

MELBOURNE IT LTD

(ABN: 21 073 716 793)

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
31 DECEMBER 2010**

MELBOURNE IT LTD**ABN: 21 073 716 793****DIRECTORS**

Mr. S.D. Jones	(Chairman)
Mr. T.J. Hnarakis	(Managing Director)
Mr. R.J. Stewart	
Mr. T. Kiing	
Prof. I. Morrison	
Ms. L. Turnbull AO	(Resigned 10 December 2010)
Mr. A. Walsh	

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. T.J. Hnarakis

CHIEF OPERATING OFFICER

Mr. D. Walsh

CHIEF FINANCIAL OFFICER

Ms C. Sutton	(Appointed - 1 February 2010)
Mr B. Smart	(Appointed Acting Chief Financial Officer - 16 November 2009, resigned 1 February 2010)

COMPANY SECRETARY

Ms. A. Jegathesan

REGISTERED OFFICE

Level Two
120 King Street
Melbourne, Victoria, 3000
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SHARE REGISTER

Link Market Services Limited
Level Nine
333 Collins Street
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AUDITORS

Ernst & Young

INTERNET ADDRESS

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MELBOURNE IT LTD

DIRECTORS' REPORT

Your directors submit their report for the year ended 31 December 2010.

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

Directors	Managing Director	Company Secretary
Mr. Simon Jones Mr. Tom Kiing Prof. Iain Morrison Mr. Robert Stewart Ms. Lucy Turnbull AO (resigned 10 December 2010) Mr. Andrew Walsh	Mr. Theo Hnarakis	Ms. Ashe-lee Jegathesan

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

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	98,698	-
Mr. Theo Hnarakis	687,881	838,400
Mr. Tom Kiing	5,721,488	-
Prof. Iain Morrison	48,559	-
Mr. Robert Stewart	403,882	-
Mr. Andrew Walsh	48,473	-

PRINCIPAL ACTIVITIES

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

Digital Brand Services ("DBS")

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

Enterprise Services ("ES") - formerly Corporate and Government

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

For The Record ("FTR")

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

Global Partner Solutions ("GPS") - formerly Reseller

Provider of products through the extensive global network of partners which include:

- Registration of generic Top Level Domain (gTLD) names (.com, .net, .org, .biz, .info, .name).
- Registration of .au and .nz domain names through the reseller channel.
- Registration of other country code (ccTLD) domain names (e.g. .us, .co.uk, .fr, .de and .eu).
- Web and application hosting including Software and Services.

SMB eBusiness Solutions ("SMB") - formerly Business and Consumer

- Registration of .au and .nz domain names.
- Registration of other country code (ccTLD) domain names (e.g. .us, .it, .de, .to, .uk and .eu).
- Registration of generic Top Level Domain (gTLD) names (.com, .net, .org, .biz, .info, .name).
- Consultative and fulfilment services for Search Engine Marketing and Web site design and development.
- Website and email application hosting.
- Provision of other Software and Services suited to Small to Medium Business (SMB) and Small Office and Home Office (SOHO).

MELBOURNE IT LTD

DIRECTORS' REPORT (continued)

REVIEW AND RESULTS OF OPERATIONS

EARNINGS PER SHARE

	2010	2009
Basic earnings per share	20.21 cents	21.42 cents
Diluted earnings per share	20.20 cents	21.40 cents

RESULTS

The profit after tax of the Melbourne IT Group for the year ended 31 December 2010 was \$16.060 million (2009: \$16.808 million).

DIVIDENDS

	Cents	\$'000
Final Dividend Recommended on ordinary shares	8.0	6,403

DIVIDENDS PAID IN THE YEAR

Final Dividend – 2009 on ordinary shares	8.0	6,320
Interim Dividend – 2010 on ordinary shares	7.0	5,570

At the 22 February 2011 Board Meeting, the directors declared a final dividend of 8.0 cents per share, fully franked. The total amount of this final dividend is \$6.403 million. This dividend has not been provided for at 31 December 2010.

Melbourne IT Ltd - Consolidated Group

- Total consolidated Revenue for the year ended 31 December 2010 was \$189.862 million (2009: \$200.102 million), a decrease of 5.1%. Revenues for the year ending 31 December 2010 have been significantly impacted by the stronger AUD compared to the same period last year. Revenues for the year ended 31 December 2010 restated using 2009 exchange rates are \$206.254 million, equating to a 3.1% increase on 2009 revenues on a like for like basis.
- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for the year ended 31 December 2010 was \$28.551 million (2009: \$32.271 million), a decrease of 11.5%. Excluding transformation expenses of \$1.742 million, adjusted EBITDA was \$30.293 million, a decrease of 7.6%.
- Earnings Before Interest and Tax ('EBIT') for the year ended 31 December 2010 was \$21.182 million (2009: \$23.413 million), a decrease of 9.5%. Excluding transformation expenses of \$1.742 million, adjusted EBIT was \$22.924 million, a decrease of 4.1%.
- Included within EBIT for the year ended 31 December 2010 is an amortisation charge totalling \$1.20 million (2009: \$1.394 million) relating to the amortisation of identifiable intangible assets following the acquisition of DBMS (May 2008), IDR Management Services Ltd (January 2007) and the WebCentral Group Pty Ltd (September 2006).
- Profit after Tax for the year ended 31 December 2010 was \$16.060 million (2009: \$16.808 million), a decrease of 4.5%. Excluding tax effected transformation expense of \$1.219 million, adjusted profit after tax was \$17.280 million, in line with FY2009 of \$17.158 million.
- Earnings per share at 31 December 2010 was 20.21 cents (2009: 21.42 cents), a decrease of 5.6%.
- Transformation projects Integrated Web Services (IWS) and Operational Support Systems (OSS) commenced during the year. Both projects are progressing in line with the original schedule and within budget.
- Cash and cash equivalents was \$23.379 million at 31 December 2010 (2009: \$30.377 million).
- Positive Operating Cashflow for the year ended 31 December 2010 was \$18.729 million (2009: \$22.238 million) a decrease of 15.8%. Included within the operating cashflow at 31 December 2010 is an interest expense totalling \$1.753 million (2009: \$2.063 million) of which \$1.742 million (2009: \$1.701 million) related to borrowing costs associated with the acquisition of DBMS.
- Deferred Gross Margin (i.e.: income received in advance net of prepaid costs) was \$31.390 million at 31 December 2010 (December 2009: \$31.141 million) an increase of 0.8%.
- At 31 December total external debt was \$46.246 million (US \$47.0 million) (2009: \$57.861 million (US \$52.0 million)). Net debt is \$22.867 million (2009: \$27.484 million), with the lower external debt offset by lower cash and cash equivalents.
- During the year, Melbourne IT has made quarterly repayments of USD \$1.25m on the USD Overseas Currency loan, a total of USD \$5.0m (AUD \$5.337m). The Group has accelerated the debt repayments from USD \$1.0m per quarter to USD \$1.25m per quarter, and will further increase to USD \$1.5 million per quarter from 31 March 2011.
- At the 22 February 2011 Board Meeting, the directors declared a 8.0 cents fully franked final dividend on ordinary shares in respect of the year ended 31 December 2010 (year ended 31 December 2009: 8.0 cents).
- In accordance with accounting standards, the total amount of this final dividend of \$6.403 million has not been provided for in the 31 December 2010 financial statements.

MELBOURNE IT LTD

DIRECTORS' REPORT (continued)

REVIEW AND RESULTS OF OPERATIONS

Summarised operating results are as follows:

	Note	2010 \$'000	2009 \$'000
Revenue			
Registration Revenue		74,165	84,186
Consulting Revenue		38,459	42,576
Hosting & Value-Added Product Sales		67,734	62,193
For The Record Revenue		7,915	9,609
Other Revenue		889	389
Total Revenue excluding Interest Revenue		189,162	198,953
Interest Revenue		631	778
Total Revenue		189,793	199,731
Other Income		69	371
Total consolidated Revenue		189,862	200,102
Earnings Before Interest and Tax			
Operating segment results		27,577	28,282
Share of loss in Advantate Pty Ltd before income tax expense	11	(20)	(564)
Unallocated expenses		(6,375)	(4,305)
Total Earnings Before Interest and Tax		21,182	23,413
Net Interest		(1,122)	(1,285)
Net Profit Before Tax		20,060	22,128
Tax Expense		(4,000)	(5,320)
Net Profit After Tax		16,060	16,808
Cashflow from Operations		18,729	22,238

MELBOURNE IT LTD

DIRECTORS' REPORT (continued)

RISK MANAGEMENT

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

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

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

At the 22 February 2011 Board Meeting, the Directors declared a 8.0 cents fully franked final dividend on ordinary shares in respect of the year ended 31 December 2010. In accordance with Accounting Standards, the total amount of this final dividend is \$6.403 million, and has not been provided for in the 31 December 2010 financial statements.

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

Melbourne IT expects transformation costs to impact EBIT by \$5 million in 2011. Nevertheless, the company believes 2011 EBIT will be line with 2010 once this investment and the continuing impact of the strong Australian dollar is absorbed. However, from an underlying growth perspective, Melbourne IT expects 2011 EBIT will be up approximately 15% on 2010 before incremental transformation costs and the forecast foreign exchange impact are applied. Information on further developments in the Group's operations and expected results of operations have not been included in this report, as the directors believe that this would be likely to result in unreasonable prejudice to the Group.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

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

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 5,101,654 unissued ordinary shares under options (2009: 5,204,235). Refer to note 34 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 interest issue of any other registered scheme.

MELBOURNE IT LTD**DIRECTORS' REPORT (continued)****SHARE OPTIONS (continued)****Shares issued as a result of the exercise of options**

During the financial year, employees and directors have exercised the option to acquire 174,400 (2009: 136,000) fully paid ordinary shares in Melbourne IT Limited at a weighted average exercise price of \$1.21 (2009: \$1.01).

In the year ended 31 December 2010 910,000 (2009: Nil) options were granted over ordinary shares.

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

Options Issued

Number of options	Grant date	Vesting date	Weighted Average Exercise Price
98,700	28/04/06	28/04/07	1.67
524,200	17/07/06	17/07/08	1.85
1,188,400	27/04/07	27/04/09	3.42
177,066	11/09/07	11/09/09	3.60
1,592,064	18/07/08	18/07/10	3.06
142,224	19/08/08	19/08/10	3.06
469,000	24/10/08	24/10/10	2.12
190,000	1/07/10	1/07/13	0.00
720,000	1/07/10	1/07/13	0.00
<u>5,101,654</u>			

DIRECTORS' MEETINGS

	Directors Meetings		Meetings of Committees			
			ARMC (1)		HRRNC (2)	
No of meetings held in 2010	8		5		5	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Simon Jones	8	8	5	5	5	5
Theo Hnarakis	8	8	5*	5*	5*	5*
Robert Stewart	8	8	5	5		
Tom Kiing	8	8	5	4		
Iain Morrison	8	8	5	4		
Lucy Turnbull	7	7			4	4
Andrew Walsh	8	8			5	5

(1) Audit and Risk Management Committee

(2) Human Resources, Remuneration and Nomination Committee

* by invitation

The above table shows the numbers of meetings of directors held during 2010. 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 (Chairman), Mr S. Jones and Prof. I. Morrison. Mr T. Kiing served on the ARMC during 2010 and resigned from the Committee on 1 January 2011.

The members of the HRRNC are Mr A. Walsh (Chairman), Ms. L. Turnbull (resigned 10 December 2010), Mr S. Jones and Mr. T. Kiing (appointed 1 January 2011).

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

MELBOURNE IT LTD

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 2010 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, key management personnel are the Chief Executive Officer/Managing Director, the Chief Operating Officer, the Chief Financial Officer, the Company Secretary as well as the leaders of Melbourne IT's Global Business Units in Global Partner Solutions ("GPS"), SMB eBusiness Solutions ("SMB") and Digital Brand Services ("DBS"). Directors of the company are also included in the definition of Key Management Personnel.

Human Resources, Remuneration and Nomination Committee

The HRRNC is responsible for determining and reviewing remuneration arrangements for the directors and executives.

The HRRNC assesses the appropriateness of the nature and amount of remuneration of 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.

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 with the overall objective of ensuring maximum stakeholder benefit from the recruitment and retention of a high quality Board and executive team. Further details of remuneration of directors and key management personnel are also provided in note 33 of the financial statements.

Remuneration structure

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

Non-executive director remuneration

Objective

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

Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The last determination was at the Annual General Meeting held on 20 May 2008 when shareholders approved an aggregate 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 as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

MELBOURNE IT LTD**DIRECTORS' REPORT (continued)****REMUNERATION REPORT (Audited) (continued)****Fixed Remuneration**

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

Non-executive directors have long been encouraged by the Board to hold shares in the company (purchased by the directors on market). It is considered good governance for directors to have a stake in a company on whose board they sit.

The remuneration of non-executive directors for the period ended 31 December 2010 is detailed below.

Variable Remuneration – Long Term Incentives (LTI)*Objective*

The objective of the LTI plan has been to reward directors in a manner that aligns this element of remuneration with the creation of shareholder wealth. As such, LTI grants have been made to directors because they are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance.

Deferred Share Plan

In light of changes to the taxation treatment of Share Plans, the Deferred Share Plan ("DSP") was suspended in February 2010.

The purpose of the DSP has been facilitate ownership of equity in Melbourne IT by the non executive directors and align the interests of non executive directors and shareholders. The number of DSP shares that were offered to each non executive director were from pre tax salary sacrifice and had a minimum annual value that was up to 15% of a participant's fee. Subject to Board discretion, DSP shares are subject to a ten year holding lock; there are no performance requirements in respect of the DSP shares. As significant shareholders Mr Tom Kiing and Ms Lucy Turnbull did not participate in the DSP.

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:

2010 Directors	Short Term		Share Based	Post Employment	
	Salary & fees	Other (1)	Deferred Share Plan	Super Cont.	Total
	\$	\$	\$	\$	\$
Mr Simon Jones	172,500	-	-	15,525	188,025
Mr Tom Kiing	75,000	-	-	6,750	81,750
Prof. Iain Morrison	75,000	-	-	6,750	81,750
Mr Robert Stewart	85,000	-	-	7,650	92,650
Ms Lucy Turnbull	75,000	-	-	6,750	81,750
Mr Andrew Walsh	85,000	-	-	7,650	92,650
Total 2010	567,500	-	-	51,075	618,575

(1) The category "Other" includes the value of any non-cash benefits provided.

2009 Directors	Short Term		Share Based	Post Employment	
	Salary & fees	Other (1)	Deferred Share Plan	Super Cont.	Total
	\$	\$	\$	\$	\$
Mr Simon Jones	85,705	-	11,277	7,713	104,695
Mr Tom Kiing	72,000	-	-	6,480	78,480
Prof. Iain Morrison	61,601	-	10,401	6,480	78,482
Mr Robert Stewart	134,247	6,540	17,421	13,650	171,858
Ms Lucy Turnbull	80,333	-	-	7,230	87,563
Mr Andrew Walsh	63,268	-	10,401	6,630	80,299
Total 2009	497,154	6,540	49,500	48,183	601,377

(1) The category "Other" includes the value of any non-cash benefits provided.

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.

MELBOURNE IT LTD

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

Executive and senior manager remuneration (continued)

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 qualify for participation in the Executive Incentive Plan which currently provides a cash incentive where specified criteria are met (including criteria relating to cost control, profitability and cash flow).

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 below details the fixed and variable components of the key management personnel of the Group and the company.

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 below.

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

Actual STI cash payments granted to each executive depend on the extent to which Earnings Before Interest and Tax ("EBIT") and specific operational targets set at the beginning of the year are met. The operational targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial measures of performance. Typically included are measures such as contribution to profit, customer service, IT production and development, product and marketing management, finance, legal and human resources management, risk management and leadership/team contribution, including adherence to company values and behaviours. The Group has predetermined benchmarks that must be met in order to trigger payments under the STI scheme.

On an annual basis, after consideration of performance against KPIs, an overall performance rating for the Group and each individual business unit is approved by the HRRNC. The individual performance of each executive is also rated and all three ratings are taken into account when determining the amount, if any, of the short term incentive that is to be paid to each executive. This process usually occurs within 3 months after the reporting date.

The aggregate of annual STI payments available for executives across the Group is subject to recommendation of HRRNC and Board approval.

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.

MELBOURNE IT LTD

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

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

LTI Plans – Pre 21 April 2006

Executive LTI options are only exercisable under the Long Term Incentive Plan if the company achieves an Earnings Before Interest and Tax ("EBIT") for the most recent half year, at least equal to 10% greater than the average of the four (4) half year EBIT's, previous to the most recent half year, as reported to the ASX.

LTI Plans – 21 April 2006 to 30 June 2010

The exercise condition for Executive LTI Options issued after April 2006 and before 30 June 2010, are based on the increase in basic earnings per share ('EPS') as reported in the annual financial statements against pre-determined performance targets set by the Board.

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

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

LTI Plans – 1 July 2010

The exercise condition for Performance Rights/LTI Deferred Cash Bonus Plans (referred to hereafter as "the Rights") issued on 1 July 2010, are 50% based on the increase in basic earnings per share ('EPS') as reported in the annual financial statements and 50% based on total shareholder return ('TSR') as a performance measure against pre-determined performance targets set by the Board.

The Rights will vest on a sliding scale so that the amount of options vesting to the individual is dependant on the performance level achieved. Performance is measured over the 36 month period from 1 January 2010 - 31 December 2012 and settled on an equity basis, except for overseas executives whom on settlement will instead receive a cash bonus. The following sliding scale applies to the exercise of the Rights:

TSR

- If the TSR is up to the 50.1 percentile of the companies in the Peer Group, then no Rights will vest;
- If the TSR is at the 50.1 percentile of the companies in the Peer Group, then 50% of the Rights will vest;
- If the TSR is at the 51st percentile of the companies in the Peer Group, then 52% of the Rights will vest;
- If the TSR is at the 74th percentile of the companies in the Peer Group, then 98% of the Rights will vest; and
- If the TSR is at the 75th percentile of the companies in the Peer Group, then 100% of the Rights will vest.

EPS

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

The company proposes to establish a trust to purchase shares on market and hold them until such time as the Rights have vested. Holders would have the option, but not the obligation, to continue to hold their shares in the trust after vesting.

Hedging of equity awards

The Company prohibits executives from entering into arrangements to protect the value of unvested LTI awards. The prohibition includes entering into contracts to hedge their exposure to options awarded as part of their remuneration package.

Emoluments of Executives of the Company and the Consolidated Entity

Details of the nature and amount of each element of the emolument of the key management personnel of the company for the financial year are as follows:

2010	Short term benefits			Post Employment	Long term benefits	Share Based Payments	Total	Performance related
Executives	Salary & fees	STI	Other (3)	Super Cont.	Long service leave	Amortisation Expense (4)		
	\$	\$	\$	\$	\$	\$	\$	%
Mr Theo Hnarakis	508,581	108,387	43,001	45,894	23,013	72,068	800,944	22.53%
Mr Damian Walsh	276,309	30,000	9,522	24,715	-	18,000	358,546	13.39%
Ms Lori Harmon (1)	258,238	65,236	-	5,424	-	11,542	340,440	22.55%
Mr Damon Fieldgate	209,500	7,500	6,488	20,700	4,124	15,320	263,632	8.66%
Ms Ashe-lee Jegathesan	220,436	10,500	7,476	19,719	2,974	9,600	270,705	7.43%
Mr Kanchan Mhatre (1)	286,187	-	-	8,182	-	16,197	310,566	5.22%
Ms Carolyn Sutton (2)	261,082	30,000	9,387	22,518	-	12,000	334,987	12.54%
Total 2010	2,020,333	251,623	75,875	147,152	30,111	154,727	2,679,820	

(1) These personnel are paid in USD equivalents

(2) Ms Carolyn Sutton was appointed to the executive as Chief Financial Officer on 1 February 2010

(3) The category of "Other" includes the value of any non-cash business benefits provided

(4) The expense relates to the amortisation of the fair value of options granted prior to the end of the year ended 31 December 2010

MELBOURNE IT LTD

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (Audited) (continued)

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

2009	Short term benefits			Post Employment	Long term benefits	Share Based Payments	Total	Performance related
Executives	Salary & fees	STI (10)	Other (11)	Super Cont.	Long service leave	Amortisation Expense (12)		
	\$	\$	\$	\$	\$	\$	\$	%
Mr Theo Hnarakis	477,065	155,480	19,538	42,935	14,471	91,076	800,565	30.80%
Mr Damian Walsh (1)	78,615	-	1,635	7,075	-	-	87,325	-
Mr Andrew Field (2)	168,718	46,000	3,096	15,185	5,071	(38,404)	199,666	3.80%
Ms Lori Harmon (3) (4)	240,263	-	-	20,844	-	-	261,107	-
Mr Phillip Wilson	225,000	23,250	-	20,250	2,277	16,556	287,333	13.85%
Mr Bernard Blake (5)	93,750	23,250	-	8,438	479	(31,421)	94,496	-8.65%
Mr Anders Eriksson (6) (7)	47,365	41,665	-	-	-	(22,334)	66,696	28.98%
Mr Gunnar Light (4)	240,020	39,518	-	20,844	-	11,953	312,335	16.48%
Mr Damon Fieldgate	209,999	16,000	-	18,571	1,383	10,045	255,998	10.17%
Ms Ashe-lee Jegathesan	201,923	3,467	5,100	18,173	-	-	228,663	1.52%
Mr Kanchan Mhatre (4) (8)	326,379	53,995	-	14,528	-	11,953	406,855	16.21%
Mr Brian Smart (9)	18,000	-	-	1,620	-	-	19,620	-
Total 2009	2,327,098	402,624	29,369	188,462	23,682	49,424	3,020,658	

In 2010 a review of the number of employees classed as Key Management Personnel in line with AASB 124 and the Corporations Act was conducted and subsequently revised to exclude the Executive General Manager of Enterprise Services and the Executive Vice President of For the Record.

- (1) Mr Damian Walsh was appointed as Chief Operating Officer on 21 September 2009
- (2) Mr Andrew Field resigned as Chief Operating Officer on 7 August 2009
- (3) Ms Lori Harmon was appointed Executive Vice President and General Manager of GPS on 2 March 2009
- (4) These personnel are paid in USD equivalents
- (5) Mr Bernard Blake resigned as Group Manager of SMB Markets on 29 May 2009
- (6) Mr Anders Eriksson resigned as Chief Executive of DBS on 27 February 2009
- (7) Paid in equivalent Swedish Krona (SEK) through Melbourne IT DBS Group AB
- (8) Mr Kanchan Mhatre was appointed to the executive as Executive Vice President of DBS on 1 January 2009
- (9) Mr Brian Smart was appointed to the executive as Acting Chief Financial Officer on 16 November 2009
- (10) The STI amounts represent the cash amounts paid with respect to the 2008 year. The directors have determined that no STI's are due and payable in respect of the 2009 financial year
- (11) The category of "Other" includes the value of any non-cash business benefits provided
- (12) The expense relates to the amortisation of the fair value of options granted prior to the year ended 31 December 2009

Employment Contracts

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

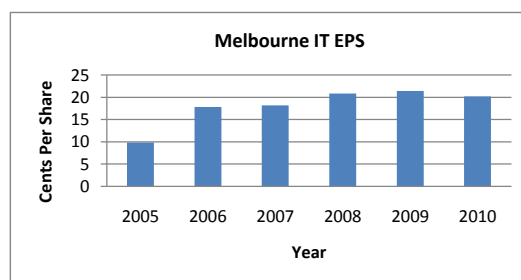
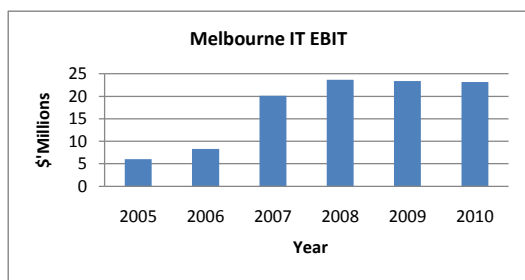
- In 2010, Mr Hnarakis received a basic remuneration package (inclusive of salary and superannuation) of \$554,476.
- Mr Hnarakis was entitled to receive up to a further 65% of this base remuneration based on achieving annual performance criteria set by the Board.
- Mr Hnarakis' remuneration is reviewed annually.
- Mr Hnarakis may resign from his position and thus terminate this contract by giving 6 months notice.
- The company may terminate this employment agreement by providing 12 months written notice or providing payment in lieu of the notice period (based on the fixed component of Mr Hnarakis' remuneration).

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

Company performance and link to remuneration

Company performance and link to short and long term incentives

The financial performance measure driving STI and LTI payment outcomes is EBIT and EPS respectively. The following tables outlines the Group's EBIT and EPS over the five year period from 1 January 2005 to 31 December 2010:



MELBOURNE IT LTD**DIRECTORS' REPORT (continued)****REMUNERATION REPORT (Audited) (continued)****Compensation options: Options granted and Options vested during the year****2010**

In the year ended 31 December 2010 500,000 (2009 : Nil) options were granted to the KMP.

Options granted / lapsed as remuneration during the year**2010**

	Options Granted	Value of options granted \$	Value of options exercised \$	Number of options lapsed / forfeited	Remuneration consisting of options (1)
Executives					
Mr Theo Hnarakis	185,000	271,950	-	(96,600)	9.24%
Mr Damian Walsh	75,000	110,250	-	-	5.06%
Ms Lori Harmon	50,000	69,250	-	-	3.39%
Mr Damon Fieldgate	50,000	73,500	-	(11,592)	5.84%
Ms Ashe-lee Jegathesan	40,000	58,800	-	-	3.58%
Mr Kanchan Mhatre	50,000	69,250	-	(23,184)	5.22%
Ms Carolyn Sutton	50,000	73,500	-	-	3.61%

(1) Amortisation expense of employee share options

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

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

Shares issued on exercise of compensation options**2010**

No shares were issued to KMP's on exercise of compensation options for the year ended 31 December 2010.

Employees

The consolidated entity employed 715 (2009:688) full time equivalent ("FTE") employees as at 31 December 2010.

Auditor independence and non audit services

The Directors have received an independence declaration from the auditor of Melbourne IT Ltd, as shown on page 13.

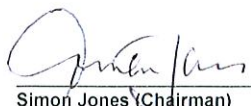
Non audit services

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

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

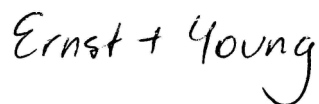
	\$
Tax compliance services	136,487
Assurance related and due diligence services	30,200
	<u>166,687</u>

Signed in accordance with a resolution of the directors.


 Simon Jones (Chairman)
 Melbourne, 30 March 2011

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 2010, 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.

A stylized, handwritten signature of "Ernst & Young" in black ink.

Ernst & Young

A stylized, handwritten signature of "Joanne Lonergan" in black ink.

Joanne Lonergan
Partner
Melbourne
30 March 2011

MELBOURNE IT LTD

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 2010 are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of its financial position as at 31 December 2010 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 2010.
- (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 36, 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 36.

On behalf of the Board


Simon Jones (Chairman)

Melbourne, 30 March 2011

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 statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1 (a), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider 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 met 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.

Auditor's Opinion

In our opinion:

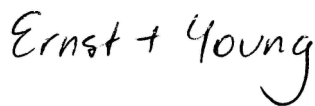
1. the financial report of Melbourne IT Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position at 31 December 2010 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 31 December 2010. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Melbourne IT Limited for the year ended 31 December 2010 complies with section 300A of the *Corporations Act 2001*.

A stylized, handwritten signature of 'Ernst + Young' in a cursive script.

Ernst & Young

A handwritten signature of 'Joanne Lonergan' in a cursive script.

Joanne Lonergan
Partner
Melbourne
30 March 2011

MELBOURNE IT LIMITED
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010**

		CONSOLIDATED	
	Notes	2010 \$'000	2009 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	23(b)	23,379	30,377
Trade and other receivables	8	24,890	25,831
Inventories	9	562	582
Prepayment of domain name registry charges		13,317	15,138
Derivative financial instruments	27	258	115
Other assets	10	2,813	2,584
Total Current Assets		65,219	74,627
Non-Current Assets			
Plant and equipment	12	7,665	11,174
Intangible assets	13	126,641	129,522
Deferred income tax assets	14	5,971	2,581
Prepayment of domain name registry charges		7,609	9,433
Investments in associates	11(d)	-	-
Other assets	15	43	7
Total Non-Current Assets		147,929	152,717
TOTAL ASSETS		213,148	227,344
LIABILITIES			
Current Liabilities			
Trade and other payables	16	14,532	19,656
Interest-bearing loans and borrowings	17	5,904	4,451
Provisions	18	4,165	3,649
Current tax liabilities	19	904	2,053
Income received in advance		37,299	37,536
Total Current Liabilities		62,804	67,345
Non-Current Liabilities			
Interest-bearing loans and borrowings	17	40,342	53,410
Deferred income tax liability	20	2,194	-
Provisions	21	716	605
Income received in advance		15,226	18,176
Derivative financial instruments	27	597	-
Total Non-Current Liabilities		59,075	72,191
TOTAL LIABILITIES		121,879	139,536
NET ASSETS		91,269	87,808
EQUITY			
Contributed equity	22(a)	64,839	63,005
Foreign currency translation reserve		(9,270)	(5,900)
Options reserve		3,880	3,095
Hedging reserve		111	69
Retained earnings		31,709	27,539
TOTAL EQUITY		91,269	87,808

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

MELBOURNE IT LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
AS AT 31 DECEMBER 2010

CONSOLIDATED			
	Notes	2010 \$'000	2009 \$'000
Revenue	4(a)	189,793	199,731
Other Income	4(b)	69	371
Registry, Hosting and Sundry Other Product Costs		(73,435)	(77,746)
Gross profit		<u>116,427</u>	<u>122,356</u>
Salaries and employee benefits expenses		(68,706)	(70,395)
Depreciation and amortisation expenses	5(a)	(6,169)	(7,464)
Amortisation of identifiable intangible assets	5(b)	(1,200)	(1,394)
Other expenses	5(c)	(20,272)	(20,411)
Share of net (loss) of an associate	11(c)	(20)	(564)
Profit before tax		<u>20,060</u>	<u>22,128</u>
Income tax expense	6	(4,000)	(5,320)
Net Profit attributable to members of Melbourne IT Ltd		<u><u>16,060</u></u>	<u><u>16,808</u></u>
Other comprehensive income			
Currency translation differences		(3,370)	(3,460)
Net gains/(losses) on cashflow hedges		42	(512)
Other comprehensive income for the period, net of tax		<u>(3,328)</u>	<u>(3,972)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u><u>12,732</u></u>	<u><u>12,836</u></u>
Profit attributable to members of the parent		<u><u>16,060</u></u>	<u><u>16,808</u></u>
Total comprehensive income attributable to members of the parent		<u><u>12,732</u></u>	<u><u>12,836</u></u>
EARNINGS PER SHARE			
		2010	2009
Basic earnings per share	30	20.21 cents	21.42 cents
Diluted earnings per share	30	20.20 cents	21.40 cents

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

MELBOURNE IT LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010

	FOREIGN CURRENCY RESERVE \$'000	OPTIONS RESERVE \$'000	HEDGING RESERVE \$'000	CONTRIBUTED EQUITY \$'000	RETAINED EARNINGS \$'000	TOTAL \$'000
As at 1 January 2010	(5,900)	3,095	69	63,005	27,539	87,808
Profit for the period	-	-	-	-	16,060	16,060
Other comprehensive income	(3,370)	-	42	-	-	(3,328)
Total comprehensive income for the period	(3,370)	-	42	-	16,060	12,732
Transactions with owners in their capacity as owners:						
Share based payment	-	785	-	-	-	785
Dividend Reinvestment Plan	-	-	-	1,622	(1,622)	-
Exercise of Options	-	-	-	212	-	212
Equity Dividends	-	-	-	-	(10,268)	(10,268)
As at 31 December 2010	(9,270)	3,880	111	64,839	31,709	91,269
As at 1 January 2009	(2,440)	2,247	581	61,204	22,472	84,064
Profit for the period	-	-	-	-	16,808	16,808
Other comprehensive income	(3,460)	-	(512)	-	-	(3,972)
Total comprehensive income for the period	(3,460)	-	(512)	-	16,808	12,836
Transactions with owners in their capacity as owners:						
Share based payment	-	848	-	-	-	848
Dividend Reinvestment Plan	-	-	-	1,549	(1,549)	-
Exercise of Options	-	-	-	252	-	252
Equity Dividends	-	-	-	-	(10,192)	(10,192)
As at 31 December 2009	(5,900)	3,095	69	63,005	27,539	87,808

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

MELBOURNE IT LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

CONSOLIDATED			
	Notes	2010 \$'000	2009 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of service revenue and recoveries (inclusive of GST)		203,717	222,752
Payments to suppliers and employees (inclusive of GST)		(177,524)	(190,864)
Interest received		631	778
Interest paid		(1,753)	(2,063)
Bank charges and credit card merchant fees		(1,254)	(1,358)
Income tax paid		(5,088)	(7,007)
NET CASH FLOWS FROM OPERATING ACTIVITIES	23(a)	18,729	22,238
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment and intangible assets		(10,533)	(3,867)
Proceeds on sale of plant and equipment		1,474	-
Acquisition of subsidiary, net of cash acquired - DBMS	24	-	(340)
Investment in Joint Venture - Advantate Pty Ltd	11(d)	(20)	(200)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(9,079)	(4,407)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of interest bearing liabilities		(5,337)	(3,501)
Proceeds from issue of ordinary shares - ESOP		212	252
Payment of dividend on ordinary shares		(10,268)	(10,192)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		(15,393)	(13,441)
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		(5,743)	4,390
Net foreign exchange differences		(1,255)	(2,395)
Cash and cash equivalents at beginning of period		30,377	28,382
CASH AND CASH EQUIVALENTS AT END OF PERIOD	23(b)	23,379	30,377

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

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

CORPORATE INFORMATION

The financial report of Melbourne IT Ltd for the year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 30 March 2011.

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

The nature of the operations and principal activities of the Group are described in Notes 1(e) and 13.

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

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

(a) Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ('IFRS').

(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 and AASB Interpretations as of 1 January 2010.

- AASB 2009-8 Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] effective 1 January 2010
- AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] effective 1 January 2010
- AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 effective 1 July 2009
- AASB 3 Business Combinations (revised 2008) effective 1 July 2009
- AASB 127 Consolidated and Separate Financial Statements (revised 2008) effective 1 July 2009
- AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 July 2009
- AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & AASB 5] effective 1 July 2009
- AASB Interpretation 16 and AASB 2009-4 Hedges of a net investment in a foreign operation, amending paragraph 14 to the Interpretation
- AASB Interpretation 18 Transfers of Non-cash Assets from Customers
- AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127.
- AASB 2008-8 Eligible Hedged Items
- AASB 2009-7 Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136, 139 & Interpretation 17]

Where the adoption of the Standard or Interpretation is deemed to have an impact on the current or future financial statements or performance of the Group, its impact is described below.

AASB 3 Business Combinations & AASB 127 Consolidated and Separate Financial Statements (revised 2008)

- AASB 3 (revised 2008) introduces significant changes in the accounting for business combinations occurring after 1 January 2010. Changes affect the valuation of non-controlling interests (previously "minority interests"), the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period when an acquisition occurs and future reported results.
- AASB 127 (revised 2008) requires that a change in the ownership interest of a subsidiary (without a change in control) is to be accounted for as a transaction with owners in their capacity as owners. Therefore such transactions will no longer give rise to goodwill, nor will they give rise to a gain or loss in the statement of comprehensive income. Furthermore the revised Standard changes the accounting for losses incurred by a partially owned subsidiary as well as the loss of control of a subsidiary. The changes in AASB 3 (revised 2008) and AASB 127 (revised 2008) will affect future acquisitions, changes in, and loss of control of, subsidiaries and transactions with non-controlling interests.
- The change in accounting policy was applied prospectively and had no impact on the financial position or performance of the group in the current year.

AASB 2009-8 Amendments to Australian Accounting Standards — Group Cash-Settled Share-based Payment Transactions

- The amendments clarify the scope of AASB 2 Share-based Payment by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendments incorporate the requirements previously included in Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 - Group and Treasury Share Transactions. It did not have an impact on the financial position or performance of the Group in the current year.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Changes in accounting policy and disclosure (Continued)

Annual Improvements Project

In May 2009 and June 2010 the AASB issued omnibus of amendments to its Standards as part of the Annual Improvements Project, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group:

- AASB 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in AASB 5. The disclosure requirements of other Accounting Standards only apply if specifically required for such non-current assets or discontinued operations.
- AASB 8 Operating Segments: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does not review segment assets and liabilities, the Group has not disclosed this information in note 28.
- AASB 107 Statement of Cash Flows: States that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.
- AASB 136 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.
- AASB Interpretation 17 Distribution of Non-cash Assets to Owners: This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either the financial position or performance of the Group.

Other amendments resulting from the Annual Improvements Project to the following Standards did not have any impact on the accounting policies, financial position or performance of the Group:

- AASB 2 Share-based Payment
- AASB 101 Presentation of Financial Statements
- AASB 117 Leases
- AASB 134 Interim Financial Reporting
- AASB 138 Intangible Assets
- AASB 139 Financial Instruments: Recognition & Measurement
- AASB Int. 9 Reassessment of Embedded Derivatives
- AASB Int. 16 Hedges of a Net Investment in a Foreign Operation

(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 2010 are outlined in the table below.

Reference	Title	Summary	Application Date of Standard*	Impact on Group Financial Report	Application Date for Group*
AASB 2009-10	Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132]	The amendment provides relief to entities that issue rights in a currency other than their functional currency, from treating the rights as derivatives with fair value changes recorded in profit or loss. Such rights will now be classified as equity instruments when certain conditions are met.	1-Feb-10	The amendments to the Accounting Standard are not expected to have any impact on the amounts included in the Group's financial statements, on the grounds that the Group is not in the practice of undertaking a rights issue.	1-Jan-11
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.	1-Jan-13	Whilst the impact of the application of the new Standard is currently being assessed, our initial assessment is that there should be no material impact on the Group's financial position or performance.	1-Jan-13
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	Amending Standard issued as a consequence of the issue of AASB 9. Refer above.	1-Jan-13	Whilst the impact of the application of the new Standard is currently being assessed, our initial assessment is that there should be no material impact on the Group's financial position or performance.	1-Jan-13
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition.	1-Jan-11	The amendments to the Accounting Standard are not expected to have a material impact on the Group's financial position or performance, as the Group does not have any related parties of the type whose definition has been changed by the amendment.	1-Jan-11

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

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 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.	1-Jan-11	The amendments to the Accounting Standard are not expected to have a material impact on the Group's financial position or performance.	1-Jan-11
AASB 2009-14	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting.	1-Jan-10	The amendments to the Accounting Standard are not expected to have a direct impact on the amounts included in the Group's financial statements.	1-Jan-10
AASB 2010-3	Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 3, AASB 7, AASB 121, AASB 128, AASB 131, AASB 132 & AASB 139]	Limits the scope of the measurement choices of non-controlling interest to instruments that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of NCI are measured at fair value. Requires an entity (in a business combination) to account for the replacement of the acquiree's share-based payment transactions (whether obliged or voluntarily), in a consistent manner i.e., allocate between consideration and post combination expenses. Clarifies that contingent consideration from a business combination that occurred before the effective date of AASB 3 Revised is not restated. Clarifies that the revised accounting for loss of significant influence or joint control (from the issue of IFRS 3 Revised) is only applicable prospectively.	1-Jul-10	The amendments to the Accounting Standard are not expected to materially impact the Group's financial position or performance. There are currently no Non Controlling Interests in the Group.	1-Jan-11
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Gives clarification on disclosure requirements of AASB 7, AASB 101 and AASB 134.	1-Jan-11	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-11
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39.	1-Jul-10	The amendments to the Accounting Standard are not expected to materially impact the Group's financial position or performance. The Group does not have a practice of extinguishing financial liabilities with equity instruments.	1-Jan-11
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.	1-Jan-11	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-11
AASB 2010-5	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets	1-Jul-11	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-12

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

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of Consolidation

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

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

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

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

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

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

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

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

(d) Business Combinations

Subsequent to 1 January 2010

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

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

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

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

Prior to 1 January 2010

In comparison to the above-mentioned requirements, the following difference applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were adjusted against goodwill.

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

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 eBusiness Solutions ("SMB") - formerly Business and Consumer

This Division 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.

Global Partner Solutions ("GPS") - formerly Reseller

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

Digital Brand Services ("DBS")

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

Enterprise Services ("ES") - formerly Corporate and Government

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

For The Record ("FTR")

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

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

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 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) |

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

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

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

(g) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

(h) Trade and other receivables

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

(i) Inventories

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

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

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

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

(j) Expenditure carried forward - prepayment of domain name registry charges

Significant items of expenditure having a benefit or relationship to more than one period are written off over the periods to which such expenditure relates.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Derivative financial instruments

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

As at 31 December 2010, Melbourne IT Ltd has entered into a number of foreign currency option contracts ('derivative financial instruments') with the primary objective of minimising the impact of currency fluctuations on the company. The strategy provides more certainty over earned USD sales transactions.

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

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

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

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

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

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

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

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

(l) Plant and equipment

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

Depreciation

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

	2010	2009
Leasehold improvements	The lease term	The lease term
Plant and equipment	2 to 4 years	2 to 4 years
Furniture and Fittings	2 to 5 years	2 to 5 years

Impairment

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

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Recoverable amount of assets

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

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

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

(n) Goodwill

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

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

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

(o) Intangible assets

Acquired both separately and from a business combination

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

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

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

Internally Generated Assets: Assets Under Construction - Transformation Projects

As explained in note 13, the Group has commenced a transformation project to develop and implement Integrated Web Services, Oracle Financials and Operational Support Systems. Costs relating to the research phase of the project are expensed while costs relating to the development phase are capitalised as Capitalised Software: Assets Under Construction - Transformation Projects. Once operational they will be amortised over a useful life of 4 years for hardware and 5 years for license, integration and labour costs.

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

Customer Contracts

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

Market Related Intangibles

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

Software Platforms

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

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

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Investments in subsidiaries

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

(q) Trade and other payables

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

(r) Interest-bearing loans and borrowings

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

(s) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(t) Provisions

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

(u) Leases

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

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

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

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Revenue recognition

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

Group

Rendering of services - domain names

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

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

Melbourne IT Ltd and Domainz Ltd

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

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

Rendering of services – non domain name revenue

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

Sale of goods

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

Interest

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

Dividends

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

(w) Employee entitlements

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

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

Employee entitlement expenses and revenues arising 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.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Share-based payment transactions

(i) Option Plans

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

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

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

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

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

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

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

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

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

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

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

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

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

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Share-based payment transactions (continued)

(ii) Performance Rights Plan/Deferred Cash Bonus Plans

The Melbourne IT Ltd Performance Rights Plan and LTI Deferred Cash Bonus Plans ("the rights") have been established where the managing director and key employees of the company are issued with rights to acquire ordinary shares of Melbourne IT Limited at no cost. The rights are issued in accordance with Performance Conditions established by the directors of Melbourne IT Limited.

The Rights have been issued in two tranches and each tranche is subject to a different Performance Condition that must be satisfied before the Rights in each tranche vest and are converted into shares. Once the Performance Conditions have been tested and if the Rights have vested they will automatically be converted into Melbourne IT shares on the Vesting Date (3 years after the issue date) at a ratio of one right to one ordinary share.

TSR

- If the TSR is up to the 50.1 percentile of the companies in the Peer Group, then no Rights will vest;
- If the TSR is at the 50.1 percentile of the companies in the Peer Group, then 50% of the Rights will vest;
- If the TSR is at the 51st percentile of the companies in the Peer Group, then 52% of the Rights will vest;
- If the TSR is at the 74th percentile of the companies in the Peer Group, then 98% of the Rights will vest; and
- If the TSR is at the 75th percentile of the companies in the Peer Group, then 100% of the Rights will vest.

EPS

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

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

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

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

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

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

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

(iii) Long Term Incentive Deferred Cash Bonus Plan

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

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

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

MELBOURNE IT LTD

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Income tax

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

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

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

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

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

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

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

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

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

Tax consolidation legislation

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

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

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

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

(z) Other taxes

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

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

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

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

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

MELBOURNE IT LTD

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Contributed equity

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

(ab) 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.

(ac) Investment in Associates

The Group's investment in associates is accounted for using the equity method of accounting in the Group's consolidated financial statements. An associate is an entity over which the Group has a significant influence. It should be noted that on 18 May 2010 the Group purchased the remaining 50% share of the Associate Advantate Pty Ltd.

Under the equity method, the investment in the associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of the net assets of the associate entity. Goodwill (if applicable) is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Group determines whether it is necessary to recognise any impairment loss with respect to the Groups' net investment in the associate entity.

The Group's share of its associate entity's profit or loss is recognised directly in the profit and loss and its share of movements in reserves is recognised in reserves. The cumulative movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in the associate entity equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate entity.

(ad) Operating Cash Flow

In the current half year, the company has refined its methodology for capturing and reporting foreign exchange impacts on its cashflows. The 2009 Cashflow Statement has been re-presented using the current methodology, which results in a reallocation between net cash flow from operations and net foreign exchange differences of \$1.334 million. The Net Cashflows from Operating Activities for the first half of 2010 were \$11.542 million and the second half were \$7.187 million.

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Risk Exposures and Responses

Interest Rate Risk

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

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

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	23,379	30,377
Financial Liabilities		
Interest bearing loans (current and non-current)	46,246	57,861
Less Hedged amounts (Interest Rate Swap) (1)	(19,679)	(22,254)
Interest bearing loans - unhedged	26,567	35,607

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

Sensitivity Analysis

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

At 31 December 2010, 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)	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Consolidated				
Assets + 1.5% (150 basis points), Liabilities + 0.7% (70 basis points), (2009: + 2.0% (200 basis points)),	152	(399)	150	(405)
Assets - 0.5% (- 50 basis points), Liabilities no reduction in rates anticipated, (2009: - 0.5% (- 50 basis points))	(94)	100	(94)	101

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

Credit Risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, available-for-sale financial assets 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.

MELBOURNE IT LTD

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

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 27 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 2010, the Group had the following exposures to USD denominated assets and liabilities, where the functional currency is not USD. Assets and liabilities that are that are designated in cashflow hedges are not included:

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
Financial Assets		
Cash and cash equivalents	585	144
Trade and Other receivables	5,339	2,764
	5,925	2,908
Financial Liabilities		
Trade and Other Payables	6,517	6,378
Net exposure	(592)	(3,470)

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

At 31 December 2010, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Net Profit		Equity	
	Higher / (Lower)		Higher / (Lower)	
	2010	2009	2010	2009
	\$'000	\$'000	\$'000	\$'000
Consolidated				
- AUD/USD +5% (2009: + 10%)	30	312	30	312
- AUD/USD -10% (2009: - 10%)	(60)	(312)	(60)	(312)

The Group also has exposures to foreign exchange when retranslating foreign currency subsidiaries into Australian Dollars.

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity Risk

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

The set balance is the specified minimum acceptable surplus of committed facilities/accessible for the next 12 months in each company and globally and will be reviewed annually or earlier upon the occurrence of a significant event. As 31 December 2010, the Group had external interest bearing debt of US\$47.0 million (2009: US\$52.0 million).

Maturity Analysis of financial assets and liabilities based on Management's expectation

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

Consolidated	< 6 Months \$'000	6 - 12 Months \$'000	1 to 5 years \$'000	> 5 Years \$'000	Total \$'000
Year ended 31 December 2010					
Financial assets					
Cash and cash equivalents	23,379	-	-	-	23,379
Trade and other receivables	24,890	-	-	-	24,890
	<u>48,269</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>48,269</u>
Financial liabilities					
Trade and other payables	(14,532)	-	-	-	(14,532)
Interest and loan liabilities	(3,544)	(3,512)	(41,602)	-	(48,658)
	<u>(18,076)</u>	<u>(3,512)</u>	<u>(41,602)</u>	<u>-</u>	<u>(63,190)</u>
Net inflow/(outflow)	30,193	(3,512)	(41,602)	-	(14,921)

Year ended 31 December 2009

Financial assets					
Cash and cash equivalents	30,377	-	-	-	30,377
Trade and other receivables	25,831	-	-	-	25,831
	<u>56,208</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,208</u>
Financial liabilities					
Trade and other payables	(19,656)	-	-	-	(19,656)
Interest and loan liabilities	(3,199)	(3,150)	(61,010)	-	(67,359)
	<u>(22,855)</u>	<u>(3,150)</u>	<u>(61,010)</u>	<u>-</u>	<u>(87,015)</u>
Net inflow/(outflow)	33,353	(3,150)	(61,010)	-	(30,807)

Capital management

When managing capital, Management'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.

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

During 2010, Management paid dividends of \$10.268 million after the dividend reinvestment plan (2009: \$10.192 million).

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

Fair Value Hierarchy

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

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.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

(i) Significant accounting judgements

Taxation

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

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

(ii) Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives

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

Share-based payment transactions

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

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

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
4. REVENUE		
(a) Revenue		
Registration Revenue	74,165	84,186
Consulting Revenue	38,459	42,576
Hosting & Value-Added Product Sales	67,734	62,193
For The Record Revenue	7,915	9,609
Other Revenue	889	389
Total Revenue excluding Interest Income	189,162	198,953
Interest revenue	631	778
Total Revenue	189,793	199,731
(b) Other income		
Dividend Income	-	-
Other	69	371
	69	371
Total consolidated Revenue	189,862	200,102
5. EXPENSES AND LOSSES / (GAINS)		
(a) Depreciation expenses		
Depreciation of non-current assets		
Fit out	432	900
Plant and equipment	5,323	6,346
Furniture	414	218
Total depreciation of non-current assets	6,169	7,464
(b) Amortisation of identifiable intangible assets		
Amortisation of customer contracts	668	1,024
Amortisation of capitalised software	532	370
Total amortisation of identifiable intangible assets	1,200	1,394
Total depreciation and amortisation expenses	7,369	8,858
(c) Other Expenses		
Travel & accommodation	1,712	1,672
Finance & legal	2,519	2,670
Rental – operating leases	3,338	3,328
Communications	2,217	2,534
Maintenance costs	1,534	898
Marketing	2,117	1,991
Net foreign currency exchange loss	353	771
Bad and doubtful debts expense / (recovered)	698	547
Interest expense	1,753	2,063
Bank charges and credit card merchant fees	1,254	1,358
Other	2,777	2,579
Total other expenses	20,272	20,411
(d) Other		
Expensing of share based payments	785	848

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
6. INCOME TAX		
The major components of income tax expense are:		
(a) Statement of comprehensive income		
Current income tax		
Current income tax charge	6,242	5,886
Adjustments in respect of current income tax of previous years	(1,046)	(318)
Deferred income tax		
Relating to origination and reversal of temporary differences	(1,196)	(248)
Income tax expense reported in the statement of comprehensive income	4,000	5,320
(b) Statement of changes in equity		
<i>Deferred income tax related to items charged or credited directly to equity</i>		
Net gain/(loss) on revaluation of cash flow hedges	13	(154)
Income tax expense reported in equity	13	(154)
(c) A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit before income tax	20,060	22,128
At the group's statutory income tax rate of 30% (2009: 30%)	6,018	6,638
Adjustments in respect of current income tax of		
Previous years	(1,046)	(318)
Share of net loss of Associate	6	169
Options cost	236	254
Amortisation of intangibles	(256)	418
Other Foreign Deductions	(437)	(496)
Entertainment	26	72
Tax Losses not previously brought to account	(214)	(419)
Other	(333)	(998)
Income tax expense reported in the statement of comprehensive income	4,000	5,320

Tax Consolidation

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

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

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

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
7. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES		
(a) Dividends paid during the year		
(i) Current year - interim		
Franked dividends (7.0 cents per share)	5,570	5,503
(2009: 7.0 cents)		
(ii) Previous year - final		
Franked dividends (8.0 cents per share)	6,320	6,238
(2009: 8.0 cents per share)		
(b) Dividends proposed and not recognised as a liability		
Franked dividends (8.0 cents per share)	6,403	6,320
(2009: 8.0 cents)		
(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% (2009: 30%)	8,659	9,463

At the 22 February 2011 Board Meeting, the directors declared a 8.0 cents fully franked final dividend on ordinary shares in respect of the year ended 31 December 2010.

In accordance with accounting standards the total amount of this final dividend of \$6.403 million has not been provided for in the 31 December 2010 financial statements.

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

Trade debtors	26,361	27,661
Allowance for impairment loss	(1,471)	(1,830)
	24,890	25,831

Terms and conditions

Terms and conditions relating to the above financial instruments

- Trade debtors are non-interest bearing and generally on 14-60 day terms.
- Allowance for impairment loss

A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of \$1.256 million (2009: \$0.547 million) has been recognised by the Group and \$0.370 million (2009: \$0.153 million) has been recovered from customers in the current year.

Movements in the provision for impairment loss were as follows:

Opening Balance	1,830	1,439
Additional Provision / (Released)	(31)	547
Amounts (Written off) / Recovered	(211)	(156)
Foreign currency translation impact	(117)	-
Closing Balance	1,471	1,830

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

Consolidated	2010		2009	
	Gross \$'000	Allowance \$'000	Gross \$'000	Allowance \$'000
Current	13,730	(10)	13,233	(5)
0 - 30 days past due	5,920	(10)	5,545	(5)
31 - 60 days past due	2,117	(11)	2,250	-
Past due 61 days +	4,594	(1,440)	6,633	(1,820)
Closing Balance	26,361	(1,471)	27,661	(1,830)

Receivables past due but not considered impaired are \$11,170k, 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.

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

9. INVENTORIES

Materials (at cost)

CONSOLIDATED	
2010	2009
\$'000	\$'000
562	582

10. OTHER ASSETS (CURRENT)

Other prepayments

GST receivable

2,514	2,306
299	278
2,813	2,584

11. INVESTMENTS IN ASSOCIATES

(a) Interests in Associates

Name

Ownership Interest held by
Consolidated Entity

2010	2009
%	%
Advantate Pty Ltd	100
	50

Principal activity

Advantate Pty Ltd provides access to search engine marketing services to small to medium sized businesses. The company was established in 2008 as a joint venture between Melbourne IT and Fairfax Digital Ltd. On 18 May 2010, the Group purchased the remaining 50% share of Advantate. Advantate is now a wholly owned subsidiary and equity accounting has been discontinued.

(b) Share of associate's statement of financial position

CONSOLIDATED	
2010	2009
\$'000	\$'000
Current assets	-
Non-current assets	156
Current liabilities	-
Non-current liabilities	103
	(490)
	(4)
Net (liabilities) / assets	(235)

(c) Share of associate's (losses)

Share of associate's:

- losses before income tax	(20)	(564)
- income tax (expense)/benefit	-	(155)
- losses after income tax benefit	(20)	(719)

(d) Movements in carrying amount of investment in associate

Balance at the beginning of the year	-	519
- new investment during financial year	20	200
- share of associate's net losses for the financial year	(20)	(719)
Balance at the end of the year	-	-

In the year ended 31 December 2009, Melbourne IT recognised in the statement of financial position its share of Advantate's loss to the point where the investment is equal to nil.

MELBOURNE IT LTD
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
12. PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT)		
Leasehold improvements		
At cost	4,844	5,369
Accumulated amortisation	(4,535)	(4,693)
	309	676
Plant and equipment		
At cost	38,951	52,219
Accumulated depreciation	(31,720)	(41,823)
	7,231	10,396
Furniture and fittings		
At cost	1,020	1,116
Accumulated depreciation	(895)	(1,014)
	125	102
Total property, plant and equipment		
At cost	44,815	58,704
Accumulated depreciation and amortisation	(37,150)	(47,530)
Total written down amount	7,665	11,174
Reconciliations		
Reconciliations of the carrying amounts of leasehold improvements, plant and equipment and furniture/fittings at the beginning and end of the current and previous financial year.		
Leasehold improvements		
Carrying amount at beginning	676	1,983
Additions	241	109
Transfer / other	(140)	-
Disposals	(33)	(126)
Foreign exchange differences	(3)	(390)
Depreciation expense	(432)	(900)
	309	676
Plant and Equipment		
Carrying amount at beginning	10,396	11,998
Additions	3,876	3,732
Transfer / other	(49)	-
Disposals	(1,530)	(244)
Foreign exchange differences	(139)	1,256
Depreciation expense	(5,323)	(6,346)
	7,231	10,396
Furniture and Fittings		
Carrying amount at beginning	102	160
Additions	64	26
Transfer / other	395	-
Disposals	(14)	(60)
Foreign exchange differences	(8)	194
Depreciation expense	(414)	(218)
	125	102
Total written down amount	7,665	11,174

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	CONSOLIDATED	
		2010 \$'000	2009 \$'000
13. INTANGIBLE ASSETS			
(a) Carrying amounts of intangible assets			
Goodwill		102,870	109,070
Market Related Intangibles		9,982	9,982
Accumulated amortisation		-	-
		<u>9,982</u>	<u>9,982</u>
Customer Contracts		10,619	11,904
Accumulated amortisation		(3,110)	(2,425)
		<u>7,509</u>	<u>9,479</u>
Capitalised Software		971	1,098
Accumulated amortisation		(532)	(370)
		<u>439</u>	<u>728</u>
Assets Under Construction	13 (b)	5,683	-
Total Capitalised Software		<u>6,122</u>	<u>728</u>
Other Intangibles		315	315
Accumulated amortisation		(157)	(52)
		<u>158</u>	<u>263</u>
Total Intangible Assets		<u>126,641</u>	<u>129,522</u>

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

	Other Intangibles	Capitalised Software	Customer Contracts	Market Related Intangibles	Goodwill	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Year ended 31 December 2010						
Net balance at 1 January 2010	263	728	9,479	9,982	109,070	129,522
Acquisitions and Additions	-	5,683	-	-	673	6,356
Amortisation	(105)	(427)	(668)	-	-	(1,200)
Foreign exchange impact	-	138	(1,302)	-	(6,873)	(8,037)
Net balance at 31 December 2010	158	6,122	7,509	9,982	102,870	126,641
Year ended 31 December 2009						
Net balance at 1 January 2009	-	1,278	13,570	9,982	123,546	148,376
Acquisitions and Additions	315	-	-	-	340	655
Amortisation	(52)	(319)	(1,023)	-	-	(1,394)
Foreign exchange impact	-	(231)	(3,068)	-	(14,816)	(18,115)
Net balance at 31 December 2009	263	728	9,479	9,982	109,070	129,522

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

Melbourne IT Ltd is currently undertaking 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 transformation project is Integrated Web Services (IWS), which will enable Melbourne IT to fully leverage the value of the Group's customer base by allowing the business to sell customers the full suite of services across business units and geographies. It is a significant investment over three years that will transform the systems that are used to sell to and support the Group's customers, in addition to the implementation of a common financial reporting system (Oracle Financials) across all entities.

Operational Support Systems (OSS) project will improve infrastructure stability and allow the organisation to manage a greater variety of products and services.

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: Assets Under Construction - Transformation Projects. Once the project is operational, hardware will be amortised over a 4 year period and software/intellectual property will be amortised over a 5 year period.

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

13. INTANGIBLE ASSETS (Continued)

(c) Goodwill and intangible assets impairment testing

Goodwill -Domainz Ltd

Goodwill of the amount of \$0.720 million has been allocated to this cash generating unit ('CGU') for the purposes of impairment testing. The recoverable amount of Domainz Ltd has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by Management covering a five year period.

The discount rate applied to cash flow projections is 13% (2009: 11%) and cash flows beyond the five year period are extrapolated using a 3% growth rate (2009: 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. At the current time, Management believe that no reasonably possible change in any of the above assumptions would cause the carrying value of goodwill relating to Domainz Ltd to materially exceed its recoverable amount.

Goodwill - Melbourne IT DBS Group (including Melbourne IT DBS Group AB, IDR Management Services Ltd & DBMS Group - "Melbourne IT DBS Group")

Goodwill of the amount of \$44.958 million has been allocated to this CGU for impairment testing purposes. The recoverable amount of Melbourne IT DBS Group has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by Management covering a five year period.

The discount rate applied to cash flow projections is 13% (2009: 11%) and cash flows beyond the five year period are extrapolated using a 3% growth rate (2009: 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. At the current time, Management believe that no reasonably possible change in any of the above assumptions would cause the carrying value of goodwill relating to the Melbourne IT DBS Group to materially exceed its recoverable amount.

Goodwill and Market Related Intangibles - WebCentral Group Pty Ltd

Goodwill and market related intangibles of the amount of \$67.209 million have been allocated to the CGUs for the purposes of impairment testing. WebCentral Group Pty Ltd contains two legal entities, being WebCentral and For the Record,

- WebCentral

The WebCentral (\$50.885 million goodwill and \$7.128 million market related intangibles) legal entity's performance is measured at both a legal entity level and also measured as participating in the following business units: SMB, GPS and ES, which include the cash flows from both WebCentral and Melbourne IT legal entities. These disclosed business unit segments represents the lowest level at which Management views the WebCentral business, and therefore the lowest level at which goodwill attributable to WebCentral is monitored and tested for impairment. The recoverable amount of the WebCentral Group Pty Ltd CGUs is based on a value in use calculation using cash flow projections and financial budgets provided by Management covering a five year period.

The discount rate applied to cash flow projections is 13% (2009: 11%) and cash flows beyond the five year period are extrapolated using a 3% growth rate (2009: 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. At the current time, Management believe that no reasonably possible change in any of the above assumptions would cause the carrying value of goodwill relating to the WebCentral Group Pty Ltd to materially exceed its recoverable amount.

- For the Record

For the Record (\$5.634 million goodwill and \$2.854 million market related intangibles) is a stand-alone business unit and represents a single CGU which is tested for impairment. The recoverable amount of For the Record has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by Management covering a five year period.

The discount rate applied to cash flow projections is 13% (2009: 11%) and cash flows beyond the five year period are extrapolated using a 3% growth rate (2009: 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. A variation of 6% in management's best estimate of future cash flows may cause the carrying value of goodwill relating to For the Record to exceed its recoverable amount.

Key assumptions used in value in use calculations

Value in use calculations used cash flow projections based on financial budgets approved by Management covering a five year period. These budgets are most sensitive to the following assumptions:

- Revenue growth
- Wage growth

The assumptions by Management were based on historical experience in the industry with a view of the current and future economic climate.

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

14. DEFERRED TAX ASSET (NON-CURRENT)

Deferred tax asset at 31 December relates to the following:

Deferred tax assets

Doubtful debts provision

Employee benefits

Accruals

Tax losses

Interest payable

Depreciation

Unrealised FX

Hedging reserve

Other

CONSOLIDATED

2010 2009
\$'000 \$'000

441	459
1,464	1,236
730	886
989	-
898	-
392	-
803	-
543	-
(290)	-
5,971	2,581

15. OTHER ASSETS (NON-CURRENT)

Rental bond

43	7
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16. TRADE AND OTHER PAYABLES (CURRENT)

Trade creditors

Sundry creditors

Deposits received in advance

Accrued expenses

Total payables

2,441	4,659
4,718	6,832
1,733	3,746
5,640	4,419
14,532	19,656

(a) Terms and conditions relating to trade creditors:

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

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

17. INTEREST-BEARING LOANS AND BORROWINGS

Current

US Dollar Currency Loan

5,904	4,451
5,904	4,451

Non-current

US Dollar Currency Loan (i)

40,342	53,410
40,342	53,410

The fair value of interest bearing loans and borrowings is equal to its carrying amount.

(a) Terms and conditions

(i) The US Dollars Overseas Currency Loan US\$47.0 million:

- In line with the loan agreement, Melbourne IT has made four repayments of USD \$1.25 million, total USD \$5.0 million.

- For the year ended 31 December 2010 the average interest rate was 2.91%.

- The Group has met all bank covenants during the year ended 31 December 2010.

(b) Financing facilities available

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

Total facilities

- Asset Finance - leasing

- Business Lending - Bank Guarantees

- Standby Letters of Credit

5,500	5,500
1,675	1,179
8,049	5,809
15,224	14,074

Facility used at reporting date

- Asset Finance - leasing

- Business Lending - Bank Guarantees

- Standby Letters of Credit

-	-
895	1,171
4,239	4,802
5,134	6,092

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

		CONSOLIDATED	
		2010 \$'000	2009 \$'000
18. PROVISIONS (CURRENT)			
Employee benefits		4,165	3,649
19. CURRENT TAX LIABILITIES			
Income tax		904	2,053
20. DEFERRED TAX LIABILITY (NON-CURRENT)			
Deferred tax liability at 31 December relates to the following:			
<i>Deferred tax liabilities</i>			
Intangible assets		2,194	-
		2,194	-
21. PROVISIONS (NON-CURRENT)			
Employee benefits		716	605
22. CONTRIBUTED EQUITY			
(a) Issued and paid-up capital			
Ordinary shares each fully paid		64,839	63,005
(b) Movements in shares on issue			

	2010		2009	
	No. of Shares	\$'000	No. of Shares	\$'000
Beginning of the financial year	78,970,419	63,005	77,960,832	61,204
Issued during the year				
- Dividend Reinvestment Plan	887,136	1,622	873,587	1,549
- Executive and employee options exercised	174,400	212	136,000	252
End of the financial year	80,031,955	64,839	78,970,419	63,005

Share Options

Options over ordinary shares

During the financial year 910,000 (2009: Nil) options were issued over ordinary shares. At the end of the year there were 5,101,654 (2009: 5,204,235) unissued ordinary shares in respect of which options were outstanding. (Details are provided in Note 34)

		CONSOLIDATED	
		2010 \$'000	2009 \$'000
23. CASH FLOW STATEMENT			
(a) Reconciliation of the operating profit after tax to the net cash flow from operations:			
Operating profit after tax		16,060	16,808
Depreciation of non-current assets		6,169	7,464
Amortisation of non-current assets		1,200	1,394
Non-cash derivative income		-	31
Expense of share based payments		785	848
Loss from associate		20	564
Changes in assets and liabilities			
Trade debtors		(776)	2,606
Inventories		20	16
Prepayments		3,644	2,087
Deferred revenue		(2,022)	507
Provision for employee entitlements		527	(872)
Deferred tax asset		(2,949)	(249)
Deferred tax liability		2,194	-
Accounts payable		(3,062)	(6,305)
Income tax provision		(1,149)	(1,594)
Income received in advance		(1,666)	383
Other assets		(267)	(116)
Net cash flow from operating activities		18,729	23,572
(b) Reconciliation of cash and cash equivalents			
For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following:			
Cash and cash equivalents on hand		23,379	30,377
Closing cash and cash equivalents balances		23,379	30,377

MELBOURNE IT LTD**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010****24. BUSINESS COMBINATIONS****Change in composition of Melbourne IT Ltd****2010**

On 18 May 2010, Melbourne IT purchased the remaining 50% share of the associate Advantate Pty Ltd. Effective 19 May 2010 Advantate ceased being an associate and became a 100% subsidiary. Activities from this business are no longer equity accounted as an associate, but consolidated into the SMB business unit. The impact on the Group's financial position and financial performance for 2010 was immaterial.

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
25. EXPENDITURE COMMITMENTS AND OBLIGATIONS		
Lease expenditure commitments		
Operating leases		
Minimum lease payments		
- not later than one year	5,432	6,343
- later than one year and not later than five years	14,582	8,738
- later than five years	2,711	-
Aggregate lease expenditure contracted for at reporting date	22,725	15,080

Financial instruments

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

(a) Hedging instruments*Hedges of specific commitments*

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

As at 31 December 2010, Melbourne IT Limited has entered into a number of foreign currency exchange contracts with the primary objective of minimising the impact of foreign currency fluctuations on the Group's ability to achieve its objectives in the financial year.

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

The Melbourne IT Ltd Group has also entered into a USD \$20.0 million interest rate swap, exchanging the variable rate payable on the USD \$47.0 million interest bearing liability for a fixed rate. The transaction reduces the Group's exposure to fluctuation in variable interest rates over the longer term.

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

(b) Financial Guarantees and other credit facilities

Financial guarantees and other credit facilities have been assessed at fair value and are disclosed as follows.

- (a) The company has Standby Letters of Credit totalling US\$2.7 million in accordance with various Registry Licence Agreements. These Standby Letters of Credit are due to expire on 30 June 2011, at which time it is expected that they will be renewed for another 24 months.
- (b) Bank Guarantees of AU\$0.704 million have been issued in favour of various parties in accordance with the Group's property commitments.
- (c) A Standby Letter of Credit of GBP£0.137 million has been issued in favour of National Westminster Bank PLC in accordance with the provisions of lease commitments as well as other banking facilities within the United Kingdom.
- (d) A Standby Letter of Credit of US\$1.396 million has been issued in favour of Wells Fargo Bank Inc. in accordance with the provision of Domain Name Registry Credit Card commitments as well as other banking facilities within the United States.

MELBOURNE IT LTD

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

26. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

Employee Benefits

The aggregate employee benefit liability comprises:

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
Provisions (current)	4,165	3,649
Provisions (non-current)	716	605
	4,881	4,254

27. DERIVATIVE FINANCIAL INSTRUMENTS

Hedging Activities

2010

(a) Cash flow hedge

At 31 December 2010, Melbourne IT Ltd held six foreign exchange contracts designated as cash flow hedges of expected future sales to customers in the United States for which the company has firm commitments.

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

Sell	Maturity Date	Protection	Advantage Rate	Value of Hedge as at 31 Dec 2010
US\$600,000	31 January 2011	A\$/US\$ 0.8935	A\$/US\$ 0.8685	83,056
US\$600,000	28 February 2011	A\$/US\$ 0.8810	A\$/US\$ 0.8520	90,404
US\$600,000	31 March 2011	A\$/US\$ 0.9695	A\$/US\$ 0.9295	29,614
US\$600,000	27 April 2011	A\$/US\$ 0.9730	A\$/US\$ 0.9350	25,911
US\$600,000	31 May 2011	A\$/US\$ 0.9755	A\$/US\$ 0.9355	22,828
US\$600,000	30 June 2011	A\$/US\$ 0.9930	A\$/US\$ 0.9630	6,369
Total value of unrealised foreign exchange contracts				258,182

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

As at 31 December 2010, an unrealised gain of \$258,182 (2009: gain of \$143,943) is included in other comprehensive income in respect of these contracts.

(b) Interest rate hedges

As at 31 December 2010, the Group held one interest rate swap contract of US\$20.0 million (2009: US\$20.0 million) designed to hedge the variable interest rate exposure relating to the interest bearing liabilities of US\$47.0 million (2009: US\$52.0 million).

Notional amount	Termination Date	Fixed Rate	Floating Rate	
US\$20,000,000	30 April 2013	2.14%	USD LIBOR BBA	(597,100)
Total Derivative financial instruments				(338,918)

2009

(a) Cash flow hedge

At 31 December 2009, Melbourne IT Ltd held six foreign exchange contracts designated as cash flow hedges of expected future sales to customers in the United States for which the company has firm commitments.

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

Sell	Maturity Date	Protection Rate	Advantage Rate	Value of Hedge as at 31 Dec 2009
US\$600,000	29 January 2010	A\$/US\$ 0.8200	A\$/US\$ 0.8000	62,589
US\$600,000	26 February 2010	A\$/US\$ 0.8455	A\$/US\$ 0.8255	40,351
US\$600,000	31 March 2010	A\$/US\$ 0.8370	A\$/US\$ 0.8070	45,333
US\$600,000	30 April 2010	A\$/US\$ 0.9140	A\$/US\$ 0.8660	1,560
US\$600,000	28 May 2010	A\$/US\$ 0.9300	A\$/US\$ 0.8850	(11,926)
US\$600,000	30 June 2010	A\$/US\$ 0.8895	A\$/US\$ 0.8570	6,036
Total value of unrealised foreign exchange contracts				143,943

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

(b) Interest rate hedges

As at 31 December 2009, the Group held one interest rate swap contract of US\$20.0 million (2008: US\$20.0 million) designed to hedge the variable interest rate exposure relating to the interest bearing liabilities of US\$52.0 million (2008: US\$55.0 million).

Notional amount	Termination Date	Fixed Rate	Floating Rate	
US\$20,000,000	30 April 2013	2.14%	USD LIBOR BBA	(28,818)
Total Derivative financial instruments				115,125

MELBOURNE IT LTD
**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**
28. OPERATING SEGMENT
Operating Segment - Continuing Operations

The following table presents the revenue and profit information regarding business unit segments for the years ended 31 December 2010 and 31 December 2009.

Year ended 31 December 2010	SMB	GPS	DBS	ES	FTR	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue						
Revenue from operating activities						
Registration Revenue	21,444	40,287	12,433	-	-	74,164
Consulting Revenue	-	-	38,459	-	-	38,459
Hosting & Value-Added Product Sales	20,808	15,357	112	31,458	-	67,735
For The Record Revenue	-	-	-	-	7,915	7,915
Other Revenue	470	198	61	160	-	889
Total segment revenue	42,722	55,842	51,065	31,618	7,915	189,162
Interest revenue						631
Other income						69
Total consolidated revenue						189,862
Result						
Segment results	9,448	8,253	6,370	3,536	(30)	27,577
Share of loss in Advantate Pty Ltd - (note 11)						(20)
Unallocated expenses						(4,633)
- Corporate						(1,742)
- Transformation Projects						21,182
Earnings before interest and tax						21,182
Net Interest						
Interest revenue						631
Interest expense						(1,753)
Total Net Interest						(1,122)
Income tax expense						(4,000)
Net Profit for the year						16,060
Year ended 31 December 2009	SMB	GPS	DBS	ES	FTR	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue						
Revenue from operating activities						
Registration Revenue	21,330	49,423	13,433	-	-	84,186
Consulting Revenue	-	-	42,576	-	-	42,576
Hosting & Value-Added Product Sales	21,291	15,437	14	25,451	-	62,193
For The Record Revenue	-	-	-	-	9,609	9,609
Other Revenue	154	70	22	143	-	389
Total segment revenue	42,775	64,930	56,045	25,594	9,609	198,953
Interest revenue						778
Other income						371
Total consolidated revenue						200,102
Result						
Segment results	10,137	8,552	6,367	2,216	1,010	28,282
Share of Advantate Pty Ltd - (50% owned)						(564)
Unallocated expenses						(4,305)
Earnings before interest and tax						23,413
Net Interest						
Interest revenue						778
Interest expense						(2,063)
Total Net Interest						(1,285)
Income tax expense						(5,320)
Net Profit for the year						16,808

The 2009 operating segment note has been aligned to be on a consistent basis with the 2010 note. This reflects how Management view the business with the various operating segment name changes in line with Note 1(e) and also because the Group is more accurately able to identify and allocate revenues to segments.

The sales from the Australian operations were \$130.566 million (2009: \$136.879 million). The sales from the foreign operations were \$58.665 million (2009: \$62.445 million).

MELBOURNE IT LTD

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010**

29. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

At the 22 February 2011 Board Meeting, the Directors declared an 8 cents fully franked final dividend on ordinary shares in respect of the year ended 31 December 2010. The total amount of this final dividend is \$6.403 million and in accordance with Accounting Standards it has not been provided for in the 31 December 2010 financial statements.

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.

30. EARNINGS PER SHARE

	2010 \$'000	2009 \$'000
- Basic earnings per share (cents per share)	20.21 cents	21.42 cents
- Diluted earnings per share (cents per share)	20.20 cents	21.40 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	16,060	16,808
	Number of shares	
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	79,473,144	78,472,540
Effect of dilution:		
Share options	21,940	67,760
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	79,495,084	78,540,300

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.

	CONSOLIDATED	
	2010 \$	2009 \$
31. AUDITORS' REMUNERATION		
Amounts received or due and receivable by the auditors of Melbourne IT Ltd for:		
- Audit or review of the financial statements of the entity and any other entity in the consolidated entity	554,000	560,193
Other services in relation to the entity and any other entity in the consolidated entity entity:		
- Tax Compliance	136,487	193,429
- Assurance and advisory related	30,200	224,353
	720,687	977,975

32. 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

During the year enovIT Pty Ltd, a company of which Prof. Iain Morrison is a director, has received \$Nil (2009: \$36,631) for consultancy services provided during the year. All transactions were on an "arm's length" basis with standard terms and conditions.

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

33. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key Management Personnel

(i) Directors

Mr Simon Jones	Chairman (non-executive)
Mr Tom Kiing	Director (non-executive)
Prof. Iain Morrison	Director (non-executive)
Mr Robert Stewart	Director (non-executive)
Ms Lucy Turnbull	Director (non-executive) (Resigned 10 December 2010)
Mr Andrew Walsh	Director (non-executive)

(ii) Executives

Mr Theo Hnarakis	Managing Director / Chief Executive Officer
Mr Damian Walsh	Chief Operating Officer
Mr Damon Fieldgate	General Manager - SMB
Ms Lori Harmon	Executive Vice President and General Manager - GPS
Ms Ashe-lee Jegathesan	Company Secretary
Mr Kanchan Mhatre	Chief Executive – DBS
Ms Carolyn Sutton	Chief Financial Officer (Appointed 1 February 2010)

(b) Remuneration of Key Management Personnel

Compensation of Key Management personnel

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
Short term benefits	2,915	3,162
Post Employment	198	182
Long term benefits	30	26
Share-based Payment	155	206
	<u>3,298</u>	<u>3,576</u>

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

	Balance at 1 January 2010	Granted as Remuneration	Options Exercised / Lapsed	Balance at 31 December 2010	Not Exercisable	Exercisable
2010						
Executives						
Mr Theo Hnarakis	750,000	185,000	(96,600)	838,400	185,000	653,400
Mr Damian Walsh	-	75,000	-	75,000	75,000	-
Ms Lori Harmon	-	50,000	-	50,000	50,000	-
Mr Damon Fieldgate	50,000	50,000	(11,592)	88,408	50,000	38,408
Ms Ashe-lee Jegathesan	-	40,000	-	40,000	40,000	-
Mr Kanchan Mhatre	60,000	50,000	(23,184)	86,816	50,000	36,816
Ms Carolyn Sutton (1)	-	50,000	-	50,000	50,000	-
Total 2010	860,000	500,000	(131,376)	1,228,624	500,000	728,624

(1) Ms Carolyn Sutton was appointed to the executive as Chief Financial Officer on 1 February 2010

	Balance at 1 January 2009	Granted as Remuneration	Options Exercised / Lapsed	Balance at 31 December 2009	Not Exercisable	Exercisable
2009						
Executives						
Mr Theo Hnarakis	750,000	-	-	750,000	500,000	250,000
Mr Damian Walsh (1)	-	-	-	-	-	-
Mr Andrew Field (2)	180,000	-	(180,000)	-	-	-
Mr Bernard Blake (3)	110,000	-	(110,000)	-	-	-
Mr Anders Eriksson (4)	60,000	-	(60,000)	-	-	-
Mr Damon Fieldgate	50,000	-	-	50,000	30,000	20,000
Ms Lori Harmon (5)	-	-	-	-	-	-
Ms Ashe-lee Jegathesan	-	-	-	-	-	-
Mr Kanchan Mhatre (6)	60,000	-	-	60,000	60,000	-
Mr Brian Smart (7)	-	-	-	-	-	-
Total 2009	1,210,000	-	(350,000)	860,000	590,000	270,000

In 2010 a review of the number of employees classed as Key Management Personnel in line with AASB 124 and the Corporations Act was conducted and subsequently revised to exclude the Chief Executive Officers of Enterprise Services and For the Record. The 2009 remuneration schedule has been restated to exclude these employees to be consistent with 2010.

- (1) Mr Damian Walsh was appointed as Chief Operating Officer on 21 September 2009
- (2) Mr Andrew Field resigned as Chief Operating Officer on 7 August 2009
- (3) Mr Bernard Blake resigned as Group Manager – SMB Markets on 29 May 2009
- (4) Mr Anders Eriksson resigned as Chief Executive – DBS on 27 February 2009
- (5) Ms Lori Harmon was appointed Executive Vice President and General Manager - GPS on 2 March 2009
- (6) Mr Kanchan Mhatre was appointed to the Executive as Executive Vice President of DBS on 1 January 2009
- (7) Mr Brian Smart was appointed to the Executive as Acting Chief Financial Officer on 16 November 2009

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

33 DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

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

No options were issued to non-executive Directors of Melbourne IT Ltd during the year ended 31 December 2010.

(d) Shareholdings of Key Management Personnel (consolidated)

2010					
	Balance as at 1 January 2010	Granted as Remuneration	On Exercise of Options	Net Change Other*	Balance as at 31 December 2010
Shares held in Melbourne IT Ltd[^]					
Directors					
Mr Simon Jones	92,694	-	-	6,004	98,698
Mr Tom Kiing	5,721,488	-	-	-	5,721,488
Prof. Iain Morrison	48,559	-	-	-	48,559
Mr Robert Stewart	391,964	-	-	11,918	403,882
Ms Lucy Turnbull (1)	5,477,694	-	-	-	5,477,694
Mr Andrew Walsh	48,473	-	-	-	48,473
Executives					
Mr Theo Hnarakis	687,689	-	-	192	687,881
Total 2010	12,468,561	-	-	18,114	12,486,675
(1)	Ms Lucy Turnbull resigned as a Director on 10 December 2010				
*	On market transactions				
[^]	Direct and indirect holdings				

2009					
	Balance as at 1 January 2009	Granted as Remuneration	On Exercise of Options	Net Change Other*	Balance as at 31 December 2009
Shares held in Melbourne IT Ltd[^]					
Directors					
Mr Simon Jones	73,002	6,266	-	13,426	92,694
Mr Tom Kiing	5,638,642	-	-	82,846	5,721,488
Prof. Iain Morrison	41,258	5,869	-	1,432	48,559
Mr Robert Stewart	167,762	9,589	-	214,613	391,964
Ms Lucy Turnbull	5,477,694	-	-	-	5,477,694
Mr Andrew Walsh	41,172	5,869	-	1,432	48,473
Executives					
Mr Theo Hnarakis	687,505	-	-	184	687,689
Mr Andrew Field (1)	144,875	-	-	(144,875)	-
Mr Bernard Blake (2)	1,500	-	-	(1,500)	-
Mr Anders Eriksson (3)	20,000	-	-	(20,000)	-
Total 2009	12,293,410	27,593	-	147,558	12,468,561
(1)	Mr Andrew Field resigned as Chief Operating Officer on 7 August 2009				
(2)	Mr Bernard Blake resigned as Group Manager – SMB Markets on 29 May 2009				
(3)	Mr Anders Eriksson resigned as Chief Executive – DBS on 27 February 2009				
*	On market transactions				
[^]	Direct and indirect holdings				

(e) Other Transactions and Balances with Key Management Personnel

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

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

34. 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 Limited. The options, issued for nil consideration, are issued in accordance with performance guidelines established by the directors of Melbourne IT Limited. 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 174,400 (2009: 136,000) options under the Melbourne IT Executive & Employee Option Plans were exercised at an average price of \$1.21 (2009: \$1.01), with a total cash consideration received by Melbourne IT Ltd of \$211,856 (2009: \$252,000), of which \$Nil (2009: \$115,000) relates to options exercised from the prior year.

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

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

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

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

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

The following table summarises information about options held by directors and employees as at 1 January 2010:

Number of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price
52,600	22/04/05	22/10/05	22/04/10	\$ 1.28
120,800	28/10/05	28/10/06	28/10/10	\$ 1.16
118,600	28/04/06	28/04/07	28/04/11	\$ 1.67
530,400	17/07/06	17/07/08	17/07/11	\$ 1.85
1,293,350	27/04/07	27/04/09	27/04/12	\$ 3.42
182,066	11/09/07	11/09/09	11/09/12	\$ 3.60
2,109,419	18/07/08	18/07/10	18/07/13	\$ 3.06
242,000	19/08/08	19/08/10	19/08/13	\$ 3.06
555,000	24/10/08	24/10/10	24/10/13	\$ 2.12
5,204,235				\$ 2.85

(b) Options granted during the reporting period

In the year ended 31 December 2010 910,000 (2009:Nil) options were granted over ordinary shares.

2010

	1-Jul-10 Equity Settled	1-Jul-10 Cash Settled
Number of Options	720,000	190,000
Grant date	1/07/2010	1/07/2010
First Vesting date	1/07/2013	1/07/2013
Weighted Average Price	-	-
Expected Volatility	40.0%	39.0%
Risk-free interest rate	4.4%	5.2%
Expected life of option	3 years	3 years
Dividend yield	8.3%	8.2%

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

	2010 Number	2009 Number
Outstanding at the beginning of the year	5,204,235	6,573,735
Granted during the year	910,000	-
Exercised during the year	(174,400)	(136,000)
Lapsed during the year	(838,181)	(1,233,500)
Outstanding at year end	5,101,654	5,204,235

MELBOURNE IT LTD

**NOTES TO FINANCIAL STATEMENTS
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34. 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 2010:

No. of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price	Issue Date	Fair Value of Shares Issued (1)
2,800	22/04/2005	22/10/2005	22/04/2010	\$ 1.28	4/01/2010	\$ 1.74
7,000	22/04/2005	22/10/2005	22/04/2010	\$ 1.28	1/03/2010	\$ 1.83
20,000	22/04/2005	22/10/2005	22/04/2010	\$ 1.28	14/04/2010	\$ 1.73
2,800	22/04/2005	22/10/2005	22/04/2010	\$ 1.28	21/04/2010	\$ 1.88
5,000	22/04/2005	22/10/2005	22/04/2010	\$ 1.28	21/04/2010	\$ 1.88
8,000	22/04/2005	22/10/2005	22/04/2010	\$ 1.28	21/04/2010	\$ 1.88
5,000	28/10/2005	28/10/2006	28/10/2010	\$ 1.16	5/02/2010	\$ 1.60
13,000	28/10/2005	28/10/2006	28/10/2010	\$ 1.16	1/03/2010	\$ 1.83
16,000	28/10/2005	28/10/2006	28/10/2010	\$ 1.16	8/04/2010	\$ 1.73
2,000	28/10/2005	28/10/2006	28/10/2010	\$ 1.16	28/10/2010	\$ 1.83
2,800	28/10/2005	28/10/2006	28/10/2010	\$ 1.16	28/10/2010	\$ 1.83
5,000	28/10/2005	28/10/2006	28/10/2010	\$ 1.16	28/10/2010	\$ 1.83
5,000	28/10/2005	28/10/2006	28/10/2010	\$ 1.16	28/10/2010	\$ 1.83
5,000	28/10/2005	28/10/2006	28/10/2010	\$ 1.16	28/10/2010	\$ 1.83
7,000	28/10/2005	28/10/2006	28/10/2010	\$ 1.16	28/10/2010	\$ 1.83
15,000	28/10/2005	28/10/2006	28/10/2010	\$ 1.16	28/10/2010	\$ 1.83
16,000	28/10/2005	28/10/2006	28/10/2010	\$ 1.16	28/10/2010	\$ 1.83
24,000	28/10/2005	28/10/2006	28/10/2010	\$ 1.16	28/10/2010	\$ 1.83
8,000	28/04/2006	28/04/2007	28/04/2011	\$ 1.67	16/03/2010	\$ 1.85
174,400				\$ 1.21		

(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 \$0.212 million (2009: \$0.252 million), of which \$Nil (2009: \$0.115 million) relates to options exercised during the prior year.

The following table summarises information about options exercised by directors and employees during the year ended 31 December 2009:

No. of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price	Issue Date	Fair Value of Shares Issued (1)
7,000	19/04/2004	19/10/2004	19/04/2009	\$ 0.82	3/03/2009	\$ 1.87
7,000	19/04/2004	19/10/2004	19/04/2009	\$ 0.82	16/03/2009	\$ 1.81
7,000	24/05/2004	24/11/2004	24/05/2009	\$ 0.76	9/04/2009	\$ 2.21
7,000	19/04/2004	19/10/2004	19/04/2009	\$ 0.82	9/04/2009	\$ 2.21
6,000	24/05/2004	24/11/2004	24/05/2009	\$ 0.76	9/04/2009	\$ 2.21
10,000	28/10/2005	28/10/2006	28/10/2010	\$ 1.16	20/04/2009	\$ 2.35
15,000	24/05/2004	24/11/2004	24/05/2009	\$ 0.76	4/05/2009	\$ 2.20
20,000	5/11/2004	5/05/2005	5/11/2009	\$ 1.19	6/05/2009	\$ 2.19
5,000	24/05/2004	24/11/2004	24/05/2009	\$ 0.76	19/05/2009	\$ 1.98
5,000	24/05/2004	24/11/2004	24/05/2009	\$ 0.76	19/05/2009	\$ 1.98
2,800	28/10/2005	28/10/2006	28/10/2010	\$ 1.16	9/06/2009	\$ 1.79
13,000	28/10/2005	28/10/2006	28/10/2010	\$ 1.16	27/07/2009	\$ 1.79
20,000	5/11/2004	5/05/2005	5/11/2009	\$ 1.19	8/10/2009	\$ 1.62
3,200	5/11/2004	5/05/2005	5/11/2009	\$ 1.19	4/11/2009	\$ 1.68
8,000	5/11/2004	5/05/2005	5/11/2009	\$ 1.19	4/11/2009	\$ 1.68
136,000				1.01		

(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.

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

A total of 838,181 (2009: 1,233,500) options lapsed or were forfeited with a weighted average exercise price of 2.97 (2009: \$2.84), by directors and employees during the year ended 31 December 2010

(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 2010:

Number of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price
98,700	28/04/06	28/04/07	28/04/11	\$ 1.67
524,200	17/07/06	17/07/08	17/07/11	\$ 1.85
1,188,400	27/04/07	27/04/09	27/04/12	\$ 3.42
177,066	11/09/07	11/09/09	11/09/12	\$ 3.60
1,592,064	18/07/08	18/07/10	18/07/13	\$ 3.06
142,224	19/08/08	19/08/10	19/08/13	\$ 3.06
469,000	24/10/08	24/10/10	24/10/13	\$ 2.12
190,000	1/07/10	1/07/13	1/07/13	\$ -
720,000	1/07/10	1/07/13	1/07/13	\$ -
5,101,654				\$ 2.38

MELBOURNE IT LTD

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FOR THE YEAR ENDED 31 DECEMBER 2010**

34. SHARE OPTIONS (continued)

(f) Weighted average remaining contractual life

The weighted average remaining contractual life for the shares options outstanding as at 31 December 2010 is 2.00 years (2009: 2.90 years).

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

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

The following table lists the inputs to the models used for the year ended 31 December 2010:

	Performance Rights Plan	Long Term Incentive Deferred Cash Bonus Plan
Dividend yield	8.3%	8.2%
Expected volatility	40.0%	39.0%
Risk-free interest rate	4.4%	5.2%

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.

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

	2010 \$'000	2009 \$'000
Current assets	23,826	32,883
Total assets	140,744	153,264
Current liabilities	52,870	62,672
Total liabilities	67,965	81,257
Contributed equity	64,839	63,005
Options reserve	3,826	2,801
Hedging reserve	460	88
Retained earnings	3,654	6,113
	72,779	72,007
Profit of parent entity	9,430	12,168
Total comprehensive income of the parent entity	9,802	11,354

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.

MELBOURNE IT LTD
**NOTES TO FINANCIAL STATEMENTS
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35. INFORMATION RELATING TO MELBOURNE IT LTD ("the parent entity") (continued)

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

Name	Country of Incorporation		% Equity Interest		Cost of Investment \$'000	
			2010	2009	2010	2009
WebCentral Group Pty Ltd	(a)	Australia	100	100	78,190	78,190
Internet Names Worldwide Espana SL	(a)	Spain	100	100	5	5
Melbourne IT DBS Group AB	(a)	Sweden	100	100	4,663	4,663
Domainz Ltd	(a)	New Zealand	100	100	1,671	1,671
Internet Names Worldwide (US), Inc	(a)	USA	100	100	1	1
Melbourne IT GP Holdings Pty Ltd	(a)	Australia	100	100	-	-
Melbourne IT General Partnership	(b)	USA	100	100	16,334	18,471
Melbourne IT Digital Brand Services Inc	(b)	USA	100	100	5,116	2,116
Melbourne IT DBS Group AB	(b)	Sweden	100	100	2,257	2,423
Melbourne IT DBS Limited	(b)	UK	100	100	1,699	1,990
Advantate Pty Ltd	(c)	Australia	100	50	-	-
					109,935	109,530

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

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

(c) As at 31 December 2009 Melbourne IT had a 50% ownership in Advantate, which was equity accounted.

36. CLOSED GROUP CLASS ORDER DISCLOSURES
Entities subject to class order relief

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

The consolidated income statement and balance sheet of the entities that are members of the Closed Group are as follows:

Consolidated income statement

	Closed group	
	2010 \$'000	2009 \$'000
Profit before income tax	15,892	17,465
Income tax expense	(2,949)	(4,043)
Profit after tax, net profit for the period	12,943	13,422
Retained earnings at the beginning of the period	24,726	23,045
Dividends provided for or paid	(10,268)	(10,192)
Dividend reinvestment plan	(1,622)	(1,549)
Retained earnings at the end of the period	25,779	24,726

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010

36. CLOSED GROUP CLASS ORDER DISCLOSURES (continued)

Consolidated balance sheet

	Closed group	
	2010	2009
	\$'000	\$'000
ASSETS		
Current assets		
Cash and cash equivalents	13,180	22,374
Trade and other receivables	12,487	9,879
Inventories	76	75
Prepayments of domain name registry charges	9,193	10,484
Derivatives financial instruments	258	144
Other assets	2,548	2,236
Total current assets	37,742	45,192
Non-current assets		
Other financial assets	31,757	29,446
Property, plant and equipment	6,351	9,608
Intangible assets	80,040	75,116
Deferred tax assets	3,285	2,861
Prepayments of domain name registry charges	7,442	8,642
Other assets	43	7
Total non-current assets	128,918	125,680
TOTAL ASSETS	166,660	170,872
LIABILITIES		
Current liabilities		
Trade and other payables	10,909	15,512
Provisions	3,406	3,035
Current tax liabilities	1,006	1,281
Income received in advance	25,984	27,787
Total current liabilities	41,305	47,615
Non-current liabilities		
Interest-bearing loans and borrowings	16,334	16,134
Deferred tax income liability	169	506
Provisions	714	587
Income received in advance	14,805	16,277
Total non-current liabilities	32,022	33,504
TOTAL LIABILITIES	73,327	81,119
NET ASSETS	93,333	89,753
EQUITY		
Contributed equity	64,839	63,005
Foreign currency translation reserve	(1,571)	(867)
Options reserve	3,826	2,801
Hedging reserve	460	88
Retained earnings	25,779	24,726
TOTAL EQUITY	93,333	89,753

MELBOURNE IT LTD**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2010****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 23 February 2011.

(a) Distribution of equity securities

	Number of Holders	Number of Shares
1-1,000	1,733	1,005,981
1,001-5,000	3,040	7,861,513
5,001-10,000	881	6,635,906
10,001 –100,000	747	17,114,171
100,001 – and over	47	47,426,384
Total	6,448	80,043,955
The number of shareholders holding less than a marketable parcel of shares are	392	54,663

(b) Twenty largest stakeholders

	Number of shares	Percentage of ordinary shares
The names of the twenty largest holders of quoted shares are:		
HSBC Custody Nominees (Australia) Limited	8,741,186	10.92%
RBC Dexia Investor Services Australia Nominees Pty Limited	7,982,032	9.97%
J P Morgan Nominees Australia Limited	5,509,692	6.88%
Wilcrow Pty Limited	4,647,840	5.81%
Sieana Pty Ltd	3,083,340	3.85%
National Nominees Limited	2,764,502	3.45%
York Investments Limited	2,533,823	3.17%
Citicorp Nominees Pty Limited	1,860,745	2.32%
Cogent Nominees Pty Limited	1,578,744	1.97%
Dulwich Storage Company Limited	1,081,211	1.35%
Turnbull & Partners Pty Limited	781,696	0.98%
Sandhurst Trustees Ltd	699,743	0.87%
Mr Theo Hnarakis & Mrs Sandra Anne Hnarakis	685,405	0.86%
Equitas Nominees Pty Limited	423,800	0.53%
Principal Funds Management Co Pty Ltd	400,000	0.50%
Mount IDA Holdings Pty Ltd	353,469	0.44%
Estelville Nominees Pty Ltd	270,302	0.34%
King Equity Capital Pty Ltd	250,000	0.31%
Ankla Pty Ltd	246,559	0.31%
Sunstar Australia Pty Ltd	240,963	0.30%
	44,135,052	55.14%

(c) Voting rights

All ordinary shares carry one vote per share without restriction.