MELBOURNE IT

2013

< Annual Report >

OUR SERVICES

For small & medium businesses

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

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

For enterprise & government clients

Design and management of complex web environments
Digital recording, multimedia and content management solutions

www.melbourneitenterprise.com

AGM DETAILS

The Annual General Meeting (AGM) will be held at:
Level 2, Spring Street Conference Centre, 1 Spring Street, Melbourne, Australia on Tuesday, 27 May 2014 at 11.00 am.

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

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Key Highlights of 2013

$103.4M Revenue
(Continuing Operations)

$5.8M EBITDA (Continuing Operations)

$68.9M Net Profit After Tax
(Including Discontinued Operations)

79 cents Return to Shareholders

2013 year of transition

- Sale of DBS $152.5M and FTR $6.3M
- More focused business well placed for future success
- Business turnaround gathers pace second half of 2013
- Strong balance sheet position

Standout shareholders return

- $20.7M special dividend in August 2013
- $45.2M capital return in February 2014

New leadership

- Martin Mercer appointed as new Managing Director and Chief Executive Officer

Strategic acquisition of Netregistry Group in 2014

- Combination will offer best in class domain and hosting products
- Synergies of more than $5M to achieve by 2015
- Larger and stronger to effectively compete against foreign competition

Chairman's Review

Simon Jones

It was a watershed year and one of transition for Melbourne IT in 2013. The Company finalised the sale of its Digital Brand Services business in March 2013 for $152.5 million, and completed its strategic review with the sale of the For The Record business in August 2013 for $6.3 million. The year also saw the turnaround of the business gather pace with an intensified focus on the SMB sector, M&A activity and returns to shareholders.

Melbourne IT concluded 2013 with group net profit after tax of $68.9 million, 502% up on prior year, and group revenue of $117.3 million. Continuing operations with full year revenue was at $103.4 million, down by 5% year-on-year from $108.5 million in 2012. EBITDA from continuing operations was also down by 43% to $5.8 million largely as a result of stranded overheads and restructuring costs. These costs have been removed from the business for 2014 as part of a cost restructure program conducted in the 2H 2013. Net profit after tax from continuing operations was $6.2 million. Overall, underlying revenue and gross margin performance in 2H 2013 remained steady compared to 1H 2013.

2013 revenue run rate was a tale of two halves, H1 2013 saw the continuation of year-on-year revenue decline of 9%. This was consistent with an average 11% reduction in the previous two years. However, year on year revenue decline was arrested in H2 2013 with Q4 2013 results showing a decline of 1% against Q4 2012. The revenue outlook for 2014 is much brighter and the year concluded with the settings right for growth and significant progress made on cost reduction initiatives.

Indeed, the significant cost reduction programme commenced in August 2013, saw a drop in FTE from 382 to 323 by 31 December 2013.

Delivering Shareholder Value

As indicated early in 2013, Melbourne IT reaffirmed its commitment to delivering shareholder value, both through returns from the sale of the DBS business and via investment in its core business. A capital return of $45.2m was paid to shareholders on 19 February 2014, and this followed the special dividend of $20.7m in August 2013. A total of $65.9 million has been returned to shareholders since August 2013 – or $0.79 per share.

The appointment of Martin Mercer as new CEO and MD was also an indication of the company's commitment to ensuring a positive future. Martin has a strong background in the technology and communications sector and will help define and lead our refocused business into its next phase of growth. Together with the Board, I am very pleased to welcome him to Melbourne IT.

Key Acquisition

As a realisation of its M&A strategy, Melbourne IT also announced the acquisition of Netregistry early in 2014 following a period of thorough due diligence. Netregistry is a leading online services provider with annualised revenue of approximately $30 million.

The Netregistry acquisition will be a significant step forward in achieving cost efficiencies, and will offer best in class products into a larger customer base. It will enable a renewed focus on the SMB market and deliver benefits for Melbourne IT's customers, employees and shareholders. The acquisition will deliver expected synergies in excess of $5 million.

Netregistry's CEO Larry Bloch will join the Melbourne IT Board as a non-executive director. I extend a warm welcome to Larry who brings with him a significant depth of knowledge of the online services sector and thought leadership.

Stronger Outlook

The results of the restructuring program have delivered a leaner and more agile business with an exciting pipeline of new products and market opportunities. We commence 2014 with a strong balance sheet and a Board focused on driving growth, and investing in enhanced customer service. This has enabled us to provide a pre-acquisition forecast range of $10 million to $12 million of EBITDA for the year.

Recognition of Effort

On behalf of the Melbourne IT Board, I would like to thank Melbourne IT's staff for the hard work completed during 2013. It was a year of change with significant effort expended on turnaround and acquisition activities. I would also like to thank our outgoing CEO and MD, Theo Hnarakis, who ably led Melbourne IT since 2002 and oversaw its growth as a significant technology brand. The Melbourne IT leadership team should also be recognised for their excellent stewardship of the company.

Our Board offers significant sector and leadership experience and remains focused on delivering outstanding corporate governance and guidance. I thank my fellow board members and look forward to working with them in 2014.

Finally, I would like to recognise the continued commitment of Melbourne IT shareholders for their belief in our business. We look forward to delivering further value to all our stakeholders.

Simon Jones
Chairman

Acting CEO's Report

Peter Findlay

Melbourne IT has a strong brand reputation as a leading provider of online services to customers in SMB Solutions and Enterprise Services and is known for its commitment to returning shareholder value. It has more than 300,000 customers, spread across 45 countries globally and 6900+ resellers.

Melbourne IT is part of an exciting sector and is well positioned for a new era of growth, innovation, and investment in customer facing initiatives. Internet software and services, is one of the fastest growing industries in the world and offers significant opportunity to businesses everywhere, and we are pleased to be a part of this movement.

Operationally, 2013 was a turnaround year for Melbourne IT. The successful completion of its strategic review has created a renewed focus on its remaining core business. This focus combined with a significant cost restructure in H2 2013 and the subsequent acquisition of Netregistry (NRG) places the business in an excellent position for the future.

Revenue declined in both the SMB Solutions and Enterprise Services divisions. As indicated, this was due to the slower take up of H1 2013 initiatives. However, there was a stable performance achieved half on half with revenue and gross margin from H2 in line with H1. This resulted in year on year revenue decline reducing to negative 1% in the final quarter of the year and is reflective of a number of programs gaining traction in the second half of 2013.

Positive Focus

The Company has an exciting pipeline of new products and market opportunities including 400+ new gTLDs that will create opportunity for SMB Solutions.

Turning to specific performance in the Melbourne IT's divisions, SMB Solutions saw a 4% year on year improvement in domain name renewal rates, with the auto-renewal strategy from late Q2 2013 onwards increasing the average price of .au names. This was in spite of a decline in total Names Under Management (NUM), in both direct and reseller channels and more aggressive price strategies from competitors. The successful launch of higher Average Revenue per User (ARPU) website design and hosting products was completed together with the launch of the "Community" platform on retail websites to drive customer interaction online. Re-designed retail websites with improved process flows are also delivering an enhanced customer experience.

Looking ahead, 400+ new gTLDs will launch during 2014 e.g. .web, .shop, .site, .menu, .film and .hotel. There are significant opportunities for Melbourne IT to sell the names both into its existing customer base and to new customers. Melbourne IT expects new and improved products in higher ARPU categories, such as Search Engine Optimisation (SEO), website building and Managed Exchange, combined with further investments in online marketing will boost SMB Divisional performance.

Melbourne IT's Enterprise Services division saw growth in its recurring revenue base as new Managed Services revenue increased strongly year-on-year. This was offset by the continued churn in dedicated hosting and a reduction in value of Queensland Government contracts.

We expect Enterprise Services to continue its evolution from dedicated hosting to a provider of managed services. This will be the lead driver for growth together with further automation of services to improve reliability and efficiency of service delivery. Additions to project management capability will attract new customers in large corporates and government agencies. Further expansion of Australian-hosted cloud offerings, increasing opportunities for trusted advisors in the field and negotiating new contracts with major state government customers are two of the key growth strategies for 2014. We also expect to deliver further savings from the rationalisation of our data centre footprint.

Netregistry Synergies

Founded in 1997 this retail online services leader is a provider to SMBs of domain name registration, web and email hosting, and online marketing services under the brands 'Netregistry' (a premium service offering) and 'Ziphosting' (a budget service offering). It is also an online services provider of domain name registration, web and email hosting on a wholesale basis, delivered under the 'TPP Wholesale' brand. NRG has 500,000+ customers relying on its services either via direct or wholesale channels.

There is a great fit with Melbourne IT with highlights expected in the areas of product combinations. This will allow Melbourne IT to offer best in class domain registration and management, email and web hosting products and achieve efficiencies with the elimination of duplication in product offerings, significant back office cost savings, consolidation of infrastructure, and benefits from sharing overheads and combining technical strengths.

There will also be scale benefits with greater capability to invest for growth and the opportunity to compete more effectively against strong, price driven, foreign competition.

Netregistry also provides significant talent investment through the proven management team experienced in the SMB segment.

Looking Ahead

The Internet is a key driver of growth and business activity with Internet software and services continuing to reshape the way people live and conduct their business. According to the Australian Bureau of Statistics (ABS) in 2012–13, over three quarters (76 per cent) of Australia's 15.4 million Internet users made a purchase or order over the Internet.

Thus maintaining and enhancing a presence online remains a key activity for both business and personal users. As a leading Internet brand and provider of services in this key area, Melbourne IT is well positioned to service expanding online markets and to continue to deliver opportunity and innovation in the SMB and Enterprise spaces.

We are embarking on a new phase of success. I look forward very much to working with the Board, our new CEO, Martin Mercer and staff of our company in the months ahead.

Peter Findlay
Acting CEO

SMB Solutions

Overview

Melbourne IT's SMB Solutions division delivers online business services directly to more than 300,000 small and medium-sized businesses in Australia and New Zealand — and thousands more worldwide via a global network of over 6,900 resellers.

Our eBusiness Centres and online sales channel help small businesses establish and build their online presence via a range of services including domain name registration and management, email and website hosting, website design and digital marketing tools, and eCommerce solutions.

Melbourne IT also provides its global partner network with access to its domain name management system to allow resellers to sell domains and value-added online business services to small businesses around the world.

2013 Highlights

The 2013 calendar year was a time of transition with investment in customer facing enhancements. This was aimed at complementing Melbourne IT's transformation project. It also set the stage for driving positive revenue growth back into the business. Upgraded product platforms, automated domain renewal processes, online community self-service options, an improved call center experience, and new digital commerce capabilities positively impacted the revenue trajectory in the second half of the year. As a result, the business saw reduced negative growth from minus 10% in the first half compared to H1 2012, to minus 4% in the second half compared to H2 2012.

Overall, 2013 SMB Solutions revenue was down 7% year-on-year from $82.2 million to $76.3 million. EBIT dropped 35% from $13.7 million to $8.9 million as a result of increased customer facing investment, completion of the transformation project, and interim stranded costs arising from the sale of the Digital Brand Services division earlier in the year.

Both the direct and indirect business experienced further decline in the number of names under management. Significantly, one of Melbourne IT's largest international partners experienced a short term but meaningful decline in its domain renewal rate, as it sought to tighten internal procedures and controls related to the expiration and renewal of domain names.

Meanwhile, the SMB Solution's retail business saw a 4% year on year improvement in its domain name renewal rates as a result of automated renew processes and more targeted marketing that commenced mid-year. The retail business was challenged by higher than usual churn rates on a number of legacy hosting products during the year, however initial platform upgrades in the second half of the year on selected offerings had a positive impact.

As part of a new digital commerce strategy, the company launched a leading edge "community platform" to drive a new customer self-service experience, whilst allowing for increased scale and efficiency in delivery of support services. In addition, the first stages of a broad re-design of retail websites was initiated as the business moves to build a strong online channel to complement its eBusiness centers.

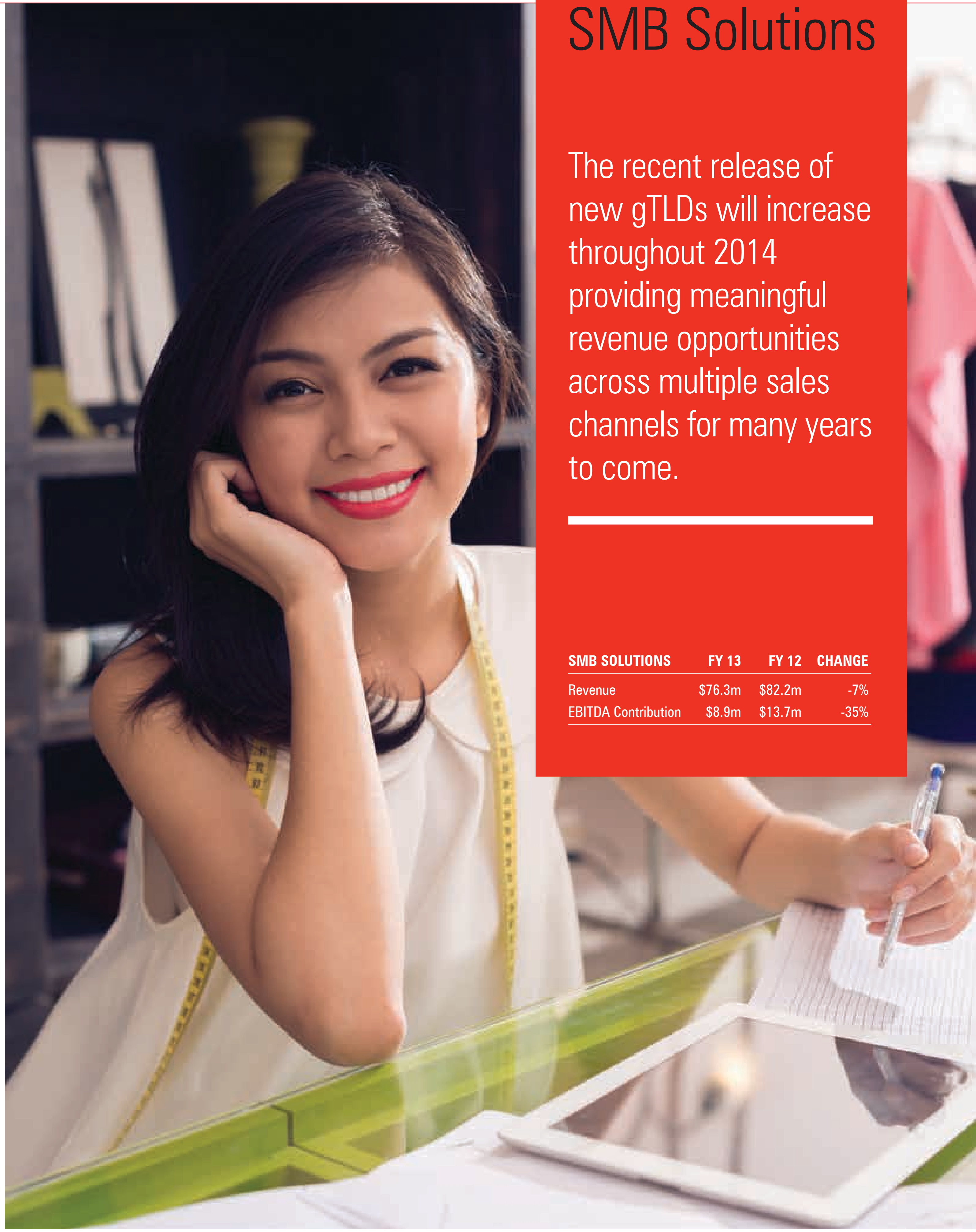
Outlook

SMB Solutions is focused on delivering an entirely redesigned digital commerce experience for new and existing customers in 2014 and beyond. In addition, the introduction of innovative and enhanced products in higher ARPU categories such as SEO and web presence marketing services, "Do it For Me" website tools, security solutions, and premium Managed Exchanged offerings will be leveraged across multiple channels. This will include both eBusiness center and online. It is expected that further planned enhancements to product control panels and service management portals will boost customer experience and self-service usage.

The release of new generic Top Level Domains (gTLDs) commenced and will accelerate significantly throughout 2014 with the launch of over four hundred new domain spaces. This market expansion of domain name options will generate meaningful revenue opportunities for SMB Solutions in the second half of 2014, ramping up further from 2015 onwards. The new gTLDs (such as .web, .sydney, .shop and so on) will provide small businesses with greater choice and the ability to secure new domains. This can improve online exposure and increase website visitor traffic.
SMB Solutions is committed to the drive towards enabling increased ownership of multiple domains among SMBs in Australia and globally.
The business is well positioned to capitalize on this evolving opportunity. It has already executed on a number of key activities including trade mark clearing house (TMCH) capabilities, sunrise offerings (as domains initially come to market), and integration into numerous key registries for the supply of the new domain spaces.

Melbourne IT also continues to seek new partnership opportunities with selected global leaders and the expansion of domain related offerings, such as new gTLDs, into a number of its existing large international partners.

Finally, as the SMB Solutions business moves beyond many of its back office related investments into more customer facing initiatives, it is well-positioned to optimize operating cost structures and balance resources more effectively to drive improvements in top line revenue growth.



The recent release of new gTLDs will increase throughout 2014 providing meaningful revenue opportunities across multiple sales channels for many years to come.

SMB SOLUTIONS	FY 13	FY 12	CHANGE
Revenue	$76.3m	$82.2m	-7%
EBITDA Contribution	$8.9m	$13.7m	-35%

Enterprise Services

Continued evolution from dedicated hosting to managed services: the lead driver for growth

ENTERPRISE SERVICES	FY 13	FY 12	CHANGE
Revenue	$24.5m	$26.1m	-6%
EBITDA Contribution	$2.4m	$4.1m	-42%

Overview

Melbourne IT Enterprise Services has a proven ability to design, build and manage complex web environments to specified customer outcomes. Enterprise and Government organisations are investing in digital assets and initiatives to drive continuous innovation and deeper engagement with their customers. Most organisations however do not have the skills, tools and cultural fit to create and manage the constant change of high performance digital platforms. Melbourne IT's professional services, and System Operations and Development Operations support some of Australia's largest and most high profile digital platforms.

Hundreds of customers from blue chip corporations to dynamic media companies and large government departments rely on Melbourne IT's digital platform professional services and managed services to create, deliver, manage and protect their digital platforms.

2013 Highlights

It was a year of transition for Enterprise Services (ES) in 2013 with the successful move from a hosting driven (infrastructure services) business to a managed services driven business.

Investments in partnerships with Amazon Web Services, Adobe, Sitecore and Akamai saw Enterprise Services achieve revenues, excluding Queensland Department of Education, Training and Employment (DETE), of $17.3m. In addition, strong results in new customer acquisition throughout 2013 drove a stronger monthly annuity revenue run rate by year end. Key examples include Parmalat, BT Financial Services, McConnell Dowell, and Commonwealth Department of Veteran Affairs.

While price churn in traditional dedicated hosting impacted ES revenues in H1 2013, strong new customer acquisition rates in managed services offset its impact with H2 revenues up 4% on H1 2013. A significant number of Enterprise Services' high value customers were re-contracted during the year. This should result in lower price churn rates in 2014.

Enterprise Services margins for non DETE revenues held firm in 2013. The decline in Enterprise Services EBITDA of 42% year-on-year was driven by a combination of the decline in government project work in 2013 and incurring stranded overheads as a result of the sale of the Digital Brand Services business in 2013.

Direct operating expenditure remains tightly managed with the transition to Managed Services, System Operations and Development Operations skills delivered within existing head count budgets. Overall, with stable management, much of the hard work of the Division's turnaround was completed in 2013. Notably, a further milestone for Enterprise Services was achieved when in 2013, Enterprise Services was successfully re-certified against the ISO 9001 standard.

Outlook

The cloud is becoming a mainstream foundation for technology investments in Australia.

In particular, digital initiatives have become strategic investments for most corporate and government organisations. It is recognised that managed cloud services provide the cost savings, business innovation and agility to compete via real time transactions and interactions for a richer, more targeted and engaging consumer experience. As a key trend, internal marketing organisations are either directly taking control of technology budgets relating to digital initiatives, or more significantly influencing the purchase decisions of the IT organisation in relation to digital investments.

As a result, the drive for continuous change and development in marketing and customer facing organisations for corporate and government organisations requires specialised engineering and operations skills, an innovation culture and specialist tools to manage digital platforms for change, performance and scalability. These skills, tools and culture are not typically found in most corporate and government organisations, nor are they typically available via traditional IT suppliers or digital agencies.

Through its Enterprise Services division Melbourne IT does provide the skills, experience, innovative culture and customer references and partnerships needed to successfully manage strategic digital platforms for corporate and government organisations. We regard an increasing investment in digital initiatives as the key driver to support growth in the ES business in 2014.

Melbourne IT saw its business change dramatically. In January 2013, we had more than 600 employees spread across ten countries. However, following the sale of the DBS and FTR businesses by the end of 2013, we had downsized to just over 300 employees with 93% based in Australia and the remaining 7% in New Zealand and the US.

2013 Highlights

After 14 years at office premises in King Street, Melbourne our people moved to a 4 star NABERS (National Australian Built Environment Ratings System) rated building in a new CBD location in La Trobe Street. The move allowed for teams to be set up in open work spaces that better foster collaboration and productivity.

In another key milestone, an investment in online recruitment tools including social media (such as LinkedIn) provided us with a wider network from which to source candidates. Our company invests in its digital presence as a means of strengthening our position as an employer of choice for our candidate market. In 2013,we made 146 job offers which included external hires and internal promotions.

Melbourne IT remains committed to ensuring its employees and contractors work in an environment that is open, friendly and free of discrimination, harassment and bullying. To ensure employees can work to the best of their ability, we are also committed to creating an environment where employees are treated with dignity, fairness and respect — and where everyone is judged according to merit.

Our key statistics reflect our commitment to achieving diversity and equality:

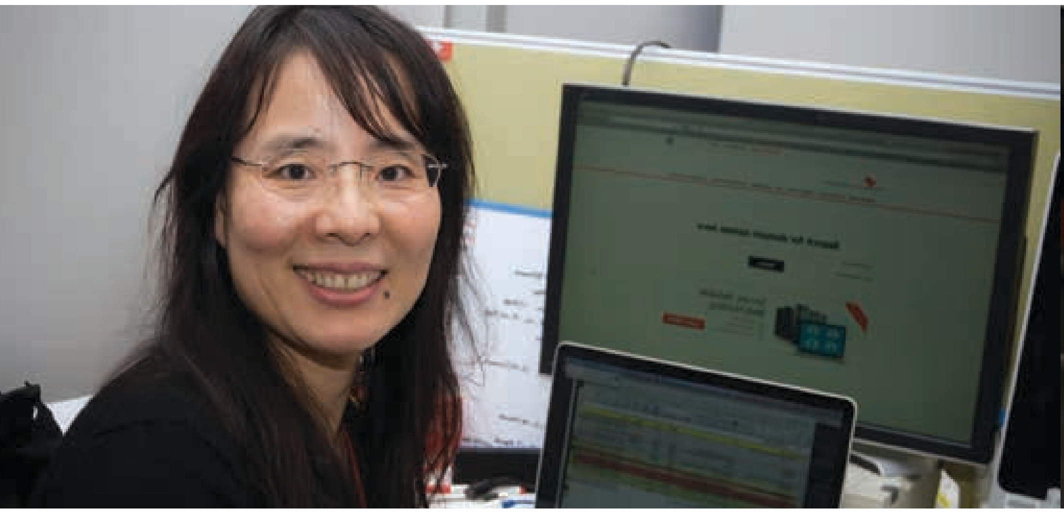
- 74 per cent of employees are male, 26 per cent female. Technical roles, Customer Service and Sales in the IT industry are typically dominated by males. Human Resources, Finance and Legal continue to be dominated by females
- 33 per cent of the executive roles were held by females
- There is one female board member (20%)
- Approximately 23% of Managers (with direct reports) are female
- The Training and Development budget is equally available to all staff. There is a balanced representation of males and females participating in leadership, compliance training and our study assistance program
- The company is compliant with equal opportunity legislation administered by the Australian Government's Equal Opportunity for Women in the Workplace Agency (EOWA)

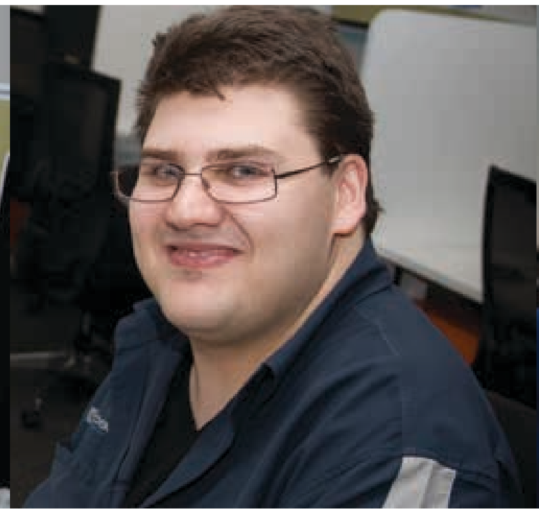
Outlook

At Melbourne IT we truly believe our people are our greatest asset.

Investment in training and development — with a strong focus on customer experience, leadership skills and technical development — will provide opportunities for our staff and for the company itself, to deliver best practice services to our customers.

With the acquisition of the Netregistry Group in the first quarter of 2014, we will continue to identify synergies. Integration of the Netregistry Group will be a key focus for us in the coming year. Our leadership team looks forward to working with all stakeholders during this exciting time of transition and achievement.





At Melbourne IT, managing energy usage is the primary focus for our sustainability efforts; this has a greater environmental impact than other factors due to the nature of our business and operation of several large data centres.

Melbourne IT is committed to operating in an environmentally sound and sustainable manner. We are committed to the objective of reducing the Company's environmental impact through innovation and industry best practice.

In 2013 we passed a key sustainability milestone, when our Melbourne office relocated to a more energy efficient, 4 star NABERS (National Australian Built Environment Ratings System) rated building on La Trobe Street in the CBD. Strategically located to be within walking distance to key public transport locations, employees are also encouraged to ride to work. The new office is fully equipped with secure storage, lockers, and change rooms. Moreover, with a view overlooking the scenic Flagstaff Gardens, employees are able to enjoy their lunch break in the park or short walk/exercise over the lunch hour.

Melbourne IT also has a policy of selecting more energy efficient equipment when IT hardware is replaced. We give preference to virtualisation wherever possible in order to reduce the amount of hardware in use and consequently the amount of energy consumed.

A wide scale replacement of the legacy phone system in both the Melbourne and Brisbane offices with a VOIP (Voice over Internet Protocol) solution using Microsoft Lync was implemented in late 2013. The change was in line with policy of reducing business travel between offices (both domestic and international). Video/phone conferencing, virtual meetings and presentations are easy and seamless with the switch to this new technology.

Outside of its work in energy reduction through its data centres, Melbourne IT encourages sustainability efforts in our day-to-day operations. Employees are encouraged to adopt positive personal working practices that support energy conservation, such as switching off their computers, unused appliances, and lights at the end of the day, and printing only what is required. Many processes which were formerly paper-based have now been fully automated and security PINs have been introduced on all printers to avoid paper wastage.

General recycling facilities for paper and cardboard are provided in all Melbourne IT offices where there are more than ten employees. Where possible, all electronic waste is recycled, re-used, or donated to charity to minimise disposable e-waste. Any disposal of electronic waste occurs in accordance with local laws.

In 2014, Melbourne IT plans to continue to investigate new initiatives that help to mitigate the environmental impacts of our operations.

Simon Jones
Chairman (Current)

Mr Jones has extensive experience in investment advisory, valuations, mergers and acquisitions, public offerings, audit and venture capital and is a member of the Audit & Risk Management Committee (ARMC) and the Human Resources, Remuneration and Nomination Committee (HRRNC).

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

Rob Stewart
Non-Executive Director (Current)

Mr Stewart is a company director and management consultant. Mr Stewart has extensive management and board experience within leading companies across a variety of industries, and was Chairman of Melbourne IT for more than a decade before standing down in October 2009. He is Chairman of the Audit & Risk Management Committee (ARMC).

Tom Kiing
Non-Executive Director (Current)

Mr Kiing has extensive experience in mergers and acquisitions, capital markets and corporate finance. He was appointed to the Board on 19 December 2002 and is a member of the Human Resources, Remuneration and Nomination Committee (HRRNC). Mr Kiing became the Chairman of the HRRNC from 1 October 2013 before standing down on 1 March 2014.

Naseema Sparks
Non-Executive Director (Current)

Ms Sparks is a professional company director and experienced advertising executive. She is a member of the boards of a number of Australian listed companies and not-for-profit organisations. She was appointed to the Board in April 2012 and is a member of the Human Resources, Remuneration and Nomination Committee (HRRNC). Ms Sparks became the Chairman of the HRRNC from 1 March 2014.

Theo Hnarakis
Managing Director & CEO

Mr Hnarakis was appointed Chief Executive Officer of Melbourne IT in November 2002 and joined the Board on 20 September 2003. Prior to joining Melbourne IT, Mr Hnarakis held senior roles with News Corporation, Boral Group and the PMP Communications Group. He is an IT Fund for Kids Ambassador for the Starlight Children's Foundation.

Mr Hnarakis resigned from Melbourne IT and the Board on 5 December 2013.

Andrew Walsh
Non-Executive Director

Mr Walsh has extensive experience in the global internet industry, primarily in the development of successful online businesses and expanding into new geographies. He was appointed to the Board in June 2008 and was Chairman of the Human Resources, Remuneration and Nomination Committee (HRRNC).

Mr Walsh resigned from Melbourne IT and the Board on 31 August 2013.

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

The Melbourne IT Board of Directors recognises the need for the highest standards of corporate behaviour and accountability. The Board is committed to optimising shareholder returns within a framework of ethical business practices.

Melbourne IT corporate governance practices and policies comply with the ASX Corporate Governance Council's revised "Corporate Governance Principles and Recommendations", including the most recent amendments in relation to diversity. This statement reflects a summary of Melbourne IT's corporate governance framework, policies and procedures during the 2013 year.

Further information on the Melbourne IT's corporate governance policies, including Board committee charters, are set out in the Corporate Governance website at **http://www.melbourneit.info/investor-centre/corporate-governance**

Principle 1 – Lay Solid Foundations for Management and Oversight by Board

Melbourne IT has established functions which are reserved to the Melbourne IT Board and those delegated to senior executives. A statement of those functions is available from the Melbourne IT corporate governance website.

The performance of the Board is regularly evaluated, both formally and informally.

Formal performance reviews are conducted for all staff, including senior executives, on an annual basis. The performance of the senior executives is evaluated on the basis of role descriptions and key performance metrics.

An induction program is conducted for all new Melbourne IT staff. The company's policies and procedures are available to all staff on an intranet page.

Principle 2 – Structure the Board to Add Value

The qualifications of the current Board members are available from the Melbourne corporate governance website.

As at 31 December 2013, three of the four non-executive directors are considered by the Board to be independent directors (Simon Jones, Naseema Sparks and Rob Stewart). Tom Kiing is a substantial shareholder in Melbourne IT, and therefore is not considered by the Board to be an independent director. Theo Hnarakis was the sole executive director until his resignation on 5 December 2013. Martin Mercer, will join Melbourne IT as the new Managing Director and Chief Executive Officer (CEO) on 7 April 2014.

The Chairman, Simon Jones, is an independent non-executive director.

The Board has an appropriate mix of relevant skills, experience, expertise and diversity, which enables us to discharge its responsibilities and meet its objectives. The Board considers that diversity includes differences that relate to gender, age, ethnicity and cultural background as well as differences in skills, education and functional and industry expertise. A brief biography of each Director (as at the date of this report) is included on page 13.

One third of the directors (with the exception of the Managing Director) must retire from office at the time of the Annual General Meeting each year. Directors are eligible for re-election. The directors who retire by rotation are those with the longest period in office since their appointment or last election. The maximum period that a director can be in office before facing re-election is three years. This period will sometimes be shorter due to the requirement that one third must retire each year. At the time when any director is coming up for re-election, the Board considers that question and makes a conscious decision as to whether to recommend that re-election to shareholders.

The Human Resources Remuneration and Nomination Committee (HRRNC) comprises three non-executive directors: Naseema Sparks (Chairperson), Tom Kiing and Simon Jones. Simon Jones and Naseema Sparks are both independent directors. The General Manager, Human Resources and the Managing Director and CEO attend all meetings by invitation. The HRRNC meets at least 3 times a year.

The performance of the Board, its committees and individual directors will next be formally reviewed in the 2014 financial year, with the assistance of an external facilitator. In certain circumstances a director may consider it necessary to seek independent professional advice in carrying out their duties. Should this arise, the director would discuss the matter first with the Chairman and any advice then considered necessary would be obtained at the company's expense.

Principle 3 – Promote Ethical and Responsible Decision Making

Code of Conduct

The Company has a Code of Conduct to guide the directors, the Managing Director and CEO, the Chief Financial Officer and other key executives as to:

- the practices necessary to maintain confidence in the company's integrity, and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Our Code of Conduct is available from Melbourne IT's corporate governance website.

Share Trading

The Company also has a Trading Policy concerning trading in company securities by directors, officers and employees involved in material transactions or privy to material information, which complies with the ASX Listing Rules. A copy is available from Melbourne IT's corporate governance website.

Diversity

Melbourne IT is committed to ensuring that its employees and contractors work in an environment that is open, friendly and free of discrimination, harassment and bullying. To ensure employees can work to the best of their ability, Melbourne IT aims to create an environment where employees are treated with dignity, fairness and respect, and where everyone is judged according to merit.

- 74 per cent of employees are male, 26 per cent are female. Technical roles, Customer Service and Sales in the IT industry are typically dominated by males. Human Resources, Finance and Legal continue to be dominated by females
- 33 per cent of the executive roles were held by females
- There is one female board member (20 per cent)
- Approximately 23 per cent of Managers (with direct reports) are female
- The Training and Development budget is equally available to all staff. There is abalanced representation of males and females participating in leadership,compliance training and our study assistance program
- The company is compliant with equal opportunity legislation administered by the Australian Government's Equal Opportunity for Women in the Workplace Agency (EOWA)

A copy of our Diversity Policy is available from Melbourne IT's corporate governance website.

Principle 4 – Safeguard Integrity in Financial Reporting

The Acting CEO and Chief Financial Officer has stated in writing to the Board for the 2013 year that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

The Audit and Risk Management Committee (ARMC) comprises two non-executive directors: Rob Stewart (Chairman) and Simon Jones. The ARMC Chairman is not the Chairman of the Board. The Chairman of the ARMC is an independent director, as are the majority of other members.

The Managing Director and CEO, Chief Financial Officer and the General Manager, Risk and Audit, attend the meetings by invitation of the ARMC. The relevant partner and staff of Melbourne IT's external auditors also attend by invitation from time to time.

The ARMC meets five times each year and has direct access to Melbourne IT's auditors and senior management. On at least one occasion each year it meets with the auditors without management being present.

The Committee also receives regular reports from both the external and internal auditors concerning any matters which arise in connection with the performance of their role, including adequacy of internal controls. The Committee reports to the Board on its activities after each meeting, and copies of the minutes of the Committee's meetings are provided to all directors.

The ARMC Charter is available from the Melbourne IT corporate governance website.

Principle 5 – Make timely and balanced disclosure

Melbourne IT is committed to complying with its disclosure obligations. To that end Melbourne IT has developed a written Market Disclosure Policy, which is available from the Corporate Governance section of Melbourne IT's website. The Board has appointed the Company Secretary as "Disclosure Officer", with responsibility for:

- Reviewing compliance with Melbourne IT's continuous disclosure obligations;
- Co-ordination of the timely release of information to the market; and
- Maintaining a record of disclosure information (including any information which was considered but rejected for disclosure and the reasons for non-disclosure).

All market disclosures are reviewed by the directors, together with the Disclosing Officer, to ensure that they are factually correct and complete.

Principle 6 – Respect the rights of shareholders

Melbourne IT aims to keep its shareholders informed of all important developments concerning the company. Melbourne IT communicates with its shareholders using the following means:

- Notices and explanatory memoranda of annual general meetings;
- The annual report;
- The annual general meeting;
- The Melbourne IT's corporate website located at http://www.melbourneit.info
- Periodic analyst briefings, which are released to the ASX; and
- Periodic shareholder announcements, which are also released to the ASX.

Melbourne IT's external auditors attend the Company's Annual General Meeting and are available to answer reasonable questions from shareholders in relation to the conduct of the audit, the independent audit report and the accounting policies adopted by Melbourne IT.

Principle 7 – Recognise and Manage Risk

The Board has established appropriate policies for the oversight and management of material business risks and a process for management to report as to the effectiveness of the company's management of its material business risks.

Recommendation 7.3 requires the Managing Director and CEO and the Chief Financial Officer to report to the Board that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. This recommendation was complied with in 2013 by Theo Hnarakis and Peter Findlay.

Principle 8 – Remunerate Fairly and Responsibly

The Board has established the HRRNC to assist it to address the various issues in this area (see Principle 2 above). The Managing Director and CEO reviews the performance of his direct reports and makes recommendations to the HRRNC for approval in relation to their remuneration and Key Performance Indicators ('KPIs'). The Managing Director and CEO's own performance is reviewed by the Board, facilitated by the HRRNC and the Chairman.

The HRRNC also facilitates an annual review of the Board's performance – both of the Board as a whole and of individual directors.

The HRRNC reports to the Board on its activities after each meeting, and copies of the minutes of the Committee's meetings are provided to all directors.

Melbourne IT's remuneration policy has been set to ensure that the remuneration of directors and all staff properly reflects each person's accountabilities, duties and their level of performance, and to ensure that remuneration is competitive in attracting, motivating and retaining staff of the highest quality. All remuneration packages are reviewed at least annually, taking into account individual and company performance, market movements and expert advice.

Remuneration of non-executive directors in 2013 comprised of a fixed fee only.

Non-executive directors are paid fixed fees in accordance with a determination of the Board but within a global limit fixed by the shareholders at a General Meeting. The current global limit of $1,000,000 was approved by shareholders at the Annual General Meeting in 2008. Approval has not been sought to increase the fees paid to non-executive directors since that date. The Chairpersons of each committee receive an additional amount to reflect (at least to some extent) the additional workload and responsibility required of them to carry out that role.

Directors are not entitled as of right to any retirement or termination benefit (other than statutory superannuation benefits).

The remuneration of the Managing Director and CEO, and executives, comprises the following three elements:

1. Fixed Salary
2. Variable remuneration: short-term incentive
3. Variable remuneration: long-term incentive

The short-term incentive for each executive is an annual cash payment determined by the amount of fixed salary and achievement of individual KPIs. The expected performances of the Managing Director and CEO, staff reporting directly to him (known as 'direct reports') and other senior staff members, are specified each year using Key Performance Indicators (KPIs) in individual role agreements. These KPIs include financial targets for Melbourne IT overall as well as personal objectives and targets, appropriate for each individual's role.

The long-term incentive is membership of the Melbourne IT Performance Rights Plan and prior to 2009, the Melbourne IT Employee Performance Share Option Plan (both of which have been approved by shareholders).

Payment of equity-based executive remuneration is made in accordance with thresholds set in Plans approved by shareholders.

DIRECTORS' REPORT

Your directors submit their report for the year ended 31 December 2013.

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

Directors		Managing Director
Mr. Simon Jones		Mr. Theo Hnarakis (Resigned 5 December 2013)
Mr. Tom Kiing		
Mr. Robert Stewart AM		
Ms. Naseema Sparks		
Mr. Andrew Walsh	(Resigned 31 August 2013)	

Company Secretary	
Ms. Ashe-lee Jegathesan	(Resigned 26 September 2013)
Mr. Arnaud Desprets	(Appointed 26 September 2013)

DETAILS OF DIRECTORS' EXPERIENCE, EXPERTISE AND DIRECTORSHIPS

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

Interests in the shares and options of the company

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

	Ordinary Shares	Options over Ordinary Shares
Mr. Simon Jones	155,935	-
Mr. Tom Kiing	5,721,488	-
Mr. Robert Stewart AM	810,784	-
Ms. Naseema Sparks	-	-

PRINCIPAL ACTIVITIES

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

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

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

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

DIRECTORS' REPORT (continued)

PRINCIPAL ACTIVITIES (continued)

Discontinued Operations
During the year, the Group also conducted two other principal activities, both of which were discontinued in the year. The DBS business unit's core business was online brand protection including the management of corporate domain name portfolios. As noted below under the heading "Significant Changes in State of Affairs", the DBS business was sold on 12 March 2013. The FTR business, which is a supplier of rich media content management systems primarily to court rooms, was also discontinued in the period as the sale of the business was completed on 30 August 2013.

REVIEW AND RESULTS OF OPERATIONS

EARNINGS PER SHARE

	2013	2012
Continuing operations		
Basic earnings per share	7.46 cents	10.60 cents
Diluted earnings per share	7.42 cents	10.46 cents
Discontinued operations		
Basic earnings per share	75.44 cents	3.36 cents
Diluted earnings per share	75.05 cents	3.31 cents
Total operations		
Basic earnings per share	82.90 cents	13.96 cents
Diluted earnings per share	82.47 cents	13.77 cents

RESULTS

The profit after tax of the Melbourne IT Group for the year ended 31 December 2013 was $68.876 million (2012: $11.441 million).

DIVIDENDS

	Cents	$'000
DIVIDENDS PAID IN THE YEAR		
Final Dividend – 2012 on ordinary shares	7.0	5,772
Special Dividend – 2013 on ordinary shares	25.0	20,675

REVIEW OF OPERATIONS

Overview
Melbourne IT experienced a significant increase in earnings per share (EPS) in Calendar 2013. EPS rose by (494%) from 13.96 cents for the year ended 31 December 2012 to 82.90 cents for the year ended 31 December 2013. The key driver of this result was the sale of the DBS and FTR businesses. The result was a 79.0 cents per share return to Melbourne IT shareholders for the 2013 year.

The Company managed a challenging year of transition which saw EBITDA decrease by 43% to $5.8 million. This was a direct consequence of a $2 million decline in gross margins, stranded overheads associated with DBS and FTR sales, and costs arising from enactment of the Melbourne IT restructuring plan of August 2013. This plan sets the business agenda for future success, adapting the cost structures to create a leaner, more agile company. In parallel, a new revenue strategy was launched to align product offerings with market expectations and to improve customer engagement.

DIRECTORS' REPORT (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

REVIEW OF OPERATIONS

Overview (Continued)

Implementation of these revenue initiatives, coupled with stronger interest revenue related to the divestments, allowed Melbourne IT to arrest revenue declines during the second half of 2013. The downturn in full year consolidated revenue of $5 million against 2012 was primarily driven by the first six months' performance of 2013.

Outlook 2014

The implementation of cost saving initiatives during 2013 are expected to lift the earnings of the Group. The Group is expecting to achieve an EBITDA in the range of $10 -12 million in 2014 (prior to any contribution or adjustment from Netregistry Group Limited). In addition, Melbourne IT will continue to focus on revenue initiatives such as the following:

- Improving online capability for customers leading to better engagement and satisfaction levels;
- Improving customer experience through the release of new products;
- Maximising the benefits associated with the release of 400+ new gTLDs; and
- Growth of Managed Service offerings.

Melbourne IT achieved a significant strategic and operational milestone when, in February 2014, it announced its intention to acquire the Netregistry Group Limited business.

Key benefits are expected to flow from this significant acquisition:

- The combination will enable both companies to offer best in class domain names and hosting products;
- Synergies of more than $5 million will be achieved by 2015 through elimination of duplication in product offerings, consolidating infrastructure and IT systems, and sharing overheads; and
- The merger will provide both businesses with an opportunity to compete more effectively against strong, price driven, foreign competition.

These synergies mean the acquisition of Netregistry will be earnings accretive for Melbourne IT shareholders.

Financial position

The divestment of the DBS and FTR businesses significantly strengthened Melbourne IT's balance sheet. A total of $122 million of net proceeds was received from the sales. This has allowed for the retirement of Melbourne IT's $35 million bank debt and the subsequent return of $66 million to its shareholders. At the same time, a healthy cash balance has been maintained targeted at funding strategic initiatives such as the Netregistry acquisition.

Risks review

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

- Regulatory - Melbourne IT business operates in highly regulated global markets. Success can be impacted by changes to the regulatory environment. Melbourne IT plays an active role in consulting with regulators on changes which could impact our business.
- Markets - a material proportion of Melbourne IT revenue is derived from the performance of its reseller channel. This, together with government spending impacts, which are not within the Company's control, can be challenging to predict. Melbourne IT works closely with its customers to understand their challenges in order to mitigate this risk.
- Competition - The actions of our competitors, and in particular aggressive price discounting, may affect Melbourne IT's ability to retain existing customers and also win new clients. Melbourne IT invests significantly in new products and customer services to maintain its market position.

It is expected that the recent acquisition of Netregistry will assist in mitigating these risks. The formation of a far larger pool of customers, increased skill sets, funds available for market investment and product enhancements provides an opportunity to compete more effectively against strong, price driven, foreign competition.

A reconciliation of EBIT and EBITDA included in this report to the reported profit after tax is provided below. The company believes that this non-IFRS, unaudited information is relevant to the user's understanding of its results as it provides a better measure of underlying operating performance.

DIRECTORS' REPORT (continued)

REVIEW AND RESULTS OF OPERATIONS (continued)

Summarised operating results are as follows:

	2013 $'000	2012 Restated* $'000
Continuing operations		
Revenue		
Registration Revenue	44,752	48,331
Hosting & Value-Added Product Sales	55,729	59,788
Other Revenue	248	119
Total Revenue excluding Interest Revenue	100,729	108,238
Interest Revenue	2,670	203
Other Income	-	30
Total Consolidated Income	**103,399**	**108,471**
Earnings Before Net Interest, Tax, Depreciation and Amortisation ('EBITDA')	**5,819**	**10,178**
Depreciation and Amortisation Expense	(2,782)	(2,809)
Total Earnings Before Net Interest and Tax ('EBIT')	**3,037**	**7,369**
Costs Recovered from Discontinued Operations**	282	2,545
Net Interest Revenue	2,545	85
Profit Before Tax from Continuing Operations	**5,864**	**9,999**
Tax Benefit/(Expense)	334	(1,309)
Profit After Tax from Continuing Operations	**6,198**	**8,690**
Discontinued Operations		
Profit After Tax from Discontinued Operations	**62,678**	**2,751**
Profit After Tax for the Year	**68,876**	**11,441**
Cashflow from Operations* **	**7,308**	**21,134**

* 2012 results have been restated to present the DBS and FTR businesses as discontinued operations as required by Australian Accounting Standards

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

*** 2012 cashflow from operations includes operating cashflow from DBS and FTR businesses

DIRECTORS' REPORT (continued)

RISK MANAGEMENT

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

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

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 12 March 2013 Melbourne IT sold the Digital Brand Services (DBS) business to the Corporation Services Company for a consideration of $152.2 million, of which 10% is to be held in escrow for a period of 15 months. The Group's US$ 35 million bank facility was repaid at that time.

On 1 August 2013 Melbourne IT sold the For The Record ("FTR") business to Record Holdings Pty Ltd for a cash consideration of $6.3 million. The execution of the sale agreement occurred on 1 August 2013 and the completion of the transaction occurred on 30 August 2013.

Melbourne IT announced on 4 December 2013 that it proposed to make a capital return of $0.54 per fully paid ordinary share, subject to receiving approval from shareholders at a General Meeting, scheduled to be held on 28 January 2014. The total amount of the capital return was approximately $45.2 million. A Notice of General Meeting was circulated on 20 December 2013 and the meeting was held on 28 January 2014.

On 5 December 2013, T.J. Hnarakis resigned from his role as Managing Director and Chief Executive Officer (CEO) of Melbourne IT effective from that date. The Chief Financial Officer, P. Findlay holds the position of Acting CEO from that date until the commencement of the new CEO.

SIGNIFICANT EVENTS AFTER BALANCE DATE

On 17 January 2014, Melbourne IT announced that the Board of Directors has appointed Martin Mercer as Chief Executive Officer and Managing Director of Melbourne IT effective early April 2014.

During the General Meeting held on 28 January 2014, the following resolutions were approved by the shareholders:

Item 1: Return of capital to shareholders of $0.54 per fully paid ordinary share amounting to approximately $45.2 million;

Item 2: Amendments to the terms of the performance rights granted under the Company's Performance Rights Plan and currently on issue; and

Item 3: Revision of certain components of the potential termination benefits which may be payable to members of the executive team.

Details of the items above are provided in the Notice of General Meeting that was circulated on 20 December 2013 and its amendment on 21 January 2014.

On 27 February 2014, Melbourne IT announced that it had entered into a Share Purchase Agreement to acquire Netregistry Group Limited ('Netregistry'), a leading online services provider, for an enterprise value of $50.4 million. The acquisition will be funded through a mix of cash and scrip consideration. Larry Bloch, founder and CEO of Netregistry Group Limited, will be joining the Melbourne IT's Board of Directors as a non-executive director. In late March 2014, Melbourne IT entered into a $20 million revolving credit facility with National Australia Bank Limited to partly fund the acquisition of Netregistry. The transaction completion is subject to settlement of the acquisition by all parties. The initial accounting for the acquisition in accordance with AASB 3 'Business Combinations' cannot be determined until the settlement of the transaction is completed.

DIRECTORS' REPORT (continued)

SIGNIFICANT EVENTS AFTER BALANCE DATE (continued)

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

For further information about the likely developments and expected results of the Group, refer to the 'Outlook 2014' section on page 18 of this report.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

SHARE OPTIONS

Unissued shares

As at the date of this report, there were no unissued ordinary shares under options. There were 765,938 (including 110,000 cash settled performance rights) at the reporting date. Refer to note 29 of the financial statements for further details of the options outstanding. Option holders do not have any right, by virtue of the option rules, to participate in any share issue of the company or any related body corporate or in the issue of any other registered scheme.

Shareholders approved a resolution on amendments to the terms of the performance rights granted under the Company's Performance Rights Plan in a General Meeting held on 28 January 2014. This is disclosed in the 'Significant Events after Balance Date' section. The passing of this resolution impacted on the actual number of shares issued to the employees on the vesting date and shortened the remaining contractual life of the performance rights.

Shares issued as a result of the exercise of options

During the financial year, employees or directors have exercised the option to acquire 30,000 (2012: Nil) fully paid ordinary shares in Melbourne IT Ltd at a weighted average exercise price of $2.12 per share.

In the year ended 31 December 2013, no options were granted over ordinary shares (2012: 990,000 options granted).

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

DIRECTORS' REPORT (continued)

SHARE OPTIONS (continued)

Issued Options Outstanding

Number of options		Grant date	Vesting date*	Expiry Date*	Weighted Average Exercise Price
285,938	**	1/07/11	1/07/14	1/07/14	0.00
370,000	**	1/07/12	1/07/15	1/07/15	0.00
110,000	***	1/07/12	1/07/15	1/07/15	0.00
765,938					

* The General Meeting held on 28 January 2014 changed the vesting and expiry dates of the 2011 and 2012 Performance Rights plans to 31 January 2014. The performance rights which vested in relation to the 2012 plan will be held in escrow until 30 June 2014.

** The change in the vesting date as approved in the 28 January 2014 General Meeting also resulted in a change in the number of shares vested. For the 2011 plan, 245,988 of performance rights vested while 39,950 performance rights lapsed on 31 January 2014. For the 2012 plan, 248,889 of performance rights vested while 121,111 performance rights lapsed on 31 January 2014.

*** Represents zero price shares to be settled in cash at time of vesting, offerred to international staff. Pursuant to the 28 January 2014 General Meeting, the number of performance rights vested was 76,338 while 33,612 performance rights lapsed on 31 January 2014.

DIRECTORS' MEETINGS

	Directors Meetings		Meetings of Committees			
			ARMC (1)		HRRNC (2)	
No of meetings held in 2013	17		5		6	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Simon Jones	17	17	5	5	6	6
Theo Hnarakis *	16	15				
Robert Stewart AM	17	17	5	5		
Tom Kiing	17	16			6	6
Naseema Sparks	17	14			6	5
Andrew Walsh **	12	11			5	5

(1) Audit and Risk Management Committee
(2) Human Resources, Remuneration and Nomination Committee
* resigned 5 December 2013
** resigned 31 August 2013

The above table shows the numbers of meetings of directors held during 2013. The table also shows the number of meetings attended by each director and the number of meetings each director was eligible to attend.

As at the date of this report, the company had an Audit & Risk Management Committee ("ARMC") and a Human Resource, Remuneration & Nomination Committee ("HRRNC") of the Board of Directors.

The members of the ARMC are Mr R. Stewart AM (Chairman) and Mr S. Jones.

The members of the HRRNC are Mr T Kiing (Chairman from 1 September 2013 until 28 February 2014), Mr S. Jones, Ms N. Sparks (Chairman from 1 March 2014) and Andrew Walsh (Chairman until 31 August 2013).

The Managing Director and Chief Executive Officer attends each ARMC and each HRRNC by invitation.

DIRECTORS' REPORT (continued)

ROUNDING

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

CORPORATE GOVERNANCE

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

The company's corporate governance statement is available on the company's website www.melbourneit.com.au and is contained in the additional ASX information section of the 2013 annual report.

REMUNERATION REPORT (Audited)

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

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

Human Resources, Remuneration and Nomination Committee (HRRNC)

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

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

Remuneration philosophy

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

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

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

Further details of remuneration of directors and KMP are also provided in note 28 of the financial statements.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Remuneration structure

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

Non-executive director remuneration

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

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

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

Fixed Remuneration

Each director receives a fee for being a director of the company. Each director is expected to be a member of at least one committee. An additional fee is paid for chairing a Board committee in recognition of the additional time commitment and responsibility required. Mr Simon Jones received additional compensation in 2013 for work carried out from January to April 2013 on the strategic review and sale of the DBS business.

Non-executive directors have long been encouraged by the Board to hold shares in the company (purchased by the directors on market). It is considered good governance for directors to have a stake in a company on whose board they sit. Details of the shareholding as at the date of this report are disclosed on page 16 of the Directors Report.

The remuneration of non-executive directors for the period ended 31 December 2013 is detailed below.

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

Emoluments of non-executive directors of Melbourne IT Ltd:

2013	**Short Term**	**Post Employment**	
Directors	Salary & fees	Superannuation Contribution	**Total**
	$	$	**$**
Mr Simon Jones	276,813	25,134	301,947
Mr Tom Kiing	79,376	7,015	86,391
Ms. Naseema Sparks	76,875	7,015	83,890
Mr Robert Stewart AM	86,875	7,927	94,802
Mr Andrew Walsh	57,916	5,249	63,165
Total 2013	**577,855**	**52,340**	**630,195**

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Fixed Remuneration (continued)

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

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

Executive and senior manager remuneration

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

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

Structure
To assist in achieving these objectives, the HRRNC links the nature and amount of executive emoluments to the company's financial and operational performance. All executives have the opportunity to participate in the Short Term Incentive Plan as described on page 26. Some executives are also participants in the Long Term Incentive Plan as described on page 27.

Remuneration consists of the following key elements:

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

The proportion of fixed and variable remuneration (potential short term and long term incentives) is established for executives by the HRRNC. The table on page 28 details the fixed and variable components of the key management personnel of the Group and the company.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Executive and senior manager remuneration (continued)

Fixed remuneration

Objective

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

Structure

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

The fixed remuneration component of the key management personnel is detailed on page 28.

Variable Remuneration – Short Term Incentives (STI)

Objective

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

Structure

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

Both hurdles are assessed on an annual basis, and reviewed by the HRRNC, and are taken into account when determining the amount, if any, of the STI to be paid to each executive. This assessment process usually occurs within three months of the end of our financial year. The limits that are applied to the STI payment ranges from nil to 150% of the amount of the base value awarded to the executive. No STI was paid or accrued during the year in relation to this STI program set out above.

In addition, the HRNNC and/or the Board of Directors exercised their discretion to determine STI to be received by certain executives in recognition of their contribution to the Group's performance (e.g. sale of DBS business in 2013).

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Executive and senior manager remuneration (continued)

Variable Remuneration – Long Term Incentives (LTI)

Objective

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

Structure

LTI grants to executives are delivered in the form of options to achieve alignment between comparative shareholder return and reward for executives. For the financial year ended 31 December 2013, no LTI plans were granted to executives, senior management or staff.

LTI Plans – pre 30 June 2010

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

LTI Plans – post 1 July 2010

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

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

TSR Percentile Rank Achieved	TSR Proportion of Rights Vesting
>= 75th percentile	100%
> 50.1 percentile and < 75th percentile	Pro-rata allocation
50.1 percentile	50%
< 50.1 percentile	0%

Compound annual EPS growth	Proportion of EPS Rights Vesting
>= 12.5%	100%
> 7.5% and < 12.5%	Pro-rata allocation
7.50%	50%
< 7.5%	0%

On 28 January 2014, shareholders approved a resolution to vary the vesting dates of the 2011 and 2012 Performance Rights such that both Performance Rights vested on 31 January 2014. The Performance Rights which vested in relation to the 2012 plan are to be held in escrow until 30 June 2014. After 31 January 2014, there were no unissued shares relating to the Performance Rights plans.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

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

Company performance and link to remuneration

Company performance and link to short and long term incentives

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

Emoluments of Executives of the Company and the Consolidated Entity

Details of the nature and amount of each element of the total remuneration for each member of the key management personnel for the year ended 31 December 2013 and 2012 are set out in the tables. Where remuneration was paid in anything other than AUD, it has been translated at the average exchange rate for the financial year.

2013	Short term benefits			Post Employment benefits	Long term benefits	Share Based Payments	Other		
Executives	Salary & fees	STI (1)	Other (2)	Super Cont.	Long service leave (3)	Amortisation Expense (4)	Termination Pay	Total	Performance related (5)
	$	$	$	$	$	$	$	**$**	%
Mr Theo Hnarakis (6)	670,627	143,640	17,816	13,287	15,015	268,274	847,817	1,976,476	20.8%
Mr Doug Schneider	347,553	-	-	-	-	65,344	-	412,897	15.8%
Mr Peter Findlay	323,139	102,069	8,736	28,750	4,924	94,098	-	561,716	34.9%
Ms Ashe-lee Jegathesan (7)	191,466	63,443	8,650	29,146	(10,584)	69,094	214,568	565,783	23.4%
Mr Arnaud Desprets (8)	43,750	-	98	4,047	-	-	-	47,895	0.0%
Mr Peter Wright (9)	270,284	-	14,187	24,555	4,290	62,732	-	376,048	16.7%
Dr Bruce Tonkin (10)	281,212	83,061	10,472	24,477	7,661	64,842	-	471,725	31.4%
Mr Martin Burke (11)	73,670	-	-	15,319	-	-	405,099	494,088	0.0%
Total 2013	**2,201,701**	**392,213**	**59,959**	**139,581**	**21,306**	**624,384**	**1,467,484**	**4,906,628**	

(1) Represent STIs paid to executives who worked on the sale of the DBS business.

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

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

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

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

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

(6) Mr Theo Hnarakis, CEO and Managing Director resigned from the Group, and the executive, on 5 December 2013.

He was entitled to the following termination benefits: (1) payment in lieu of the 12 months notice period based on the fixed component of Mr Hnarakis' remuneration, (2) redundancy payment based on the fixed component of his remuneration according to the Fair Work Act 2009, and (3) accrued discretionary bonus relating to the sale of the DBS business.

Also, his entitlement to the 2011 and 2012 Performance Rights granted to him had vested, on a pro-rata basis in relation to the proportion of the service period during which he was employed, on the date of his resignation from the executive.

(7) Ms Ashe-lee Jegathesan resigned from the executive on 26 September 2013, and resigned from the Group on 6 December 2013.

Her entitlement to the 2011 and 2012 Performance Rights granted to her had vested, on a pro-rata basis in relation to the proportion of the service period during which she was employed, on the date of her resignation from the executive.

(8) Mr Arnaud Desprets was appointed to the executive as Company Secretary on 26 September 2013.

(9) Mr Peter Wright was appointed to the executive on 1 January 2013. He holds the position of Executive Vice President, Enterprise Services.

(10) Dr Bruce Tonkin was appointed to the executive on 1 January 2013. He holds the position of Chief Technology Officer.

(11) Mr Martin Burke resigned from the Group, and the executive on 11 March 2013 following the sale of the DBS business.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

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

2012	Short term benefits			Post Employment benefits	Long term benefits	Share Based Payments	Other		
Executives	Salary & fees	STI (1)	Other (2)	Super Cont.	Long service leave (3)	Amortisation Expense (4)	Termination Pay	Total	Performance related (5)
	$	$	$	$	$	$	$	**$**	%
Mr Theo Hnarakis	589,167	-	41,307	41,635	32,395	114,083	-	818,587	13.9%
Mr Damian Walsh (6)	33,065	-	3,105	4,437	(3,726)	8,375	91,209	136,465	N/a
Mr Doug Schneider (7)	144,348	41,663	-	-	-	24,036	-	210,047	31.3%
Ms Lori Harmon (8)	156,458	-	-	4,540	-	(40,688)	19,360	139,670	N/a
Mr Damon Fieldgate (9)	98,490	-	2,873	8,683	(13,270)	(49,612)	83,582	130,746	N/a
Ms Ashe-lee Jegathesan	238,689	-	9,295	21,436	4,822	28,433	-	302,675	9.4%
Mr Kanchan Mhatre (10)	144,047	-	-	4,561	-	(45,343)	20,791	124,056	N/a
Mr Martin Burke (11)	16,451	46,062	-	-	-	-	-	62,512	0.0%
Mr Peter Findlay	303,211	-	8,103	26,550	-	31,350	-	369,214	8.5%
Total 2012	**1,723,926**	**87,724**	**64,683**	**111,842**	**20,221**	**70,634**	**214,942**	**2,293,972**	

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

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

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

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

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

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

These two elements represent the at-risk and discretionary amount payable which will vary depending on the financial performance of the company. They are in addition to the fixed remuneration. The proportion of performance related pay is not considered meaningful for leavers, due to the fact that the current year remuneration as reported in this table includes the reversal of prior year share based payments amortisation.

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

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

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

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

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

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

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

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

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

2013

In the year ended 31 December 2013, there were no options/rights granted to the KMP (2012 : 485,000).

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

2013

	Options/ Rights Granted	Value of options/rights granted (1) $	Value of options/rights vested/ exercised $	Number of options/rights lapsed / forfeited	Value of options/rights lapsed / forfeited $	Remuneration consisting of options/rights (2) %
Executives						
Mr Theo Hnarakis (3)	-	-	-	321,771	684,440	-34.6%
Mr Doug Schneider	-	-	-	-	-	0.0%
Mr Martin Burke (4)	-	-	-	-	-	N/a
Ms Ashe-lee Jegathesan (5)	-	-	-	42,960	84,852	-15.0%
Mr Peter Findlay	-	-	-	-	-	0.0%
Mr Arnaud Desprets (6)	-	-	-	-	-	0.0%
Dr Bruce Tonkin (7)	-	-	-	27,450	60,390	-12.8%
Mr Peter Wright (8)	-	-	-	-	-	0.0%
	-	-	-	392,181	829,682	

(1) Represents the grant date valuation multiplied by the number of performance rights granted. This cost is expensed over the 3 year performance period.
(2) The proportion of remuneration consisting of options is not considered meaningful for leavers, due to the fact that the current year remuneration as reported in the table on page 28 includes the reversal of prior year share based payments amortisation.
(3) Mr. Theo Hnarakis, CEO and Managing Director resigned from the executive on 5 December 2013.
(4) Mr. Martin Burke resigned from the executive on 11 March 2013 following the sale of the DBS business.
(5) Ms Ashe-lee Jegathesan resigned from the executive on 26 September 2013, and the Group on 6 December 2013.
(6) Mr Arnaud Desprets was appointed to the executive as Company Secretary on 26 September 2013.
(7) Dr Bruce Tonkin was appointed to the executive on 1 January 2013. He holds the position of Chief Technology Officer.
(8) Mr Peter Wright was appointed to the executive on 1 January 2013. He holds the position of Executive Vice President, Enterprise Services.

Subsequent to year end, shareholders approved a resolution on amendments to the terms of the performance rights granted under the Company's Performance Rights Plan in a General Meeting held on 28 January 2014. This is disclosed in the 'Significant Events after Balance Date' section. The passing of this resolution impacted on the actual number of shares issued to the employees on the vesting date and shortened the remaining contractual life of the performance rights.

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

Shares issued on exercise of options

No shares were issued to KMP's on exercise of compensation options for the year ended 31 December 2013.

DIRECTORS' REPORT (continued)

Employees

The consolidated entity employed 323 full time equivalent ("FTE") employees as at 31 December 2013 (2012: 585 FTE).

Auditor independence and non audit services

The Directors have received an independence declaration from the auditor of Melbourne IT Ltd, as shown on page 32.

Non audit services

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

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

	$
Taxation advice services	366,245
Assurance related and due diligence services	71,450
	437,695

Modification of auditor rotation requirments

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

- the ARMC is satisfied with the skills and personal qualities of the audit partner and the audit team and is of the view that they displayed a good understanding of the Group and strong technical accounting competence;
- the ARMC is satisfied that Ernst & Young conduct an effective audit with focus on the appropriate area of risk; and
- the ARMC is satisfied that the approval of a two year extension does not give rise to a conflict of interest situation.

Signed in accordance with a resolution of the directors.

Simon Jones (Chairman)

Melbourne, 26 March 2014

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

In relation to our audit of the financial report of Melbourne IT Limited for the financial year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

Joanne Lonergan
Partner
26 March 2014

DIRECTORS' DECLARATION

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

(1) In the opinion of the directors:

(a) the financial statements and notes of Melbourne IT Ltd for the financial year ended 31 December 2013 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of its financial position as at 31 December 2013 and of its performance for the year ended on that date; and

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

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1(a).

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

(2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 31 December 2013.

(3) In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group, as identified in note 33, as parties to a Deed of Cross Guarantee, will be able to meet any obligations or liabilities to which they are, or may become subject to, under the deed as described in note 32.

On behalf of the Board

Simon Jones (Chairman)

Melbourne, 26 March 2014

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

Report on the financial report

We have audited the accompanying financial report of Melbourne IT Limited, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

Opinion

In our opinion:

a. the financial report of Melbourne IT Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Melbourne IT Limited for the year ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

Joanne Lonergan
Partner
Melbourne
26 March 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Notes	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	20(b)	80,520	17,857
Trade and other receivables	8	24,183	22,966
Inventories	9	-	539
Prepayment of domain name registry charges		6,287	9,573
Current tax receivables	17	5,438	-
Other assets	10	1,570	2,755
Total Current Assets		**117,998**	**53,690**
Non-Current Assets			
Plant and equipment	12	2,957	3,692
Intangible assets	13	69,312	130,703
Deferred tax assets	11	3,261	6,412
Prepayment of domain name registry charges		5,236	6,255
Other assets		74	43
Total Non-Current Assets		**80,840**	**147,105**
TOTAL ASSETS		**198,838**	**200,795**
LIABILITIES			
Current Liabilities			
Trade and other payables	14	17,443	15,639
Interest-bearing loans and borrowings	15	-	5,784
Provisions	16	3,002	4,325
Current tax liabilities	17	-	682
Income received in advance		16,689	29,144
Total Current Liabilities		**37,134**	**55,574**
Non-Current Liabilities			
Interest-bearing loans and borrowings	15	-	28,034
Deferred tax liability	17	697	6,287
Provisions	16	530	793
Income received in advance		12,410	14,365
Derivative financial instruments	23	-	448
Total Non-Current Liabilities		**13,637**	**49,927**
TOTAL LIABILITIES		**50,771**	**105,501**
NET ASSETS		**148,067**	**95,294**
EQUITY			
Contributed equity	18(a)	68,809	68,794
Foreign currency translation reserve		(566)	(9,901)
Options reserve		5,017	4,237
Hedging reserve		-	(214)
Retained earnings		74,807	32,378
TOTAL EQUITY		**148,067**	**95,294**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 Restated* $'000
Continuing operations			
Revenue	4	103,412	108,471
Registry, hosting and sundry other product costs		(41,145)	(44,216)
Gross profit		62,267	64,255
Salaries and employee benefit expenses	5(e)	(40,522)	(40,651)
Depreciation and amortisation expenses	5(a)	(1,978)	(2,599)
Amortisation of identifiable intangible assets	5(b)	(804)	(210)
Finance costs	5(d)	(790)	(871)
Other expenses	5(c)	(12,309)	(9,925)
Profit before tax from continuing operations		5,864	9,999
Income tax expense	6	334	(1,309)
Profit for the year from continuing operations		6,198	8,690
Discontinued operations			
Profit after tax for the year from discontinued operations	21	62,678	2,751
Profit for the year		**68,876**	**11,441**
Other comprehensive income			
Items that are reclassified to the profit or loss:			
Currency translation differences		9,335	(9)
Items that may be reclassified to the profit or loss:			
Net gains/(losses) on cashflow hedges (net of tax)		214	(87)
Other comprehensive income for the year, net of tax		9,549	(96)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**78,425**	**11,345**
Profit attributable to members of the parent		68,876	11,441
Total comprehensive income attributable to members of the parent		78,425	11,345

EARNINGS PER SHARE

	Notes	2013	2012 Restated*
Basic earnings per share from continuing operations	25	7.46 cents	10.60 cents
Diluted earnings per share from continuing operations	25	7.42 cents	10.46 cents
Basic earnings per share from discontinued operations	25	75.44 cents	3.36 cents
Diluted earnings per share from discontinued operations	25	75.05 cents	3.31 cents

* 2012 results have been restated to present the DBS & FTR businesses as discontinued operations as required by Australian Accounting Standards (refer note 21).

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	FOREIGN CURRENCY RESERVE $'000	OPTIONS RESERVE $'000	HEDGING RESERVE $'000	CONTRIBUTED EQUITY $'000	RETAINED EARNINGS $'000	TOTAL $'000
As at 1 January 2013	**(9,901)**	**4,237**	**(214)**	**68,794**	**32,378**	**95,294**
Profit for the year	-	-	-	-	68,876	**68,876**
Other comprehensive income	9,335	-	214	-	-	**9,549**
Total comprehensive income for the year	9,335	-	214	-	68,876	78,425
Transactions with owners in their capacity as owners:						
Share based payment	-	780	-	-	-	**780**
Dividend reinvestment plan	-	-	-	-	-	**-**
Exercise of options	-	-	-	63	-	**63**
Capital return transaction costs	-	-	-	(48)	-	**(48)**
Equity dividends	-	-	-	-	(26,447)	**(26,447)**
As at 31 December 2013	**(566)**	**5,017**	**-**	**68,809**	**74,807**	**148,067**
As at 1 January 2012	**(9,892)**	**4,166**	**(127)**	**66,900**	**33,183**	**94,230**
Profit for the year	-	-	-	-	11,441	**11,441**
Other comprehensive income	(9)	-	(87)	-	-	**(96)**
Total comprehensive income for the year	(9)	-	(87)	-	11,441	11,345
Transactions with owners in their capacity as owners:						
Share based payment	-	71	-	-	-	**71**
Dividend reinvestment plan	-	-	-	1,894	(1,894)	**-**
Exercise of options	-	-	-	-	-	**-**
Equity dividends	-	-	-	-	(10,352)	**(10,352)**
As at 31 December 2012	**(9,901)**	**4,237**	**(214)**	**68,794**	**32,378**	**95,294**

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of service revenue and recoveries (inclusive of GST)		128,041	194,872
Payments to suppliers and employees (inclusive of GST)		(121,116)	(171,290)
Interest received		2,576	270
Interest paid		(239)	(1,335)
Bank charges and credit card merchant fees		(790)	(1,040)
Income tax paid		(1,164)	(343)
NET CASH FLOWS FROM OPERATING ACTIVITIES	20(a)	**7,308**	**21,134**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment		(1,777)	(2,357)
Purchase of transformation assets		(3,714)	(3,593)
Sale of DBS business, net of cash disposed	21(a)	115,884	-
Sale of FTR business, net of cash disposed	21(b)	6,030	-
Proceeds from sale of plant and equipment		250	500
Net payment of ICANN deposits held on account		-	(742)
NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		**116,673**	**(6,192)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of interest bearing liabilities	21(a)	(34,617)	(43,208)
Proceeds from issue of ordinary shares	18(b)	63	-
Transaction costs on capital return	18(b)	(48)	-
Proceeds from interest bearing liabilities		-	37,398
Payment of dividend on ordinary shares		(26,447)	(10,352)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(61,049)**	**(16,162)**
NET DECREASE IN CASH AND CASH EQUIVALENTS		62,932	(1,220)
Net foreign exchange differences		(269)	30
Cash and cash equivalents at beginning of year		17,857	19,047
CASH AND CASH EQUIVALENTS AT END OF YEAR	20(b)	**80,520**	**17,857**

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

CORPORATE INFORMATION

The financial report of Melbourne IT Ltd for the year ended 31 December 2013 was authorised for issue in accordance with a resolution of the directors on 26 March 2014.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

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

The entity is a for-profit entity.

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

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

(a) Compliance with IFRS

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

(b) New Accounting Standards and Interpretations

(i) Changes in accounting policy and disclosures
The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards as of 1 January 2013.

- *AASB 10 Consolidated Financial Statements*
  AASB 10 Consolidated Financial Statements establishes a new control model that applies to all entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the control model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

- *AASB 12 Disclosure of Interests in Other Entities*
  AASB 12 Disclosure of Interests in Other Entities includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *AASB 13 Fair Value Measurement*
  AASB 13 Fair Value Measurement establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

- *AASB 119 Employee Benefits*
  The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

- *AASB 2011-9 Amendments to Australian Accounting Standards - Presentation of Other Comprehensive Income*
  This standard requires entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

- *AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities*
  AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

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

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

Australian Accounting Standards that have recently been issued or amended but which are not yet effective and have not been adopted by the Group for the annual reporting period ended 31 December 2013 are outlined in the table below.

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1-Jul-13	The amendments to the Accounting Standard relate only to disclosure requirements so will not materially impact the Group's financial position or performance.	1-Jan-14
AASB 2013-3	Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets	AASB 2013-13 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirements 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.	1-Jan-14	The amendments to the Accounting Standard relate only to disclosure requirements so will not materially impact the Group's financial position or performance.	1-Jan-14

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB 9	Financial instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. (d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.	1-Jan-17	Whilst the impact of the application of the new Standard is currently being assessed, our initial assessment is that there should be no material impact on the Group's financial position or performance.	1-Jan-17

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

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

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB 9 (Cont'd)	Financial instruments	Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10. The AASB issued a revised version of AASB 9 (AASB 2013-9) during December 2013. The revised standard incorporates three primary changes: 1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures; 2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time; and 3. The mandatory effective date moved to 1 January 2017.	1-Jan-17	Whilst the impact of the application of the new Standard is currently being assessed, our initial assessment is that there should be no material impact on the Group's financial position or performance.	1-Jan-17
Annual Improve-ments 2010-2012 Cycle	Annual Improve-ments to IFRSs 2010-2012 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: ► IFRS 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'. ► IFRS 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to IAS 37. ► IFRS 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset the entity's assets. ► IAS 16 & IAS 38 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.	1-Jul-14	The amendments to the Accounting Standard are not expected to have a material impact on the Group's financial position or performance.	1-Jan-15

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
Annual Improvements 2010-2012 Cycle (Cont'd)	Annual Improvements to IFRSs 2010-2012 Cycle	► IAS 24 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of IAS 24 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.	1-Jul-14	The amendments to the Accounting Standard are not expected to have a material impact on the Group's financial position or performance.	1-Jan-15
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1-Jan-14	The amendments to the Accounting Standard relate only to disclosure requirements so will not materially impact the Group's financial position or performance.	1-Jan-14
AASB 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.	1-Jan-14	The amendments to the Accounting Standard are not expected to materially impact the Group's financial position or performance.	1-Jan-14

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

(c) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Melbourne IT Ltd and its subsidiaries as at 31 December each year ('the Group'). The Group controls a subsidiary if and only if the Group has:
(1) power over the subsidiary (i.e. existing rights that give it the current ability to direct the relevant activities of the subsidiary);
(2) exposure, or rights, to variable returns from its involvement with the subsidiary; and
(3) the ability to use its power over the subsidiary to affect its returns.

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of Consolidation (Continued)

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

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

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

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

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

(d) Business Combinations

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Operating Segment

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

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

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

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

Accounting policies and inter segment transactions
The accounting policies used by the group in reporting segments internally are the same as those contained in note 1.

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

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

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

SMB Solutions

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

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

Enterprise Services ("ES")

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Foreign Currency Transactions

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

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

The functional currency of each overseas subsidiary is as follows:

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

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

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

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

(g) Cash and Cash Equivalents

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

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

(h) Trade and Other Receivables

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Inventories

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

Costs incurred in bringing each product to its present location and condition are accounted for as follows:
- Raw materials – purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price including other costs directly attributable to the acquisition of raw materials.
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of weighted average costs.

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

(j) Prepayment of Domain Name Registry Charges

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

(k) Derivative Financial Instruments

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Derivative Financial Instruments

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

(l) Plant and Equipment

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

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

	2013	2012
Leasehold improvements	The lease term	The lease term
Plant and equipment	2 to 4 years	2 to 4 years
Furniture and Fittings	2 to 5 years	2 to 5 years

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

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

(m) Impairment of non-financial assets

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Goodwill

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

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

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

(o) Investments in Subsidiaries

All investments were made prior to 2009, and therefore have been initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. Following initial recognition, investments are measured at cost less any accumulated impairment losses.

(p) Trade and Other Payables

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

(q) Interest-bearing Loans and Borrowing Costs

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

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

(r) Leases

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Intangible Assets

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

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

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

Internally Generated Assets: Transformation Projects
As explained in note 13, the Group had completed a transformation project to develop and implement Integrated Web Services, Oracle Financials and Operational Support Systems. Costs relating to the research phase of the project are expensed while costs relating to the development phase are capitalised as Capitalised Software: Transformation Projects. The costs capitalised are being amortised over a useful life of 6 years.

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

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

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

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

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

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

(u) Discontinued operations

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the Statement of Comprehensive Income.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Revenue Recognition / Income Received in Advance

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

<u>Group</u>

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Employee Entitlements

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

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

Employee entitlement expenses arise in respect of the following categories:
- wages and salaries, non-monetary benefits, annual leave, long service leave and other entitlements; and
- other types of employee entitlements

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

(x) Share-based Payment Transactions

(i) Option Plans
The Melbourne IT Ltd Executive & Employee Option Plans which expired as at reporting date had been established where the managing director and employees of the company were issued with options over the ordinary shares of Melbourne IT Ltd ('equity-settled transactions'). The options, issued for nil consideration, were issued in accordance with performance guidelines established by the directors of Melbourne IT Ltd.

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Share-based Payment Transactions (continued)

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

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

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

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

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

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

(ii) Performance Rights Plan

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

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

Percentile Rank Achieved	TSR Proportion of Rights Vesting
>= 75th percentile	100%
> 50.1 percentile and <	Pro-rata allocation
50.1 percentile	50%
< 50.1 percentile	0%

Compound annual EPS growth	Proportion of EPS Rights Vesting
>= 12.5%	100%
> 7.5% and < 12.5%	Pro-rata allocation
7.50%	50%
< 7.5%	0%

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Share-based Payment Transactions (continued)

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

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

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

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

(iii) Long Term Incentive Deferred Cash Bonus Plan

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

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

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

The General Meeting held on 28 January 2014 changed the vesting and expiry dates of the 2011 and 2012 Performance Rights plans (as mentioned in note 2(x)(ii) and 2(x)(iii) above) to 31 January 2014. The vested 2012 performance rights and long term incentive deferred cash bonus plans will be held in escrow until 30 June 2014.

(y) Income Tax

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

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Income Tax (Continued)

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

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

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

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

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

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

Tax consolidation legislation

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

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

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Other Taxes

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

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

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

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

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

(aa) Contributed Equity

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

(ab) Option Reserve

The options reserve is used to recognise the value of equity-settled share based payment transactions provided to employees, including key management personnel, as part of their remuneration. Refer to Note 29 for further details of these plans.

(ac) Hedging Reserve

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

(ad) Foreign Currency Translation Reserve

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

(ae) Earnings Per Share

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

Diluted earnings per share are calculated as net profit attributable to members, adjusted for:
- Cost of servicing equity:
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares:

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Capital Management

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

The Board may change the amount of dividends to be paid to shareholders, issue new shares or sell assets to reduce debt.
During 2013, the Group paid dividends of $26,447 million (2012: $10.352 million). Subsequent to year end, the Group made a return of capital to shareholders amounting to approximately $45.2 million (refer note 31 for details).

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

Risk Exposures and Responses

Interest Rate Risk

The Group's exposure to market interest rates related primarily to the Group's short term deposits held.

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

	CONSOLIDATED	
	2013	2012
	$'000	$'000
Financial assets		
Cash and cash equivalents	80,520	17,857
Financial Liabilities		
Interest bearing loans (current and non-current)	-	33,818
Less Hedged amounts (Interest Rate Swap)	-	(19,279)
Interest bearing loans - unhedged	-	14,539

On 12 March 2013, the Group repaid the interest bearing loan in full and accordingly the US$ 20.0 million interest rate swap (exchanging the variable interest rate payable on the US dollar loan for a fixed interest rate) was closed out.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Risk Exposures and Responses (Continued)

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

At 31 December 2013, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Net Profit Higher / (Lower)		Equity Higher / (Lower)	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Consolidated				
Assets + 0.25% (25 basis points), Liabilities (no change), (2012: Assets + 0.25% (25 basis points), Liabilities + 0.10% (10 basis points)).	141	22	141	22
Assets - 0.25% (- 25 basis points), Liabilities (no change), (2012: Assets - 1.25% (-125 basis points), Liabilities - 0.25% (-25 basis points)).	(141)	(368)	(141)	(367)

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

Credit Risk

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

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

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

Liquidity Risk

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Risk Exposures and Responses (Continued)

Foreign Currency Risk

Due to the prescribed global market arrangements regarding domain name registration, Melbourne IT Limited earns a substantial amount of its revenues, and incurs a substantial amount of its costs in US dollars ("USD") and is therefore exposed to movements in the AUD/USD exchange rate. The company actively manages the gross margin risk by its foreign currency risk management strategy. Please refer to Note 23 for further details.

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

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

At 31 December 2013, the Group had the following exposures to USD denominated assets and liabilities, where the functional currency is not USD. The Group's exposure to foreign currency changes for all other currencies is not material. Assets and liabilities that are designated in cashflow hedges are not included:

	CONSOLIDATED	
	2013	2012
	$'000	$'000
Financial Assets		
Cash and cash equivalents	442	3,704
Trade and other receivables	1,068	5,226
	1,510	**8,930**
Financial Liabilities		
Trade and other payables	(3,551)	(10,241)
Net exposure	**(2,041)**	**(1,311)**

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

At 31 December 2013, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Net Profit Higher / (Lower)		Equity Higher / (Lower)	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Consolidated				
- AUD/USD +2% (2012: +4%)	28	54	28	54
- AUD/USD -10% (2012: -7%)	(156)	(95)	(156)	(95)

The Group also has exposures to foreign exchange when retranslating foreign currency subsidiaries into Australian Dollars. The sensitivity range has been determined using an expected range of 0.800 to 0.905 USD/AUD for the retranslation of USD denominated balances for the forthcoming year.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Maturity Analysis of Financial Assets and Liabilities

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

Consolidated	< 6 Months $'000	6 - 12 Months $'000	1 to 5 years $'000	> 5 Years $'000	Total $'000
31 December 2013					
Financial assets					
Cash and cash equivalents	80,520	-	-	-	**80,520**
Trade and other receivables	24,183	-	-	-	**24,183**
	104,703	-	-	-	**104,703**
Financial liabilities					
Trade and other payables	(17,443)	-	-	-	**(17,443)**
Net inflow/(outflow)	**87,260**	**-**	**-**	**-**	**87,260**
31 December 2012					
Financial assets					
Cash and cash equivalents	17,857	-	-	-	**17,857**
Trade and other receivables	22,966	-	-	-	**22,966**
	40,823	-	-	-	**40,823**
Financial liabilities					
Trade and other payables	(15,639)	-	-	-	**(15,639)**
Interest and loan liabilities	(2,892)	(2,892)	(28,034)	-	**(33,818)**
	(18,531)	(2,892)	(28,034)	-	**(49,457)**
Net inflow/(outflow)	**22,292**	**(2,892)**	**(28,034)**	**-**	**(8,634)**

Fair Value Hierarchy

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

(i) Significant accounting judgements

Taxation

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

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

Discontinued operations

Management's judgement was required in assessing and allocating certain transactional, operating and restructuring costs relating to discontinued operations to ensure costs associated with or resulting from the sale of DBS and FTR businesses were correctly classified in the Statement of Comprehensive Income. Refer to Note 21 for further details of these costs.

(ii) Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit, using a value in use discounted cashflow methodology, to which the goodwill and intangibles, with indefinite useful lives are allocated. Refer to note 13 for further details of assumptions.

Share-based payment transactions

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

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

Refer to note 29 for further details.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 Restated* $'000
4. REVENUE		
Revenue		
Registration Revenue	44,752	48,331
Hosting & Value-Added Product Sales	55,729	59,788
Other Revenue	248	119
Total revenue excluding interest income	100,729	108,238
Interest revenue	2,670	203
Other income	13	30
Total consolidated revenue	**103,412**	**108,471**
5. EXPENSES AND LOSSES / (GAINS)		
(a) Depreciation expenses		
Depreciation of non-current assets		
Fit out	88	107
Plant and equipment	1,867	2,477
Furniture	23	15
Total depreciation of non-current assets	1,978	2,599
(b) Amortisation of identifiable intangible assets		
Transformation Asset	804	210
Total amortisation of identifiable intangible assets	804	210
(c) Other Expenses		
Included in other expenses:		
Premises	2,208	2,328
Finance & legal	1,478	1,395
Equipment	4,179	3,766
Marketing	1,644	1,072
Net foreign currency exchange loss	31	642
Bad debts and doubtful debts	222	359
Interest expense	125	118
(d) Finance costs		
Bank charges and credit card merchant fees	790	871
(e) Other		
Expensing of share based payments	780	82
Superannuation expense	2,640	2,719

* 2012 results have been restated to present the DBS and FTR businesses as discontinued operations as required by Australian Accounting Standards (refer Note 21)

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

6. INCOME TAX

The major components of income tax expense are:

	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 Restated* $'000
(a) Statement of comprehensive income		
Current income tax		
Current income tax charge	7,640	1,543
Adjustments in respect of current income tax of previous years	(786)	(1,221)
Deferred income tax		
Relating to origination and reversal of temporary differences	(2,110)	2,185
Income tax expense reported in the statement of comprehensive income	**4,744**	**2,507**
(b) Statement of changes in equity		
Deferred income tax related to items charged or credited directly to equity		
Net gain/(loss) on revaluation of cash flow hedges	92	(37)
Income tax expense reported in equity	**92**	**(37)**

(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:

	2013 $'000	2012 Restated* $'000
Accounting profit before income tax from continuing operations	5,864	9,999
Profit before tax from discontinued operations	67,756	3,948
Accounting profit before income tax	73,620	13,947
At the group's statutory income tax rate of 30% (2012: 30%)	22,086	4,184
Adjustments in respect of current income tax of previous years	(786)	(1,221)
Options cost	249	17
Impairment of intangibles	3,624	600
Utilisation of previously unrecognised tax losses	(703)	(406)
Estimated future tax claims	(868)	(442)
Effect of difference between accounting and tax from sale of DBS and FTR businesses	(18,366)	-
Deductions from shares issued via Employee Share Trust	(383)	-
Other	(109)	(225)
Income tax expense at the effective income tax rate	**4,744**	**2,507**
Income tax (benefit)/expense reported in the statement of comprehensive income	(334)	1,309
Income tax attributable to discontinued operations	5,078	1,197
	4,744	**2,506**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

6. INCOME TAX (Continued)

Tax Consolidation

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

On 30 August 2013, FTR Pty Ltd has left the tax consolidation Group of Melbourne IT Ltd following the sale of the FTR business.

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

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

7. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000
(a) Dividends paid during the year		
Interim franked dividends for 2013: Nil (2012: 7.0 cents per share)	-	5,738
Final franked dividends for 2012 of 7.0 cents per share (2011: 8.0 cents per share)	5,772	6,508
Special partially franked dividend for 2013 of 25 cents per share (2012: Nil)	20,675	-
(b) Dividends proposed and not recognised as a liability		
Nil for 2013 (2012: partially franked dividend: 7.0 cents per share)	-	5,772
(c) Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
- franking account balance as at the end of the financial year at 30% (2012: 30%)	2,966	897

The special dividend paid on 22 August 2013 was 75% franked. The interim and final dividend in respect of the year ended 31 December 2012 was 40% franked. The final dividend paid in respect of the 2011 year was 100% franked at the company's tax rate of 30% per share.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

	CONSOLIDATED	
	2013	2012
	$'000	$'000
8. TRADE AND OTHER RECEIVABLES (CURRENT)		
Trade debtors	9,471	24,225
Allowance for impairment loss	(639)	(1,259)
	8,832	22,966
Escrow funds receivable (including accrued interest)*	15,351	-
Total trade and other receivables (Current)	**24,183**	**22,966**

* This amount is 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 is held in escrow as security for the performance of Melbourne IT's indemnification obligations under the Agreement. This amount will be released to Melbourne IT at the end of the period, providing no claims against the amount are successfully made by the buyer. Melbourne IT purchased a warranty and indemnity insurance to mitigate this risk. The terms of the insurance policy are commercial in confidence.

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

Movements in the allowance for impairment loss were as follows:

	2013	2012
Opening Balance	1,259	1,347
Additional Provision / (Released)	(116)	(187)
Amounts (Written off) / Recovered	(332)	92
Discontinued operations	(185)	-
Foreign currency translation impact	13	7
Closing Balance	**639**	**1,259**

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

	2013		2012	
	Gross	Allowance	Gross	Allowance
	$'000	$'000	$'000	$'000
Consolidated				
Current	4,995	-	13,952	-
0 - 30 days past due	2,774	-	4,998	-
31 – 60 days past due	830	-	1,881	-
Past due 61 days +	872	(639)	3,394	(1,259)
Closing Balance	**9,471**	**(639)**	**24,225**	**(1,259)**

Receivables past due but not considered impaired are $3.837 million (2012: $9.014 million), and comprise balances owed from customers who have a good history of repayments or are otherwise considered recoverable.

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

	CONSOLIDATED	
	2013	2012
	$'000	$'000
9. INVENTORIES (CURRENT)		
Materials (at cost)	**-**	**539**
10. OTHER ASSETS (CURRENT)		
Other prepayments	1,570	2,677
GST receivable	-	78
Total other assets (Current)	**1,570**	**2,755**

11. DEFERRED TAX ASSET (NON-CURRENT)

Deferred tax asset at 31 December relates to the following:

	2013	2012
Doubtful debts provision	191	378
Employee benefits	1,011	1,535
Accruals	751	684
Tax losses	-	2,077
Unrealised FX	1,199	734
Hedging reserve	-	64
Amortisation of intangibles	-	604
Other	109	336
	3,261	**6,412**

Unrecognised tax losses

As at 31 December 2013, there were no unrecognised tax losses within the Group.

As at 31 December 2012, entities within the Group had estimated tax losses amouting to $1.676 million. These losses were not recognised as an asset because they did not meet the recognition criteria, as they had arisen in the Denmark and UK subsidiaries which had been loss-making in the past and did not have taxable temporary differences or tax planning opportunities available to support recognition of the losses as an asset.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

12. PROPERTY, PLANT AND EQUIPMENT (NON CURRENT)

	Leasehold Improvements $'000	Plant and Equipment $'000	Furniture and fittings $'000	Total $'000
Cost or valuation				
At 1 January 2012	3,394	31,794	794	35,982
Additions	329	2,030	43	2,402
Disposals	(270)	(1,778)	13	(2,035)
Transfers	90	207	5	302
Exchange differences	(7)	12	(4)	1
At 31 December 2012	**3,536**	**32,265**	**851**	**36,652**
Additions	396	1,596	67	2,059
Disposals	(2,695)	(23,175)	(419)	(26,289)
Transfers	-	-	-	-
Discontinued operations	(577)	(3,897)	(346)	(4,820)
Exchange differences	1	198	6	205
At 31 December 2013	**661**	**6,987**	**159**	**7,807**
Depreciation and impairment				
At 1 January 2012	3,107	26,837	678	30,622
Depreciation charge for the year	184	3,438	41	3,663
Disposals	(210)	(1,122)	13	(1,319)
Transfers	-	-	-	-
Exchange differences	(6)	5	(5)	(6)
At 31 December 2012	**3,075**	**29,158**	**727**	**32,960**
Depreciation charge for the year	88	1,867	23	1,978
Disposals	(2,654)	(23,205)	(416)	(26,275)
Transfers	-	-	-	-
Discontinued operations	(317)	(3,051)	(255)	(3,623)
Exchange differences	(1)	(187)	(2)	(190)
At 31 December 2013	**191**	**4,582**	**77**	**4,850**
Net book value				
At 31 December 2012	**461**	**3,107**	**124**	**3,692**
At 31 December 2013	**470**	**2,405**	**82**	**2,957**

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

13. INTANGIBLE ASSETS (NON CURRENT)

(a) Carrying amounts of intangible assets

	CONSOLIDATED 2013 $'000	2012 $'000
Goodwill	52,280	100,265
Market Related Intangibles	7,128	9,982
Customer Contracts	663	10,446
Accumulated amortisation	(663)	(4,847)
	-	5,599
Capitalised Software	-	952
Accumulated amortisation	-	(854)
	-	98
Capitalised Software: Transformation Projects	10,918	14,969
Accumulated amortisation	(1,014)	(210)
	9,904	14,759
Total Capitalised Software	9,904	14,857
Other Intangibles	315	315
Accumulated amortisation	(315)	(315)
	-	-
Total Intangible Assets	**69,312**	**130,703**

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

	Other Intangibles $'000	Capitalised Software $'000	Customer Contract $'000	Market Related Intangibles $'000	Goodwill $'000	Total $'000
Net balance at 1 January 2012	53	11,643	6,577	9,982	102,406	130,661
Acquisitions and Additions	-	3,408	-	-	-	3,408
Amortisation	(53)	(189)	(810)	-	-	(1,052)
Impairment	-	-	-	-	(2,000)	(2,000)
Foreign exchange impact	-	(5)	(168)	-	(141)	(314)
Net balance at 31 December 2012	-	14,857	5,599	9,982	100,265	130,702
Acquisitions and Additions	-	8,030	-	-	-	8,030
Discontinued Operations	-	(12,179)	(5,599)	(2,854)	(47,984)	(68,616)
Amortisation	-	(804)	-	-	-	(804)
Impairment	-	-	-	-	-	-
Foreign exchange impact	-	-	-	-	-	-
Net balance at 31 December 2013	-	9,904	-	7,128	52,280	69,312

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

13. INTANGIBLE ASSETS (NON CURRENT) (Continued)

(b) Capitalised Software: Transformation Projects

Melbourne IT Ltd has undertaken a significant investment in infrastructure, innovation, and transformational projects which will provide the platform for the Group's next phase of growth.

The most significant component of the transformation project is Integrated Web Services (IWS), which aims to bring under a common IT environment all the systems that are used to sell and support the Group's customer. This is in addition to the implementation of a common financial reporting system across all entities. The build of the IT platform was completed during the year and the depreciation of the asset commenced from September 2013. Migration of the existing customer's information to the new IT platform will continue in 2014 as part of the standard operational process.

In line with AASB 138 Intangible Assets, costs relating to the research phase of the project are expensed while costs relating to the development phase are capitalised as Capitalised Software: Transformation Projects. The costs capitalised are being amortised over a 6 year period. During the year ended 31 December 2013, the amortisation charge in relation to these projects was $804,000 (2012: $210,000).

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 has been booked against the carrying value of the asset. This is included in the discontinued operations section of the Statement of Comprehensive Income.

(c) Goodwill and other intangible assets impairment testing

Cash Generating Unit ('CGU')	2013 $'000	2012 $'000	Basis for valuation*	Discount rate	Growth rate years 2 - 5	Growth rate after 5 years
SMB Solutions	43,300	43,155	Value in use	13.08%	3%	3%
ES	8,980	9,167	Value in use	13.08%	3%	3%
DBS	-	44,491	Value in use			
FTR	-	3,451	Value in use			
Total Goodwill	52,280	100,264				
SMB Solutions	5,845	5,845	Value in use	13.08%	3%	3%
ES	1,283	1,283	Value in use	13.08%	3%	3%
FTR	-	2,854	Value in use			
Total Market Related Intangibles	7,128	9,982				
DBS	-	5,599	Value in use			
Total Customer Contracts	-	5,599				

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

13. INTANGIBLE ASSETS (NON CURRENT) (Continued)

(c) Goodwill and intangible assets impairment testing (Continued)

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

* All value in use calculations are based on management's estimates of achievable EBITDAs for the respective CGUs, with growth rates as noted in the table applied to years 2-5. These estimates are most sensitive to assumptions around revenue growth, in particular the timescale for implementation of new products, the evolution of ICANN's new gTLD project, and the continuing evolution of the ES business from dedicated hosting towards the provision of managed services.
* Cash flows beyond the five year period are extrapolated using a 3% growth rate (2012: 3%) to determine terminal value, which is the company's estimate of the long term average growth rate for the industry in which the company operates.
* The discount rate used reflects risks specific to the Group and its operating segments and is derived from its weighted average cost of capital. Segment-specific risk is incorporated by applying individual beta which is assessed annually based on publicly available data.

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

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

The base year EBITDA would need to decline from the current expected EBITDA by 25% for the SMB Solutions CGU and 10% for the ES CGU for the recoverable amounts of the CGUs to equal their carrying values respectively.

Impairment loss booked in respect of the FTR CGU in 2012

In the previous year, following a review of the carrying value of intangible assets, an impairment charge of $2.0 million was recorded in respect of the Group's investment in FTR. The ongoing weakness in the US economy, and continued curbs on government expenditure, led to a reduction in the expected cashflows to be generated by FTR in the future. There was no cash impact of this impairment charge. Given that the FTR business was sold in August 2013, the impairment charge is included in the discontinued operations section of the Statement of Comprehensive Income.

14. TRADE AND OTHER PAYABLES (CURRENT)

	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000
Trade creditors	1,116	1,567
Sundry creditors	6,411	8,324
Deposits received in advance	2,546	1,903
Accrued expenses	7,370	3,845
Total trade and other payables (Current)	17,443	15,639

Terms and conditions relating to trade creditors:

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000
15. INTEREST BEARING LOANS AND BORROWINGS		
Current		
US Dollar Currency Loan (i)	-	5,784
Non current		
US Dollar Currency Loan (i)	-	28,034
Total interest bearing loan and borrowings	-	33,818

At 31 December 2012, Melbourne IT Limited had bank debt of $33.818 million (equivalent to USD 35.0 million). This bank debt was repaid in full on 12 March 2013 using part of the proceeds received from the sale of the DBS business unit. All associated interest rate swaps and cross currency swaps were closed out at this time. The Group no longer has any interest bearing loans or borrowings.

(b) Financing facilities available

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

	Total facilities 2013 $'000	Total facilities 2012 $'000	Facility used at reporting date 2013 $'000	Facility used at reporting date 2012 $'000
- Asset Finance - Leasing	5,000	6,200	-	1,200
- Business Lending - Bank Guarantees	1,845	1,645	1,482	1,216
- Standby Letters of Credit	3,103	4,723	2,687	3,759
	9,948	12,568	4,169	6,175

	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000
16. PROVISIONS		
Current		
Employee benefits	2,746	4,205
Other	256	120
	3,002	4,325
Non current		
Employee benefits	530	793
Total provisions	3,532	5,118
The aggregate employee benefit liability comprises:		
Provisions (current)	2,746	4,205
Provisions (non current)	530	793
	3,276	4,998

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000
17. TAX ASSETS/(LIABILITIES)		
Current tax assets/(liabilities)		
Current tax receivables/(Provision for income tax)	5,438	(682)
Deferred tax liabilities		
Deferred tax liability at 31 December relates to the following:		
Intangible assets	598	6,241
Prepayments	49	-
Other	50	46
	697	6,287
18. CONTRIBUTED EQUITY		
(a) Issued and paid-up capital		
Ordinary shares each fully paid	68,809	68,794

(b) Movements in shares on issue

	2013 Number of shares	2013 $'000	2012 Number of shares	2012 $'000
Beginning of the financial year	82,451,363	68,794	81,352,178	66,900
Issued during the year:				
- Dividend reinvestment plan	-	-	1,099,185	1,894
- Executive and employee options exercised	30,000	63	-	-
- Performance rights plans (a)	683,008	-	-	-
- Decrease due to transaction costs for capital return	-	(48)	-	-
End of the financial year	83,164,371	68,809	82,451,363	68,794

(a) Represents shares issued to satisfy (1) Performance Rights Plan issued on 1 July 2010 that vested on 1 July 2013, and (2) early vesting of the Performance Rights Plans issued on 1 July 2011 and 1 July 2012 held by certain executives, who left the company following the sale of the DBS business as detailed in Note 21(a).

	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000
19. RESERVES		
Options reserve	5,017	4,237
Foreign currency translation reserve	(566)	(9,901)
Hedging reserve	-	(214)
	4,451	(5,878)

Options reserve
During the financial year, no options were issued over ordinary shares (2012: 990,000). At the end of the year, there were 765,938 (2012: 3,795,182) unissued ordinary shares in respect of which options were outstanding. (Details are provided in Note 29).

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

19. RESERVES (Continued)

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

Hedging reserve
The hedge reserve contains the effective portion of the hedge relationships incurred as at the reporting date. No hedge reserve balance existed as at 31 December 2013 as the interest rate swaps and cross currency swaps were closed pursuant to the settlement of the bank borrowings due to the sale of the DBS business.

20. CASH FLOW STATEMENT

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

	CONSOLIDATED 2013 $'000	CONSOLIDATED 2012 $'000
Profit after tax from continuing operations	6,198	8,690
Profit after tax from discontinued operations	62,678	2,751
Profit for the year	68,876	11,441
Depreciation of non-current assets	2,127	3,662
Amortisation of non-current assets	992	1,052
Impairment of non-current assets	-	2,000
Expense of share based payments	439	57
Gain on sale of DBS and FTR businesses	(68,376)	-
Changes in assets and liabilities		
(Increase)/decrease in trade debtors	13,783	6,278
(Increase)/decrease in inventories	539	(76)
Decrease in prepayments	4,305	2,171
Increase in current tax receivables	5,579	-
Decrease in deferred revenue	(14,410)	(3,541)
Increase/(decrease) in provisions	(1,586)	(265)
(Increase)/decrease in deferred tax asset	3,151	124
Increase in deferred tax liability	(5,590)	2,061
Increase/(decrease) in accounts payable	(3,635)	(3,864)
Increase/(decrease) in income tax provision	(682)	114
Increase (decrease) in income received in advance	642	(1,187)
(Increase)/decrease in other assets	1,154	1,107
Net cash flow from operating activities	7,308	21,134

(b) Reconciliation of cash and cash equivalents

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

	2013 $'000	2012 $'000
Cash and cash equivalents on hand	80,520	17,857
Closing cash and cash equivalents balances	80,520	17,857

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

21. 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 $152.5 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 are presented below:

	2013 $'000	2012 $'000
Revenue	8,885	55,161
Expenses	(9,710)	(49,316)
Gain on sale of DBS business*	69,925	-
Profit before tax from a discontinued operation	69,100	5,845
Tax expense	(6,966)	(1,020)
Profit for the year from a discontinued operation	62,134	4,825

* 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 13(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 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 DBS business was not classified as a disposal group held for sale at 31 December 2012, since at that time the sale of the business was not considered to be highly probable in accordance with the requirements of AASB 5 Non-current Assets Held for Sale and Discontinued Operations.

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

	2013 $'000	2012 $'000
Operating	1,777	9,000
Investing	-	(2,056)
Financing *	6,716	(9,983)
Net cash inflow/(outflow)	8,493	(3,039)

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

21. DISCONTINUED OPERATIONS (Continued)

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

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

	2013 $'000
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 8 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

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

On 1 August 2013 Melbourne IT announced that it entered into a sale agreement to divest the FTR business to Record Holdings Pty Ltd for a cash consideration of $6.3 million. Completion of the sale transaction occurred on 30 August 2013. The results of the FTR business for the year are presented below:

	2013 $'000	2012 $'000
Revenue	5,037	6,868
Expenses	(4,832)	(8,765)
Loss on sale of FTR business*	(1,549)	-
Profit before tax from a discontinued operation	(1,344)	(1,897)
Tax expense	1,888	(177)
Profit for the year from a discontinued operation	544	(2,074)

* 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 FTR business was not classified as a disposal group held for sale at 31 December 2012, since at that time the sale of the business was not considered to be highly probable in accordance with the requirements of AASB 5 Non-current Assets Held for Sale and Discontinued Operations.

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

	2013 $'000	2012 $'000
Operating	461	(61)
Investing	(96)	(10)
Financing *	(1,136)	(191)
Net cash inflow/(outflow)	(771)	(262)

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

21. DISCONTINUED OPERATIONS (Continued)

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

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

	2013 $'000
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

22. EXPENDITURE COMMITMENTS AND OBLIGATIONS

Lease expenditure commitments

	CONSOLIDATED 2013 $'000	2012 $'000
Operating leases		
Minimum lease payments		
- not later than one year	2,737	6,542
- later than one year and not later than five years	7,656	7,999
- later than five years	1,145	877
Aggregate lease expenditure contracted for at reporting date	11,538	15,418

Financial instruments

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

(a) Hedges of specific commitments

Refer to Note 23 for details of hedging instruments the Group entered into to manage its foreign currency risk exposure.

(b) Financial Guarantees and other credit facilities

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

(a) Bank Guarantees of AU$1.482 million have been issued in favour of various parties in accordance with the Group's property commitments.

(b) The company has Standby Letters of Credit totalling US$2.4 million (equivalent to AUD2.687 million) in accordance with various Registry Licence Agreements. These Standby Letters of Credit are due to expire on 30 June 2014, at which time it is expected that they will be renewed for another 12 months.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

	CONSOLIDATED	
	2013	2012
	$'000	$'000
23. DERIVATIVE FINANCIAL INSTRUMENTS		
Foreign exchange contracts	-	-
Interest rate swaps	-	341
Cross currency swaps	-	107
	-	448

Hedging Activities

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

2013

Following the sale of the DBS and FTR businesses, the company has reviewed its USD transactions and is of the opinion that there exists a natural hedge position in terms of the quantum and timing of the USD revenues and costs. Consequently, this led to a reduction in the exposure to movements in the AUD/USD exchange rate. As at 31 December 2013, Melbourne IT Ltd has not entered into any foreign currency exchange contracts.

Following the full repayment of the interest bearing loan using part of the proceeds from the sale of the DBS business on 12 March 2013, the Group has closed out on the USD $20.0 million interest rate swap and USD $1.0 million cross currency swap at the same time. In the previous year, the derivatives have been determined as being effective hedges and have been accounted for in accordance with AASB 139.

2012

Foreign exchange contracts

At 31 December 2012, Melbourne IT Ltd held eight foreign exchange contracts designated as cash flow hedges of expected future sales to customers in the US for which the company has firm commitments. The terms of these foreign exchange contracts was negotiated to match the terms of the commitments. The exchange contracts was used to reduce the exposure of foreign exchange risk.

As at 31 December 2012, an unrealised loss of $321 was included in other comprehensive income in respect of these contracts.

Interest rate swaps

As at 31 December 2012, the Group held two interest rate swap contracts designed to hedge the variable interest rate exposure relating to the interest bearing liabilities of US$35.0 million. The first interest rate swap is for US$20.0 million with an expiration date of 30 April 2013. The second commenced on 1 May 2013 with an expiration date of 30 June 2016, commencing at the same notional amount USD$20.0 million, falling to USD$7.0 million by 30 June 2016.

Cross Currency Swap

As at 31 December 2012, the Group had also entered into a USD $1.0 million cross currency swap, to fix the equivalent amount in Swedish Krona in relation to the repayments due to be made on the Group's USD bank borrowings. This cross currency swap was due to expire in March 2013.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

24. SEGMENT REPORTING

The following tables present the revenue and profit information regarding business unit segments for the years ended 31 December 2013 and 31 December 2012.

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

24. SEGMENT REPORTING (Continued)

Year ended 31 December 2012	SMB Solutions $'000	ES $'000	Total $'000
Segment revenue			
Revenue from operating activities			
Registration Revenue	48,331	-	**48,331**
Hosting & Value-Added Product Sales	33,797	25,991	**59,788**
Other Revenue	31	88	**119**
	82,159	26,079	**108,238**
Other Income	-	-	**30**
Total segment revenue	82,159	26,079	**108,268**
Result			
Segment results	13,724	4,075	**17,799**
Unallocated expenses:			
- Corporate			(5,423)
- Transformation Projects			(2,198)
Earnings before interest,tax,depreciation & amortisation			**10,178**
Net Interest			
Interest revenue			203
Interest expense			(118)
Total Net Interest			85
Income tax expense			(1,309)
Depreciation & amortisation			(2,809)
Costs recovered from discontinued operations *			2,545
Profit after tax for the year from continuing operations			**8,690**
Profit after tax for the year from discontinued operations (DBS and FTR segments)			**2,751**
Profit after tax for the year			**11,441**

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

	CONSOLIDATED 2013 $'000	2012 $'000
Reconciliation of revenue		
Segment revenue	100,742	108,268
Interest revenue	2,670	203
Total revenue	103,412	108,471

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

25. EARNINGS PER SHARE

	CONSOLIDATED 2013 $'000	2012 $'000
Basic earnings per share from continuing operations (cents per share)	7.46 cents	10.60 cents
Diluted earnings per share from continuing operations (cents per share)	7.42 cents	10.46 cents
Basic earnings per share from discontinued operations (cents per share)	75.44 cents	3.36 cents
Diluted earnings per share from discontinued operations (cents per share)	75.05 cents	3.31 cents
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net Profit attributable to ordinary equity holders of the parent from continuing operations	6,198	8,690
Net Profit attributable to ordinary equity holders of the parent from discontinued operations	62,678	2,751
	68,876	11,441
	Number of shares	
Weighted average number of ordinary shares used in the calculation of basic earnings per share	83,086,440	81,962,847
Effect of dilution:		
Share	428,210	1,117,500
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	83,514,650	83,080,347

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

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

26. RELATED PARTY DISCLOSURES

Ultimate parent

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

Other related party transactions

There were no other transactions with related parties during the year ended 31 December 2013 or 2012 other than detailed within the annual report.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

27. AUDITORS' REMUNERATION

	CONSOLIDATED 2013 $'000	2012 $'000
Amounts received or due and receivable by the auditors of Melbourne IT Ltd for:		
Audit or review of the financial statements of the entity and any other entity in the consolidated entity	285,000	411,828
Other services in relation to the entity and any other entity in the consolidated entity		
- Taxation advice	366,245	130,116
- Assurance and advisory related	71,450	80,413
	722,695	622,357
Amounts received or due and receivable by non Ernst & Young audit firms for:		
Review of the financial report	-	59,584
Tax compliance services	67,282	306,606
Other non-audit services	-	1,666
	67,282	367,856

28. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

Mr Simon Jones	Chairman (non-executive)
Mr Tom Kiing	Director (non-executive)
Ms Naseema Sparks	Director (non-executive), appointed 19 April 2012
Mr Robert Stewart AM	Director (non-executive)
Mr Andrew Walsh	Director (non-executive), resigned 31 August 2013

(ii) Executives

Mr Theo Hnarakis	Managing Director / Chief Executive Officer (resigned 5 December 2013)
Mr Doug Schneider	Executive Vice President, SMB Solutions (appointed 15 July 2012)
Mr Peter Findlay	Chief Financial Officer (acting Chief Executive Officer from 5 December 2013)
Mr Arnaud Desprets	Company Secretary and Asia Pacific - Finance Manager (appointed 26 September 2013)
Ms Ashe-lee Jegathesan	Company Secretary and General Counsel (resigned 26 September 2013)
Mr Peter Wright	Executive Vice President - Enterprise Services (appointed 1 January 2013 to the executive)
Dr Bruce Tonkin	Chief Technology Officer (appointed 1 January 2013 to the executive)
Mr Martin Burke	Executive Vice President - DBS (resigned 11 March 2013)

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

28. DIRECTOR AND EXECUTIVE DISCLOSURES (Continued)

(b) Remuneration of Key Management Personnel

	CONSOLIDATED 2013 $'000	2012 $'000
Compensation of Key Management Personnel		
Short term benefits	3,233	2,388
Post Employment	192	158
Long term benefits	21	20
Termination payments	1,467	215
Share-based Payment	624	71
	5,537	2,852

(c) Option holdings of Key Management Personnel

2013	Opening balance	Options vested (7)	Granted as remuneration	Options lapsed	Closing balance (8)	Not exercisable	Exercisable
Executives							
Mr Theo Hnarakis (1)	708,400	(386,629)	-	(321,771)	-	-	-
Mr Doug Schneider	100,000	-	-	-	100,000	-	-
Mr Peter Findlay	150,000	-	-	-	150,000	-	-
Ms Ashe-lee Jegathesan (2)	140,000	(97,040)		(42,960)	-	-	-
Mr Arnaud Desprets (3)	-	-	-	-	-	-	-
Mr Peter Wright (4)	100,000	-	-	-	100,000	-	-
Dr Bruce Tonkin (5)	150,000	(22,550)	-	(27,450)	100,000	-	-
Mr Martin Burke (6)	-	-	-	-	-	-	-
Total 2013	1,348,400	(506,219)	-	(392,181)	450,000	-	-

(1) Mr. Theo Hnarakis resigned from the Group, and the executive on 5 December 2013.
(2) Ms Ashe-lee Jegathesan resigned from the executive on 26 September 2013, and the Group on 6 December 2013.
(3) Mr Arnaud Desprets was appointed to the executive as Company Secretary on 26 September 2013.
(4) Mr Peter Wright was appointed to the executive on 1 January 2013. He holds the position of Executive Vice President, Enterprise Services.
(5) Dr Bruce Tonkin was appointed to the executive on 1 January 2013. He holds the position of Chief Technology Officer.
(6) Mr. Martin Burke resigned from the executive on 11 March 2013 following the sale of the DBS business.
(7) Represents shares issued to satisfy (1) Performance Rights Plan issued on 1 July 2010 that vested on 1 July 2013, and (2) early vesting of the Performance Rights Plans issued on 1 July 2011 and 1 July 2012 held by certain executives, who left the company following the sale of the DBS business as detailed in Note 21(a).
(8) Subsequent to year end, shareholders approved a resolution on amendments to the terms of the performance rights granted under the Company's Performance Rights Plan in a General Meeting held on 28 January 2014. This is disclosed in note 31. The passing of the resolution impacted on the actual number of shares issued to the employees on the vesting date.

No options were issued to non-executive Directors of Melbourne IT Ltd during the year ended 31 December 2013.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

28. DIRECTOR AND EXECUTIVE DISCLOSURES (Continued)

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

2012	Opening balance	Granted as remuneration	Options lapsed	Closing balance	Not exercisable	Exercisable
Executives						
Mr Theo Hnarakis	773,400	185,000	(250,000)	708,400	555,000	153,400
Mr Damian Walsh (1)	150,000	-	-	150,000	150,000	-
Mr Doug Schneider (2)	-	100,000	-	100,000	100,000	-
Ms Lori Harmon (3)	100,000	-	(100,000)	-	-	-
Mr Damon Fieldgate (4)	138,408	-	(138,408)	-	-	-
Ms Ashe-lee Jegathesan	90,000	50,000	-	140,000	140,000	-
Mr Kanchan Mhatre (5)	136,816	-	(136,816)	-	-	-
Mr Martin Burke (6)	-	-	-	-	-	-
Mr Peter Findlay	-	150,000	-	150,000	150,000	-
Total 2012	1,388,624	485,000	(625,224)	1,248,400	1,095,000	153,400

(1) Mr Damian Walsh resigned from the Group, and the executive on 24 February 2012.
(2) Mr Doug Schneider was appointed to the executive as Executive Vice President, SMB Solutions on 15 July 2012.
(3) Ms Lori Harmon resigned from the Group, and the executive on 23 August 2012.
(4) Mr Damon Fieldgate resigned from the Group, and the executive on 21 May 2012.
(5) Mr Kanchan Mhatre resigned from the Group, and the executive on 22 July 2012.
(6) Mr Martin Burke was appointed to the executive as Executive Vice President - DBS on 16 December 2012.

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

(d) Shareholdings of Key Management Personnel

Shares held in Melbourne IT Ltd ^	Opening balance	Granted as remuneration	Exercise of options	Net change other*	Shares issued **	Closing balance
Directors						
Mr Simon Jones	130,935	-	-	-	-	130,935
Mr Tom Kiing	5,721,488	-	-	-	-	5,721,488
Mr Robert Stewart AM	685,784	-	-	-	-	685,784
Mr Andrew Walsh (1)	48,473	-	-	-	-	48,473
Ms Naseema Sparks	-	-	-	-	-	-
Executives						
Mr Theo Hnarakis (2)	688,367	-	-	-	386,629	1,074,996
Dr Bruce Tonkin (3)	130,000	-	-	-	22,550	152,550
Ms Ashe-lee Jegathesan (4)	-	-	-	-	97,040	97,040
Total 2013	7,405,047	-	-	-	506,219	7,911,266

(1) Resigned 31 August 2013. Closing shareholding represents his holding on the date he ceased to be a director
(2) Resigned 5 December 2013. Closing shareholding represents his holding on the date he ceased to be a director
(3) Dr Bruce Tonkin was appointed to the executive on 1 January 2013. He holds the position of Chief Technology Officer.
(4) Resigned 26 September 2013. Closing shareholding represents her holding on the date she ceased to be an executive
^ Direct and indirect holdings
* On market transactions
** Represents shares issued to satisfy (1) Performance Rights Plan issued on 1 July 2010 that vested on 1 July 2013, and (2) early vesting of the Performance Rights Plans issued on 1 July 2011 and 1 July 2012 held by certain executives, who left the company following the sale of the DBS business as detailed in Note 21(a).

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

28. DIRECTOR AND EXECUTIVE DISCLOSURES (Continued)

(d) Shareholdings of Key Management Personnel (Continued)

Shares held in Melbourne IT Ltd ^	Opening balance	Granted as remuneration	Exercise of options	Net change other*	Closing balance
Directors					
Mr Simon Jones	125,118	-	-	5,817	130,935
Mr Tom Kiing	5,721,488	-	-	-	5,721,488
Prof. Iain Morrison (1)	53,559	-	-	1,000	54,559
Mr Robert Stewart AM	578,744	-	-	107,040	685,784
Mr Andrew Walsh	48,473	-	-	-	48,473
Ms Naseema Sparks (app. 19 April 2012)	-	-	-	-	-
Executives					
Mr Theo Hnarakis	688,125	-	-	242	688,367
Total 2012	7,215,507	-	-	114,099	7,329,606

(1) Resigned 22 May 2012. Closing shareholding represents his holding on the date he ceased to be a director
^ Direct and indirect holdings
* On market transactions

(e) Other Transactions and Balances with Key Management Personnel

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

29. SHARE OPTIONS

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

During the year, 30,000 options were exercised at an average price of $2.12. During 2012, no options under the Melbourne IT Executive & Employee Option Plans were exercised.

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

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

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

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

29. SHARE OPTIONS (Continued)

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

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

The following table summarises information about options held by directors and employees as at 1 January 2013:

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

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

As at 1 January 2013, 1,615,182 shares were exercisable.

(b) Options granted during the reporting period

In the year ended 31 December 2013, no options were granted over ordinary shares (2012: 990,000 options granted).

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

	2013 Number	2012 Number
Outstanding at the beginning of the year	3,795,182	4,949,104
Granted during the year	-	990,000
Exercised during the year	(30,000)	-
Vested during the year	(683,008)	-
Lapsed during the year	(2,316,236)	(2,143,922)
Outstanding at year end	765,938	3,795,182

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

29. SHARE OPTIONS (Continued)

(c) Options exercised during the reporting period

The following table summarises information about options exercised by employees during the year ended 31 December 2013:

Number of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price	Issue Date	Fair value of shares Issued (1)
20,000	24/10/08	24/10/10	24/10/13	$2.12	4/07/2013	$2.20
10,000	24/10/08	24/10/10	24/10/13	$2.12	24/07/2013	$2.18
30,000						

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

During the year, cash received from options exercised was $0.063 million (2012: nil).

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

A total of 2,316,236 (2012: 2,143,922) options lapsed or were forfeited with a weighted average exercise price of $1.97 (2012: $2.56), by directors and employees during the year ended 31 December 2013.

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

The following table summarises information about options held by directors and employees as at 31 December 2013:

Number of Options	Ref	Grant Date	Vesting Date*	Expiry Date*	Weighted Average Exercise Price
285,938	**	1/07/11	1/07/14	1/07/14	$ -
370,000	**	1/07/12	1/07/15	1/07/15	$ -
110,000	***	1/07/12	1/07/15	1/07/15	$ -
765,938					

* The General Meeting held on 28 January 2014 changed the vesting and expiry dates of the 2011 and 2012 Performance Rights plans to 31 January 2014. The performance rights which vested in relation to the 2012 plan will be held in escrow until 30 June 2014.

** The change in the vesting date as approved in the 28 January 2014 General Meeting also resulted in a change in the number of shares vested. For the 2011 plan, 245,988 of performance rights vested while 39,950 performance rights lapsed on 31 January 2014. For the 2012 plan, 248,889 of performance rights vested while 121,111 performance rights lapsed on 31 January 2014.

*** Represents zero price shares to be settled in cash at time of vesting, offerred to international staff. Pursuant to the 28 January 2014 General Meeting, the number of performance rights vested was 76,338 while 33,612 performance rights lapsed on 31 January 2014.

As at 31 December 2013, no shares were exercisable.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

29. SHARE OPTIONS (Continued)

(f) Weighted average remaining contractual life

The weighted average remaining contractual life for the share options outstanding as at 31 December 2013 was 1.13 years (2012: 1.19 years). Refer to (e) above for details of the share options subsequent to reporting date.

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

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

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

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

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

30. CONTINGENT ASSETS AND LIABILITIES

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

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

31. EVENTS SUBSEQUENT TO BALANCE DATE

On 17 January 2014, Melbourne IT announced that the Board of Directors has appointed Martin Mercer as Chief Executive Officer and Managing Director of Melbourne IT effective early April 2014.

During the General Meeting held on 28 January 2014, the following resolutions were approved by the shareholders:
Item 1: Return of capital to shareholders of $0.54 per fully paid ordinary share amounting to approximately $45.2 million;
Item 2: Amendments to the terms of the performance rights granted under the Company's Performance Rights Plan and currently on issue; and
Item 3: Revision of certain components of the potential termination benefits which may be payable to members of the executive team.

Details of the items above are provided in the Notice of General Meeting that was circulated on 20 December 2013 and its amendment on 21 January 2014.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

31. EVENTS SUBSEQUENT TO BALANCE DATE (Continued)

On 27 February 2014, Melbourne IT announced that it had entered into a Share Purchase Agreement to acquire Netregistry Group Limited ('Netregistry'), a leading online services provider, for an enterprise value of $50.4 million. The acquisition will be funded through a mix of cash and scrip consideration. Larry Bloch, founder and CEO of Netregistry Group Limited, will be joining the Melbourne IT's Board of Directors as a non-executive director. In late March 2014, Melbourne IT entered into a $20 million revolving credit facility with National Australia Bank Limited to partly fund the acquisition of Netregistry. The transaction completion is subject to settlement of the acquisition by all parties. The initial accounting for the acquisition in accordance with AASB 3 'Business Combinations' cannot be determined until the settlement of the transaction is completed.

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

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

	2013 $'000	2012 $'000
Current assets	102,064	24,597
Total assets	200,698	148,239
Current liabilities	60,439	57,693
Total liabilities	72,116	72,091
Contributed equity	68,809	68,794
Options reserve	5,050	4,233
Hedging reserve	-	87
Retained earnings	54,723	3,034
	128,582	76,148
Profit of parent entity	79,156	7,299
Total comprehensive income of the parent entity	79,069	7,259

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

Pursuant to Class Order 98/1418, Melbourne IT Ltd, WebCentral Group Pty Ltd, WebCentral Pty Ltd and For The Record Pty Ltd have entered into a Deed of Cross Guarantee. The effect of the deed is that Melbourne IT Ltd has guaranteed to pay any deficiency in the event of winding up of any controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that Melbourne IT Ltd is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.
Following the sale of the FTR business unit on 30 August 2013, For The Record Pty Ltd have been release of the Deed of Cross Guarantee on the same date.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

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

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

Name		Country of Incorporation	Equity Interest % 2013	Equity Interest % 2012	Cost of Investment $'000 2013	Cost of Investment $'000 2012
WebCentral Group Pty Ltd	(a)	Australia	100	100	78,190	78,190
Internet Names Wordwide Espana SL	(a)	Spain	-	100	-	5
Melbourne IT DBS Group AB	(a)	Sweden	-	100	-	4,663
Domainz Ltd	(a)	New Zealand	100	100	1,671	1,671
Internet Names Worldwide (US), Inc	(a)	USA	100	100	1	1
Melbourne IT GP Holdings Pty Ltd	(a)	Australia	100	100	-	-
Melbourne IT General Partnership	(b)	USA	100	100	758	16,002
Advantate Pty Ltd		Australia	100	100	-	-
					80,620	100,532

(a) Investments in controlled entities are initial capital investments and are eliminated in the consolidated financial statements.
(b) Investments in foreign entities are revalued to the year end foreign exchange spot rates.

On 31 December 2013, Melbourne IT General Partnership had entered into a three year liquidation plan. At the same time, Melbourne IT General Partnership made a capital return to its partners (Melbourne IT Limited and Melbourne IT GP Holdings Pty Ltd), hence the reduction in the cost of investment as at 31 December 2013.

33. CLOSED GROUP CLASS ORDER DISCLOSURES

Entities subject to class order relief

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

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

	Closed Group 2013 $'000	Closed Group 2012 $'000
Consolidated statement of comprehensive income		
Profit from continuing operations before income tax	13,025	6,701
Income tax benefit	279	940
Profit after tax from continuing operations, net profit for the period	13,304	7,641
Gain after tax from discontinued operations	75,838	-
Net profit for the period	89,142	7,641
Retained earnings at the beginning of the period	18,539	23,144
Dividends provided for or paid	(26,447)	(10,352)
Dividend reinvestment plan	-	(1,894)
Retained earnings at the end of the period	81,234	18,539

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

33. CLOSED GROUP CLASS ORDER DISCLOSURES (Continued)

	Closed Group 2013 $'000	Closed Group 2012 $'000
Consolidated statement of financial position		
ASSETS		
Current assets		
Cash and cash equivalents	79,841	9,909
Trade and other receivables	23,943	11,396
Inventories	-	122
Prepayments of domain name registry charges	6,164	7,364
Current tax receivable	5,497	58
Other assets	1,570	1,513
Total current assets	117,015	30,362
Non-current assets		
Other financial assets	9,641	23,262
Property, plant and equipment	2,924	2,965
Intangible assets	68,420	94,966
Deferred tax assets	3,186	3,112
Prepayments of domain name registry charges	4,710	5,518
Other assets	74	47
Total non-current assets	88,955	129,870
TOTAL ASSETS	205,970	160,232
LIABILITIES		
Current liabilities		
Trade and other payables	19,831	14,543
Provisions	2,818	3,407
Income received in advance	16,269	20,596
Total current liabilities	38,918	38,546
Non-current liabilities		
Interest-bearing loans and borrowings	-	15,134
Deferred tax liability	697	1,806
Provisions	530	793
Income received in advance	10,819	12,349
Total non-current liabilities	12,046	30,082
TOTAL LIABILITIES	50,964	68,628
NET ASSETS	155,006	91,604
EQUITY		
Contributed equity	68,809	68,794
Options reserve	4,963	4,184
Hedging reserve	-	87
Retained earnings	81,234	18,539
TOTAL EQUITY	155,006	91,604

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. The below information is current as at 14 February 2014.

(a) Distribution of equity securities

	Number of Holders	Number of Shares
1-1,000	1,695	969,552
1,001-5,000	2,952	8,027,288
5,001-10,000	974	7,455,503
10,001 –100,000	905	21,589,854
100,001 – and over	60	45,617,051
Total	**6,586**	**83,659,248**
The number of shareholders holding less than a marketable parcel of shares are	599	114,107

(b) Twenty largest stakeholders

The names of the twenty largest holders of quoted shares are:	Number of shares	Percentage of ordinary shares
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,532,708	11.39%
CITICORP NOMINEES PTY LIMITED	8,047,396	9.62%
NATIONAL NOMINEES LIMITED	3,384,956	4.05%
SIEANA PTY LTD	3,083,340	3.69%
YORK INVESTMENTS LIMITED	2,533,823	3.03%
J P MORGAN NOMINEES AUSTRALIA LIMITED	2,507,243	3.00%
EQUITAS NOMINEES PTY LIMITED	1,569,600	1.88%
BNP PARIBAS NOMS PTY LTD	1,422,359	1.70%
MICROEQUITIES ASSET MANAGEMENT PTY LTD	1,368,911	1.64%
MR THEO HNARAKIS & MRS SANDRA ANNE HNARAKIS	1,074,966	1.28%
AUSTRALIA NOMINEES PTY LED (RBC INVESTOR SERVICES)	810,797	0.97%
CITICORP NOMINEES PTY LIMITED (COLONIAL FIRST STATE INVESTMENT ACCOUNT)	737,245	0.88%
MOUNT IDA HOLDINGS PTY LTD	633,371	0.76%
MCNEIL NOMINEES PTY LTD	500,000	0.60%
S M & R W BROWN PTY LTD	400,000	0.48%
FORSYTH BARR CUSTODIANS LTD	359,199	0.43%
CUSTODIAL SERVICES LIMITED	358,844	0.43%
TONER HOLDINGS PTY LTD	314,047	0.38%
QIC LIMITED	312,885	0.37%
QUERION PTY LTD	305,000	0.36%
	39,256,690	**46.94%**

(c) Voting rights

All ordinary shares carry one vote per share without restriction.

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MELBOURNE IT LTD

ABN: 21 073 716 793

DIRECTORS

Mr. S.D. Jones (Chairman)
Mr. T.J. Hnarakis (Managing Director and Chief Executive Officer – resigned 5 December 2013)
Mr. T. Kiing
Mr. R.J. Stewart AM
Ms. N Sparks
Mr. A. Walsh (Resigned 31 August 2013)

SHARE REGISTRY

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

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. T.J. Hnarakis (Resigned 5 December 2013)
Mr P. Findlay (Acting Chief Executive Officer 5 December 2013 – 7 April 2014)
Mr M. Mercer (Appointment effective 7 April 2014)

CHIEF FINANCIAL OFFICER

Mr P. Findlay

COMPANY SECRETARY

Mr. A. Desprets (Appointed 26 September 2013)
Ms. A. Jegathesan (Resigned 26 September 2013)

AUDITORS

Ernst & Young

IMPORTANT INFORMATION FOR SHAREHOLDERS

In 2013, Melbourne IT has produced two shareholder documents – an Annual Review and an Annual Report. The Annual Review is a more succinct shareholder overview designed to provide a high level summary of the strategic and operational performance of the company during 2013.
The Annual Review cannot be expected to provide as full an understanding of the financial performance, financial position and investing activities of the company as the Annual Report.

In addition to the information in the Annual Review, the Annual Report contains a full financial report and our auditors' report.
Shareholders wishing to receive a copy of the more detailed Annual Report may do so by visiting **http://annualreport.melbourneit.info**

The Annual Review can also be accessed online at **http://annualreport.melbourneit.info**

. . . visit us online!
http://annualreport.melbourneit.info

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