Rules 4.3A

Appendix 4E
Preliminary Financial Report

Name of entity

Melbourne IT Limited

ABN or equivalent company reference
21 073 716 793

Reporting Period
31 December 2016
(Comparative period – 31 December 2015)

2.0 Results for announcement to the market

				$A'000
2.1 Total revenues from ordinary activities	Up	12.1%	to	168,436
2.2 Profit after tax	Up	88.9%	to	12,708
2.3 Net profit for the period attributable to members	Up	91.2%	to	10,727

2.4 Dividends (distributions)		Amount per security	Franked amount per security
Current period			
Final dividend		6.0 cents	100%
Interim dividend		2.0 cents	100%
		8.0 cents	
Previous corresponding period			
Final dividend		4.0 cents	80%
Interim dividend		1.0 cent	80%
		5.0 cents	

2.5 Record date for determining entitlements to the dividend.	7 April 2017

It is recommended the Appendix 4E be considered with any public announcements made by Melbourne IT Ltd and its controlled entities relating the year ended 31 December 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

- Total consolidated revenue for the year ended 31 December 2016 was $168.436 million (2015: $150.256 million), an increase of 12.1%.

- Profit after tax for the year ended 31 December 2016 was $12.708 million (2015: $6.728 million), an increase of 88.9%.

- Profit after tax attributable to members of the parent Reported NPAT) for the year ended 31 December 2016 was $10.727 million (2015: $5.610 million), an increase of 91.2%. Profit after tax attributable to non-controlling interests was $1.981 million (2015: $1.118 million), of which Outware Systems Pty Ltd (Outware) comprised $1.839 million (2015: $0.896 million). The following table shows a reconciliation of EBITDA* to the reported profit after tax attributable to members of the parent.

	31-Dec-16 $'000	31-Dec-15 $'000
Reported Earnings before Net Interest, Tax, Depreciation and Amortisation (EBITDA)*	**28,206**	**16,510**
Depreciation and Amortisation	(7,055)	(5,576)
Earnings/(Loss) before Net Interest and Tax*	21,151	10,934
Net Interest (Expense)/Revenue	(1,394)	(949)
Tax (Expense)/Benefit	(7,049)	(3,257)
Profit after Tax	**12,708**	**6,728**
Less: Profit after Tax attributable to Non-Controlling Interests:	1,981	1,118
Profit after Tax attributable to Members of the Parent	**10,727**	**5,610**

- Underlying net profit after tax (Underlying NPAT)* was $14.344 million (2015: $10.733 million), an increase of 33.6%. The following table shows a reconciliation of Reported NPAT to Underlying NPAT*.

	31-Dec-16 $'000	31-Dec-15 $'000
Profit after Tax attributable to Members of the Parent	**10,727**	**5,610**
Adjustments to calculate underlying NPAT*:		
Profit after Tax attributable to Non-Controlling Interests of Outware	1,839	896
Transaction costs (tax effected)	501	1,738
Synergy costs (tax effected)	2,071	992
Unwinding of discount on other financial liabilities	504	467
Provision writeback	-	(1,067)
Gain on reassessment of non-controlling interests dividend liability	(586)	-
Gain on reassessment of contingent consideration liability	(1,024)	-
Sale of IDNR business, net of transaction costs and taxation	74	-
Conversion of Tiger Pistol convertible notes (incl. FV movement in embedded derivative pre-conversion)	(162)	-
Imputed interest income on convertible note receivables	(133)	-
Contribution from IDNR business prior to sale (tax effected)	(101)	-
Contribution from acquisitions (assuming acquisitions 100% owned from 1 January) (tax effected)	416	2,097
Other non-operating expenses (tax effected)	218	-
Underlying NPAT*	**14,344**	**10,733**

- Reported EBITDA* for the year ended 31 December 2016 was $28.206 million (2015: $16.510 million), an increase of 70.8%.

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

Review and Results of Operations (Continued)

- Underlying EBITDA* was $28.405 million (2015: $21.955 million), an increase of 29.4%.

	31-Dec-16 $'000	31-Dec-15 $'000
Reported EBITDA*	**28,206**	**16,510**
Adjustments to calculate underlying EBITDA*:		
Transaction costs	595	1,995
Synergy costs	2,959	1,417
Provision writeback	-	(1,067)
Gain on reassessment of non-controlling interests dividend liability	(586)	-
Gain on reassessment of contingent consideration liability	(1,024)	-
Gain on sale of IDNR business, net of transaction costs	(2,350)	-
Conversion of Tiger Pistol convertible notes (incl. FV movement in embedded derivative pre-conversion)	(162)	-
Contribution from IDNR business prior to sale	(144)	-
Contribution from acquisitions (assuming acquisitions owned from 1 Jan)	599	3,100
Other non-operating expenses	312	-
Underlying EBITDA*	**28,405**	**21,955**

- Following the acquisition completed on 31 March 2016, InfoReady has contributed revenue of $14.785 million, net profit after tax of $1.675 million and EBITDA* of $2.563 million during the period.
- Reported earnings per share at 31 December 2016 was 10.86 cents (2015: 6.04 cents), an increase of 79.8%.
- Operating cashflow for the year ended 31 December 2016 was $14.302 million (2015: $13.623 million), an increase of 5.0%. Included in the operating cash flows are net income tax paid of $3.989 million (2015: net income tax paid of $2.042 million), a difference of $1.947 million.
- Included in cash flows from investing activities are outflows from acquisitions including transaction costs for $26.620 million (2015: $38.184 million).
- Cash and cash equivalents were $16.426 million at 31 December 2016 (2015: $12.370 million).
- Deferred Gross Margin (i.e. income received in advance net of prepaid costs) was $24.707 million at 31 December 2016 (2015: $27.108 million), a decrease of 8.9%.

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

3.0 NTA Backing

	Current period **31 December 2016**	Previous Period **31 December 2015**
Net tangible asset backing per ordinary security	-77.25 cents	-93.33 cents

Net Assets at 31 December 2016 were $145.582 million including $1.458 million of net deferred tax balances and $222.036 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 or lost during the period.		100% of interest in InfoReady was acquired on 31 March 2016

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

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 31 December 2016 was $1.675 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	Amt per security of foreign sourced dividend
Current Year			
Final	6.0 cents	100%	N/A
Interim	2.0 cents	100%	N/A
	8.0 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	6.0 cents	4.0 cents
Interim	2.0 cents	1.0 cent
Total	8.0 cents	5.0 cents

Additional information on current year dividends

Date the dividend (distribution) is payable	28 April 2017
Details of individual and total dividends or distributions and dividend or distribution payments.	6.0 cents per share totalling approximately $6.052 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.	10 April 2017

6.0 Material interests in entities which are not controlled entities

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

7.0 Other Information

Subsequent Events

On 22 February 2017, the directors declared a final dividend of 6.0 cents per ordinary share, franked at 100%, amounting to $6.052 million. The expected payment date of the dividend is 28 April 2017.

Annual General Meeting

The annual general meeting will be held as follows:

Date:	29 May 2017
Time:	11.00 am

8.0 Compliance Statement

The report has been prepared based on a 31 December 2016 Annual Financial Report which is in the process of being audited by an independent audit firm in accordance with the requirements of S302 of the Corporations Act.

Signed here: ……………………………………………………
Ms E Rigato
Company Secretary
Melbourne
22 February 2017

MELBOURNE IT LTD

(ABN: 21 073 716 793)

FINANCIAL INFORMATION

FOR THE YEAR ENDED
31 DECEMBER 2016

MELBOURNE IT LTD

ABN: 21 073 716 793

DIRECTORS

Mr. S.D. Jones	(Chairman to 1 February 2017)
Mr. M. Mercer	
Mr. T. Kiing	
Ms. N. Sparks	
Mr. L. Bloch	
Mr. J.Armstrong	(Appointed 23 February 2016)
Ms. G. Permberton	(Appointed 27 May 2016) (Appointed Chair 1 February 2017)
Mr. R.J. Stewart AM	(Retired 27 May 2016)

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Mr. M. Mercer

CHIEF FINANCIAL OFFICER

Mr P. Findlay (Resigned 20 January 2017)

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
Tower 4, 727 Collins Street
Docklands VIC 3008
Tel: +61 1300 554 474
Fax: +61 2 9287 0303

AUDITORS

Ernst & Young

INTERNET ADDRESS

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

MELBOURNE IT LTD

CONTENTS **PAGE**

MELBOURNE IT LTD

DIRECTORS' INFORMATION

The names of the company's directors in office during the year ended 31 December 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 to 1 February 2017)
Mr. M. Mercer	
Mr. T. Kiing	
Ms. N. Sparks	
Mr. L. Bloch	
Mr. J.Armstrong	(Appointed 23 February 2016)
Ms. G. Permberton	(Appointed 27 May 2016) (Appointed Chair 1 February 2017)
Mr. R.J. Stewart AM	(Retired 27 May 2016)

COMPANY SECRETARY

Ms. E. Rigato

PRINCIPAL ACTIVITIES

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

SMB Solutions

SMB Solutions provides domain name registrations and renewals, website and email hosting, website development, search engine optimisation and analysis for businesses in Australia and New Zealand.

Enterprise Services ("ES")

Enterprise Services provides services including cloud, mobile application development, data and analytics to Australian enterprise and government organisations.

	2016	**2015**
EARNINGS PER SHARE		
Basic earnings per share	10.86 cents	6.04 cents
Diluted earnings per share	10.67 cents	5.95 cents

DIVIDENDS

During the year, a final dividend of 4.0 cents per share, amounting to $4.017 million was paid on 29 April 2016 and an interim dividend of 2.0 cents per share, amounting to $2.015 million was paid on 30 September 2016.

After 31 December 2016, a final dividend of 6.0 cents per share amounting to $6.052 million was declared by the directors. The final dividend has not been recognised as a liability as at 31 December 2016.

MELBOURNE IT LTD

DIRECTORS' INFORMATION (continued)

REVIEW AND RESULTS OF OPERATIONS

The Group recorded a 12.1% increase in consolidated revenue during the year ended 31 December 2016, from $150.256 million to $168.436 million. This was primarily due to the full year contribution of Uber Global and Outware Systems that joined the Group on 30 April 2015 and 16 June 2015 respectively, and the newly acquired entity, InfoReady Pty Ltd during the year.

The Group achieved earnings before interest, tax, depreciation and amortisation (EBITDA) of 28.206 million (2015: $16.510 million), an increase of 70.8% from the previous year. Consolidated net profit after tax was $12.708 million (2015: $6.728 million), up 88.9% from the previous year.

Summarised operating results are as follows:

	31-Dec-16 $'000	31-Dec-15 $'000
Revenue		
Registration Revenue	44,916	55,932
Solutions, Hosting & Services	123,253	94,041
Other Revenue	-	21
	168,169	149,994
Interest Revenue	267	262
Total Revenue	**168,436**	**150,256**
Total Earnings before Net Interest, Tax, Depreciation and Amortisation	28,206	16,510
Depreciation Expense	3,537	3,163
Amortisation Expense	3,518	2,413
Total Earnings Before Net Interest and Tax	21,151	10,934
Net Interest	(1,394)	(949)
Profit Before Tax	**19,757**	**9,985**
Income Tax (Expense)/Benefit	(7,049)	(3,257)
Profit for the Year	**12,708**	**6,728**
Profit for the year attributable to:		
Members of the parent	**10,727**	**5,610**
Non-controlling interests	1,981	1,118
	12,708	**6,728**
Cashflow from Operations	**14,302**	**13,623**

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

MELBOURNE IT LTD

DIRECTORS' INFORMATION (continued)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 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 $15.3 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 accounting for the acquisition in accordance with AASB 3 'Business Combinations' is as disclosed in Note D1(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 A7 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. Ms Pemberton was appointed chairperson on 1 February 2017.

Other than as stated above, there have been no other significant changes in the state of affairs during the year ended 31 December 2016.

SUBSEQUENT EVENTS

On 22 February 2017, the directors declared a final dividend of 6.0 cents per ordinary share, franked at 100%, amounting to $6.052 million. The expected payment date of the dividend is 28 April 2017.

On 16 February 2017, the Group entered into a Deed of Variation and Option Exercise with the owners of the non-controlling interest of Outware to purchase the remaining 24.9% of share capital for a total consideration of $28.692 million. Of the consideration paid, $1.000 million will be held in escrow in the form of shares in Melbourne IT Group, and $2.683 million will be held in escrow in cash until 31 December 2017, contingent on the employment of the vendors of the non-controlling interest by the Group until that date. This will extinguish the Group's put option and dividend liability to non-controlling interests in Outware. No further payment is due to the vendors of Outware. The total consideration paid for Outware (net of cash acquired) $60.615 million, implying forward EBITDA mulitple of 4.9 times.

The acquisition of the remaining non-controlling interest has been brought forward in order to accelerate the integration of the Outware operations into the Group.

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

ROUNDING

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

CORPORATE GOVERNANCE

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

The company's Corporate Governance Statement is available on the company's website www.melbourneit.info.

Signed in accordance with a resolution of the directors.

Gail Pemberton

………………………………………………..

Ms Gail Pemberton
Chair
Melbourne
22 February 2017

MELBOURNE IT LTD

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2016

	Notes	CONSOLIDATED 2016 $'000	2015 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		16,426	12,370
Trade and other receivables	B1	18,093	12,259
Prepayment of domain name registry charges		6,851	9,384
Current tax asset		-	83
Derivative financial instruments	C4	4	-
Other assets		4,484	3,624
Total Current Assets		**45,858**	**37,720**
Non-Current Assets			
Plant and equipment		6,739	7,426
Intangible assets	B2	222,036	204,805
Deferred tax assets		4,438	5,298
Prepayment of domain name registry charges		3,392	5,376
Non-current financial assets	B3	1,795	1,995
Other assets		38	168
Total Non-Current Assets		**238,438**	**225,068**
TOTAL ASSETS		**284,296**	**262,788**
LIABILITIES			
Current Liabilities			
Trade and other payables	B4	18,804	17,077
Interest bearing loans and borrowings	C2	92	198
Provisions		3,461	3,321
Current tax liabilities		1,684	-
Derivative financial instruments	C4	-	117
Income received in advance		24,883	28,914
Other financial liabilities	C3	31,089	18,885
Total Current Liabilities		**80,013**	**68,512**
Non-Current Liabilities			
Interest bearing loans and borrowings	C2	36,536	30,144
Deferred tax liabilities		2,980	2,775
Provisions		803	546
Income received in advance		10,067	12,954
Other financial liabilities	C3	8,315	27,274
Total Non-Current Liabilities		**58,701**	**73,693**
TOTAL LIABILITIES		**138,714**	**142,205**
NET ASSETS		**145,582**	**120,583**
EQUITY			
Contributed equity	C1	51,026	35,629
Foreign currency translation reserve		(593)	(573)
Options reserve		1,398	776
Hedging reserve		3	(82)
Other reserve		8,523	3,646
Available-for-sale (AFS) reserve		-	498
Retained earnings		85,074	80,379
Equity attributable to members of the parent		**145,431**	**120,273**
Non-controlling interests		151	310
TOTAL EQUITY		**145,582**	**120,583**

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

MELBOURNE IT LTD

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	CONSOLIDATED 2016 $'000	CONSOLIDATED 2015 $'000
Revenue	A1 (a)	168,436	150,256
Registry, hosting and sundry product costs		(74,198)	(66,312)
Gross profit		94,238	83,944
Other income	A1 (b)	1,610	-
Salaries and employee benefits expenses	A2(a)	(54,162)	(50,337)
Depreciation expenses	A2 (b)	(3,537)	(3,163)
Amortisation of intangible assets	A2 (c)	(3,518)	(2,413)
Transaction costs relating to acquisitions		(595)	(1,995)
Other expenses	A2 (d)	(13,504)	(13,310)
Finance costs	A2 (e)	(3,125)	(2,741)
Gain on sale of IDNR business, net of transaction costs	A7	2,350	-
Profit before tax		19,757	9,985
Income tax (expense)/benefit	A3	(7,049)	(3,257)
Profit for the year		12,708	6,728
Other comprehensive income			
Items that are reclassified to the profit or loss:			
Currency translation differences		(20)	85
Items that may be reclassified to the profit or loss:			
Net gains/(losses) on cashflow hedges (net of tax)		85	(113)
Increase in fair value of available-for-sale (AFS) financial assets		48	498
Recycling of AFS upon derecognition of AFS financial asset		(546)	-
Other comprehensive income/(loss) for the period, net of tax		(433)	470
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		12,275	7,198
Profit for the year attributable to:			
Members of the parent		10,727	5,610
Non-controlling interests		1,981	1,118
		12,708	6,728
Total comprehensive income attributable to:			
Members of the parent		10,294	6,080
Non-controlling interests		1,981	1,118
		12,275	7,198

Earnings per share

		2016	2015
Basic earnings per share	A5	10.86 cents	6.04 cents
Diluted earnings per share	A5	10.67 cents	5.95 cents

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

MELBOURNE IT LTD

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

	Notes	CONSOLIDATED 2016 $'000	CONSOLIDATED 2015 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of service revenue and recoveries		179,286	163,004
Payments to suppliers and employees		(158,509)	(145,317)
Interest received		134	262
Interest paid		(1,157)	(754)
Bank charges and credit card merchant fees		(1,464)	(1,530)
Income tax refunds		1,989	835
Income tax paid		(5,977)	(2,877)
NET CASH FLOWS FROM OPERATING ACTIVITIES		**14,302**	**13,623**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment and intangible assets		(4,874)	(5,782)
Purchase of financial asset		-	(247)
Proceeds from sale of IDNR business, net of transaction costs		7,424	-
Acquisition of InfoReady	D1 (a)	(15,382)	-
Acquisition of Uber	D1 (b)	-	(14,909)
Acquisition of Outware, net of cash acquired	D1(c)	(10,622)	(21,301)
Transaction costs relating to acquisitions	D1	(616)	(1,974)
NET CASH FLOWS (USED IN) INVESTING ACTIVITIES		**(24,070)**	**(44,213)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from capital raising	C1	15,000	-
Transaction costs on capital raising	C1	(605)	-
Proceeds from borrowings	C2	10,600	33,500
Repayment of borrowings	C2	(4,100)	(3,500)
Payment of dividend on ordinary shares	A4	(5,211)	(4,647)
Payment of dividend to non-controlling interests		(1,629)	(224)
Payment of finance lease liabilities		(214)	(260)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**13,841**	**24,869**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**4,073**	**(5,721)**
Net foreign exchange differences		(17)	5
Cash and cash equivalents at beginning of period		12,370	18,086
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**16,426**	**12,370**

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

MELBOURNE IT LTD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	FOREIGN CURRENCY RESERVE $'000	OPTIONS RESERVE $'000	HEDGING RESERVE $'000	OTHER RESERVE $'000	AFS RESERVE $'000	CONTRIBUTED EQUITY $'000	RETAINED EARNINGS $'000	TOTAL $'000	NON-CONTROLLING INTERESTS $'000	TOTAL EQUITY $'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	-	-	-	-	-	-	10,727	**10,727**	1,981	**12,708**
Fair value of AFS financial assets	-	-	-	-	48	-	-	**48**	-	**48**
Derecognition of AFS financial asset	-	-	-	-	(546)	-	-	**(546)**	-	**(546)**
Other comprehensive income	(20)	-	85	-	-	-	-	**65**	-	**65**
Total comprehensive income for the period	(20)	-	85	-	(498)	-	10,727	**10,294**	1,981	**12,275**
Transactions with owners in their capacity as owners:										
Share based payment	-	622	-	-	-	-	-	**622**	-	**622**
Dividend reinvestment plan	-	-	-	-	-	821	-	**821**	-	**821**
Capital raising	-	-	-	-	-	14,576	-	**14,576**	-	**14,576**
Equity Dividends	-	-	-	-	-	-	(6,032)	**(6,032)**	(300)	**(6,332)**
Transfer to other reserve	-	-	-	4,877	-	-	-	**4,877**	(4,877)	**-**
Transfer from/(to) financial liabilities	-	-	-	-	-	-	-	**-**	3,037	**3,037**
As at 31 December 2016	**(593)**	**1,398**	**3**	**8,523**	**-**	**51,026**	**85,074**	**145,431**	**151**	**145,582**
As at 1 January 2015	**(658)**	**5,321**	**31**	**-**	**-**	**35,629**	**74,357**	**114,680**	**88**	**114,768**
Profit for the period	-	-	-	-	-	-	5,610	**5,610**	1,118	**6,728**
Other comprehensive income	85	-	(113)	-	498	-	-	**470**	**-**	**470**
Total comprehensive income for the period	85	-	(113)	-	498	-	5,610	**6,080**	1,118	**7,198**
Transactions with owners in their capacity as owners:										
Share based payment	-	514	-	-	-	-	-	**514**	**-**	**514**
Equity Dividends	-	-	-	-	-	-	(4,647)	**(4,647)**	**-**	**(4,647)**
Acquisition of subsidiary (Note D1)	-	-	-	-	-	-	-	**-**	45,266	**45,266**
Transfer to other reserve	-	-	-	3,646	-	-	-	**3,646**	(3,646)	**-**
Transfer from/(to) financial liabilities	-	-	-	-	-	-	-	**-**	(42,516)	**(42,516)**
Transfer to/(from) options reserve	-	(5,059)	-	-	-	-	5,059	**-**	-	**-**
As at 31 December 2015	**(573)**	**776**	**(82)**	**3,646**	**498**	**35,629**	**80,379**	**120,273**	**310**	**120,583**

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

NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2016

CORPORATE INFORMATION

The financial information in this report for Melbourne IT Ltd for the year ended 31 December 2016 was authorised for issue in accordance with a resolution of the directors on 22 February 2017.

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 A6.

BASIS OF PREPARATION

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

It is also recommended that the Annual Financial Report of Melbourne IT Limited for the year ended 31 December 2016 be considered together with any public announcements made by Melbourne IT Limited and its controlled entities relating to the year ended 31 December 2016, in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001.*

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

(a) Changes in accounting policy

The Group has changed its accounting for its investment in convertible note receivables as described in Note B3. Other than this change, the accounting policies adopted in the preparation of this 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.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2016

SECTION A: FINANCIAL PERFORMANCE

	CONSOLIDATED 2016 $'000s	2015 $'000s
A1. REVENUE		
Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:		
(a) Revenue		
Registration revenue	44,916	55,932
Solutions, hosting & services	123,253	94,041
Other revenue	-	21
	168,169	149,994
Interest revenue	267	262
Total revenue	168,436	150,256
(b) Other income		
Gain on reassessment of non-controlling interests dividend liability	586	-
Gain on reassessment of contingent consideration liability	1,024	-
	1,610	-
A2. EXPENSES		
(a) Salaries and employee benefits expenses		
Included in Salaries and employee benefits expenses:		
Expensing of share-based payments	622	514
Superannuation expense	3,824	3,154
(b) Depreciation of non-current assets		
Fit out	236	127
Plant and equipment	3,250	3,000
Furniture	51	36
Total depreciation of non-current assets	3,537	3,163
(c) Amortisation of identifiable intangible assets		
Capitalised software	1,935	1,607
Customer contracts	1,548	806
Marketing related intangibles	35	-
Total amortisation of identifiable intangible assets	3,518	2,413
(d) Other Expenses		
Included in other expenses:		
Premises	3,605	3,452
Training and recruitment	1,597	1,111
Communications	1,012	1,308
Marketing	2,360	2,832
Equipment	2,462	2,480
Financial & legal	1,471	1,302
Foreign exchange loss	17	241
Bad debts and doubtful debts	(172)	337
Fair value of available-for-sale financial assets	48	-
Recycling of AFS upon derecognition of available-for-sale financial asset	(546)	-
(e) Finance costs		
Bank charges and credit card merchant fees	1,464	1,530
Interest expense on debt and borrowings	1,157	744
Unwinding of discount on other financial liabilities	504	467
	3,125	2,741

A3. INCOME TAX

	CONSOLIDATED	
	2016	2015
	$'000s	$'000s
The major components of income tax expense are:		
(a) Statement of comprehensive income		
Current income tax		
Current income tax charge	5,887	2,340
Adjustments in respect of current income tax of previous periods	(78)	57
Deferred income tax		
Relating to origination and reversal of temporary differences	1,240	860
Income tax expense/(benefit) reported in the statement of comprehensive income	**7,049**	**3,257**
(b) Statement of changes in equity		
Deferred income tax related to items charged or credited directly to equity		
Net (loss)/ gain on revaluation of cash flow hedges	(1)	35
Income tax expense reported in equity	**(1)**	**35**
(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	19,757	9,985
At the Group's statutory income tax rate of 30% (2015: 30%)	5,927	2,996
Adjustments in respect of current income tax of previous years	(78)	57
Non-deductible expenses	266	513
Other non operating income	(483)	-
Unwinding of discount on other financial liabilities	76	140
Goodwill allocated to gain on sale of IDNR business	1,719	-
Estimated R&D tax incentive claims	(377)	(510)
Other	(1)	61
Income tax expense at the effective income tax rate	**7,049**	**3,257**
Income tax expense reported in the statement of comprehensive income	7,049	3,257
	7,049	**3,257**

As at 31 December 2016, Melbourne IT Group had unused carry forward tax losses of $2.614 million (2015: $3.329 million). These carry forward tax losses arose on the acquisition of Uber Global Pty Ltd and are recorded as a deferred tax asset for the Group.

	CONSOLIDATED	
	2016	2015
	$'000s	$'000s
A4. DIVIDENDS		
Equity dividends on ordinary shares:		
(a) Dividends declared and paid during the year on ordinary shares		
(i) Final franked dividend for the financial year ended 31 December 2015: 4.0 cents per share (2014: 4.0 cents per share)	4,017	3,718
(ii) Interim franked dividend for the year ended 31 December 2016: 2.0 cents per share (2015: 1.0 cent per share)	2,015	929
	6,032	4,647
(b) Dividends proposed and not recognised as a liability		
Final franked dividend for the year ended 31 December 2016: 6.0 cents per share (2015: 4.0 cents per share)	6,052	3,718

A5. EARNINGS PER SHARE

	2016	2015
Basic earnings per share	10.86 cents	6.04 cents
Diluted earnings per share	10.67 cents	5.95 cents

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

	2016	2015
Profit for the year attributable to members of the parent	10,727	5,610
	Number of shares	
Weighted average number of ordinary shares used in the calculation of basic earnings per share	98,819,025	92,944,392
Effect of dilution:		
Share options/rights	1,705,684	1,388,914
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	100,524,709	94,333,306

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

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

A6. 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 provides domain name registrations and renewals, website and email hosting, website development, search engine optimisation and analysis for businesses in Australia and New Zealand.

Enterprise Services ("ES")

Enterprise Services provides services including cloud, mobile application development, data and analytics to Australian enterprise and government organisations.

The following tables present the revenue and profit information regarding business unit segments for the years ended 31 December 2016 and 31 December 2015.

Year ended 31 December 2016	**SMB Solutions**	**ES**	**Total**
	$'000	**$'000**	**$'000**
Segment revenue			
Revenue from operating activities			
Registration revenue	44,764	-	**44,764**
Solutions, hosting & services	53,044	70,361	**123,405**
Total segment revenue	97,808	70,361	**168,169**
Result			
Segment results	15,703	14,644	**30,347**
Unallocated expenses:			
- Corporate (including transaction costs relating to acquisition)			(6,263)
- Gain on sale of IDNR business, net of transaction costs			2,350
- Other income			1,610
- Fair value movement in embedded derivatives			(59)
- Loss on conversion of Tiger Pistol convertible notes			(325)
- Gain on AFS asset			546
Earnings before interest, tax, depreciation & amortisation			**28,206**
Net Interest			
Interest revenue			267
Interest expense on debt and borrowings			(1,157)
Unwinding of discount on other financial liabilities			(504)
Total Net Interest			**(1,394)**
Income tax expense			(7,049)
Depreciation & amortisation			(7,055)
Profit after tax for the year			**12,708**

A6. OPERATING SEGMENTS (Continued)

Year ended 31 December 2015	SMB Solutions $'000	ES $'000	Total $'000
Segment revenue			
Revenue from operating activities			
Registration Revenue	55,932	-	**55,932**
Solutions, hosting & services	53,294	40,746	**94,040**
Other Revenue	22	-	**22**
Total segment revenue	109,248	40,746	**149,994**
Result			
Segment results	16,324	7,554	**23,878**
Unallocated expenses:			
- Corporate (including transaction costs relating to acquisitions)			(7,368)
Earnings before interest, tax, depreciation & amortisation			**16,510**
Net Interest			
Interest revenue			262
Interest expense on debt and borrowings			(744)
Unwinding of discount on other financial liabilities			(467)
Total Net Interest			(949)
Income tax benefit			(3,257)
Depreciation & amortisation			(5,576)
Profit after tax for the year			**6,728**

Reconciliation of revenue	CONSOLIDATED 2016 $'000	2015 $'000
Segment revenue	168,169	149,994
Interest revenue	267	262
Total revenue	168,436	150,256

A7. 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 million (equivalent to AU$7.800 million). The gain on sale of AU$2.350 million 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.

SECTION B: OPERATING ASSETS AND LIABILITIES

	CONSOLIDATED	
	2016	2015
	$'000s	$'000s
B1. TRADE AND OTHER RECEIVABLES		
Trade debtors	18,929	13,335
Allowance for impairment loss	(836)	(1,076)
Total trade and other receivables (Current)	18,093	12,259

B2. INTANGIBLE ASSETS

Carrying Amount of Intangible Assets

	2016	2015
Goodwill	199,835	182,000
Marketing Related Intangibles (a)	9,052	9,052
Accumulated Amortisation	(35)	-
	9,017	9,052
Customer Contracts (b)	7,977	7,244
Accumulated Amortisation	(3,305)	(1,757)
	4,672	5,487
Capitalised Software (c)	13,239	11,049
Accumulated Amortisation	(4,727)	(2,783)
	8,512	8,266
Total Intangible Assets	222,036	204,805

(a) 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. Current year amortisation represents the retirement of a brand name.

(b) Customer Contracts

Following the acquisition of InfoReady Pty Ltd ('InfoReady') during the year, customer contracts amounting to $0.847 million were recognised based on an external valuation. Following the acquisitions of Uber Global Pty Ltd ('Uber') and Outware Systems Pty Ltd ('Outware') during the prior year, customer contracts amounting to $1.145 million relating to Uber and $3.138 million relating to Outware were recognised based on the external valuation. The customer contracts are amortised over the period of 5 years based on the historical attrition rate.

(c) Capitalised Software

Included in capitalised software were software acquired from Netregistry Pty Ltd (carrying value of $4.550 million) and Oracle Financials, the common financial reporting system used by all entities in the Group with a carrying value of $0.542 million.

B3. NON-CURRENT FINANCIAL ASSETS

	CONSOLIDATED 2016 $'000s	CONSOLIDATED 2015 $'000s
Convertible note receivable - 20 October 2014 (a)	-	1,748
Convertible note receivable - 20 November 2015 (b)	-	247
Investment in Tiger Pistol (c) - Ordinary Shares	1,795	-
	1,795	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 year the Group has changed it's 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 up to the date of conversion 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 $0.510 million and the gain recognised in Other Comprehensive Income (AFS reserve) would have been reduced by approximately $0.452 million.

(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 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 103,205 ordinary shares with the final number of shares dependant on conditions stipulated in the Agreement.

(c) In accordance with the respective convertible note agreements, the Group elected to exercise both convertible note receivable assets to equity in Tiger Pistol on 12 December 2016 for the convertible note maturing in 20 October 2019 ("CN1") and 22 December 2016 for the convertible note maturing on 20 November 2018 ("CN2") respectively. Upon conversion of CN1 and CN2, the Group received 500,000 and 103,205 shares respectively in Tiger Pistol. These shares have been accounted for as a financial asset (Available for Sale), and valued by reference to the most recent arms length transaction of Tiger Pistol shares.

Key judgement and estimates

The fair values of the embedded derivatives on the convertible note receivables are determined using the 'Black Scholes' option pricing model. The key assumption requiring judgement was the calculation of the volatility of Tiger Pistol's shares by reference to comparable companies. The fair value of the non-derivative component of the convertible note receivables are determined using the effective interest rate method.

B4. TRADE AND OTHER PAYABLES

	CONSOLIDATED 2016 $'000s	CONSOLIDATED 2015 $'000s
Trade creditors	5,449	3,408
Sundry creditors	3,959	3,109
Deposits received in advance	1,549	2,412
Accrued expenses	7,847	8,148
Total payables	18,804	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.

SECTION C: CAPITAL AND FINANCIAL RISK MANAGEMENT

C1. CONTRIBUTED EQUITY

	2016 $'000s	2015 $'000s
Ordinary shares		
Issued and fully paid	51,026	35,629

Movements in ordinary shares on issue

	2016 No. of Shares	2016 $'000s	2015 No. of Shares	2015 $'000s
Beginning of the financial period	92,944,392	35,629	92,944,392	35,629
Issued during the year				
- Capital raising	7,500,000	15,000	-	-
- Dividend reinvestment plan	416,938	821	-	-
- Transaction costs on capital raising, net of tax	-	(424)	-	-
End of the financial period	100,861,330	51,026	92,944,392	35,629

C2. INTEREST BEARING LOANS AND BORROWINGS

	2016 $'000s	2015 $'000s
Current		
Finance lease liabilities	92	198
Non-current		
Bank loan	36,500	30,000
Finance lease liabilities	36	144
	36,536	30,144

The Group has entered into finance leases for some items of equipment whereby the present value of the minimum lease payments approximate $0.128 million (2015: $0.342 million).

At 30 June 2015, $30.000 million 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 million was used to repay NAB. A further $10.600 million was drawn down from the ANZ banking facility to fund the acquisition of a further 24.9% interest in Outware Systems Pty Ltd on 31 August 2016. The ANZ bank facility has a maturity date of 1 January 2019. Interest rate is based on the relevant period BBSY rate. The cash advance facility balance is approximate to fair value given that it is a interest bearing loan at floating interest rate. During the year ended 31 December 2016, the Group made loan repayments of $4.100 million.

C3. OTHER FINANCIAL LIABILITIES

	CONSOLIDATED 2016 $'000s	CONSOLIDATED 2015 $'000s
Current		
Put options liability	29,828	17,030
Dividend liability to non-controlling interests	1,261	1,855
Contingent consideration liability	-	-
	31,089	18,885
Non-current		
Put options liability	-	25,953
Dividend liability to non-controlling interests	-	1,321
Contingent consideration liability	8,315	-
	8,315	27,274

The other financial liabilities represent the fair value of the put options to acquire the remaining 24.9% interest in Outware Systems Pty Ltd (Outware) (refer to Note D1(c) for more details), estimated dividend liability due to non-controlling interests over the next year (refer to Note D1(c) for more details) and contingent consideration liability in relation to acquisition of InfoReady Pty Ltd (refer to Note D1(a) for more details).

The fair value of the put options liability has been determined based on 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 was remeasured at 31 December 2016 based on expected surplus funds of which dividend payments will be made and the movement was recognised in the profit or loss.

C4. DERIVATIVE FINANCIAL ASSETS/ (LIABILITIES)

	2016	2015
Foreign exchange contracts (a)	155	(17)
Interest rate swap (b)	(151)	(100)
	4	(117)

(a) Foreign exchange contracts
At 31 December 2016, Melbourne IT Limited held six foreign exchange contracts designated as cash flow hedges of expected net USD cash payments for which the Company has firm commitments. The terms of these foreign exchange contracts was negotiated to match the terms of the commitments. The exchange contracts was used to reduce the exposure of foreign exchange risk.

(b) Interest rate swap
At 31 December 2016, the Group held two interest rate swap contracts for $15.000 million and $5.300 million designed to hedge the variable interest rate exposure relating to the facility tranches of $30.000 million and $10.600 million respectively.

SECTION D: GROUP STRUCTURE

D1. BUSINESS COMBINATIONS

Acquisition in 2016

(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 $15.332 million (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 net assets recognised in the 30 June 2016 half year financial report were based on a provisional assessment of their fair value while the Group completed the fair value assessment. The fair values of the identifiable assets and liabilities of InfoReady as at the date of acquisition were:

	Fair value recognised on acquisition		
	Provisional	**Adjustments**	**Final**
	$'000s	**$'000s**	**$'000s**
Assets			
Trade and other receivables	2,088	-	2,088
Plant and equipment	47	(3)	44
Intangibles	-	847	847
Deferred tax assets	-	171	171
Other assets	85	-	85
	2,220	1,015	3,235
Liabilities			
Trade and other payables	1,333	26	1,359
Provisions	518	-	518
Deferred tax liabilities	-	254	254
	1,851	280	2,131
Total identifiable net liabilities at fair value	369	735	1,104
Goodwill arising on acquisition	24,322	(757)	23,565
Purchase consideration transferred (cash paid)	24,691	(22)	24,669

D1. BUSINESS COMBINATIONS (continued)

Acquisition in 2016 (continued)

(a) InfoReady Pty Ltd (continued)

As at 31 December 2016, 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 $0.847 million of customer contracts and relationships were identified. The fair value of the intangibles was determined using the income approach that is multi period excess earnings method.

- The Group carried out an assessment of existing plant and equipment and wrote off those not used at acquisition date.

- The Group carried out an assessment of the trade and other payables and adjusted for those arising at acquisition date. An additional payroll tax liability was identified during this review.

- 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 31 December 2016, InfoReady has contributed $14.785 million to the Group's revenue and $1.675 million to the Group's profit after tax attributable to members of the parent. If the combination had taken place at the beginning of the year, the Group's revenue would have been $172.000 million and profit after tax attributable to members of the parent would have been $11.143 million.

Purchase consideration

	$'000s
Cash paid	15,382
Working capital adjustment	(50)
Contingent consideration liability	9,337
	24,669

Transaction costs of $0.595 million were expensed and fully paid for the year ended 31 December 2016. This was included in the cash flows from investing activities.

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 million representing the total of the three earnout amounts. Key input assumptions 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 remeasured at 31 December 2016 based on forecast EBITDA and the movement was recognised in the profit or loss. 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.

D1. BUSINESS COMBINATIONS (continued)

Acquisitions in 2015

(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 million (including working capital adjustment) and an earn out based on EBITDA performance to 30 June 2015. There was no consideration paid on the earn out based on EBITDA performance to 30 June 2015. The acquisition was funded through cash. The combined enlarged group will be able to offer best in class domain names and hosting products and to compete more effectively against strong, price driven, foreign competition.

Assets acquired and liabilities assumed

The net assets recognised in the 30 June 2015 half year financial report were based on a provisional assessment of their fair value while the Group completed the fair value assessment. The fair values of the identifiable assets and liabilities of Uber as at the date of acquisition were:

	Fair value recognised on acquisition		
	Provisional $'000s	**Adjustments $'000s**	**Final $'000s**
Assets			
Trade and other receivables	1,153	(433)	720
Plant and equipment	2,253	(495)	1,758
Intangibles	-	1,145	1,145
Deferred tax assets	603	634	1,237
Current tax receivable	-	271	271
Other assets	21	430	451
	4,030	1,552	5,582
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
	7,658	(922)	6,736
Total identifiable net liabilities at fair value	(3,628)	2,474	(1,154)
Goodwill arising on acquisition	18,897	(2,834)	16,063
Purchase consideration transferred (cash paid)	15,269	(360)	14,909

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

- The fair value of the trade and other receivables amounts to $0.720 million based on an assessment of the recoverability of the receivables at acquisition date. The gross amount of trade and other receivables was $0.773 million.

- The Group sought an independent valuation for intangibles other than goodwill and $1.145 million of customer contracts and relationships were identified. The fair value of the intangibles was determined using the income approach that is multi period excess earnings method.

- The Group carried out an assessment of existing plant and equipment and wrote off those not used at acquisition date.

- Income received in advance and prepayment on domain names registry charges (included in Other assets) were adjusted to follow the Group's accounting policy where performance obligations remain.

- Based on the final tax return of Uber at acquisition date, a tax refund of $0.270 million was calculated, resulting in a current tax receivable.

- The Group carried out an assessment of the trade and other payables and adjusted for those arising at acquisition date. This included a supplier claim that was not recorded by Uber at acquisition date of $0.360 million, which also resulted in the working capital adjustment.

D1. BUSINESS COMBINATIONS (continued)

Acquisitions in 2015 (continued)

(b) Uber Global Pty Ltd

- Changes to deferred tax balances were based on the tax provision calculated at acquisition date and taking into account changes in net assets arising from the fair value assessment.

From the date of acquisition to 31 December 2015, Uber has contributed $9.628 million to the revenue and $0.395 million to the profit after tax attributable to members of the parent. If the combination had taken place at the beginning of the prior year, Group revenue would have been $155.138 million and profit after tax attributable to members of the parent would have been $5.861 million.

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

(c) Outware Systems Pty Ltd

On 16 June 2015, Melbourne IT acquired 50.2% shareholding of Outware Systems Pty Ltd ('Outware') for $22.722 million (including working capital adjustment) with put and call options in place to acquire up to 100% of Outware over the next two years. Outware is a leader in the design and development of mobile applications for enterprise and government customers. To facilitate the acquisition, Melbourne IT entered into a cash advance facility with Australia and New Zealand Banking Group Limited ('ANZ') in June 2015. The Outware acquisition is firmly in line with the Group's strategy of building its Enterprise Services into the leading software enabled cloud solutions provider in Australia.

Assets acquired and liabilities assumed

The net assets recognised in the 30 June 2015 half year financial report were based on a provisional assessment of their fair value while the Group completed the fair value assessment. The fair values of the identifiable assets and liabilities of Outware as at the date of acquisition were:

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

D1. BUSINESS COMBINATIONS (continued)

Acquisitions in 2015 (continued)

(c) Outware Systems Pty Ltd (continued)

The Group has completed the fair value assessment on the net assets acquired. The nature of the changes arising from the fair value assessment are as described below.

- The Group sought an independent valuation for intangibles other than goodwill and $3.138 million of customer contracts and relationships were identified. The fair value of the intangibles was determined using the income approach that is multi period excess earnings method.

- Changes to current tax liability and deferred tax balances were based on the tax provision estimated at acquisition date and taking into account changes in net assets arising from the fair value assessment.

The fair value and gross amount of the trade and other receivables amounts to $3.331 million.

From the date of acquisition to 31 December 2015, Outware has contributed $9.987 million to the revenue and $0.904 million to the profit after tax attributable to members of the parent. If the combination had taken place at the beginning of the prior year, Group revenue would have been $158.056 million and profit after tax attributable to members of the parent would have been $6.537 million.

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

On 31 August 2016, the Group exercised its option to purchase 24.9% of share capital in Outware for a cash consideration of $10.622 million.

The minimum and maximum EBITDA multiple payable is 3.75 times and 15.75 times, respectively. The face value of the put/call options liability has been reassessed at 31 December 2016 to be $29.239 million reflecting the option to purchase the remaining 24.9% non-contolling interest in Outware, bringing the estimated total consideration to be approximately $61.162 milliion (net of cash acquired), implying a forward EBITDA multiple of 6.0 times. The fair value of the put/call option liability has been determined based on the forecast financial performance of Outware for the 12 months ending 30 June 2017 and on the expected EBITDA multiple that will be paid.

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

Analysis of cash flow on acquisition of Outware, net of cash acquired as at 31 December 2016:

	$'000s
Cash paid for 50.2% of share captial in Outware on 16 June 2015	22,722
Net cash acquired with Outware on 16 June 2015	(1,421)
Cash paid for 24.9% of share capital in Outware on 31 August 2016	10,622
	31,923

Transaction costs on acquisition of Uber and Outware

Transaction costs of $1.995 million have been expensed and are included in other operating expenses. As at 31 December 2015, $1.974 million has been paid and this is included in the cash flows from investing activities.

SECTION E: OTHER INFORMATION

E1. EVENTS AFTER THE BALANCE SHEET DATE

On 22 February 2017, the directors declared a final dividend of 6.0 cents per ordinary share, franked at 100%, amounting to $6.052 million. The expected payment date of the dividend is 28 April 2017.

On 16 February 2017, the Group entered into a Deed of Variation and Option Exercise with the owners of the non-controlling interest of Outware to purchase the remaining 24.9% of share capital for a total consideration of $28.692 million. Of the consideration paid, $1.000 million will be held in escrow in the form of shares in Melbourne IT Group, and $2.683 million will be held in escrow in cash until 31 December 2017, contingent on the employment of the vendors of the non-controlling interest by the Group until that date. This will extinguish the Group's put option and dividend liability to non-controlling interests in Outware. No further payment is due to the vendors of Outware. The total consideration paid for Outware (net of cash acquired) $60.615 million, implying a forward EBITDA mulitple of 4.9 times.

The acquisition of the remaining non-controlling interest has been brought forward in order to accelerate the integration of the Outware operations into the Group.

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