melbourne IT has declared a final dividend of 4.0 cents per share (80% franked).

2015 Outlook

“We are confident in our ability to drive growth and profitability at Melbourne IT,” Mr Mercer said. “We commence 2015 with our new management team and a clearly articulated plan for future growth.”

“We have a significant market opportunity, a clear strategy, an extensive customer base, a strong balance sheet, and a renewed focus on execution. In short, we believe that we are well placed to increase sales, ARPU and profitability that will in turn lay the foundation for

Appendix 4E Preliminary Financial Report

Name of entity

Melbourne IT Limited

ABN or equivalent company reference
21 073 716 793

Reporting Period
31 December 2014
(Comparative period – 31 December 2013)

2.0 Results for announcement to the market

\$A'000

2.1 Total revenues from ordinary activities	Up	20.6%	to	124,706
2.2 Profit after tax from continuing operations	Down	-89.5%	to	648
2.3 Net profit for the period attributable to members	Down	-99.3%	to	479
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		N/A		N/A
Special dividend		25.0 cents		75%
Interim dividend		<u>N/A</u> 25.0 cents		N/A
2.5 Record date for determining entitlements to the dividend.	8 April 2015			

It is recommended the Appendix 4E be considered with any public announcements made by Melbourne IT Ltd and its controlled entities during the year ended 31 December 2014 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 from continuing operations for the year ended 31 December 2014 was \$124.706 million (2013: \$103.412 million), an increase of 20.6%. Revenue before interest income from continuing operations, excluding Netregistry Group Limited and its controlled entities (Netregistry), was \$98.861 million (2013: \$100.742 million), a decrease of 1.9%.
 - Profit after Tax from continuing operations for the year ended 31 December 2014 was \$0.648 million (2013: \$6.198 million), a decrease of 89.5%. Included in the profit after tax from continuing operations is the impairment charge in respect of the Transformation asset of \$8.587 million and the transaction costs relating to the acquisition of Netregistry of \$1.340 million.
 - Profit after tax before impairment and transaction costs* from continuing operations for the year ended 31 December 2014 was \$7.913 million (2013: \$6.198 million), an increase of 27.67%.
 - Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') from continuing operations for the year ended 31 December 2014 was \$12.786 million (2013: \$5.819 million), an increase of 119.7%. Included in the EBITDA from continuing operations is the transaction costs relating to the acquisition of Netregistry of \$1.340 million.
 - Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') before transaction costs* from continuing operations for the year ended 31 December 2014 was \$14.126 million (2013: \$5.819 million), an increase of 142.8%.
- Following the acquisition completion on 31 March 2014, Netregistry has contributed revenue of \$25.273 million, net profit after tax of \$1.551 million and EBITDA* of \$3.836 million during the period.
- Earnings per share from continuing operations at 31 December 2014 was 0.72 cents (2013: 7.46 cents), a decrease of 90.3%.
 - Operating cashflow for the year ended 31 December 2014 was \$16.082 million (2013: \$7.308 million which includes cashflow from DBS and FTR businesses which were disposed of in 2013).
 - Cash outflow of \$39.706 million in relation to the acquisition of Netregistry was included as cashflow from investing activities.
 - Cash and cash equivalents was \$18.086 million at 31 December 2014 (2013: \$80.520 million).
 - Deferred Gross Margin (i.e. income received in advance net of prepaid costs) was \$24.479 million at 31 December 2014 (2013: \$17.576 million), an increase of 39.3%. Following the acquisition, Netregistry has contributed Deferred Gross Margin of \$8.793 million at 31 December 2014.
 - The following table shows a reconciliation of EBITDA, included in the discussion above, to the reported profit after tax from continuing operations.

	31-Dec-14 \$'000	31-Dec-13 \$'000
Continuing Operations		
Earnings before Net Interest, Tax, Depreciation and Amortisation and Transaction Costs*	14,126	5,819
Transaction Costs	(1,340)	-
Earnings before Net Interest, Tax, Depreciation and Amortisation*	12,786	5,819
Depreciation and Amortisation	(4,315)	(2,782)
Impairment	(8,587)	-
Earnings before Net Interest and Tax*	(116)	3,037
Net Interest Revenue	406	2,545
Tax Benefit	358	334
Costs Recovered from Discontinued Operations**	-	282
Profit after Tax from Continuing Operations	648	6,198

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

** Represents recovery of costs from the DBS and FTR businesses by the parent entity with a corresponding expense included in the discontinued operations

3.0 NTA Backing

	Current period 31 December 2014	Previous Period 31 December 2013
Net tangible asset backing per ordinary security	-8.54 cents	91.61 cents

Net Assets at 31 December 2014 were \$114.768 million including \$3.821 million of net deferred tax balances and \$118.884 million of intangible assets associated with the acquisition of Domainz Limited (September 2003), WebCentral Group Pty Ltd (September 2006) and Netregistry Group Limited (March 2014).

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 Netregistry Group Limited and its controlled entities was acquired on 31 March 2014.
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.	Profit after tax of Netregistry Group Limited from 31 March to 31 December 2014 is \$1.551 million.
4.3	Date from which such profit has been calculated.	31 March 2014
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

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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	0 cents	0%	N/A
Special	25.0 cents	75%	N/A
Interim	0 cents	0%	N/A
	25.0 cents		

Total Dividends (distributions) per security (interim + final)	Current Year	Previous Year
Final	4.0 cents	N/A
Special	N/A	25.0 cents
Interim	1.0 cent	N/A
Total	5.0 cents	25.0 cents

Additional information on current year dividends

Date the dividend (distribution) is payable

23 April 2015

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.

N/A

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

N/A

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 25 February 2015, the directors proposed 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 23 April 2015.

On 25 February 2015 Melbourne IT announced that it had entered into a Share Purchase Agreement to acquire 100% interest in Uber Global Pty Ltd, a major domains and hosting services provider, for purchase consideration of \$15.5 million, and a potential earn out based on EBITDA performance to 30 June 2015. The acquisition will be funded through cash on hand. The completion of the transaction is subject to regulatory approval.

Annual General Meeting

The annual general meeting will be held as follows:

Date:	27 May 2015
Time:	11.00 am

8.0 Compliance Statement

The report has been prepared based on a 31 December 2014 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
 25 February 2015

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MELBOURNE IT LTD
(ABN: 21 073 716 793)

FINANCIAL INFORMATION

FOR THE YEAR ENDED
31 DECEMBER 2014

MELBOURNE IT LTD

ABN: 21 073 716 793

DIRECTORS

Mr. S.D. Jones (Chairman)
Mr. M. Mercer (Managing Director & Chief Executive Officer - appointed 7 April 2014)
Mr. T. Kiing
Mr. R.J. Stewart AM
Ms. N. Sparks
Mr. L. Bloch (Appointed 3 April 2014)

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Mr. M. Mercer

CHIEF FINANCIAL OFFICER

Mr P. Findlay

COMPANY SECRETARY

Ms. E. Rigato (Appointed 11 November 2014)
Mr. A. Desprets (Resigned 11 November 2014)

REGISTERED OFFICE

Level 3
469 La Trobe Street
Melbourne, Victoria, 3000
Tel: +61 3 8624 2400

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.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 2014 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 - appointed 7 April 2014)
Mr. T. Kiing	
Mr. R.J. Stewart AM	
Ms. N. Sparks	
Mr. L. Bloch	(Appointed 3 April 2014)

COMPANY SECRETARY

Ms. E. Rigato	(Appointed 11 November 2014)
Mr. A. Desprets	(Resigned 11 November 2014)

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")

The Enterprise Services Division provides managed services and business grade web application hosting services to corporate and government clients throughout Australia.

Discontinued Operations

The Group also conducted two other principal activities, both of which were discontinued in the previous corresponding period. The Digital Brand Services (DBS) business unit's core business was online brand protection including the management of corporate domain name portfolios was sold on 12 March 2013. The For The Record (FTR) business, which is a supplier of rich media content management systems primarily to court rooms, was also discontinued as completion of the sale occurred on 30 August 2013.

MELBOURNE IT LTD**DIRECTORS INFORMATION (continued)**

	2014 Cents	2013 Cents
EARNINGS PER SHARE - CONTINUING OPERATIONS		
Basic earnings per share	0.72 cents	7.46 cents
Diluted earnings per share	0.72 cents	7.42 cents
EARNINGS PER SHARE - DISCONTINUED OPERATIONS		
Basic earnings per share	-	75.44 cents
Diluted earnings per share	-	75.05 cents

DIVIDENDS

During the year, an interim dividend at 1.0 cent per share, franked at 80%, amounting to \$0.929 million was paid on 30 September 2014.

After 31 December 2014, a final dividend of 4.0 cents per share amounting to \$3.718 million was proposed by the directors. The final dividend has not been recognised as a liability as at 31 December 2014.

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

The group recorded a 20.6% increase in consolidated revenue from continuing operations during the year ended 31 December 2014, from \$103.412 million to \$124.706 million. This was primarily due to the acquisition of Netregistry on 31 March 2014. Netregistry generated \$25.273 million of revenue during the period from 1 April to 31 December 2014.

The Group achieved earnings before interest, tax, depreciation and amortisation (EBITDA) of \$12.786 million (2013: \$5.819 million), an increase of 119.7% from previous year. The consolidated net profit after tax of the Melbourne IT Ltd Group for the year ended 31 December 2014 was \$0.648 million (2013: consolidated net profit after tax of \$68.876 million). Consolidated net profit after tax from continuing operations was \$0.648 million (2013: consolidated net profit after tax from continuing operations of \$6.198 million), down 89.5% from the previous year. This was primarily due to the impairment charge of \$8.587 million on the Transformation asset (refer to note 6 of the financial statements for details) and \$1.340 million of acquisition costs of Netregistry.

Summarised operating results are as follows:

	31-Dec-14 \$'000	31-Dec-13 \$'000
Continuing Operations		
Revenue		
Registration Revenue	53,335	44,752
Hosting & Value-Added Product Sales	70,286	55,729
Other Revenue	513	248
	<u>124,134</u>	<u>100,729</u>
Interest Revenue	572	2,670
Other Revenue	-	13
	<u>-</u>	<u>13</u>
Total Revenue	124,706	103,412
Total Earnings before Net Interest, Tax, Depreciation and Amortisation	12,786	5,819
Depreciation Expense	2,445	1,978
Amortisation Expense	1,870	804
Impairment of Intangible Asset	8,587	-
	<u>8,587</u>	<u>-</u>
Total Earnings Before Net Interest and Tax	(116)	3,037
Costs Recovered from Discontinued Operations*	-	282
Net Interest Revenue/ (Expense)	406	2,545
	<u>406</u>	<u>2,545</u>
Profit Before Tax from Continuing Operations	290	5,864
Income Tax Benefit	358	334
	<u>358</u>	<u>334</u>
Profit for the Year from Continuing Operations	648	6,198
Discontinued Operations		
Profit after tax from discontinued operations	-	62,678
	<u>-</u>	<u>62,678</u>
Profit for the Year	648	68,876
	<u>648</u>	<u>68,876</u>
Cashflow from Operations	16,082	7,308
	<u>16,082</u>	<u>7,308</u>

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.

* Represents recovery of costs from the DBS and FTR businesses by the parent entity with a corresponding expense included in the discontinued operations.

MELBOURNE IT LTD

DIRECTORS INFORMATION (continued)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 19 February 2014, the Company made a capital return of \$45.2 million (equivalent to \$0.54 per fully paid ordinary share) to shareholders. The capital return was made in accordance with the resolution approved by shareholders in the General Meeting held on 28 January 2014.

On 31 March 2014, Melbourne IT completed the acquisition of Netregistry Group Limited ('Netregistry'), a leading online services provider, for an enterprise value of \$50.4 million. The acquisition was funded through a mix of cash (\$38.366 million) and script (\$12.070 million) consideration. To facilitate the acquisition, Melbourne IT entered into a \$20 million revolving credit facility with National Australia Bank Limited in late March 2014. The bank facility was fully repaid prior to 30 June 2014. The accounting for the acquisition in accordance with AASB 3 'Business Combinations' is as disclosed in Note 10 in the notes to the financial statements.

Larry Bloch, founder and CEO of Netregistry Group Limited, joined the Melbourne IT's Board of Directors as a non-executive director on 3 April 2014.

Martin Mercer was appointed as Chief Executive Officer and Managing Director of Melbourne IT effective on 7 April 2014.

On 13 June 2014, the Company received the remaining 10% of the sale price of the DBS business of \$15.250 million (including accrued interest income) which had been held in escrow and recorded as a receivable in the previous corresponding period.

Other than as stated above, there have been no other significant changes in the state of affairs during the year ended 31 December 2014.

SUBSEQUENT EVENTS

On 25 February 2015, the directors proposed 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 23 April 2015.

On 25 February 2015 Melbourne IT announced that it had entered into a Share Purchase Agreement to acquire 100% interest in Uber Global Pty Ltd, a major domains and hosting services provider, for purchase consideration of \$15.5 million, and a potential earn out based on EBITDA performance to 30 June 2015. The acquisition will be funded through cash on hand. The completion of the transaction is subject to regulatory approval.

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 www.melbourneit.com.au, and also contained in the additional ASX information section of the 2014 annual report.

Signed in accordance with a resolution of the directors.


.....
Mr Simon Jones
Chairman
Melbourne
25 February 2015

MELBOURNE IT LTD

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Notes	CONSOLIDATED	
		2014 \$'000	2013 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents		18,086	80,520
Trade and other receivables	5	8,650	24,183
Prepayment of domain name registry charges		10,045	6,287
Current tax asset		61	5,438
Derivative financial instruments		31	-
Other assets		2,521	1,570
Total Current Assets		39,394	117,998
Non-Current Assets			
Plant and equipment		4,909	2,957
Intangible assets	6	118,884	69,312
Deferred tax assets		4,524	3,261
Prepayment of domain name registry charges		5,095	5,236
Non-current financial assets		1,250	-
Other assets		47	74
Total Non-Current Assets		134,709	80,840
TOTAL ASSETS		174,103	198,838
LIABILITIES			
Current Liabilities			
Trade and other payables	8	13,752	17,443
Interest bearing loans and borrowings	9	513	-
Provisions		4,120	3,002
Income received in advance		26,150	16,689
Total Current Liabilities		44,535	37,134
Non-Current Liabilities			
Deferred tax liabilities		703	697
Provisions		628	530
Income received in advance		13,469	12,410
Derivative financial instruments		-	-
Total Non-Current Liabilities		14,800	13,637
TOTAL LIABILITIES		59,335	50,771
NET ASSETS		114,768	148,067
EQUITY			
Contributed equity	7	35,629	68,809
Foreign currency translation reserve		(658)	(566)
Options reserve		5,321	5,017
Hedging reserve		31	-
Retained earnings		74,357	74,807
Equity attributable to members of the parent		114,680	148,067
Non-controlling interest		88	-
TOTAL EQUITY		114,768	148,067

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 2014

	Notes	CONSOLIDATED	
		2014 \$'000	2013 \$'000
Continuing operations			
Revenue	2 (i)	124,706	103,412
Registry, hosting and sundry product costs		(52,944)	(41,145)
Gross profit		<u>71,762</u>	<u>62,267</u>
Salaries and employee benefits expenses		(43,224)	(40,522)
Depreciation expenses	3 (a)	(2,445)	(1,978)
Amortisation of intangible assets	3 (b)	(1,870)	(804)
Impairment of intangible assets		(8,587)	-
Transaction costs relating to acquisition of Netregistry		(1,340)	-
Finance costs	3 (d)	(1,338)	(915)
Other expenses		(12,668)	(12,184)
Profit before tax from continuing operations		290	5,864
Income tax benefit		358	334
Profit for the year from continuing operations		<u>648</u>	<u>6,198</u>
<u>Discontinued operations</u>			
Profit after tax for the year from discontinued operations	11	-	62,678
Profit for the year		<u>648</u>	<u>68,876</u>
Other comprehensive income			
<u>Items that are reclassified to the profit or loss:</u>			
Currency translation differences		(92)	9,335
<u>Items that may be reclassified to the profit or loss:</u>			
Net gains/(losses) on cashflow hedges (net of tax)		31	214
Other comprehensive income for the period, net of tax		<u>(61)</u>	<u>9,549</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>587</u>	<u>78,425</u>
Profit for the year attributable to:			
Members of the parent		479	68,876
Non-controlling interests		169	-
		<u>648</u>	<u>68,876</u>
Total comprehensive income attributable to:			
Members of the parent		418	78,425
Non-controlling interests		169	-
		<u>587</u>	<u>78,425</u>
Earnings per share			
		2014	2013
Basic earnings per share from continuing operations		0.72 cents	7.46 cents
Diluted earnings per share from continuing operations		0.72 cents	7.42 cents
Basic earnings per share from discontinued operations		-	75.44 cents
Diluted earnings per share from discontinued operations		-	75.05 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 2014

	FOREIGN CURRENCY RESERVE \$'000	OPTIONS RESERVE \$'000	HEDGING RESERVE \$'000	CONTRIBUTED EQUITY \$'000	RETAINED EARNINGS \$'000	TOTAL \$'000	NON-CONTROLLING INTEREST \$'000	TOTAL EQUITY \$'000
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 10)	-	-	-	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
As at 1 January 2013	(9,901)	4,237	(214)	68,794	32,378	95,294	-	95,294
Profit for the period	-	-	-	-	68,876	68,876	-	68,876
Other comprehensive income	9,335	-	214	-	-	9,549	-	9,549
Total comprehensive income for the period	9,335	-	214	-	68,876	78,425	-	78,425
Transactions with owners in their capacity as owners:								
Share based payment	-	780	-	-	-	780	-	780
Exercise of options	-	-	-	63	-	63	-	63
Capital return transaction costs	-	-	-	(48)	-	(48)	-	(48)
Equity dividends	-	-	-	-	(26,447)	(26,447)	-	(26,447)
As at 31 December 2013	(566)	5,017	-	68,809	74,807	148,067	-	148,067

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 2014

	Notes	CONSOLIDATED	
		2014	2013
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of service revenue and recoveries		134,707	128,041
Payments to suppliers and employees		(122,690)	(121,116)
Interest received		572	2,576
Interest paid		(166)	(239)
Bank charges and credit card merchant fees		(1,172)	(790)
Income tax refunds		5,980	-
Income tax paid		(1,149)	(1,164)
		16,082	7,308
NET CASH FLOWS FROM OPERATING ACTIVITIES			
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment and intangible assets		(6,309)	(5,491)
Sale of DBS business, net of cash disposed	11(a)	15,250	115,884
Sale of FTR business, net of cash disposed	11(b)	-	6,030
Proceeds from sale of plant and equipment		-	250
Purchase of financial asset		(1,250)	-
Acquisition of Netregistry, including transaction costs	10	(39,706)	-
		(32,015)	116,673
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	9	20,000	-
Repayment of borrowings	9	(20,000)	(34,617)
Proceeds from issue of ordinary shares		-	63
Transaction costs on capital return		(74)	(48)
Return of capital		(45,176)	-
Payment of dividend to equity holders of the parent	4	(929)	(26,447)
Payment of dividend to non-controlling interests		(175)	-
Payment of finance lease liabilities		(137)	-
		(46,491)	(61,049)
NET CASH FLOWS USED IN FINANCING ACTIVITIES			
NET DECREASE IN CASH AND CASH EQUIVALENTS			
		(62,424)	62,932
Net foreign exchange differences		(10)	(269)
Cash and cash equivalents at beginning of period		80,520	17,857
		18,086	80,520
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 2014

CORPORATE INFORMATION

The financial information in this report for Melbourne IT Ltd for the year ended 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 25 February 2015.

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 12.

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 2014 be considered together with any public announcements made by Melbourne IT Limited and its controlled entities during the year ended 31 December 2014, in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

The accounting policies and 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 year end financial report are consistent with those followed in the preparation of the Group's annual report for the year ended 31 December 2014, except for the adoption of new standards and interpretations as of 1 January 2014, as noted below:

AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel (KMP) Disclosure Requirements (AASB 124)

This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.

AASB 2013-3 Amendments to AASB 136 Recoverable Amount Disclosure for Non-Financial Assets

AASB 2013-3 amends the disclosure requirements in AASB 136 *Impairment of Assets*. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.

AASB 2011-4 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities

AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

AASB 1031 Materiality

The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.

The adoption of the above standards had no effect 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.

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2014**

1. BASIS OF PREPARATION (Continued)

(b) Financial assets

(i) 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.

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.

(ii) 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 INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2014**

1. BASIS OF PREPARATION (Continued)

(c) Fair Value Measurement

The Group measures financial assets 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.

(d) 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")

The Enterprise Services Division provides managed services and business grade web application hosting services to corporate and government clients throughout Australia.

MELBOURNE IT LTD**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2014**

CONSOLIDATED
2014 **2013**
\$'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	53,335	44,752
Hosting & value-added product sales	70,286	55,729
Other revenue	513	248
	<u>124,134</u>	<u>100,729</u>
Interest revenue	572	2,670
Other income	-	13
Total revenue	<u>124,706</u>	<u>103,412</u>

3. EXPENSES**(a) Depreciation of non-current assets**

Fit out	308	85
Plant and equipment	2,112	1,885
Furniture	25	8
Total depreciation of non-current assets	<u>2,445</u>	<u>1,978</u>

(b) Amortisation of identifiable intangible assets

Transformation asset	406	804
Capitalised software	1,176	-
Customer contracts	288	-
Total amortisation of identifiable intangible assets	<u>1,870</u>	<u>804</u>

(c) Other Expenses

Included in other expenses:

Premises	2,721	2,208
Communications	1,243	1,297
Marketing	2,157	1,644
Equipment	2,819	4,179
Financial & legal	1,225	1,478
Foreign exchange	112	31
Bad debts and doubtful debts	175	222

(d) Finance costs

Bank charges and credit card merchant fees	1,172	790
Interest expense	166	125
	<u>1,338</u>	<u>915</u>

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2014**

CONSOLIDATED
2014 **2013**
\$'000s **\$'000s**

4. 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 2013: Nil (2012: 7.0 cents per share)	-	5,772
(ii) Interim franked dividend for the year ended 31 December 2014: 1.0 cent per share (2013: Nil)	929	-
(iii) Special partially franked dividend for 2014: Nil (2013: 25.0 cents per share)	-	20,675
	<u>929</u>	<u>26,447</u>

(b) Dividends proposed and not recognised as a liability

Final franked dividend for the year ended 31 December 2014: 4.0 cents per share (2013: Nil)	<u>3,718</u>	<u>-</u>
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5. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade debtors	9,684	9,471
Allowance for impairment loss	(1,034)	(639)
	<u>8,650</u>	<u>8,832</u>
Escrow funds receivable (including accrued interest)*	-	15,351
Total trade and other receivables (Current)	<u>8,650</u>	<u>24,183</u>

* This amount was held in escrow pursuant to the terms of the agreement for the sale of the DBS business, for a period of 15 months from the date of sale, being 12 March 2013. The amount was held in escrow as security for the performance of Melbourne IT's indemnification obligations under the Agreement. This amount was released to Melbourne IT on 13 June 2014.

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

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2014**

CONSOLIDATED
2014 **2013**
\$'000s **\$'000s**

6. INTANGIBLE ASSETS**(a) Carrying Amount of Intangible Assets**

Goodwill (c)	99,976	52,280
Marketing Related Intangibles	9,052	7,128
Customer Contracts	2,583	663
Accumulated Amortisation	(951)	(663)
	<u>1,632</u>	<u>-</u>
Capitalised Software	9,400	-
Accumulated Amortisation	(1,176)	-
	<u>8,224</u>	<u>-</u>
Transformation Projects	-	10,918
Accumulated Amortisation	-	(1,014)
	<u>-</u>	<u>9,904</u>
Total Capitalised Software	<u>8,224</u>	<u>9,904</u>
Other Intangibles	315	315
Accumulated Amortisation	(315)	(315)
	<u>-</u>	<u>-</u>
Total Intangible Assets	<u>118,884</u>	<u>69,312</u>

(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.

Following the acquisition of Netregistry, Melbourne IT has 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 will be 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.

In the previous year, following the sale of the DBS business unit, a review of the carrying value of the transformation asset was undertaken. The decision to invest in a comprehensive solution was motivated by the complexity of the business. The nature and geographic spread of the DBS business was a significant contributing factor to this level of complexity. If the Melbourne IT Ltd corporate structure had not included DBS at the time of the project scope, it would not have made the decision to use a tier one product, and the time and planning required to roll out the consolidated platform would have been significantly reduced. Following the re-scoping of the project, an impairment of \$12.080 million was booked against the carrying value of the asset. This was included in the discontinued operations section of the Statement of Comprehensive Income.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2014

	CONSOLIDATED	
	2014	2013
	\$'000s	\$'000s
7. CONTRIBUTED EQUITY		
Ordinary shares		
Issued and fully paid	35,629	68,809

Movements in ordinary shares on issue

	2014		2013	
	No. of Shares	\$'000s	No. of Shares	\$'000s
Beginning of the financial period	83,164,371	68,809	82,451,363	68,794
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	-	-	30,000	63
- Performance rights plans (a)	494,877	-	683,008	-
- Decrease due to transaction costs for capital return	-	(74)	-	(48)
End of the financial period	92,944,392	35,629	83,164,371	68,809

(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	
	2014	2013
	\$'000s	\$'000s
8. TRADE AND OTHER PAYABLES (CURRENT)		
Trade creditors	1,146	1,116
Sundry creditors	3,077	6,411
Deposits received in advance	3,138	2,546
Accrued expenses	6,391	7,370
Total payables	13,752	17,443

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.

9. INTEREST BEARING LOANS AND BORROWINGS

During the year, the Group entered into finance leases for some items of equipment whereby the present value of the minimum lease payments approximate \$513,000.

The Group has also entered into a \$20 million revolving credit facility with National Australia Bank Limited to partly fund the acquisition of Netregistry in late March 2014. The revolving credit facility was repaid in full prior to 31 December 2014.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2014

10. BUSINESS COMBINATION

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.

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>

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 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 from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been \$133,325,000 and loss before tax from continuing operations 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	<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>

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 was settled via cash.

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

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2014**

11. DISCONTINUED OPERATIONS

(a) SALE OF DIGITAL BRAND SERVICES (DBS) BUSINESS

On 12 March 2013 Melbourne IT sold the DBS business to the Corporation Service Company Ltd ("CSC") for an initial cash consideration of \$152.2 million, of which 10% is to be held in escrow for a period of 15 months. The results of the DBS business for the year were presented below:

	2014	2013
	\$'000s	\$'000s
Revenue	-	8,885
Expenses	-	(9,710)
Gain on sale of DBS business*	-	69,925
Profit before tax from a discontinued operation	-	69,100
Tax expense	-	(6,966)
Profit for the year from a discontinued operation	-	62,134

* Includes professional fees, costs to close out interest rate and cross currency swaps, corporate costs incurred in negotiating the sale insurance costs, the impairment of the transformation asset (refer to Note 6(b) for details) and Foreign Currency Translation Reserve recycled to the Statement of Comprehensive Income.

A further \$4.7 million of costs was incurred in the second half of the previous financial year relating to professional fees relating to the liquidation of General Partnership (which is the immediate parent entity of the DBS US entity) and the associated Foreign Currency Translation Reserve recycled to the Statement of Comprehensive Income was allocated to the gain on sale of DBS business. Also included in this amount are restructuring costs relating to the termination of certain executives and functional units employees as they represented the overheads that were required to support the DBS business, and expenses related to the vesting of the Performance Rights plans associated with the executives.

The net cashflows incurred by the DBS business unit in the ordinary course of business until 12 March 2013 were as follows:

	2014	2013
	\$'000s	\$'000s
Operating	-	1,777
Investing	-	-
Financing *	-	6,716
Net cash inflow/(outflow)	-	8,493

* Financing cashflow includes movements on inter-company accounts with other entities in the Melbourne IT group.

The net cashflows on disposal of the DBS business unit by Melbourne IT Ltd are as follows:

	2013
	\$'000s
Announced sale price for DBS business unit	152,500
Plus: payment for cash balances in subsidiaries sold	7,500
Plus: additional payment on finalisation of completion accounts received in July 2013	3,671
Less: amounts held in escrow (recorded as a receivable - see note 5 for details)	(15,250)
Less: cash at bank of DBS business unit on 12 March 2013	(15,549)
Less: costs associated with the disposal	(5,971)
Less: tax paid associated with the disposal	(11,017)
Proceeds from sale of DBS business, net of cash disposed	115,884
Less: amounts paid directly by the purchasers to extinguish bank debt	(34,617)
	81,267

NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2014

11. DISCONTINUED OPERATIONS (Continued)

(b) SALE OF FOR THE RECORD (FTR) BUSINESS

On 1 August 2013 Melbourne IT announced that it had divested the FTR business to Record Holdings Pty Ltd for a cash consideration of \$6.3 million. Completion of the transaction occurred on 30 August 2013. The results of the FTR business for the year were presented below:

	2014 \$'000s	2013 \$'000s
Revenue	-	5,037
Expenses	-	(4,832)
Loss on sale of FTR business*	-	(1,549)
Loss before tax from a discontinued operation	-	(1,344)
Tax benefit/(expense)	-	1,888
Profit/(Loss) for the year from a discontinued operation	-	544

* Includes professional fees, corporate costs incurred in negotiating the sale insurance costs and Foreign Currency Translation Reserve recycled to the Statement of Comprehensive Income.

The net cashflows incurred by the FTR business unit in the ordinary course of business until 30 August 2013 were as follows:

	2014 \$'000s	2013 \$'000s
Operating	-	461
Investing	-	(96)
Financing *	-	(1,136)
Net cash outflow	-	(771)

* Financing cashflow includes movements on inter-company accounts with other entities in the Melbourne IT group.

The net cashflows on disposal of the FTR business unit by Melbourne IT Ltd are as follows:

	2013 \$'000s
Announced sale price for FTR business unit	6,300
Less: cash at bank of FTR business unit on 31 August 2013	(26)
Less: costs associated with the disposal	(244)
Proceeds from sale of FTR business, net of cash disposed	6,030

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

12. OPERATING SEGMENTS

The following tables present the revenue and profit information regarding business unit segments for the years ended 31 December 2014 and 31 December 2013.

	SMB Solutions	ES	Total
Year ended 31 December 2014	\$'000	\$'000	\$'000
Segment revenue			
Revenue from operating activities			
Registration revenue	53,335	-	53,335
Hosting & value-added product sales	42,447	27,839	70,286
Other revenue	513	-	513
	<u>96,295</u>	<u>27,839</u>	<u>124,134</u>
Other Income			-
Total segment revenue			<u>124,134</u>
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 benefit			358
Depreciation & amortisation			(4,315)
Impairment of intangible asset			(8,587)
Profit after tax for the year			648

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

12. OPERATING SEGMENTS (Continued)

Year ended 31 December 2013	SMB Solutions	ES	Total
	\$'000	\$'000	\$'000
Segment revenue			
Revenue from operating activities			
Registration Revenue	44,752	-	44,752
Hosting & Value-Added Product Sales	31,284	24,445	55,729
Other Revenue	248	-	248
	<u>76,284</u>	<u>24,445</u>	<u>100,729</u>
Other Income			13
Total segment revenue			<u>100,742</u>
Result			
Segment results	8,905	2,354	11,259
Unallocated expenses:			
- Corporate			(4,938)
- Transformation Projects			(502)
Earnings before interest, tax, depreciation & amortisation			<u>5,819</u>
Net Interest			
Interest revenue			2,670
Interest expense			(125)
Total Net Interest			<u>2,545</u>
Income tax benefit			334
Depreciation & amortisation			(2,782)
Costs recovered from discontinued operations*			282
Profit after tax for the year from continuing operations			<u>6,198</u>
Profit after tax for the year from discontinued operations (DBS and FTR segments)			<u>62,678</u>
Profit after tax for the year			<u>68,876</u>

* Represents recovery of costs from the DBS and FTR businesses by the parent entity with a corresponding expense included in the discontinued operations

	CONSOLIDATED	
	2014	2013
	\$'000	\$'000
Reconciliation of revenue		
Segment revenue	124,134	100,742
Interest revenue	572	2,670
Total revenue	<u>124,706</u>	<u>103,412</u>

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2014**

13. EVENTS AFTER THE BALANCE SHEET DATE

On 25 February 2015, the directors declared a final dividend of 4.0 cents per ordinary share, franked at 80%, amounting to \$3.718 million. The expected date of the dividend is 23 April 2015.

On 25 February 2015 Melbourne IT announced that it had entered into a Share Purchase Agreement to acquire 100% interest in Uber Global Pty Ltd, a major domains and hosting services provider, for purchase consideration of \$15.5 million, and a potential earn out based on EBITDA performance to 30 June 2015. The acquisition will be funded through cash on hand. The completion of the transaction is subject to regulatory approval.

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.

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sustainable shareholder returns.

Consistent with this, we are strengthening the business with an incremental investment this financial year of \$5m in sales, marketing and people. The payback period on this investment is expected to be less than eighteen months.

In 2015, we expect to achieve high single-digit organic growth in underlying EBITDA.”

The 2014 Full Year Results Presentation to shareholders is available at <http://www.melbourneit.info/investor-centre/>.

Media contact:

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ENDS.

About Melbourne IT

Melbourne IT (ASX: MLB) helps organisations of all sizes to successfully conduct business online. Our complete portfolio of Internet-based technology services drives business effectiveness and profitability for our customers.

The breadth of Melbourne IT’s offering extends from helping small businesses build an online presence through to managing the complex web environments of large enterprises and governments.

Melbourne IT’s culture of integrity, innovation, collaboration and customer centricity has been built by more than 300 employees spread across Australasia and the United States. For more information, visit www.melbourneit.info.

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