

Appendix 4D
Half Yearly Report

Name of entity

Melbourne IT Ltd

ABN or equivalent company reference

21 073 716 793

Reporting Period

30 June 2016

(Comparative period – 30 June 2015)

2.0 Results for announcement to the market

\$A'000

					\$1,000
2.1 Total revenues	Up	22.8%	to	84,950	
2.2 Profit after tax	Up	127.0%	to	3,196	
2.3 Net profit attributable to members of the parent	Up	88.8%	to	2,241	
2.4 Dividends (distributions)	Amount per security		Franked amount per security		
Current period					
Final dividend	4.0 cents		80%		
Interim dividend	<u>2.0 cents</u>		100%		
	6.0 cents				
Previous corresponding period					
Final dividend	4.0 cents		80%		
Interim dividend	<u>1.0 cent</u>		80%		
	5.0 cents				
2.5 Record date for determining entitlements to the dividend.	9 September 2016				

It is recommended the Appendix 4D be read in conjunction with the annual report for the year ended 31 December 2015 and considered together with any public announcements made by Melbourne IT Ltd and its controlled entities during the half year ended 30 June 2016 in accordance with the continuous disclosure obligations of the ASX listing rules.

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

Review and Results of Operations

Melbourne IT Ltd - Consolidated Group (unaudited results)

- Total consolidated revenue for the half year ended 30 June 2016 was \$84.950 million (2015: \$69.176 million), an increase of 22.8%.
- Profit after tax for the half year ended 30 June 2016 was \$3.196 million (2015: \$1.408 million), an increase of 127.0%.
- Profit after tax attributable to members of the parent for the half year ended 30 June 2016 was \$2.241 million (2015: \$1.187 million), an increase of 88.8%. Profit after tax attributable to non-controlling interests was \$0.955 million (2015: \$0.221 million), of which Outware Systems Pty Ltd (Outware) comprised \$0.939 million (2015: \$0.122 million). The following table shows a reconciliation of EBITDA* to the reported profit after tax attributable to members of the parent.

	30-Jun-16	30-Jun-15
	\$'000	\$'000
Earnings before interest, tax, depreciation and amortisation (EBITDA)*	11,190	5,154
Depreciation and amortisation	(3,513)	(2,446)
Earnings before interest and tax*	7,677	2,708
Net interest (expense)/revenue	(645)	8
Tax expense	(3,836)	(1,308)
Profit after tax	3,196	1,408
Less: Profit after tax attributable to non-controlling interests:	955	221
Profit after tax attributable to members of the parent	2,241	1,187

- Underlying net profit after tax (Underlying NPAT)* for the half year ended 30 June 2016 was \$4.589 million (2015: \$4.666 million), a decrease of 1.7%. Underlying figures have excluded transaction costs, synergy costs, 2015 warranty provision writeback, unwinding of discount on other financial liabilities, gain on sale of IDNR business, contribution of IDNR business prior to sale, gain on reassessment of non-controlling interests dividend liability and included the full year impact of acquisitions made during the respective years and profit after tax attributable to non-controlling interests of Outware Systems Pty Ltd. The following table shows a reconciliation of statutory NPAT to underlying NPAT*.

	30-Jun-16	30-Jun-15
	\$'000	\$'000
Profit after tax attributable to members of the parent (Statutory NPAT)	2,241	1,187
Adjustments to calculate underlying NPAT*:		
Profit after tax attributable to non-controlling interests of Outware	939	122
Transaction costs (tax effected)	501	1,500
Synergy costs (tax effected)	812	560
Unwinding of discount on other financial liabilities	252	-
Provision writeback	-	(800)
Gain on reassessment of non-controlling interests dividend liability	(586)	-
Gain on sale of IDNR business, net of transaction costs	(2,350)	-
Tax on sale of IDNR business	2,424	-
Fair value movement in embedded derivatives	53	-
Imputed interest income on convertible note receivables	(55)	-
Contribution from IDNR business prior to sale (tax effected)	(101)	-
Contribution from acquisitions (assuming acquisitions 100% owned since 1 January) (tax effected)	416	2,097
Other non-operating expenses (tax effected)	43	-
Underlying NPAT*	4,589	4,666

- Statutory EBITDA* for the half year ended 30 June 2016 was \$11.190 million (2015: \$5.154 million), an increase of 117.1%

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

Review and Results of Operations (Continued)

- Underlying EBITDA* for the half year ended 30 June 2016 was \$10.579 million (2015: \$9.954 million), an increase of 5.9%

	30-Jun-16 \$'000	30-Jun-15 \$'000
Statutory EBITDA*	11,190	5,154
Adjustments to calculate underlying EBITDA*:		
Transaction costs	595	1,700
Synergy costs	1,160	800
Provision writeback	-	(800)
Gain on reassessment of non-controlling interests dividend liability	(586)	-
Gain on sale of IDNR business, net of transaction costs	(2,350)	-
Fair value movement in embedded derivatives	53	-
Contribution from IDNR business prior to sale	(144)	-
Contribution from acquisitions (assuming acquisitions 100% owned since 1 January)	599	3,100
Other non-operating expenses	62	-
Underlying EBITDA*	10,579	9,954

- Following the acquisition completed on 31 March 2016, InfoReady Pty Ltd (InfoReady) has contributed revenue of \$7.269 million, net profit after tax of \$0.705 million and EBITDA* of \$1.012 million during the period.
- Statutory earnings per share for the half year ended 30 June 2016 was 2.31 cents (2015: 1.28 cents), an increase of 80.5%.
- Operating cashflow for the half year year ended 30 June 2016 was \$7.946 million (2015: \$9.881 million), a decrease of 19.6%. Included in the operating cash flows are net income tax paid of \$3.149 million (2015: \$0.017 million), a difference of \$3.132 million.
- Included in cash flows from investing activities are outflows from acquisitions including transaction costs of \$15.977 million (2015: \$37.020 million).
- Cash and cash equivalents were \$16.506 million at 30 June 2016 (31 December 2015: \$12.370 million).
- Deferred gross margin (i.e. income received in advance net of prepaid costs) was \$26.101 million at 30 June 2016 (31 December 2015: \$27.108 million), a decrease of 3.7%.

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

Change in Accounting Policies and Treatments

The Group has changed its accounting for its investment in convertible note receivables. Details of the change are set out in Note 8 to the financial report noting the impact of the change is immaterial to the financial report. Other than this change, the accounting policies and treatments are consistent with the 31 December 2015 financial report.

3.0 NTA Backing	Current period 30 June 2016	Previous Period 31 December 2015
Net tangible asset backing per ordinary security	-83.28 cents	-93.33 cents

Net Assets at 30 June 2016 were \$140.534 million including \$2.394 million of net deferred tax balances and \$222.025 million of intangible assets associated with the acquisition of Domainz Limited (September 2003), WebCentral Group Pty Ltd (September 2006), Netregistry Group Limited (March 2014), Uber Global Pty Ltd (April 2015), Outware Systems Pty Ltd (June 2015) and InfoReady Pty Ltd (March 2016).

4.0 Control gained or lost over entities having material effect

4.1	Name of entity (or group of entities) of which control was gained during the period	100% of interest in InfoReady was acquired on 31 March 2016.
4.2	Consolidated profit/(loss) from ordinary activities after tax of the controlled entity (or group of entities) since the date in the current period on which control was obtained.	Profit after tax attributable to members of the parent of InfoReady from 31 March to 30 June 2016 was \$0.705 million.
4.3	Date from which such profit has been calculated	31 March 2016
4.4	Profit/(loss) from ordinary activities after tax of the controlled entity (or group of entities) disposed during the period, for the whole of the previous corresponding period.	None

5.0 Dividends

Amount per security

Dividends (distributions)	Amount per security	Franked amount per security	Amount per security of foreign sourced dividend
Current Year			
Final	4.0 cents	80%	N/A
Interim	2.0 cents	100%	N/A
	6.0 cents		
Previous Year			
Final	4.0 cents	80%	N/A
Interim	1.0 cent	80%	N/A
	5.0 cents		

Total Dividends (distributions) per security (interim + final)	Current Year	Previous Year
Final	4.0 cents	4.0 cents
Interim	2.0 cents	1.0 cent
Total	6.0 cents	5.0 cents

5.0 Dividends (Continued)

Additional information on current year dividends

Date the dividend (distribution) is payable

30 September 2016

Details of individual and total dividends or distributions and dividend or distribution payments.

2.0 cents per share
totalling approximately \$2.015 million

The dividend or distribution plans shown below are in operation.

The Melbourne IT Limited Dividend Reinvestment Plan

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

12 September 2016

6.0 Material interests in entities which are not controlled entities

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

7.0 Compliance Statement

The report has been prepared based on a 30 June 2016 Half Year Financial Report which has been reviewed by an independent Audit Firm in accordance with the requirements of s302 of the *Corporations Act*.

Signed here: Date: 29 August 2016

Ms. E. Rigato
Company Secretary



MELBOURNE IT LTD
(ABN: 21 073 716 793)

FINANCIAL REPORT

FOR THE HALF YEAR ENDED
30 JUNE 2016

MELBOURNE IT LTD

ABN: 21 073 716 793

CORPORATE INFORMATION**DIRECTORS**

Mr. S.D. Jones	(Chairman)
Mr. M. Mercer	(Managing Director & Chief Executive Officer)
Mr. T. Kiing	
Ms. N. Sparks	
Mr. L. Bloch	
Mr. J. Armstrong	(Appointed 23 February 2016)
Ms G. Pemberton	(Appointed 27 May 2016)
Mr. R.J. Stewart AM	(Retired 27 May 2016)

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Mr. M. Mercer

CHIEF FINANCIAL OFFICER

Mr. P. Findlay

COMPANY SECRETARY

Ms. E. Rigato

REGISTERED OFFICE

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

SHARE REGISTER

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

AUDITORS

Ernst & Young

INTERNET ADDRESSES

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

MELBOURNE IT LTD

ABN: 21 073 716 793

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MELBOURNE IT LTD

DIRECTORS' INFORMATION

The names of the company's directors in office during the half year ended 30 June 2016 and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Mr. S.D. Jones	(Chairman)
Mr. M. Mercer	(Managing Director & Chief Executive Officer)
Mr. T. Kiing	
Ms. N. Sparks	
Mr. L. Bloch	
Mr. J. Armstrong	(Appointed 23 February 2016)
Ms G. Pemberton	(Appointed 27 May 2016)
Mr. R.J. Stewart AM	(Retired 27 May 2016)

COMPANY SECRETARY

Ms. E. Rigato

PRINCIPAL ACTIVITIES

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

SMB Solutions Division

SMB Solutions operates in the web services business in Australia and New Zealand, offering customers everything they need to run an online business. These services include domain name registrations and renewals, website and email hosting, website development, search engine optimisation and analysis. Customers are primarily in the Small to Medium Enterprise (SME) sector.

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

Enterprise Services (ES)

Enterprise Services is Australia's leading digital solutions provider for Australian enterprise and government organisations. With the addition of data analytics capability through the acquisition of InfoReady Pty Ltd during the half year period, it completed the foundation elements of the ES strategy and sits alongside cloud, mobile, security and cloud enabled application development.

	Half year 30-Jun-16 \$'000	Half year 30-Jun-15 \$'000
EARNINGS PER SHARE		
Basic earnings per share	2.31 cents	1.28 cents
Diluted earnings per share	2.27 cents	1.26 cents

DIVIDENDS

During the half year, a final dividend of 4.0 cents per share amounting to \$4.017 million was paid on 29 April 2016.

After 30 June 2016, an interim dividend of 2.0 cents per share amounting to \$2.015 million was declared by the directors. The interim dividend has not been recognised as a liability as at 30 June 2016.

MELBOURNE IT LTD

DIRECTORS' INFORMATION (continued)

REVIEW AND RESULTS OF OPERATIONS

Consolidated Group revenue for the period ended 30 June 2016 was \$85.0 million (2015: \$69.2 million), an increase of 22.8%. This was primarily due to the full six-month contribution of Uber Global Pty Ltd and Outware Systems Pty Ltd that joined the Group on 30 April 2015 and 16 June 2015 respectively.

Strong performance continued to generate cash, with \$7.9 million of cash flows from operating activities achieved in the half year ended 30 June 2016. The cash balance of \$16.5 million as at 30 June 2016 demonstrates the strength of our balance sheet.

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

Summarised operating results are as follows:

	Half year 30-Jun-16 \$'000	Half year 30-Jun-15 \$'000
Revenue		
Registration Revenue	25,640	30,348
Solutions, Hosting & Services	59,242	38,406
Other Revenue	-	244
	<u>84,882</u>	<u>68,998</u>
Interest Revenue	<u>68</u>	<u>178</u>
Total Revenue	<u>84,950</u>	<u>69,176</u>
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	11,190	5,154
Depreciation Expense	1,791	1,464
Amortisation Expense	<u>1,722</u>	<u>982</u>
Earnings Before Interest and Tax (EBIT)	7,677	2,708
Net Interest (Expense)/Revenue	<u>(645)</u>	<u>8</u>
Profit before tax	7,032	2,716
Income Tax Expense	<u>(3,836)</u>	<u>(1,308)</u>
Profit for the half year	<u>3,196</u>	<u>1,408</u>
Profit for the half year attributable to:		
Members of the parent	2,241	1,187
Non-controlling interests	<u>955</u>	<u>221</u>
	<u>3,196</u>	<u>1,408</u>
Cashflow from Operations	7,946	9,881

MELBOURNE IT LTD

DIRECTORS' INFORMATION (continued)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 18 March 2016, Melbourne IT successfully completed the capital raising of \$15.0 million which was substantially oversubscribed. The underwritten placement to professional and sophisticated investors was completed at an issue price of \$2.00 per share. The 7.5 million new shares issued ranked pari passu with existing ordinary shares on issue.

On 31 March 2016, Melbourne IT acquired 100% of InfoReady Pty Ltd (InfoReady), a leading data and analytics provider for the Enterprise Services market, for purchase consideration of \$15.4 million (including working capital adjustments) and three earn outs based on annual EBITDA performance for the three years from April 2016 to March 2019. The acquisition was funded through cash. The provisional accounting for the acquisition in accordance with AASB 3 '*Business Combinations*' is as disclosed in Note 16(a) in the notes to the financial statements.

On 31 March 2016, Melbourne IT completed the sale of its International Domain Name Registration (IDNR) business for a sale consideration of US\$6.0 million (equivalent to AU\$7.8 million). Refer to further details as disclosed in Note 4 in the notes to the financial statements.

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

Melbourne IT announced the appointment of Ms Gail Pemberton as a non-executive director effective 27 May 2016. Ms Pemberton has more than 30 years of executive experience in the financial services industry with a particular focus on the banking and wealth management sectors and the technology and operations that underpin them.

Other than as stated above, there have been no other significant changes in the state of affairs during the half year ended 30 June 2016.

EVENTS AFTER BALANCE DATE

On 29 August 2016, the directors declared an interim dividend of 2.0 cents per ordinary share, franked at 100%, amounting to \$2.015 million. The expected payment date of the dividend is 30 September 2016.

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

ROUNDING

The amounts contained in the accompanying financial information have been rounded to the nearest \$1,000 (where applicable) under the option available to the company under ASIC Corporations (Rounding in Financial/Directors' Report) Instrument 2016/191 (Instrument 2016/191). The company is an entity to which this Instrument 2016/191 applies.

MELBOURNE IT LTD

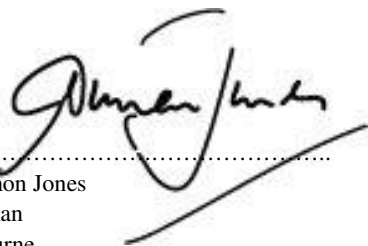
DIRECTORS' INFORMATION (continued)

CORPORATE GOVERNANCE

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

The company's corporate governance statement is available on the company's website www.melbourneit.info.

Signed in accordance with a resolution of the directors.

A handwritten signature in black ink, appearing to read 'Simon Jones', is written over a horizontal dotted line.

Mr Simon Jones
Chairman
Melbourne
29 August 2016

MELBOURNE IT LTD

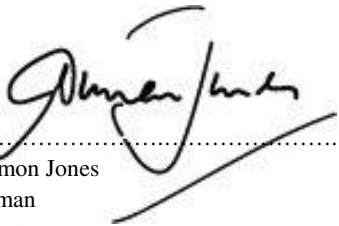
DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Melbourne IT Ltd;

(1) I state that in the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity for the half year ended 30 June 2016 are in accordance with the *Corporations Act 2001*, including:
 - (i) give a true and fair view of the financial position as at 30 June 2016 and the performance for the half year ended on that date of the consolidated entity; and
 - (ii) comply with Accounting Standard AASB 134 '*Interim Financial Reporting*' and the *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'Simon Jones', is written over a horizontal dotted line.

Mr Simon Jones
Chairman
Melbourne
29 August 2016

MELBOURNE IT LTD

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

		CONSOLIDATED	
	Notes	30-Jun-16 \$'000s	31-Dec-15 \$'000s
ASSETS			
Current Assets			
Cash and cash equivalents		16,506	12,370
Trade and other receivables	7	16,798	12,259
Prepayment of domain name registry charges		6,533	9,384
Current tax assets		-	83
Other assets		4,855	3,624
Total Current Assets		44,692	37,720
Non-current Assets			
Plant and equipment		7,617	7,426
Intangible assets	9	222,025	204,805
Deferred tax assets		4,809	5,298
Prepayment of domain name registry charges		3,535	5,376
Non-current financial assets	8	2,080	1,995
Other assets		190	168
Total Non-current Assets		240,256	225,068
TOTAL ASSETS		284,948	262,788
LIABILITIES			
Current Liabilities			
Trade and other payables	10	23,453	17,077
Provisions	11	4,176	3,321
Interest-bearing loans and borrowings	12	162	198
Derivative financial instruments		157	117
Income received in advance		25,436	28,914
Current tax liabilities		136	-
Other financial liabilities	13	14,691	18,885
Total Current Liabilities		68,211	68,512
Non-current Liabilities			
Provisions	11	715	546
Interest-bearing loans and borrowings	12	27,778	30,144
Deferred tax liabilities		2,415	2,775
Income received in advance		10,733	12,954
Other financial liabilities	13	34,562	27,274
Total Non-current Liabilities		76,203	73,693
TOTAL LIABILITIES		144,414	142,205
NET ASSETS		140,534	120,583
EQUITY			
Contributed equity	14	50,773	35,629
Foreign currency translation reserve		(583)	(573)
Options reserve		1,148	776
Hedging reserve		(110)	(82)
Other reserve		9,996	3,646
Available for sale (AFS) reserve		581	498
Retained earnings		78,603	80,379
Equity attributable to members of the parent		140,408	120,273
Non-controlling interest		126	310
TOTAL EQUITY		140,534	120,583

MELBOURNE IT LTD

STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2016

	Notes	CONSOLIDATED	
		30-Jun-16	30-Jun-15
		\$'000s	\$'000s
Revenue	2 (a)	84,950	69,176
Registry, hosting and sundry products costs		(39,788)	(30,320)
Gross profit		45,162	38,856
Other income	2 (b)	586	-
Salaries and employee benefit expenses	3 (a)	(28,061)	(24,455)
Depreciation expenses	3 (b)	(1,791)	(1,464)
Amortisation of intangible assets	3 (c)	(1,722)	(982)
Transaction costs relating to acquisitions		(595)	(1,700)
Finance costs/income	3 (d)	(1,475)	(898)
Other expenses	3 (e)	(7,422)	(6,641)
Gain on sale of IDNR business, net of transaction costs	4	2,350	-
Profit before tax		7,032	2,716
Income tax expense	5	(3,836)	(1,308)
Profit for the half year		3,196	1,408
<u>Other comprehensive income</u>			
<u>Other comprehensive income to be reclassified to the profit or loss in subsequent periods:</u>			
Currency translation differences		(10)	109
<u>Other comprehensive income that may be reclassified to the profit or loss in subsequent periods</u>			
Net gains/(losses) on cashflow hedges (net of tax)		(28)	(37)
Gain on revaluation of convertible note loan receivables		83	-
Other comprehensive income for the period, net of tax		45	72
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		3,241	1,480
Profit for the half year attributable to:			
Members of the parent		2,241	1,187
Non-controlling interests		955	221
		3,196	1,408
Total comprehensive income attributable to:			
Members of the parent		2,286	1,259
Non-controlling interests		955	221
		3,241	1,480
		30-Jun-16	30-Jun-15
Earnings per share			
- Basic earnings per share	15	2.31 cents	1.28 cents
- Diluted earnings per share	15	2.27 cents	1.26 cents

MELBOURNE IT LTD

STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 30 JUNE 2016

	FOREIGN CURRENCY RESERVE	OPTIONS RESERVE	HEDGING RESERVE	OTHER RESERVE	AFS RESERVE	CONTRIBUTED EQUITY	RETAINED EARNINGS	TOTAL	NON-CONTROLLING INTEREST	TOTAL EQUITY
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 January 2016	(573)	776	(82)	3,646	498	35,629	80,379	120,273	310	120,583
Profit for the period	-	-	-	-	-	-	2,241	2,241	955	3,196
Other comprehensive income	(10)	-	(28)	-	83	-	-	45	-	45
Total comprehensive income for the period	(10)	-	(28)	-	83	-	2,241	2,286	955	3,241
Transactions:										
Share based payment	-	372	-	-	-	-	-	372	-	372
Dividend Reinvestment Plan	-	-	-	-	-	568	-	568	-	568
Capital Raising	-	-	-	-	-	14,576	-	14,576	-	14,576
Equity dividends	-	-	-	-	-	-	(4,017)	(4,017)	(200)	(4,217)
Transfer to other reserve	-	-	-	6,350	-	-	-	6,350	(6,350)	-
Transfer to financial liabilities (Note 13)	-	-	-	-	-	-	-	-	5,411	5,411
As at 30 June 2016	(583)	1,148	(110)	9,996	581	50,773	78,603	140,408	126	140,534
As at 1 January 2015	(658)	5,321	31	-	-	35,629	74,357	114,680	88	114,768
Profit for the period	-	-	-	-	-	-	1,187	1,187	221	1,408
Other comprehensive income	109	-	(37)	-	-	-	-	72	-	72
Total comprehensive income for the period	109	-	(37)	-	-	-	1,187	1,259	221	1,480
Transactions:										
Share based payment	-	265	-	-	-	-	-	265	-	265
Equity dividends	-	-	-	-	-	-	(3,718)	(3,718)	-	(3,718)
Acquisition of a subsidiary (Note 16(c))	-	-	-	-	-	-	-	-	45,266	45,266
Transfer to other reserve	-	-	-	1,676	-	-	-	1,676	(1,676)	-
Transfer to financial liabilities (Note 13)	-	-	-	-	-	-	-	-	(43,712)	(43,712)
Transfer to/(from) options reserve	-	(5,059)	-	-	-	-	5,059	-	-	-
As at 30 June 2015	(549)	527	-	1,676	-	35,629	76,885	114,162	187	114,349

MELBOURNE IT LTD

**STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 JUNE 2016**

		CONSOLIDATED	
		30-Jun-16	30-Jun-15
Notes		\$'000s	\$'000s
CASH FLOWS FROM OPERATING ACTIVITIES			
		92,433	76,341
Receipt of service revenue and recoveries			
		(80,128)	(65,723)
Payments to suppliers and employees			
Interest received	2	68	178
Interest paid		(516)	(170)
Bank charges and credit card merchant fees		(762)	(728)
Income tax refund		38	74
Income tax paid		(3,187)	(91)
NET CASH FLOWS FROM OPERATING ACTIVITIES		7,946	9,881
CASH FLOWS FROM INVESTING ACTIVITIES			
		(2,286)	(1,731)
Purchase of plant and equipment and intangible assets			
Proceeds from sale of IDNR business, net of transaction costs		6,618	-
Acquisition of InfoReady	16(a)	(15,382)	-
Acquisition of Uber	16(b)	-	(15,269)
Acquisition of Outware, net of cash acquired	16(c)	-	(21,119)
Transaction costs relating to acquisitions	16	(595)	(632)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(11,645)	(38,751)
CASH FLOWS FROM FINANCING ACTIVITIES			
		15,000	-
Proceeds from capital raising	14		
Transaction costs on capital raising	14	(605)	-
Proceeds from borrowings	12	-	33,500
Repayment of borrowings	12	(2,300)	(3,500)
Payment of finance lease liabilities		(102)	(123)
Payment of dividend on ordinary shares	6(a)	(3,449)	(3,718)
Payment of dividend to non-controlling interests		(200)	-
Payment of non-controlling interests dividend liability		(498)	-
NET CASH FLOWS FROM FINANCING ACTIVITIES		7,846	26,159
NET DECREASE IN CASH & CASH EQUIVALENTS		4,147	(2,711)
		(11)	29
Net foreign exchange differences			
Cash and cash equivalents at beginning of period		12,370	18,086
CASH & CASH EQUIVALENTS AT END OF THE PERIOD		16,506	15,404

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2016

CORPORATE INFORMATION

The financial information in this report for Melbourne IT Ltd for the half year ended 30 June 2016 was authorised for issue in accordance with a resolution of the directors on 29 August 2016.

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

The nature of the operations and principal activities of the Group are described within Note 1(b) Operating Segments and Note 18.

1. BASIS OF PREPARATION

This general purpose condensed financial report (hereafter known as 'half year financial report') for the half year ended 30 June 2016 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

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

It is recommended the half year financial report be read in conjunction with the annual report for the year ended 31 December 2015 and considered together with any public announcements made by Melbourne IT Ltd and its controlled entities during the half year ended 30 June 2016 in accordance with the continuous disclosure obligations of the ASX listing rules.

(a) Changes in accounting policy

The Group has changed its accounting for its investment in convertible note receivables as described in Note 8. Other than this change, the accounting policies adopted in the preparation of the half year financial report are consistent with those followed in the preparation of the Group's annual report for the year ended 31 December 2015.

The Group has adopted the applicable changes in accounting standards and are of the view that adoption of these standards did not have any effect on the financial position or the performance of the Group.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016**

1. BASIS OF PREPARATION (continued)

(b) Operating Segments

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

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

SMB Solutions Division

SMB Solutions operates in the web services business in Australia and New Zealand, offering customers everything they need to run an online business. These services include domain name registrations and renewals, website and email hosting, website development, search engine optimisation and analysis. Customers are primarily in the Small to Medium Enterprise (SME) sector.

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

Enterprise Services ("ES")

Enterprise Services is Australia's leading digital solutions provider for Australian enterprise and government organisations. With the addition of data analytics capability through the acquisition of InfoReady Pty Ltd during the half year period, it completed the foundation elements of the ES strategy and sits alongside cloud, mobile, security and cloud enabled application development.

2. REVENUE AND OTHER INCOME

(a) Revenue

	CONSOLIDATED	
	30-Jun-16	30-Jun-15
	\$'000s	\$'000s
Registration revenue	25,640	30,348
Solutions, hosting & services	59,242	38,406
Other revenue	-	244
	84,882	68,998
Interest revenue	68	178
Total revenue	84,950	69,176

(b) Other income

Gain on reassessment of non-controlling interests dividend liability	586	-
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016**

	CONSOLIDATED	
	30-Jun-16	30-Jun-15
	\$'000s	\$'000s
3. EXPENSES		
(a) Salaries and employee benefits expense		
Included in salaries and employee benefits expenses		
Expensing of share based payments	372	265
Superannuation expense	1,784	1,533
(b) Depreciation expense		
Fit out	113	59
Plant and equipment	1,654	1,388
Furniture	24	17
Total depreciation expense	<u>1,791</u>	<u>1,464</u>
(c) Amortisation of intangible assets		
Capitalised software	937	790
Customer contracts	785	192
Total amortisation of intangible assets	<u>1,722</u>	<u>982</u>
(d) Finance costs/income		
Bank charges and credit card merchant fees	762	728
Interest expense	516	170
Unwinding of discount on other financial liabilities	252	-
Imputed interest income on convertible note receivables (refer Note 8)	(55)	-
	<u>1,475</u>	<u>898</u>
(e) Other expenses		
Included in other expenses:		
Premises	1,812	1,635
Marketing	1,500	1,788
Equipment	1,175	1,263
Foreign exchange (gains)/losses	(17)	80
Bad and doubtful debts	30	99
Fair value movement in embedded derivatives (refer Note 8)	53	-

4. GAIN ON SALE OF INTERNATIONAL DOMAIN NAME REGISTRATION (IDNR) BUSINESS

On 31 March 2016, Melbourne IT completed the sale of its International Domain Name Registration (IDNR) business for a sale consideration of US\$6,000,000 (equivalent to AU\$7,800,000). The gain on sale of AU\$2,350,000 includes transaction costs incurred relating to the sale, a portion of goodwill relating to the IDNR business and assets and liabilities relating to the IDNR business.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016**

CONSOLIDATED	
30-Jun-16	30-Jun-15
\$'000s	\$'000s

5. INCOME TAX

The major components of income tax expense are:

(a) Statement of comprehensive income

Current income tax

Current income tax charge	3,514	409
Adjustments in respect of current income tax of previous periods	(45)	21

Deferred income tax

Relating to origination and reversal of temporary differences	367	878
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Income tax expense reported in the statement of comprehensive income

3,836	1,308
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(b) Statement of changes in equity

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

Net gain on revaluation of cash flow hedges	12	-
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Income tax expense reported in equity

12	-
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(c) A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit before income tax	7,030	2,716
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At the Group's statutory income tax rate of 30% (2015: 30%)	2,109	815
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Adjustments in respect of current income tax of previous periods	(45)	21
Non-deductible expenses	205	481
Other non-operating income	(176)	-
Unwinding of discount on other financial liabilities	76	-
Goodwill allocated to gain on sale of IDNR business	1,719	-
Estimated R&D tax incentive claims	(120)	-
Other	68	(9)

Income tax expense at the effective income tax rate	3,836	1,308
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Income tax expense reported in the statement of comprehensive income

3,836	1,308
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016**

CONSOLIDATED	
30-Jun-16	30-Jun-15
\$'000s	\$'000s

6. DIVIDENDS PAID AND PROPOSED

Equity dividends on ordinary shares:

(a) Dividends declared and paid during the half year on ordinary shares

Final franked dividend for the financial year ended 31 December 2015:

4.0 cents per share (2014: 4.0 cents per share)	4,017	3,718
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(b) Dividends proposed and not recognised as a liability

Interim franked dividend for the half year ended 30 June 2016:

2.0 cents per share (2015: 1.0 cent per share)	2,015	929
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CONSOLIDATED	
30-Jun-16	31-Dec-15
\$'000s	\$'000s

7. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade and sundry debtors	17,833	13,335
Allowance for impairment loss	(1,035)	(1,076)
Total trade and other receivables (current)	16,798	12,259

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

8. NON-CURRENT FINANCIAL ASSETS

Available for sale financial assets

Convertible note receivable - 20 October 2014 (a)	1,828	1,748
Convertible note receivable - 20 November 2015 (b)	252	247
Total non-current financial assets	2,080	1,995

The convertible notes are accounted for as an Available for Sale debt instrument with an embedded derivative and recorded at fair value at each reporting date in accordance with AASB 139 Financial Instruments: Recognition and Measurement. Movements in the fair value of the embedded derivatives are recognised in profit or loss. Imputed interest income on the notes are calculated using the effective interest rate method and recorded in the profit or loss. Movement in the fair value of the non-derivative component of the notes are recognised in Other Comprehensive Income and recorded in the Available for Sale (AFS) reserve.

In the current period the Group has changed its accounting for its investment in convertible notes. In prior periods changes in fair value of the convertible notes were recognised in Other Comprehensive Income and recorded in the AFS reserve. In the current period the convertible notes have been accounted for as debt instruments (Available for Sale) with an embedded equity call option recognised at fair value through profit or loss. In accordance with Accounting Standards the comparative financial information for the financial year ended 31 December 2015 has not been restated on the basis that the impact of the change in accounting is immaterial to the financial report. If the comparative financial information were restated for this change in accounting, the operating profit before tax would have been increased by approximately \$510,000 and the gain recognised in Other Comprehensive Income (AFS reserve) would have been reduced by approximately \$452,000.

(a) The Group entered into a Convertible Note Agreement ("Agreement") with Tiger Pistol Pty Ltd ("Tiger Pistol") on 20 October 2014. The convertible note contains an embedded derivative and a loan receivable component. The convertible note receivable has a maturity of 5 years from 20 October 2014 (issue date). Coupon rate of 6% per annum will be calculated and payable in arrears or on conversion or redemption of the note, 2 years after the issue date. This financial asset may be converted into 500,000 ordinary shares upon maturity or earlier subject to satisfaction of early redemption or conversion conditions as stipulated in the Agreement.

(b) The Group entered into a second Convertible Note Agreement ("Agreement") with Tiger Pistol Pty Ltd on 20 November 2015 pursuant to the recent capital raising exercise. The convertible note contains an embedded derivative and a loan receivable component. The maturity date of the convertible note receivable is 1 February 2018. Upon maturity, or earlier subject to satisfaction of early redemption or conversion conditions as stipulated in the Agreement, this financial asset may be converted into a minimum of 85,649 ordinary shares with the final number of shares dependant on conditions stipulated in the Agreement.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016**

	CONSOLIDATED	
	30-Jun-16	31-Dec-15
	\$'000s	\$'000s
9. INTANGIBLE ASSETS		
Carrying amount of intangible assets		
Goodwill (a)	200,591	182,000
Marketing related intangibles (b)	9,052	9,052
Customer contracts (c)	7,244	7,244
Accumulated amortisation	(2,542)	(1,757)
	4,702	5,487
Capitalised software (d)	11,408	11,049
Accumulated amortisation	(3,728)	(2,783)
	7,680	8,266
Total intangible assets	222,025	204,805

(a) Goodwill

This balance includes goodwill and intangible assets arising from the acquisition of InfoReady. As at 30 June 2016, management has yet to complete the fair value accounting process including identifying and valuing any intangible assets separately from goodwill. Therefore, this balance remains provisional as at 30 June 2016 (also refer to Note 16(a)).

(b) Marketing Related Intangibles

Marketing related intangibles represent brand names of past acquisitions. They have been assessed as having indefinite useful lives as they are expected to contribute to future economic benefits indefinitely as Melbourne IT continues to sell its products under these brand names indefinitely and therefore invests in these brands through its marketing activities.

(c) Customer Contracts

Following the acquisitions of Uber Global Pty Ltd ('Uber') and Outware Systems Pty Ltd ('Outware') during the prior period, customer contracts amounting to \$1,145,000 relating to Uber and \$3,138,000 relating to Outware were recognised based on external valuations. The customer contracts are amortised over the period of 5 years based on the historical attrition rate.

(d) Capitalised software

Included in capitalised software were software acquired from Netregistry Pty Ltd (carrying value of \$5,250,000) and Oracle Financials, the common financial reporting system used by all entities in the Group with a carrying value of \$625,000.

10. TRADE AND OTHER PAYABLES (CURRENT)

Trade creditors	7,710	3,408
Sundry creditors	5,248	3,109
Deposits received in advance	2,525	2,412
Accrued expenses	7,970	8,148
Total payables	23,453	17,077

Terms and conditions relating to trade and sundry creditors:

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

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016**

CONSOLIDATED
30-Jun-16 31-Dec-15
\$'000s \$'000s

11. PROVISIONS**Current**

Employee benefits	4,176	3,321
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Non-current

Employee benefits	715	546
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12. INTEREST BEARING LOANS AND BORROWINGS**Current**

Finance lease liabilities	162	198
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Non-current

Finance lease liabilities	78	144
Bank loan	27,700	30,000
	<u>27,778</u>	<u>30,144</u>

The Group has entered into finance leases for some items of equipment whereby the present value of the minimum lease payments approximate \$240,000 (2015: \$342,000).

At 30 June 2015, \$30,000,000 was drawn down from the ANZ banking facility to fund the acquisition of 50.2% interest in Outware Systems Pty Ltd of which \$3,500,000 was used to repay NAB. The ANZ bank facility has a maturity date of 1 January 2019. Interest rate is based on the relevant period BBSY rate. The cash advance facility balance is approximate to fair value given that it is an interest bearing loan at floating interest rate. During the half year ended 30 June 2016, the Group made loan repayments of \$2,300,000.

13. OTHER FINANCIAL LIABILITIES**Current**

Put options liability	10,621	17,030
Dividend liability to non-controlling interests	2,092	1,855
Contingent consideration liability	1,978	-
	<u>14,691</u>	<u>18,885</u>

Non-current

Put options liability	27,203	25,953
Dividend liability to non-controlling interests	-	1,321
Contingent consideration liability	7,359	-
	<u>34,562</u>	<u>27,274</u>

The other financial liabilities represent the fair value of the put options to acquire the remaining 49.8% interest in Outware Systems Pty Ltd (Outware) (refer to Note 16(c) for more details), estimated dividend liability due to non-controlling interests over the next two years (refer to Note 16(c) for more details) and contingent consideration liability in relation to acquisition of InfoReady Pty Ltd (refer to Note 16(a) for more details).

The fair value of the put options liability has been determined based on actual financial performance of Outware for the 12 months ended 30 June 2016 and forecast financial performance for the period ending 30 June 2017 and on the expected EBITDA multiple that will be paid. The fair value of the put options is reassessed at each reporting date with movements being recorded in an equity reserve.

The dividend liability due to non-controlling interests of Outware (after taking into consideration the dividend paid out during the half year ended 30 June 2016) was remeasured at 30 June 2016 based on expected surplus funds of which dividend payments will be made in the next 12 months and the movement was recognised in the profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016**

14. CONTRIBUTED EQUITY

	CONSOLIDATED	
	30-Jun-16	31-Dec-15
	\$'000s	\$'000s
Ordinary shares		
Issued and fully paid	50,773	35,629

Movements in ordinary shares on issue

	30-Jun-16		31-Dec-15	
	No. of Shares	\$'000s	No. of Shares	\$'000s
Beginning of the financial period	92,944,392	35,629	92,944,392	35,629
Issued during the period				
- Capital raising	7,500,000	15,000	-	-
- Dividend reinvestment plan	281,705	568	-	-
- Transaction costs on capital raising, net of tax	-	(424)	-	-
End of the financial period	100,726,097	50,773	92,944,392	35,629

	CONSOLIDATED	
	30-Jun-16	30-Jun-15
	\$'000s	\$'000s

15. EARNINGS PER SHARE

Basic earnings per share	2.31 cents	1.28 cents
Diluted earnings per share	2.27 cents	1.26 cents

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

Profit for the period attributable to members of the parent	2,241	1,187
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	Number of shares	
Weighted average number of ordinary shares used in the calculation of basic earnings per share	96,769,341	92,944,392
Effect of dilution:		
Share options/rights	1,918,092	1,473,993
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	98,687,433	94,418,385

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2016

16. BUSINESS COMBINATIONS

(a) InfoReady Pty Ltd

On 31 March 2016, Melbourne IT acquired 100% of InfoReady Pty Ltd (InfoReady), a leading data and analytics provider for the Enterprise Services market, for purchase consideration of \$15,354,000 (including working capital adjustment) and three earn outs based on annual EBITDA performance for the three years from April 2016 to March 2019. The acquisition was funded through cash. The addition of data analytics capability completed the foundation elements of the Enterprise Services strategy and sits alongside cloud, mobile, security and cloud enabled application development. Melbourne IT's expertise now enables it to deliver complete digital solutions for corporate and government organisations.

Assets acquired and liabilities assumed

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

	Provisional accounting Fair value recognised on acquisition \$'000s
Assets	
Trade and other receivables	2,088
Property, plant and equipment	47
Other assets	85
	2,220
Liabilities	
Trade and other payables	1,333
Provisions	518
	1,851
Total identifiable net assets at fair value	369
Goodwill and other intangibles arising on acquisition	24,322
Purchase consideration	24,691

As at 30 June 2016, management has yet to complete the fair value accounting process including identifying and valuing any intangible assets separately from goodwill and necessary tax accounting. The goodwill is not deductible for income tax purposes. Therefore, the acquisition accounting remains provisional as at 30 June 2016. It is possible these assets, liabilities and related goodwill included in the Group's consolidated financial statements for the half year ended 30 June 2016 may change during the 12-month period after acquisition during which fair value adjustments are permitted.

From the date of acquisition to 30 June 2016, InfoReady has contributed \$7,269,000 to the revenue and \$705,000 to the profit after tax attributable to members of the parent. If the combination had taken place at the beginning of the year, revenue would have been \$88,514,000 and profit after tax attributable to members of the parent would have been \$2,657,000.

Purchase consideration

	\$'000s
Cash paid	15,382
Working capital adjustment	(28)
Contingent consideration liability	9,337
	24,691

The working capital adjustment of \$28,000 will be refunded after 30 June 2016.

Transaction costs of \$595,000 were expensed and fully paid for the half-year ended 30 June 2016. This was included in the cash flows from investing activities.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016**

16. BUSINESS COMBINATIONS (continued)

(a) InfoReady Pty Ltd (continued)

Contingent consideration liability

As part of the Share Purchase Agreement ('SPA') with the previous owners of InfoReady, three earnout payments have been agreed. The earnout payments are calculated based on the excess of the EBITDA performance during the earnout periods over the EBITDA threshold amount specified in the SPA for each of the earnout period multiplied by three. The earnout periods start from 1 April to 31 March the following year until 31 March 2019. If the EBITDA threshold amount is not achieved during each of the earn out periods, then the minimum contingent consideration payable will be nil. The maximum amount payable is dependent upon the excess of the of the EBITDA performance during the earnout period over the EBITDA threshold amount specified in the SPA for each of the earnout period multiplied by three.

As at acquisition date, the fair value of the contingent consideration was estimated to be \$9,337,000 representing the total of the three earnout amounts. Significant unobservable inputs used in the determination of the contingent consideration include forecast EBITDA performance for the first earnout period (1 April 2016 to 31 March 2017), and revenue and EBITDA growth rates for the second and third earnout periods from the first earnout period. The fair value is determined using the discounted cash flow method.

The fair value of the contingent consideration has been reassessed at 30 June 2016 and as there were no changes to the significant unobservable inputs used in the calculation at acquisition date, it was determined that it remained consistent with that at acquisition date. Significant increase/(decrease) in the EBITDA performance of InfoReady during the earnout periods would result in higher/(lower) fair value of the contingent consideration liability. This contingent consideration liability is categorised as a Level 3 item of the fair value hierarchy.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016**

16. BUSINESS COMBINATIONS (continued)

(b) Uber Global Pty Ltd

On 30 April 2015, Melbourne IT acquired 100% of Uber Global Pty Ltd and its controlled entities (Uber), a major domains and hosting services provider, for purchase consideration of \$14,909,000 (including working capital adjustment) and an earn out based on EBITDA performance to 30 June 2015. There was no consideration paid on the earn out based on EBITDA performance to 30 June 2015. The acquisition was funded through cash. The combined enlarged group will be able to offer best in class domain names and hosting products and to compete more effectively against strong, price driven, foreign competition.

Assets acquired and liabilities assumed

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

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

- The fair value of the trade and other receivables amounts to \$720,000, based on an assessment of the recoverability of the receivables at acquisition date. The gross amount of trade and other receivables was \$773,000.
- The Group sought an independent valuation for intangibles other than goodwill and \$1,145,000 of customer contracts and relationships were identified. The fair value of the intangibles was determined using the income approach that is the multi period excess earnings
- The Group carried out an assessment of existing plant and equipment and wrote off those not used at acquisition date.
- Income received in advance and prepayment on domain names registry charges (included in Other assets) were adjusted to follow the Group's accounting policy where performance obligations remain.
- Based on the final tax return of Uber at acquisition date, a tax refund of \$270,000 was calculated, resulting in a current tax receivable.
- The Group carried out an assessment of the trade and other payables and adjusted for those arising at acquisition date. This included a supplier claim that was not recorded by Uber at acquisition date of \$360,000, which also resulted in the working capital adjustment.
- Changes to deferred tax balances were based on the tax provision calculated at acquisition date and taking into account changes in net assets arising from the fair value assessment.

From the date of acquisition to 30 June 2015, Uber has contributed \$2,441,000 to the revenue and \$86,000 to the profit after tax attributable to members of the parent. If the combination had taken place at the beginning of the 2015 period, revenue would have been \$74,058,000 and profit after tax attributable to members of the parent would have been \$1,438,000.

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016**

16. BUSINESS COMBINATIONS (continued)

(c) Outware Systems Pty Ltd

On 16 June 2015, Melbourne IT acquired a 50.2% shareholding of Outware Systems Pty Ltd ('Outware') for \$22,722,000 (including working capital adjustment) with put and call options in place to acquire up to 100% of Outware over the next two years. Outware is a leader in the design and development of mobile applications for enterprise and government customers. To facilitate the acquisition, Melbourne IT entered into a cash advance facility with Australia and New Zealand Banking Group Limited ('ANZ') in June 2015. The Outware acquisition is firmly in line with the Group's strategy of building its Enterprise Services into the leading software enabled cloud solutions provider in Australia.

Assets acquired and liabilities assumed

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

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

- The Group sought an independent valuation for intangibles other than goodwill and \$3,138,000 of customer contracts and relationships were identified. The fair value of the intangibles was determined using the income approach that is the multi period excess earnings method.
- Changes to current tax liability and deferred tax balances were based on the tax provision estimated at acquisition date and taking into account changes in net assets arising from the fair value assessment.

The fair value and gross amount of the trade and other receivables amounts to \$3,331,000.

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

From the date of acquisition to 30 June 2015, Outware has contributed \$838,000 to the revenue and \$124,000 to the profit after tax attributable to members of the parent. If the combination had taken place at the beginning of the 2015 period, revenue would have been \$76,976,000 and profit after tax attributable to members of the parent would have been \$2,114,000.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016**

16. BUSINESS COMBINATIONS (continued)

(c) Outware Systems Pty Ltd (continued)

The minimum and maximum EBITDA multiple payable is 3.75 times and 15.75 times, respectively. As at the acquisition date, the fair value of put/call options which entitle Melbourne IT to acquire (and the non-controlling interest to sell) the remaining 49.8% shareholding over the next two years are based on forecast financial performance and an expected EBITDA multiple as stipulated in the agreement for the periods ending 30 June 2016 and 30 June 2017, respectively. The anticipated combined consideration is \$45,300,000. This will bring the total purchase consideration (assuming Melbourne IT moves to 100% ownership of Outware) to be \$67,000,000 approximately, implying a forward EBITDA multiple of 8.6 times.

The face value of the put options liability has been reassessed at 30 June 2016 to be \$38.3 million, bringing the total consideration to be \$60,000,000 approximately, implying a forward EBITDA multiple of 8.2 times. The fair value of the put options liability of \$37,800,000 has been determined based on actual financial performance of Outware for the 12 months ended 30 June 2016 and forecast financial performance for the period ending 30 June 2017 and on the expected EBITDA multiple that will be paid, as disclosed in Note 13.

The dividend liability represents the estimated amount to be paid out to non-controlling interests for the financial periods ending 30 June 2016 and 30 June 2017 as stipulated in the Shareholders Agreement entered between Melbourne IT and non-controlling interests shareholders (also refer to Note 13).

Analysis of cash flow on acquisition of Outware, net of cash acquired as at 30 June 2015:

	\$'000s
Cash paid	22,540
Net cash acquired with Outware	(1,421)
	<u>21,119</u>

The balance of the purchase consideration, \$182,000 was paid after 30 June 2015.

Transaction costs on acquisition of Uber and Outware

Transaction costs of \$1,700,000 were expensed. As at 30 June 2015, \$632,000 has been paid and this was included in the cash flows from investing activities.

17. EVENTS AFTER BALANCE DATE

On 29 August 2016, the directors declared an interim dividend of 2.0 cents per ordinary share, franked at 100%, amounting to \$2,015,000. The expected payment date of the dividend is 30 September 2016.

Other than the matter above, there has not been any other matter or circumstance in the interval between the end of the half 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.

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016**

18. OPERATING SEGMENTS

The following tables present the revenue and profit information regarding segments for the half years ended 30 June 2016 and 30 June 2015.

	SMB Solutions	ES	Total
Half Year ended 30 June 2016	\$'000	\$'000	\$'000
Segment revenue			
Revenue from operating activities			
Registration revenue	25,640	-	25,640
Solutions, hosting & services	26,381	32,861	59,242
Total segment revenue	52,021	32,861	84,882
Result			
Segment results	6,715	5,094	11,809
Unallocated expenses:			
- Corporate (including transaction costs relating to acquisition)			(3,502)
- Gain on sale of IDNR business, net of transaction costs			2,350
- Other income			586
- Fair value movement in derivatives (refer Note 8)			(53)
Earnings before interest, tax, depreciation & amortisation			11,190
Net interest			
Interest revenue			68
Interest expense			(516)
Unwinding of discount on other financial liabilities			(252)
Imputed interest income on convertible note receivables (refer Note 8)			55
Total net interest			(645)
Income tax expense			(3,836)
Depreciation & amortisation			(3,513)
Profit after tax for the half year			3,196

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2016**

18. OPERATING SEGMENTS (continued)

	SMB Solutions	ES	Total
Half Year ended 30 June 2015	\$'000	\$'000	\$'000
Segment revenue			
Revenue from operating activities			
Registration revenue	30,348	-	30,348
Solutions, hosting & services	22,734	15,672	38,406
Other revenue	244	-	244
Total segment revenue	53,326	15,672	68,998
Result			
Segment results	7,348	1,806	9,154
Unallocated expenses:			
- Corporate (including transaction costs relating to acquisitions)			(4,000)
Earnings before interest, tax, depreciation & amortisation			5,154
Net interest			
Interest revenue			178
Interest expense			(170)
Total net interest			8
Income tax expense			(1,308)
Depreciation & amortisation			(2,446)
Profit after tax for the half year			1,408

	CONSOLIDATED	
	30-Jun-16	30-Jun-15
	\$'000s	\$'000s
Reconciliation of revenue		
Segment revenue	84,882	68,998
Interest revenue	68	178
Total revenue	84,950	69,176

To the members of Melbourne IT Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Melbourne IT Limited, which comprises the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Melbourne IT Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Melbourne IT Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



David Petersen
Partner
Melbourne
29 August 2016

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

As lead auditor for the review of Melbourne IT Limited for the half-year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

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

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



Ernst & Young



David Petersen
Partner
29 August 2016