

25 August 2017

MELBOURNE IT LTD (ASX: MLB)

ASX Announcement

Revised Appendix 4D - Half Yearly Report

Melbourne IT Ltd (ASX: MLB) (the “Company”) advises that the reporting date in the Independent Auditor’s Review Report [paragraph (a) in Conclusion] was inadvertently omitted. The reporting date is “30 June 2017”.

Attached is the updated Half Yearly Report.

For any queries, please contact:

Edelvine Rigato
Company Secretary
e: Edelvine.rigato@melbourneit.com.au

ENDS.

About Melbourne IT

Melbourne IT Group is a publicly listed company with offices in Melbourne, Sydney, and Brisbane. Our purpose is to “fuel our customers’ success through the smart use of technology”. We aspire to be Australia’s most impactful digital technology partner. By 2020 we aim to have fuelled the success of over one million businesses. Our customers will love us, our people will be our most passionate advocates, and our investors will be rewarded. Melbourne IT operates two businesses marketed under 8 brands.

The SMB division of Melbourne IT provides Australian small and medium businesses with online marketing solutions. It has over 450,000 direct customers, provides services to over 700,000 Australian businesses, and generates revenue over \$90M. The SMB business operates under six brands: Melbourne IT, WebCentral, Netregistry, WME, TPP Wholesale and Domainz.

The Enterprise Services division (ES) of Melbourne IT is the leading end-to-end provider of digital solutions for the corporate and government market with revenues over \$70M. ES have expertise in customer-focused design, software engineering, data analysis and management of flexible digital solutions across foundational technologies: Mobile, Data and Analytics, Cloud and Security. ES is based in Sydney, Melbourne and Brisbane and has a blue chip customer base. It operates under three brands, Melbourne IT, Infoready and Outware.

Appendix 4D
Half Yearly Report

Name of entity

Melbourne IT Ltd

ABN or equivalent company reference
21 073 716 793

Reporting Period
30 June 2017
(Comparative period – 30 June 2016)

2.0 Results for announcement to the market

\$A'000s

2.1 Total revenues	Up	10.8%	to	91,688
2.2 Profit after tax	Up	154.3%	to	8,126
2.3 Net profit attributable to members of the parent	Up	253.4%	to	7,920
2.4 Dividends (distributions)	Amount per security		Franked amount per security	
Current period				
Final dividend	6.0 cents		100%	
Interim dividend	<u>3.5 cents</u>		100%	
	9.5 cents			
Previous corresponding period				
Final dividend	4.0 cents		80%	
Interim dividend	<u>2.0 cents</u>		100%	
	6.0 cents			
2.5 Record date for determining entitlements to the dividend.	8 September 2017			

It is recommended the Appendix 4D be read in conjunction with the financial report for the half year ended 30 June 2017 and considered together with any public announcements made by Melbourne IT Ltd and its controlled entities during the half year ended 30 June 2017 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 2017 was \$91.688 million (2016: \$82.774 million), an increase of 10.8%.
- Profit after tax for the half year ended 30 June 2017 was \$8.126 million (2016: \$3.196 million), an increase of 154.3%.
- Profit after tax attributable to members of the parent for the half year ended 30 June 2017 was \$7.920 million (2016: \$2.241 million), an increase of 253.4%. Profit after tax attributable to non-controlling interests was \$0.206 million (2016: \$0.955 million), of which Outware Systems Pty Ltd (Outware) comprised \$0.153 million (2016: \$0.939 million). The following table shows a reconciliation of EBITDA* to the reported profit after tax attributable to members of the parent.

	30-Jun-17	30-Jun-16
	\$'000s	\$'000s
Earnings before interest, tax, depreciation and amortisation (EBITDA)*	15,304	11,190
Depreciation and amortisation	(3,618)	(3,513)
Earnings before interest and tax (EBIT)*	11,686	7,677
Net interest expense	(1,104)	(645)
Income tax expense	(2,456)	(3,836)
Profit after tax	8,126	3,196
Less: Profit after tax attributable to non-controlling interests:	206	955
Profit after tax attributable to members of the parent	7,920	2,241

- Underlying net profit after tax (Underlying NPAT)* for the half year ended 30 June 2017 was \$7.969 million (2016: \$4.589 million), an increase of 73.7%. Underlying figures have excluded transaction costs, integration costs, unwinding of discount on other financial liabilities, gain on accelerated purchase of Outware, gain on reassessment of contingent consideration 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. The following table shows a reconciliation of Reported NPAT to Underlying NPAT*.

	30-Jun-17	30-Jun-16
	\$'000s	\$'000s
Profit after tax attributable to members of the parent (Reported NPAT)	7,920	2,241
Adjustments to calculate underlying NPAT*:		
Profit after tax attributable to non-controlling interests of Outware	153	939
Transaction costs (tax effected)	547	501
Integration costs (tax effected)	1,505	812
Unwinding of discount on other financial liabilities	153	252
Gain on reassessment of non-controlling interests dividend liability	-	(586)
Gain on accelerated settlement of Outware option liability	(5,814)	-
Remuneration expense on accelerated settlement of Outware option liability	1,579	-
Gain on reassessment of contingent consideration liability	(228)	-
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)	2,051	416
Other non-operating expenses (tax effected)	83	43
Underlying NPAT*	7,949	4,589

- Reported EBITDA* for the half year ended 30 June 2017 was \$15.304 million (2016: \$11.190 million), an increase of 36.8%.

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* for the half year ended 30 June 2017 was \$16.826 million (2016: \$10.579 million), an increase of 59.05%

	30-Jun-17 \$'000s	30-Jun-16 \$'000s
Reported EBITDA*	15,304	11,190
Adjustments to calculate underlying EBITDA*:		
Transaction costs	637	595
Integration costs	2,178	1,160
Gain on accelerated settlement of Outware option liability	(5,814)	-
Remuneration expense on accelerated settlement of Outware option liability	1,579	-
Gain on reassessment of contingent consideration liability	(228)	-
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)	3,051	599
Other non-operating expenses	119	62
Underlying EBITDA*	16,826	10,579

- Following the acquisition completed on 31 May 2017, Web Marketing Experts Pty Ltd, Nothing But Web Pty Ltd and Results First Ltd (together the 'WME Group') has contributed revenue of \$2.235 million, net profit after tax of \$0.577 million and EBITDA* of \$0.931 million during the period.
- Reported earnings per share for the half year ended 30 June 2017 was 7.54 cents (2016: 2.31 cents), an increase of 226.4%.
- Operating cash flow for the half year ended 30 June 2017 was \$5.865 million (2016: \$7.946 million), a decrease of 26.2%. Included in the operating cash flows are net income tax paid of \$3.794 million (2016: \$3.149 million), a difference of \$0.645 million.
- Included in cash flows from investing activities are outflows from acquisitions including transaction costs of \$52.845 million (2016: \$15.977 million).
- Cash and cash equivalents were \$23.443 million at 30 June 2017 (31 December 2016: \$16.426 million).
- Deferred net revenue (i.e. income received in advance net of prepaid costs) was \$28.459 million at 30 June 2017 (31 December 2016: \$24.707 million), an increase of 15.2%.

* 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

Following the November 2016 publication of the IFRS Interpretation Committee's agenda decision addressing the expected manner of recovery of intangible assets with indefinite useful lives for the purposes of measuring deferred tax, the Group has retrospectively changed their accounting policy in accordance with AASB 108 *Accounting Policies, Changes to Accounting Estimates and Errors*. The Interpretation Committee noted that, in applying AASB 112 *Income Taxes*, the fact that an entity does not amortise an intangible asset with an indefinite life does not mean that it has an infinite life and that the entity will recover the carrying amount of that asset only through sale and not through use. Previously, the Group measured deferred taxes on temporary differences arising from indefinite life intangible assets based upon the tax that would result solely through future sale. As a result, the Group has adopted an accounting policy to measure deferred taxes on temporary differences arising from indefinite life intangible assets based upon the tax consequences arising through use.

	31-Dec-16 \$'000s	01-Jan-16 \$'000s
Increase/(decrease) of previously reported balances		
Goodwill	2,705	2,705
Deferred tax liabilities	2,705	2,705

Adoption of this change in accounting policy does not impact net assets or profit and loss.

Other than that disclosed above the accounting policies and treatments are consistent with the 31 December 2016 financial report.

Appendix 4D
Melbourne IT Ltd – 30 June 2017 Half Yearly Report

3.0 NTA Backing	Current period 30 June 2017	Previous Period 31 December 2016
Net tangible asset backing per ordinary security	-70.08 cents	-83.28 cents

Net Assets at 30 June 2017 were \$179.180 million including \$1.124 million of net deferred tax liabilities and \$262.203 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), InfoReady Pty Ltd (March 2016), Web Marketing Experts Pty Ltd (May 2017), Nothing But Web Pty Ltd (May 2017) and Results First Ltd (May 2017).

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 Web Marketing Experts Pty Ltd, Nothing But Web Pty Ltd and Results First Ltd ('WME Group') was acquired on 31 May 2017.
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 WME Group from 31 May to 30 June 2017 was \$0.577 million.
4.3	Date from which such profit has been calculated	31 May 2017
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	6.0 cents	100%	N/A
Interim	3.5 cents	100%	N/A
	9.5 cents		
Previous Year			
Final	4.0 cents	80%	N/A
Interim	2.0 cents	100%	N/A
	6.0 cents		

Total Dividends (distributions) per security (interim + final)	Current Year	Previous Year
Final	6.0 cents	4.0 cents
Interim	3.5 cents	2.0 cents
Total	9.5 cents	6.0 cents

5.0 Dividends (Continued)

Additional information on current year dividends

Date the dividend (distribution) is payable	29 September 2017
Details of individual and total dividends or distributions and dividend or distribution payments.	3.5 cents per share totalling approximately \$4.090 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.	11 September 2017
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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 2017 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: 24 August 2017
Ms. E. Rigato
Company Secretary

MELBOURNE IT LTD
(ABN: 21 073 716 793)

FINANCIAL REPORT

FOR THE HALF YEAR ENDED
30 JUNE 2017

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

Ms G. Pemberton	(appointed Chair on 1 February 2017)
Mr. S.D. Jones	(Chair to 1 February 2017, Retired on 29 May 2017)
Mr. M. Mercer	(Managing Director & Chief Executive Officer)
Mr. J. Armstrong	
Mr. L. Bloch	
Mr. T. Kiing	
Ms. N. Sparks	
Mr. S. Martin	(appointed 19 July 2017)
Mr. A. Macpherson	(appointed 19 July 2017)

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Mr. M. Mercer

CHIEF FINANCIAL OFFICER

Mr. S. Bland	(appointed on 27 March 2017)
Mr. P. Findlay	(resigned on 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
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Dockla +61 3 9615 9800
Fax: +61 3 9615 9900

AUDITORS

Ernst & Young
8 Exhibition Street
Melbourne, Victoria, 3000

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 2017 and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

Ms G. Pemberton	(appointed Chair on 1 February 2017)
Mr. S.D. Jones	(Chair to 1 February 2017, Retired on 29 May 2017)
Mr. M. Mercer	(Managing Director & Chief Executive Officer)
Mr. J. Armstrong	
Mr. L. Bloch	
Mr. T. Kiing	
Ms. N. Sparks	
Mr. S. Martin	(appointed 19 July 2017)
Mr. A. Macpherson	(appointed 19 July 2017)

COMPANY SECRETARY

Ms. E. Rigato

PRINCIPAL ACTIVITIES

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

Small Medium Business (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.

	Half year 30-Jun-17 \$'000s	Half year 30-Jun-16 \$'000s
EARNINGS PER SHARE		
Basic earnings per share	7.54 cents	2.31 cents
Diluted earnings per share	7.42 cents	2.27 cents

DIVIDENDS

During the half year, a final dividend of 6.0 cents per share amounting to \$6,091,000 was paid on 28 April 2017.

After 30 June 2017, an interim dividend of 3.5 cents per share amounting to \$4,090,000 was declared by the directors. The interim dividend has not been recognised as a liability as at 30 June 2017.

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

Consolidated Group revenue for the period ended 30 June 2017 was \$91,688,000 (2016: \$82,774,000), an increase of 10.8%.

The increase has been driven by continued growth in the Group's Enterprise Services business and SMB Solutions, which was assisted through the acquisition of Web Marketing Experts Pty Ltd, Nothing But Web Pty Ltd and Results First Ltd on 31 May 2017.

The Group generated \$5,865,000 of cash flows from operating activities in the half year ended 30 June 2017, a decrease of 26.2%, driven by increased working capital requirements of the Group as a result of strong growth in our Enterprise Services business.

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 for the half year ended 30 June 2017 are as follows:

	30-Jun-17	30-Jun-16
	\$'000s	\$'000s
Revenue		
Registration revenue	19,388	25,640
Solutions, hosting & services	<u>72,267</u>	<u>57,066</u>
	<u>91,655</u>	<u>82,706</u>
Interest revenue	<u>33</u>	<u>68</u>
Total Revenue	<u>91,688</u>	<u>82,774</u>
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	15,304	11,190
Depreciation expense	(1,669)	(1,791)
Amortisation expense	<u>(1,949)</u>	<u>(1,722)</u>
Earnings Before Interest and Tax (EBIT)	11,686	7,677
Net interest expense	<u>(1,104)</u>	<u>(645)</u>
Profit before tax	10,582	7,032
Income tax expense	<u>(2,456)</u>	<u>(3,836)</u>
Profit for the half year	<u>8,126</u>	<u>3,196</u>
Profit for the half year attributable to:		
Members of the parent	7,920	2,241
Non-controlling interests	<u>206</u>	<u>955</u>
	<u>8,126</u>	<u>3,196</u>
Cash flow from Operations	5,865	7,946

MELBOURNE IT LTD

DIRECTORS' INFORMATION (continued)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Melbourne IT announced that on 1 February 2017, Mr Simon Jones stepped down as Chair for the Board of Directors and has retired from his directorship at the Annual General Meeting held on 29 May 2017. Ms Gail Pemberton has succeeded Mr Simon Jones as Chair for the Board of Directors.

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 \$28,692,000. Of the consideration paid, \$1,000,000 will be held in escrow in the form of shares in Melbourne IT Group, and \$2,683,000 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 has extinguished 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) \$60,615,000, implying a forward EBITDA multiple 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.

On 25 May 2017, Melbourne IT successfully completed a fully underwritten non-renounceable rights offer capital raising of \$29,415,000 (net of transaction costs). The underwritten non-renounceable accelerated entitlement offer to shareholders was completed at an issue price of \$2.10 per share. The 14,609,443 new shares issued ranked *pari passu* with existing ordinary shares on issue.

On 31 May 2017, Melbourne IT acquired 100% of Web Marketing Experts Pty Ltd, Nothing But Web Pty Ltd and Results First Ltd ('WME Group'), a leading provider of end-to-end digital marketing solutions including search engine optimisation, search engine advertising and web design to the SMB market, for purchase consideration of \$38,687,000 (including working capital and net debt adjustments). The provisional accounting for the acquisition in accordance with AASB 3 '*Business Combinations*' is as disclosed in D1(a) in the notes to the financial statements.

Other than as stated above, there have been no other significant changes in the state of affairs during the half year ended 30 June 2017.

EVENTS AFTER BALANCE DATE

On 19 July 2017, the Company appointed Mr Simon Martin and Mr Andrew Macpherson as non-executive directors. The Company also announced that Mr. Tom Kiing will be resigning as a non-executive director on 30 September 2017.

On 4 August 2017, the Group entered into a non-binding heads of agreement to lease up to 5,385 square metres of office space at 680 George Street, Sydney, commencing on 1 December 2017 for a term of 5 years. The current total commitment is estimated at \$21,059,000 over the term of the lease.

On 24 August 2017, the directors declared an interim dividend of 3.5 cents per ordinary share, franked at 100%, amounting to \$4,090,000. The expected payment date of the dividend is 29 September 2017.

As part of the WME Group acquisition, the ANZ bank facility was under renegotiation as at 30 June 2017. Subsequent to half year end, this facility has been renegotiated to defer the requirement to repay Tranche B until 30 June 2018. If this position was reflected in these financial statements, current borrowings would be \$3,000,000 and non-current borrowings would be \$61,192,000.

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 Group, 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. The company is an entity to which this Instrument applies.

MELBOURNE IT LTD

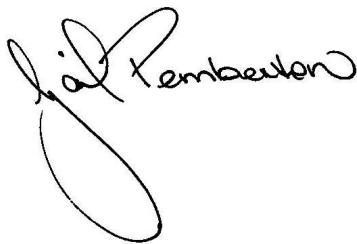
DIRECTORS' INFORMATION (continued)

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 'Gail Pemberton', with a large, stylized loop at the end.

.....
Ms Gail Pemberton
Chair
24 August 2017

MELBOURNE IT LTD

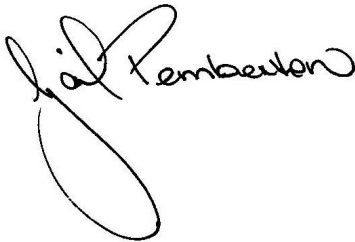
DIRECTORS' DECLARATION

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 2017 are in accordance with the *Corporations Act 2001*, including:
 - (i) give a true and fair view of the financial position as at 30 June 2017 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 'Gail Pemberton', with a large, stylized loop at the end.

.....
Ms Gail Pemberton
Chair
24 August 2017

MELBOURNE IT LTD
**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017**

CONSOLIDATED		
Notes	30-Jun-17 \$'000s	Restated 31-Dec-16 \$'000s
Current Assets		
Cash and cash equivalents	23,443	16,426
Trade and other receivables	B1 22,465	18,093
Prepayments including domain name registry charges	6,385	7,134
Current tax assets	-	-
Derivative financial instruments	-	4
Other assets	8,577	4,484
Total Current Assets	60,871	46,141
Non-current Assets		
Plant and equipment	6,338	6,739
Intangible assets	B2 262,203	224,741
Deferred tax assets	5,161	4,438
Prepayments including domain name registry charges	3,056	3,392
Non-current financial assets	B3 2,171	1,795
Other assets	217	38
Total Non-current Assets	279,146	241,143
TOTAL ASSETS	340,017	287,285
LIABILITIES		
Current Liabilities		
Trade and other payables	B4 21,211	18,804
Provisions	B5 4,388	3,461
Interest-bearing loans and borrowings	C1 10,693	92
Derivative financial instruments	150	-
Income received in advance	28,027	25,166
Current tax liabilities	3,073	1,684
Other financial liabilities	C2 18,635	31,089
Total Current Liabilities	86,177	80,296
Non-current Liabilities		
Provisions	B5 1,109	803
Interest-bearing loans and borrowings	C1 53,570	36,536
Deferred tax liabilities	6,285	5,685
Income received in advance	9,873	10,067
Other financial liabilities	C2 3,823	8,315
Total Non-current Liabilities	74,660	61,406
TOTAL LIABILITIES	160,837	141,703
NET ASSETS	179,180	145,582
EQUITY		
Contributed equity	C3 82,037	51,026
Foreign currency translation reserve	(587)	(593)
Options reserve	1,393	1,398
Hedging reserve	(151)	3
Other reserve	-	8,523
Available for sale (AFS) reserve	-	-
Retained earnings	96,383	85,074
Equity attributable to members of the parent	179,075	145,431
Non-controlling interest	105	151
TOTAL EQUITY	179,180	145,582

MELBOURNE IT LTD
**STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2017**

CONSOLIDATED			
	Notes	30-Jun-17 \$'000s	Restated 30-Jun-16 \$'000s
Revenue	A1	91,688	82,774
Registry, hosting and sundry products costs		(42,410)	(37,612)
Gross profit		49,278	45,162
Other income	A1	6,042	586
Salaries and employee benefit expenses	A2	(30,066)	(28,061)
Depreciation expenses	A2	(1,669)	(1,791)
Amortisation of intangible assets	A2	(1,949)	(1,722)
Transaction costs relating to acquisitions		(637)	(595)
Finance costs	A2	(1,859)	(1,475)
Other expenses	A2	(8,558)	(7,422)
Gain on sale of IDNR business, net of transaction costs		-	2,350
Profit before tax		10,582	7,032
Income tax expense	A3	(2,456)	(3,836)
Profit for the half year		8,126	3,196
<u>Other comprehensive income</u>			
<u>Other comprehensive income to be reclassified to the profit or loss in subsequent periods:</u>			
Currency translation differences		6	(10)
<u>Other comprehensive income that may be reclassified to the profit or loss in subsequent periods</u>			
Net gains/(losses) on cash flow hedges (net of tax)		-	(28)
Gain on revaluation of convertible note loan receivables		-	83
Other comprehensive income for the period, net of tax		6	45
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		8,132	3,241
Profit for the half year attributable to:			
Members of the parent		7,920	2,241
Non-controlling interests		206	955
		8,126	3,196
Total comprehensive income attributable to:			
Members of the parent		7,926	2,286
Non-controlling interests		206	955
		8,132	3,241
		30-Jun-17	30-Jun-16
Earnings per share			
- Basic earnings per share	A4	7.54 cents	2.31 cents
- Diluted earnings per share	A4	7.42 cents	2.27 cents

MELBOURNE IT LTD

STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 30 JUNE 2017

	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 2017	(593)	1,398	3	8,523	-	51,026	85,074	145,431	151	145,582
Profit for the period	-	-	-	-	-	-	7,920	7,920	206	8,126
Other comprehensive income	6	-	-	-	-	-	-	6	-	6
Total comprehensive income for the period	6	-	-	-	-	-	7,920	7,926	206	8,132
Transactions with owners in their capacity as owners:										
Share based payment	-	780	-	-	-	-	-	780	-	780
Issue of shares for long term incentive plan	-	(785)	-	-	-	-	785	-	-	-
Dividend reinvestment plan	-	-	-	-	-	1,596	-	1,596	-	1,596
Capital raising (net transaction costs)	-	-	-	-	-	29,415	-	29,415	-	29,415
Equity dividends	-	-	-	-	-	-	(6,091)	(6,091)	(100)	(6,191)
Transfer (from)/to other reserve	-	-	-	(8,523)	-	-	8,676	153	(153)	-
Transfer from/(to) financial liabilities	-	-	(154)	-	-	-	19	(135)	-	(135)
As at 30 June 2017	(587)	1,393	(151)	-	-	82,037	96,383	179,075	105	179,180
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 (net transaction costs)	-	-	-	-	-	14,576	-	14,576	-	14,576
Equity dividends	-	-	-	-	-	-	(4,017)	(4,017)	(200)	(4,217)
Transfer (from)/to other reserve	-	-	-	6,350	-	-	-	6,350	(6,350)	-
Transfer from/(to) financial liabilities	-	-	-	-	-	-	-	-	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

MELBOURNE IT LTD
**STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 JUNE 2017**

		CONSOLIDATED	
		30-Jun-17	30-Jun-16
Notes		\$'000s	\$'000s
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of service revenue and recoveries		95,972	92,433
Payments to suppliers and employees		(84,640)	(80,128)
Interest received		33	68
Interest paid		(984)	(516)
Bank charges and credit card merchant fees		(722)	(762)
Income tax refund		-	38
Income tax paid		(3,794)	(3,187)
NET CASH FLOWS FROM OPERATING ACTIVITIES		5,865	7,946
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment and intangible assets		(1,658)	(2,286)
Proceeds from sale of IDNR business, net of transaction costs		-	6,618
Acquisition of InfoReady		(620)	(15,382)
Acquisition of Web Marketing Experts, Nothing But Web and Results First, net of cash acquired	D1	(23,896)	-
Repayment of WME loans		4,000	-
Acquisition of Outware		(27,692)	-
Transaction costs relating to acquisitions	D1	(637)	(595)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(50,503)	(11,645)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from capital raising	C3	30,680	15,000
Transaction costs on capital raising	C3	(1,807)	(605)
Proceeds from borrowings	C1	27,692	-
Repayment of borrowings	C1	-	(2,300)
Payment of finance lease liabilities		(57)	(102)
Payment of dividend on ordinary shares	A5	(4,495)	(3,449)
Payment of dividend to non-controlling interests		(365)	(200)
Payment of non-controlling interests dividend liability		-	(498)
NET CASH FLOWS FROM FINANCING ACTIVITIES		51,648	7,846
NET INCREASE IN CASH & CASH EQUIVALENTS		7,010	4,147
Net foreign exchange differences		7	(11)
Cash and cash equivalents at beginning of period		16,426	12,370
CASH & CASH EQUIVALENTS AT END OF THE PERIOD		23,443	16,506

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017**

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- A1. REVENUE AND OTHER INCOME
- A2. EXPENSES
- A3. INCOME TAX
- A4. EARNINGS PER SHARE
- A5. DIVIDENDS PAID AND PROPOSED

SECTION B: OPERATING ASSETS AND LIABILITIES

- B1. TRADE AND OTHER RECEIVABLES
- B2. INTANGIBLE ASSETS
- B3. NON-CURRENT FINANCIAL ASSETS
- B4. TRADE AND OTHER PAYABLES
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SECTION C: CAPITAL AND FINANCIAL RISK MANAGEMENT

- C1. INTEREST BEARING LOANS AND BORROWINGS
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- C3. CONTRIBUTED EQUITY

SECTION D: GROUP STRUCTURE

- D1. BUSINESS COMBINATIONS

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- E1. EVENTS AFTER BALANCE DATE
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MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

CORPORATE INFORMATION

The financial information in this report for Melbourne IT Ltd for the half year ended 30 June 2017 was authorised for issue in accordance with a resolution of the directors on 24 August 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 the Basis of Preparation Operating Segments (Note E2).

BASIS OF PREPARATION

This general purpose condensed financial report (hereafter known as 'half year financial report') for the half year ended 30 June 2017 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 2016 and considered together with any public announcements made by Melbourne IT Ltd and its controlled entities during the half year ended 30 June 2017 in accordance with the continuous disclosure obligations of the ASX listing rules.

(a) Changes in accounting policy

AASB 112: Income Taxes

Following the November 2016 publication of the IFRS Interpretation Committee's agenda decision addressing the expected manner of recovery of intangible assets with indefinite useful lives for the purposes of measuring deferred tax, the Group has retrospectively changed their accounting policy in accordance with AASB 108 *Accounting Policies, Changes to Accounting Estimates and Errors*. The Interpretation Committee noted that, in applying AASB 112 *Income Taxes*, the fact that an entity does not amortise an intangible asset with an indefinite life does not mean that it has an infinite life and that the entity will recover the carrying amount of that asset only through sale and not through use. Previously, the Group measured deferred taxes on temporary differences arising from indefinite life intangible assets based upon the tax that would result solely through future sale. Consequently, the Group has adopted an accounting policy to measure deferred taxes on temporary differences arising from indefinite life intangible assets based upon the tax consequences arising through use.

Adoption of this change in accounting policy does not impact net assets or profit and loss.

The impact of this change is as follows:

	31-Dec-16 \$'000s	01-Jan-16 \$'000s
Increase/(decrease) of previously reported balances		
Goodwill	2,705	2,705
Deferred tax liabilities	2,705	2,705

Refer to note B2 for the impact of the restatement to goodwill.

Other than the changes disclosed above, 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 2016.

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 2017**

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.

Small Medium Business (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.

	CONSOLIDATED	
	30-Jun-17	Restated 30-Jun-16
	\$'000s	\$'000s
A1. REVENUE AND OTHER INCOME		
(a) Revenue		
Registration revenue	19,388	25,640
Solutions, hosting & services	72,267	57,066
	<u>91,655</u>	<u>82,706</u>
Interest revenue	33	68
Total revenue	<u>91,688</u>	<u>82,774</u>
(b) Other income		
Gain on accelerated settlement of Outware option liability	5,814	-
Gain on reassessment of contingent consideration liability	228	-
Gain on reassessment of non-controlling interests dividend liability	-	586
	<u>6,042</u>	<u>586</u>

The Australian Accounting Standards Board (AASB) has issued a number of new revenue standard, AASB 15: *Revenue from Contracts with Customers*, which becomes effective from 1 January 2018. The Group has formed a working group to assess any potential impact resulting from the application of the new standard from 1 January 2018, including prior year comparative disclosures. The Group has not yet finalised the quantification of any impact identified, and anticipates that the estimate of the potential quantitative impact to the prior year comparative (i.e. 2017) will be available for disclosure in the financial statements for the year ending 31 December 2017.

In the financial statements for the period or half-year ended 30 June 2016, revenue generated from the InfoReady acquisition was presented on a provisional basis in line with pre-acquisition accounting policies, as the alignment to MIT Group policies was not yet finalised as part of the fair value assessment. The prior year comparative presented in these financial statements has been aligned with Group policy, resulting in a reduction in gross revenue and cost of goods sold of \$2,175,000. This has no net impact on net profit.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017

	CONSOLIDATED	
	30-Jun-17	30-Jun-16
	\$'000s	\$'000s
A2. EXPENSES		
(a) Salaries and employee benefits expense		
Included in salaries and employee benefits expenses		
Expensing of share based payments	780	372
Superannuation expense	2,865	1,784
Remuneration expense from accelerated settlement of Outware option liability	1,579	-
(b) Depreciation expense		
Fit out	112	113
Plant and equipment	1,519	1,654
Furniture	38	24
Total depreciation expense	<u>1,669</u>	<u>1,791</u>
(c) Amortisation of intangible assets		
Capitalised software	1,200	937
Customer contracts	749	785
Total amortisation of intangible assets	<u>1,949</u>	<u>1,722</u>
(d) Finance costs/income		
Bank charges and credit card merchant fees	722	762
Interest expense	984	516
Unwinding of discount on other financial liabilities	153	252
Imputed interest income on convertible note receivables	-	(55)
	<u>1,859</u>	<u>1,475</u>
(e) Other expenses		
Included in other expenses:		
Premises	1,750	1,812
Marketing	1,318	1,500
Equipment	1,178	1,175
Bad and doubtful debts	543	30
Foreign exchange (gains)/losses	205	(17)
Onerous contract	204	-
Loss on disposal of property, plant & equipment	110	-
Fair value movement in embedded derivatives	-	53

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017

CONSOLIDATED
30-Jun-17 30-Jun-16
\$'000s \$'000s

A3. INCOME TAX

The major components of income tax expense are:

(a) Statement of comprehensive income

Current income tax

Current income tax charge	2,012	3,514
Adjustments in respect of current income tax of previous periods	361	(45)

Deferred income tax

Relating to origination and reversal of temporary differences	83	367
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Income tax expense reported in the statement of
comprehensive income

2,456	3,836
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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
Deferred tax asset recognised on equity raise costs	542	182

Income tax expense reported in equity

542	194
-----	-----

(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	10,582	7,032
At the Group's statutory income tax rate of 30% (2016: 30%)	3,175	2,109
Adjustments in respect of current income tax of previous periods	361	(45)
Non-deductible expenses	233	205
Other non-assessable income	(1,813)	(176)
Remuneration expense from accelerated settlement of Outware option liability	474	
Unwinding of discount on other financial liabilities	46	76
Goodwill allocated to gain on sale of IDNR business	-	1,719
Estimated R&D tax incentive claims	-	(120)
Other	(20)	68
Income tax expense at the effective income tax rate	2,456	3,836

Income tax expense reported in the statement of comprehensive income

2,456	3,836
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017**

CONSOLIDATED
30-Jun-17 30-Jun-16

A4. EARNINGS PER SHARE

Basic earnings per share	7.54 cents	2.31 cents
Diluted earnings per share	7.42 cents	2.27 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	7,920	2,241
Number of shares		
Weighted average number of ordinary shares used in the calculation of basic earnings per share	105,085,637	96,769,341
Effect of dilution:		
Share rights	1,585,169	1,918,092
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	106,670,806	98,687,433

CONSOLIDATED
30-Jun-17 30-Jun-16
\$'000s \$'000s

A5. DIVIDENDS PAID AND PROPOSED**Equity dividends on ordinary shares:****(a) Dividends declared and paid during the half year on ordinary shares**

Final fully franked dividend for the financial year ended 31 December 2016:

6.0 cents per share (2016: 4.0 cents per share at 80% franked)	6,091	4,017
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(b) Dividends proposed and not recognised as a liability

Interim fully franked dividend for the half year ended 30 June 2017:

3.5 cents per share (2016: 2.0 cents per share)	4,090	2,015
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The dividend paid in the period consisted of \$4,495,000 cash payment and \$1,596,000 reinvested through the dividend reinvestment plan.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017

	CONSOLIDATED	
	30-Jun-17	31-Dec-16
	\$'000s	\$'000s
B1. TRADE AND OTHER RECEIVABLES		
Trade and sundry debtors	23,698	18,929
Allowance for impairment loss	(1,233)	(836)
Total trade and other receivables	<u>22,465</u>	<u>18,093</u>

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

	CONSOLIDATED	
	30-Jun-17	Restated 31-Dec-16
	\$'000s	\$'000s
B2. INTANGIBLE ASSETS		
Carrying amount of intangible assets		
Goodwill (a)	237,500	202,540
Marketing related intangibles (b)	9,052	9,052
Accumulated amortisation	(35)	(35)
	<u>9,017</u>	<u>9,017</u>
Customer contracts (c)	10,520	7,977
Accumulated amortisation	(3,455)	(3,305)
	<u>7,065</u>	<u>4,672</u>
Capitalised software (d)	14,473	13,239
Accumulated amortisation	(5,852)	(4,727)
	<u>8,621</u>	<u>8,512</u>
Other intangibles	315	315
Accumulated amortisation	(315)	(315)
	<u>-</u>	<u>-</u>
Total intangible assets	<u>262,203</u>	<u>224,741</u>

(a) Goodwill

This balance includes goodwill arising from the acquisition of WME Group. As at 30 June 2017, 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 2017 (also refer to Note D1(a)).

The goodwill balance at 31 December 2016 has been restated to recognise an additional \$2,705,000 goodwill asset. This follows from a change in accounting policy following a recent decision by the IFRS Interpretations Committee in relation to AASB 112: *Income Taxes*. Refer to the 'Basis of Preparation' note for further detail.

(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 acquisition of WME Group in the current period and InfoReady Pty Ltd ('InfoReady') in the prior period, customer contracts amounting to \$3,206,000 and \$847,000 were recognised respectively based on an external valuation. The customer contracts are amortised over the period of 3 - 5 years based on the historical attrition rate. As at 30 June 2017, management has yet to complete the fair value accounting process relating to the acquisition of WME Group, including identifying and valuing any intangible assets separately from goodwill. Therefore, this balance remains provisional as at 30 June 2017 (also refer to Note D1(a)).

(d) Capitalised software

Included in capitalised software is software acquired from Netregistry Pty Ltd with a carrying value of \$3,850,000, Oracle Financials, the common financial reporting system used by all entities in the Group with a carrying value of \$458,000 and software acquired from the acquisition of WME Group with a carrying value of \$585,000. As at 30 June 2017, management has yet to complete the fair value accounting process relating to the acquisition of WME Group, including identifying and valuing any intangible assets separately from goodwill. Therefore, this balance remains provisional as at 30 June 2017 (also refer to Note D1(a)).

MELBOURNE IT LTD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017****B3. NON-CURRENT FINANCIAL ASSETS**

	CONSOLIDATED	
	30-Jun-17	31-Dec-16
	\$'000s	\$'000s
Investment in Tiger Pistol - ordinary shares	1,781	1,795
Bank Guarantee Receivable	390	-
Total non-current financial assets	<u>2,171</u>	<u>1,795</u>

The Group holds 603,205 shares 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.

B4. TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	30-Jun-17	31-Dec-16
	\$'000s	\$'000s
Trade creditors	2,730	5,449
Sundry creditors	5,708	3,959
Deposits received in advance	488	1,549
Accrued expenses	12,285	7,847
Total payables	<u>21,211</u>	<u>18,804</u>

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.

B5. PROVISIONS

	CONSOLIDATED	
	30-Jun-17	31-Dec-16
	\$'000s	\$'000s
Current		
Employee benefits	4,178	3,291
Other	210	170
	<u>4,388</u>	<u>3,461</u>
Non-current		
Employee benefits	938	803
Other	171	-
	<u>1,109</u>	<u>803</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017**

C1. INTEREST BEARING LOANS AND BORROWINGS	CONSOLIDATED	
	30-Jun-17	31-Dec-16
	\$'000s	\$'000s
Current		
Finance lease liabilities	71	92
Bank loan	10,622	-
	<u>10,693</u>	<u>92</u>
Non-current		
Finance lease liabilities	-	36
Bank loan	53,570	36,500
	<u>53,570</u>	<u>36,536</u>

The Group has entered into finance leases for some items of equipment whereby the present value of the minimum lease payments approximate \$78,000 (2016: \$240,000).

On 15 February 2017, \$27,692,000 was drawn down from the ANZ banking facility to fund the acquisition of the remaining 24.9% interest in Outware. 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 half year ended 30 June 2017, there were no loan repayments made by the Group (2016: \$2,300,000).

As at 30 June, the drawn down amount for Tranche B of the cash advance facility is \$10,622,000, and has been classified as a current liability as this amount is repayable within 12 months of balance date. As part of the WME Group acquisition, the ANZ bank facility was under renegotiation as at 30 June 2017. Subsequent to half year end, this facility has been renegotiated to defer the requirement to commence amortisation repayments of Tranche B until 30 June 2018. If this position was reflected in these financial statements, current borrowings would be \$3,000,000 and non-current borrowings would be \$61,192,000.

C2. OTHER FINANCIAL LIABILITIES	CONSOLIDATED	
	30-Jun-17	31-Dec-16
	\$'000s	\$'000s
Current		
Put options liability	-	29,828
Dividend liability to non-controlling interests	-	1,261
Outware remuneration liability	1,149	-
Contingent consideration liability	17,486	-
	<u>18,635</u>	<u>31,089</u>
Non-current		
Contingent consideration liability	3,823	8,315

Other financial liabilities comprise the contingent consideration liabilities in relation to acquisition of WME Group and InfoReady Pty Ltd (refer to Note D1(a) and D1(b) respectively for further detail) and the provision for remuneration recognised in relation to the accelerated purchase of the remaining 24.9% of share capital of Outware (refer below).

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 \$28,692,000. Of the consideration paid, \$1,000,000 will be held in escrow in the form of shares in Melbourne IT Group, and \$2,683,000 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. As these components are deemed to represent employee remuneration, these have been recognised on a straight-line basis in the Statement of Comprehensive Income.

This has extinguished the Group's put option and dividend liability to non-controlling interests in Outware, resulting in the recognition of a 'gain-on-accelerated settlement' of \$5,814,000, and a remuneration expense of \$1,579,000 that has been recognised in the Statement of Comprehensive Income.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017

C3. CONTRIBUTED EQUITY

Ordinary shares

Issued and fully paid

CONSOLIDATED
30-Jun-17 31-Dec-16
\$'000s \$'000s

82,037 51,026

Movements in ordinary shares on issue

30-Jun-17

31-Dec-16

No. of
Shares

\$'000s

No. of
Shares

\$'000s

Beginning of the financial period

100,861,330

51,026

92,944,392

35,629

Issued during the period

- Capital raising

14,609,443

30,680

7,500,000

15,000

- 2014 LTI plan

659,913

-

-

-

- Dividend reinvestment plan

728,881

1,596

416,938

821

- Transaction costs on capital raising, net of tax

-

(1,265)

-

(424)

End of the financial period

116,859,567

82,037

100,861,330

51,026

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

D1. BUSINESS COMBINATIONS

(a) Web Marketing Experts Pty Ltd, Nothing But Web Pty Ltd, Results First Ltd

On 31 May 2017, Melbourne IT acquired 100% of Web Marketing Experts Pty Ltd (Web Marketing Experts), Nothing But Web Pty Ltd (Nothing But Web) and Results First Ltd (Results First) (together the WME Group). WME Group is a leading provider of end-to-end digital marketing solutions including search engine optimisation, search engine advertising and web design, for purchase consideration of \$38,687,000 (including working capital and net debt adjustment). The acquisition will be funded through a combination of equity and debt (approximately \$29,415,000 and \$9,272,000 respectively). The acquisition of WME Group further strengthens Melbourne IT's capabilities to provide complete digital marketing solutions to small and medium businesses across Australia and New Zealand.

Assets acquired and liabilities assumed

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

	Provisional accounting Fair value recognised on acquisition \$'000s
Assets	
Cash and cash equivalents	1,104
Trade and other receivables	4,746
Property, plant and equipment	390
Intangible assets	3,801
Other assets	419
	<u>10,460</u>
Liabilities	
Trade and other payables	1,578
Provisions	428
Income in advance	1,256
Current tax liability	2,509
Deferred tax liability	962
	<u>6,733</u>
Total identifiable net assets at fair value	3,727
Goodwill and other intangibles arising on acquisition	<u>34,960</u>
Purchase consideration	<u><u>38,687</u></u>

As at 30 June 2017, management has yet to finalise the fair value accounting process including the identification and valuation of any intangible assets separately from goodwill and necessary tax accounting. Therefore, the acquisition accounting remains provisional as at 30 June 2017. It is possible these assets, liabilities and related goodwill included in the Group's consolidated financial statements for the half year ended 30 June 2017 may change during the 12-month period after acquisition during which fair value adjustments are permitted. The goodwill is not deductible for income tax purposes.

From the date of acquisition to 30 June 2017, WME Group has contributed \$2,235,000 to the revenue and \$577,000 to the profit after tax attributable to members of the parent. If the combination had taken place at the beginning of the year, Group revenue would have been \$101,439,000 and profit after tax attributable to members of the parent would have been \$10,055,000.

Purchase consideration

	\$'000s
Cash paid	25,000
Working capital adjustment	(3,734)
Net debt adjustment	5,256
Contingent consideration liability	12,165
	<u><u>38,687</u></u>

The net of the working capital adjustment of (\$3,734,000) and the net debt adjustment of \$5,256,000 will be refunded after 30 June 2017.

Transaction costs associated with the acquisition WME Group and the related equity raise of \$637,000 were expensed through the Statement of Comprehensive Income and equity raising costs totalling \$1,807,000 were taken directly to equity for the half-year ended 30 June 2017. This was included in the cash flows from investing activities.

Analysis of cash flows on acquisition

	\$'000s
Purchase consideration paid	25,000
Net cash acquired	(1,104)
Net cash flow on acquisition (included in cash flows from investing activities)	<u><u>23,896</u></u>

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2017

D1. BUSINESS COMBINATIONS

(b) 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 \$15,332,000 (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 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 \$'000s	Adjustments \$'000s	Final \$'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	24,691	(22)	24,669

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 \$847,000 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

In the financial statements for the period or half-year ended 30 June 2016, revenue generated from the InfoReady acquisition was presented on a provisional basis in line with pre-acquisition accounting policies, as the alignment to MIT Group policies was not yet finalised as part of the fair value assessment. The prior year comparative presented in these financial statements has been aligned with Group policy, resulting in a reduction in gross revenue and cost of goods sold of \$2,175,000. This has no net impact on net profit.

From the date of acquisition to 30 June 2016, InfoReady contributed \$5,093,000 to the Group's revenue and \$705,000 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 for the half year ended 30 June 2016 would have been \$86,338,000 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	(50)
Contingent consideration liability	9,337
	<u>24,669</u>

Transaction costs of \$595,000 were expensed through the Statement of Comprehensive Income. This was included in the cash flows from investing activities in the prior period.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017

D1. BUSINESS COMBINATIONS (continued)

(b) InfoReady Pty Ltd (continued)

Contingent consideration liability

As part of the Share Purchase Agreement ('SPA') with the previous owners of InfoReady, three earn out payments have been agreed. The earn out payments are calculated based on the excess of the EBITDA performance during the earn out periods over the EBITDA threshold amount specified in the SPA for each of the earn out periods multiplied by three. The earn out periods start from 1 April to 31 March the following year until 31 March 2019. If the EBITDA threshold amount is not achieved during any of the earn out periods, then no contingent consideration will be payable. The maximum amount payable is dependent upon the excess of the of the EBITDA performance during the earn out period over the EBITDA threshold amount specified in the SPA for each of the earn out period multiplied by three.

As at the acquisition date, the fair value of the contingent consideration was estimated to be \$9,337,000 representing the total of the three earn out amounts. Key input assumptions used in the determination of the contingent consideration include forecast EBITDA performance for the first earn out period (1 April 2016 to 31 March 2017), and revenue and EBITDA growth rates for the second and third earn out periods from the end of the first earn out 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 2017 based on actual EBITDA to 30 June 2017 and forecast EBITDA over the remaining earn-out period. This has resulted in a reduction in the contingent consideration with the movement recognised in the Statement of Comprehensive Income. The contingent consideration was also reduced by the payment relating to the first earn out of \$620,000. Significant increase/(decrease) in the EBITDA performance of InfoReady during the earn out 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 2017**

E1. EVENTS AFTER BALANCE DATE

On 19 July 2017, the Company appointed Mr Simon Martin and Mr Andrew Macpherson as non-executive directors. The Company also announced that Mr. Tom Kiing will be resigning as a non-executive director on 30 September 2017.

On 4 August 2017, the Group entered into a non-binding heads of agreement to lease up to 5,385 square metres of office space at 680 George Street, Sydney, commencing on 1 December 2017 for a term of 5 years. The current total commitment is estimated at \$21,059,000 over the term of the lease.

On 24 August 2017, the directors declared an interim dividend of 3.5 cents per ordinary share, franked at 100%, amounting to \$4,090,000. The expected payment date of the dividend is 29 September 2017.

As part of the WME Group acquisition, the ANZ bank facility was under renegotiation as at 30 June 2017. Subsequent to half year end, this facility has been renegotiated to defer the requirement to repay Tranche B until 30 June 2018. If this position was reflected in these financial statements, current borrowings would be \$3,000,000 and non-current borrowings would be \$61,192,000.

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 Group in subsequent financial periods.

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017**

E2. OPERATING SEGMENTS

The following tables present the revenue and profit information regarding segments for the half years ended 30 June 2017 and 30 June 2016.

	SMB Solutions	ES	Total
Half Year ended 30 June 2017			
	\$'000	\$'000	\$'000
Segment revenue			
Revenue from operating activities			
Registration revenue	19,388	-	19,388
Solutions, hosting & services	28,510	43,757	72,267
Total segment revenue	47,898	43,757	91,655
Result			
Segment results	9,275	6,172	15,446
Unallocated expenses:			
- Corporate costs (including transaction costs relating to acquisition)			(4,377)
- Gain on accelerated settlement of Outware option liability			5,814
- Remuneration expense from accelerated settlement of Outware option liability			(1,579)
Earnings before interest, tax, depreciation & amortisation (EBITDA)			15,304
Net interest			
Interest revenue			33
Interest expense			(984)
Unwinding of discount on other financial liabilities			(153)
Total net interest			(1,104)
Depreciation & amortisation			(3,618)
Profit before tax for the half year			10,582
Income tax expense			(2,456)
Profit after tax for the half year			8,126

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2017**

E2. OPERATING SEGMENTS (continued)

Half Year ended 30 June 2016	SMB Solutions \$'000	ES Restated \$'000	Total \$'000
Segment revenue			
Revenue from operating activities			
Registration revenue	25,640	-	25,640
Solutions, hosting & services	26,381	30,685	57,066
Total segment revenue	52,021	30,685	82,706
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			(53)
Earnings before interest, tax, depreciation & amortisation (EBITDA)			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			55
Total net interest			(645)
Depreciation & amortisation			(3,513)
Profit before tax for the half year			7,032
Income tax expense			(3,836)
Profit after tax for the half year			3,196

	CONSOLIDATED	
	30-Jun-17	Restated
	\$'000s	30-Jun-16
		\$'000s
Reconciliation of revenue		
Segment revenue	91,655	82,706
Interest revenue	33	68
Total revenue	91,688	82,774

In the financial statements for the period or half-year ended 30 June 2016, revenue generated from the InfoReady acquisition was presented on a provisional basis in line with pre-acquisition accounting policies, as the alignment to MIT Group policies was not yet finalised as part of the fair value assessment. The prior year comparative presented in these financial statements has been aligned with Group policy, resulting in a reduction in gross revenue and cost of goods sold of \$2,175,000. This has no net impact on net profit.

Independent Auditor's Review Report to the Members of Melbourne IT Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Melbourne IT Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 30 June 2017, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed 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.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial 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*.

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 control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

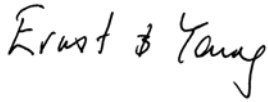
Auditor's Responsibility

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, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 30 June 2017 and its consolidated financial 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 the Group, 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.



Ernst & Young



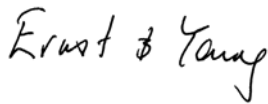
David Petersen
Partner
Melbourne
24 August 2017

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 2017, 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
24 August 2017