

Appendix 4E Preliminary Financial Report

Name of entity

Melbourne IT Ltd

ABN or equivalent company reference

21 073 716 793

Reporting Period

31 December 2017

(Comparative period – 31 December 2016)

2.0 Results for announcement to the market

\$A'000

2.1 Total revenues from ordinary activities					Up	17.4%	to	197,760
2.2 Profit after tax					Up	12.4%	to	14,279
2.3 Net profit for the period attributable to members					Up	30.1%	to	13,957
2.4 Dividends (distributions)						Amount per security	Franked amount per security	
Current period								
Final dividend						7.5 cents	100%	
Interim dividend						<u>3.5 cents</u> 11.0 cents	100%	
Previous corresponding period								
Final dividend						6.0 cents	100%	
Interim dividend						<u>2.0 cents</u> 8.0 cents	100%	
2.5 Record date for determining entitlements to the dividend.					6 April 2018			

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 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

- Total consolidated revenue for the year ended 31 December 2017 was \$197.760 million (2016: \$168.436 million), an increase of 17.4%.
- Profit after tax for the year ended 31 December 2017 was \$14.279 million (2016: \$12.708 million), an increase of 12.4%.
- Profit after tax attributable to members of the parent Reported (NPAT) for the year ended 31 December 2017 was \$13.957 million (2016: \$10.727 million), an increase of 30.1%. Profit after tax attributable to non-controlling interests was \$0.322 million (2016: \$1.981 million), of which Outware Systems Pty Ltd (Outware) comprised \$0.153 million (2016: \$1.839 million) and Netalliance Pty Limited comprised of \$0.169 million (2016: . The following table shows a reconciliation of EBITDA* to the reported profit after tax attributable to members of the parent.

	31-Dec-17 \$'000	31-Dec-16 \$'000
Reported Earnings before Net Interest, Tax, Depreciation and Amortisation (EBITDA)*	31,944	28,206
Depreciation and Amortisation	(9,628)	(7,055)
Earnings/(Loss) before Net Interest and Tax*	22,316	21,151
Net Interest (Expense)/Revenue	(2,300)	(1,394)
Tax (Expense)/Benefit	(5,737)	(7,049)
Profit after Tax	14,279	12,708
Less: Profit after Tax attributable to Non-Controlling Interests:	322	1,981
Profit after Tax attributable to Members of the Parent	13,957	10,727

- Underlying net profit after tax (Underlying NPAT)* was \$19.866 million (2016: \$14.344 million), an increase of 39.4%. The following table shows a reconciliation of Reported NPAT to Underlying NPAT*.

	31-Dec-17 \$'000	31-Dec-16 \$'000
Profit after Tax attributable to Members of the Parent	13,957	10,727
Adjustments to calculate Underlying NPAT*:		
Profit after Tax attributable to Non-Controlling Interests of Outware	153	1,839
Transaction costs (tax effected)	668	501
Integration costs (tax effected)	2,402	2,071
Unwinding of discount on other financial liabilities	189	504
Gain on accelerated settlement of Outware option liability	(5,814)	-
Remuneration expense on accelerated settlement of Outware option liability	3,733	-
Gain on reassessment of non-controlling interests dividend liability	-	(586)
Gain/(loss) on reassessment of contingent consideration liability	985	(1,024)
Amortisation of WebCentral Brand intangible asset	1,247	-
Contribution from acquisitions (assuming acquisitions 100% owned from 1 January) (tax effected)	2,051	416
Conversion of Tiger Pistol convertible notes (incl. FV movement in embedded derivative pre-conversion)	-	(162)
Imputed interest income on convertible note receivables	-	(133)
Sale of IDNR business, net of transaction costs and taxation	-	74
Contribution from IDNR business prior to sale (tax effected)	-	(101)
Other non-operating expenses (tax effected)	295	218
Underlying NPAT*	19,866	14,344

- Reported EBITDA* for the year ended 31 December 2017 was \$31.944 million (2016: \$28.206 million), an increase of 13.3%.

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 \$38.561 million (2016: \$28.405 million), an increase of 36%.

	31-Dec-17 \$'000	31-Dec-16 \$'000
Reported EBITDA*	31,944	28,206
Adjustments to calculate Underlying EBITDA*:		
Transaction costs	809	595
Integration costs	3,432	2,959
Gain on accelerated settlement of Outware option liability	(5,814)	-
Remuneration expense on accelerated settlement of Outware option liability	3,733	-
Gain on reassessment of contingent consideration liability	985	(1,024)
Gain on sale of IDNR business, net of transaction costs	-	(2,350)
Gain on reassessment of non-controlling interests dividend liability	-	(586)
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)	3,051	599
Other non-operating expenses	421	312
Underlying EBITDA*	38,561	28,405

- 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 \$13.473 million, net profit after tax of \$3.330 million and EBITDA* of \$5.079 million during the period.
- Reported earnings per share at 31 December 2017 was 12.56 cents (2016: 10.86 cents), an increase of 15.7%.
- Operating cash flow for the year ended 31 December 2017 was \$13.444 million (2016: \$14.302 million), an decrease of 6.0%. Included in the operating cash flows are net income tax paid of \$5.822 million (2016: net income tax paid of \$3.988 million), a difference of \$1.834 million.
- Included in cash flows from investing activities are outflows from acquisitions including transaction costs for \$67.405 million (2016: \$26.620 million).
- Cash and cash equivalents were \$20.250 million at 31 December 2017 (2016: \$16.426 million).
- Income received in advance was \$33.962 million at 31 December 2017 (2016: \$35.233 million), a decrease of 3.6%.

* 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 2017	Previous Period 31 December 2016 (restated)
Net tangible asset backing per ordinary security	-64.18 cents	-77.25 cents

Net Assets at 31 December 2017 were \$181.617 million including \$2.485 million of net deferred tax liabilities and \$259.096 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 or lost 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.

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

4.2	Consolidated profit/(loss) from ordinary activities <u>after tax</u> 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 31 December 2017 was \$3.330 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	Amt per security of foreign sourced dividend
Current Year			
Final	7.5 cents	100%	N/A
Interim	<u>3.5 cents</u> 11.0 cents	100%	N/A
Previous Year			
Final	6.0 cents	100%	N/A
Interim	<u>2.0 cents</u> 8.0 cents	100%	N/A

Total Dividends (distributions) per security (interim + final)	Current Year	Previous Year
Final	7.5 cents	6.0 cents
Interim	3.5 cents	2.0 cents
Total	11.0 cents	8.0 cents

Additional information on current year dividends

Date the dividend (distribution) is payable 30 April 2018

Details of individual and total dividends or distributions and dividend or distribution payments. 7.5 cents per share
totalling approximately \$8.803 million

The dividend or distribution plans shown below are in operation.

The Melbourne IT Ltd Dividend Reinvestment Plan

The last date(s) for receipt of election notices for the dividend or distribution plans. 10 April 2018

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 20 February 2018, the directors declared a final dividend of 7.5 cents per ordinary share, franked at 100%, amounting to \$8.803 million. The expected payment date of the dividend is 30 April 2018.

On 31 December 2017, the owners of the non-controlling interest of Outware met the service conditions of the Deed of Variation and Option Exercise. 521,720 ordinary shares in Melbourne IT Ltd, and \$2,683,000 in cash was transferred to the vendors on 3 January 2018 as per the Deed of Variation and Option Exercise. This has extinguished the Group's remuneration liability to non-controlling interests in Outware.

Annual General Meeting

The annual general meeting will be held as follows:

Date:

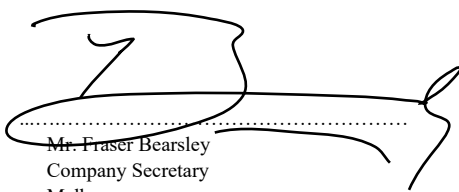
28 May 2018

Time:

11:00AM AEST

8.0 Compliance Statement

The report has been prepared based on a 31 December 2017 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: 
Mr. Fraser Bearsley
Company Secretary
Melbourne
20 February 2018

MELBOURNE IT LTD
(ABN: 21 073 716 793)

FINANCIAL INFORMATION

FOR THE YEAR ENDED
31 DECEMBER 2017

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

The names of the company's directors in office during the year ended 31 December 2017 and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

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	(Retired on 30 September 2017)
Ms. N. Sparks	
Mr. S. Martin	(Appointed on 19 July 2017)
Mr. A. Macpherson	(Appointed on 19 July 2017)

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Mr. M. Mercer

CHIEF FINANCIAL OFFICER

Mr. P. Findlay	(Resigned on 20 January 2017)
Mr. S. Bland	(Appointed on 27 March 2017, Resigned on 30 September 2017)
Mr. F. Bearsley	(Appointed on 1 October 2017)

COMPANY SECRETARY

Ms. E. Rigato	(Resigned on 31 August 2017)
Mr. D. Robinson	(Appointed on 31 August 2017 (contract basis))
Mr. F. Bearsley	(Appointed on 15 December 2017)

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
Directors' Information	9
Statement of Financial Position	12
Statement of Comprehensive Income	13
Statement of Changes in Equity	14
Statement of Cash Flows	15
Notes to the Financial Statements	16

MELBOURNE IT LTD**DIRECTORS' INFORMATION**

Ms. G. Pemberton
Mr. M. Mercer
Mr. J. Armstrong
Mr. L. Bloch
Ms. N. Sparks
Mr. S. Martin
Mr. A. Macpherson

COMPANY SECRETARY

Mr. F. Bearsley

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.

	2017	2016
EARNINGS PER SHARE		
Basic earnings per share	12.56 cents	10.86 cents
Diluted earnings per share	12.39 cents	10.67 cents

DIVIDENDS

During the year, a final dividend of 6.0 cents per share, amounting to \$6.091 million was paid on 28 April 2017 and an interim dividend of 3.5 cents per share, amounting to \$4.090 million was paid on 29 September 2017.

After 31 December 2017, a final dividend of 7.5 cents per share amounting to \$8.803 million was declared by the directors. The final dividend has not been recognised as a liability as at 31 December 2017.

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

The Group recorded a 17.4% increase in consolidated revenue during the year ended 31 December 2017, from \$168.436 million to \$197.760 million. 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 recorded a 15.6% decrease in Registration revenue during the year ended 31 December 2017, from \$44.916 million to \$37.912 million. The decrease was driven by the sale of the International Domain Name Registration (IDNR) business that occurred on 31 March 2016, as disclosed in A7 in the notes to the financial statements. IDNR contributed \$5.355 million revenue in FY16. Revenue is disclosed in A1 of the notes to the financial statements.

The Group achieved earnings before interest, tax, depreciation and amortisation (EBITDA) of \$31.945 million (2016: \$28.206 million), an increase of 13.3% from the previous year. Consolidated net profit after tax was \$14.279 million (2016: \$12.708 million), up 12.4% from the previous year.

In 2017, the Group entered into two leases for new office space in Melbourne and Sydney respectively to support forecast headcount expansion driven by continued growth in the Solutions businesses, the expansion of the SMB Solutions account management model, and investments in shared services.

Summarised operating results are as follows:

	31-Dec-17 \$'000	31-Dec-16 \$'000
Revenue		
Registration revenue	37,912	44,916
Solutions, hosting & services	<u>159,795</u>	<u>123,253</u>
	197,707	168,169
Interest revenue	53	267
Total revenue	197,760	168,436
Total earnings before net interest, tax, depreciation and amortisation	31,944	28,206
Depreciation expense	3,301	3,537
Amortisation expense	<u>6,327</u>	<u>3,518</u>
Total earnings before net interest and tax	22,316	21,151
Net interest	<u>(2,300)</u>	<u>(1,394)</u>
Profit before tax	20,016	19,757
Income tax (expense)/benefit	<u>(5,737)</u>	<u>(7,049)</u>
Profit for the year	14,279	12,708
Profit for the year attributable to:		
Members of the parent	13,957	10,727
Non-controlling interests	<u>322</u>	<u>1,981</u>
	<u>14,279</u>	<u>12,708</u>
Cash flow from operations	13,444	14,302

Operating cash flow was impacted in 2017 due to an increase in the net working capital requirements of the Group, driven by continued strong growth in the ES and SMB Solutions revenue, which is billed in arrears.

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 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 was held in escrow in the form of shares in Melbourne IT Group, and \$2,683,000 was held in escrow in cash as at 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 was brought forward in order to accelerate the integration of the Outware

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.

On 31 October 2017, Melbourne IT approved the retirement of the WebCentral brand in line with a group-wide brand review. The Group anticipates the retirement of the WebCentral brand will be complete within 12 months, and as a result the useful life of the related brand intangible asset has been revised to 12 months ending 31 October 2018 as disclosed in B3. As a result, \$1.782m of accelerated amortisation expense has been recognised in the Statement of Comprehensive Income.

Other than as stated above, there have been no other significant changes in the state of affairs during the year ended 31 December 2017.

SUBSEQUENT EVENTS

On 20 February 2018, the directors declared a final dividend of 7.5 cents per ordinary share, franked at 100%, amounting to \$8.803 million. The expected payment date of the dividend is 30 April 2018.

On 31 December 2017, the owners of the non-controlling interest of Outware met the service conditions of the Deed of Variation and Option Exercise. 521,720 ordinary shares in Melbourne IT Ltd, and \$2,683,000 in cash was transferred to the vendors on 3 January 2018 as per the Deed of Variation and Option Exercise. This has extinguished the Group's remuneration liability to non-controlling interests in Outware.

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

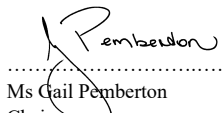
The amounts contained in the accompanying financial information have been rounded to the nearest \$1,000 (where applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

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.


.....
Ms Gail Pemberton
Chair
Melbourne
20 February 2018

MELBOURNE IT LTD
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017**

		CONSOLIDATED	
	Notes	2017	Restated
		\$'000	2016
			\$'000
ASSETS			
Current Assets			
Cash and cash equivalents		20,250	16,426
Trade and other receivables	B1	25,245	18,093
Prepayments of domain name registry charges		6,888	7,134
Derivative financial instruments	C4	-	4
Other assets	B2	11,191	4,484
Total Current Assets		63,574	46,141
Non-Current Assets			
Plant and equipment		6,017	6,739
Intangible assets	B3	259,096	224,741
Deferred tax assets		5,106	4,438
Prepayments of domain name registry charges		2,952	3,392
Non-current financial assets	B4	2,085	1,795
Other assets		266	38
Total Non-Current Assets		275,522	241,143
TOTAL ASSETS		339,096	287,284
LIABILITIES			
Current Liabilities			
Trade and other payables	B5	20,065	18,804
Interest bearing loans and borrowings	C2	9,029	92
Provisions		4,293	3,461
Current tax liabilities		2,845	1,684
Derivative financial instruments	C4	128	-
Income received in advance		25,533	25,166
Other financial liabilities	C3	5,034	31,089
Total Current Liabilities		66,927	80,296
Non-Current Liabilities			
Interest bearing loans and borrowings	C2	65,992	36,536
Deferred tax liabilities		7,591	5,685
Provisions		901	803
Income received in advance		8,429	10,067
Other financial liabilities	C3	6,593	8,315
Other liabilities		1,046	-
Total Non-Current Liabilities		90,552	61,406
TOTAL LIABILITIES		157,479	141,702
NET ASSETS		181,617	145,582
EQUITY			
Contributed equity	C1	83,507	51,026
Treasury shares		(1,884)	-
Foreign currency translation reserve		(547)	(593)
Options reserve		2,331	1,398
Other reserves		(211)	8,526
Retained earnings		98,321	85,074
Equity attributable to members of the parent		181,517	145,431
Non-controlling interests		100	151
TOTAL EQUITY		181,617	145,582

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 2017

		CONSOLIDATED	
	Notes	2017 \$'000	2016 \$'000
Revenue	A1 (a)	197,760	168,436
Cost of sales	A2 (a)	(87,993)	(74,198)
Gross profit		109,767	94,238
Other income	A1 (b)	5,814	1,610
Salaries and employee benefits expenses	A2 (a)	(62,620)	(54,162)
Depreciation expenses	A2 (b)	(3,301)	(3,537)
Amortisation of intangible assets	A2 (c)	(6,327)	(3,518)
Transaction costs relating to acquisitions		(809)	(595)
Other expenses	A2 (d)	(18,661)	(13,504)
Finance costs	A2 (e)	(3,847)	(3,125)
Gain on sale of IDNR business, net of transaction costs	A7	-	2,350
Profit before tax		20,016	19,757
Income tax (expense)/benefit	A3	(5,737)	(7,049)
Profit for the year		14,279	12,708
Other comprehensive income			
<u>Items that are reclassified to the profit or loss:</u>			
Currency translation differences		46	(20)
<u>Items that may be reclassified to the profit or loss:</u>			
Net gains/(losses) on cashflow hedges (net of tax)		-	85
Increase/(decrease) in fair value of available-for-sale (AFS) financial assets		(82)	48
Recycling of AFS upon derecognition of AFS financial asset		-	(546)
Other comprehensive income/(loss) for the period, net of tax		(36)	(433)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		14,243	12,275
Profit for the year attributable to:			
Members of the parent		13,957	10,727
Non-controlling interests		322	1,981
		14,279	12,708
Total comprehensive income attributable to:			
Members of the parent		13,921	10,294
Non-controlling interests		322	1,981
		14,243	12,275
Earnings per share		2017	2016
Basic earnings per share	A5	12.56 cents	10.86 cents
Diluted earnings per share	A5	12.39 cents	10.67 cents

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

MELBOURNE IT LTD

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	FOREIGN CURRENCY RESERVE	OPTIONS RESERVE	OTHER RESERVES	CONTRIBUTED EQUITY	TREASURY SHARES	RETAINED EARNINGS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 January 2017	(593)	1,398	8,526	51,026	-	85,074	145,431	151	145,582
Profit for the period	-	-	-	-	-	13,957	13,957	322	14,279
Other comprehensive income	46	-	(82)	-	-	-	(36)	-	(36)
Total comprehensive income for the period	46	-	(82)	-	-	13,957	13,921	322	14,243
Transactions with owners in their capacity as owners:									
Share based payment	-	1,718	-	-	-	-	1,718	-	1,718
Issue of shares for long term incentive plan	-	(785)	-	-	-	785	-	-	-
Dividend reinvestment plan	-	-	-	3,082	-	-	3,082	-	3,082
Capital raising	-	-	-	29,415	-	-	29,415	-	29,415
Equity Dividends	-	-	-	-	-	(10,181)	(10,181)	(220)	(10,401)
Transfer (from)/to other reserve	-	-	(8,523)	-	-	8,676	153	(153)	-
Share repurchase	-	-	-	(16)	(1,884)	-	(1,900)	-	(1,900)
Transfer from/(to) financial liabilities	-	-	(132)	-	-	11	(121)	-	(121)
As at 31 December 2017	(547)	2,331	(211)	83,507	(1,884)	98,321	181,517	100	181,617
As at 1 January 2016	(573)	776	4,062	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)	-	(413)	-	-	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	8,526	51,026	-	85,074	145,431	151	145,582

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

MELBOURNE IT LTD
**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Notes	CONSOLIDATED	
		2017	2016
		\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of service revenue and recoveries		206,066	179,286
Payments to suppliers and employees		(183,195)	(158,509)
Interest received		53	134
Interest paid		(2,164)	(1,157)
Bank charges and credit card merchant fees		(1,494)	(1,464)
Income tax refunds		259	1,989
Income tax paid		(6,081)	(5,977)
NET CASH FLOWS FROM OPERATING ACTIVITIES		13,444	14,302
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment and intangible assets		(4,042)	(4,874)
Proceeds from sale of IDNR business, net of transaction costs		-	7,424
Acquisition of InfoReady	D1 (b)	(620)	(15,382)
Acquisition of Outware, net of cash acquired		(27,692)	(10,622)
Acquisition of WME Group	D1 (a)	(38,300)	-
Repayment of WME Group loans		4,000	-
Payment for share repurchase		(1,900)	-
Transaction costs relating to acquisitions	D1	(794)	(616)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(69,348)	(24,070)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from capital raising	C1	30,680	15,000
Transaction costs on capital raising	C1	(1,807)	(605)
Proceeds from borrowings	C2	38,492	10,600
Repayment of borrowings	C2	-	(4,100)
Payment of dividend on ordinary shares	A4	(7,099)	(5,211)
Payment of dividend to non-controlling interests		(485)	(1,629)
Payment of finance lease liabilities		(99)	(214)
NET CASH FLOWS FROM FINANCING ACTIVITIES		59,682	13,841
NET DECREASE IN CASH AND CASH EQUIVALENTS		3,778	4,073
Net foreign exchange differences		46	(17)
Cash and cash equivalents at beginning of period		16,426	12,370
CASH AND CASH EQUIVALENTS AT END OF PERIOD		20,250	16,426

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

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2017

CORPORATE INFORMATION

The financial information in this report for Melbourne IT Ltd for the year ended 31 December 2017 was authorised for issue in accordance with a resolution of the directors on 20 February 2018.

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 Ltd for the year ended 31 December 2017 be considered together with any public announcements made by Melbourne IT Ltd and its controlled entities relating to the year ended 31 December 2017, 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

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

Other than the changes disclosed above, the accounting policies adopted in the preparation of the full 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 INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017**

SECTION A: FINANCIAL PERFORMANCE

CONSOLIDATED	
2017	2016
\$'000s	\$'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	37,912	44,916
Solutions, hosting & services	159,795	123,253
	<u>197,707</u>	<u>168,169</u>
Interest revenue	53	267
Total revenue	<u>197,760</u>	<u>168,436</u>

(b) Other income

Gain on accelerated settlement of Outware option liability	5,814	-
Gain on reassessment of non-controlling interests dividend liability	-	586
Gain on reassessment of contingent consideration liability	-	1,024
	<u>5,814</u>	<u>1,610</u>

AASB 15 Revenue from Contracts with Customers

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 and is in process of assessing the potential impact resulting from the application of the new standard from 1 January 2018, including prior year comparative disclosures. AASB 15 impacts will differ depending on the type of customer contract, with the main categories by segment being:

SMB Solutions

- Domain names
- Hosting (email and web)
- Online marketing
- Website builds

Enterprise Services

- Data & Analytics professional services
- Data & Analytics software
- Cloud professional and managed services
- Mobile application development

The Group will provide a description of the anticipated impacts to future period revenue as well as the year ended 31 December 2017 in the financial statements of the Annual Report for the year ending 31 December 2017.

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017**

SECTION A: FINANCIAL PERFORMANCE

	CONSOLIDATED	
	2017	2016
	\$'000s	\$'000s
A2. EXPENSES		
(a) Salaries and employee benefits expenses:		
Included in cost of sales:		
Salaries and employee benefits expense	30,271	15,867
Included in Salaries and employee benefits expenses:		
Expensing of share-based payments	1,718	622
Superannuation expense	6,335	5,043
(b) Depreciation of non-current assets		
Fit out	220	236
Plant and equipment	3,035	3,250
Furniture	46	51
Total depreciation of non-current assets	<u>3,301</u>	<u>3,537</u>
(c) Amortisation of identifiable intangible assets		
Capitalised software	2,424	1,935
Customer contracts	2,121	1,548
Marketing related intangibles	1,782	35
Total amortisation of identifiable intangible assets	<u>6,327</u>	<u>3,518</u>
On 31 October 2017, Melbourne IT approved the retirement of the WebCentral brand in line with a group-wide brand review. The Group anticipates the retirement of the WebCentral brand will be complete within 12 months, and as a result the useful life of the related brand intangible asset has been revised to 12 months ending 31 October 2018 as disclosed in B3. As a result, \$1.782m of accelerated amortisation expense has been recognised in the Statement of Comprehensive Income.		
(d) Other Expenses		
Included in other expenses:		
Premises	4,104	3,605
Training and recruitment	1,444	1,597
Communications	1,070	1,012
Marketing	3,257	2,360
Equipment	2,644	2,462
Consultancy and fees	2,420	1,471
Foreign exchange loss	136	17
Bad debts and doubtful debts	1,104	(172)
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	1,494	1,464
Interest expense on debt and borrowings	2,164	1,157
Unwinding of discount on other financial liabilities	189	504
	<u>3,847</u>	<u>3,125</u>

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017**

CONSOLIDATED	
2017	2016
\$'000s	\$'000s

A3. INCOME TAX

The major components of income tax expense are:

(a) Statement of comprehensive income

<i>Current income tax</i>		
Current income tax charge	4,583	5,887
Adjustments in respect of current income tax of previous periods	368	(78)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	786	1,240
Income tax expense reported in the statement of comprehensive income	<u>5,737</u>	<u>7,049</u>

(b) Statement of changes in equity

<i>Deferred income tax related to items charged or credited directly to equity</i>		
Net (loss)/ gain on revaluation of cash flow hedges	-	(1)
Deferred tax asset recognised on equity raise costs	542	-
Income tax expense reported in equity	<u>542</u>	<u>(1)</u>

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

Accounting profit before income tax	20,016	19,757
At the Group's statutory income tax rate of 30% (2016: 30%)	6,005	5,927
Adjustments in respect of current income tax of previous years	368	(78)
Non-deductible expenses	324	266
Other non operating income	(631)	(483)
Reassessment of contingent consideration	295	-
Unwinding of discount on other financial liabilities	-	76
Goodwill allocated to gain on sale of IDNR business	-	1,719
Estimated R&D tax incentive claims	(701)	(377)
Other	77	(1)
Income tax expense at the effective income tax rate	<u>5,737</u>	<u>7,049</u>
Income tax expense reported in the statement of comprehensive income	<u>5,737</u>	<u>7,049</u>

As at 31 December 2017, Melbourne IT Group had unused carry forward tax losses of \$0.319 million (2016: \$2.614 million). These carry forward tax losses arose on the acquisition of Nothing But Web Pty Ltd and are recorded as a deferred tax asset for the Group.

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017**

CONSOLIDATED	
2017	2016
\$'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 2016:
6.0 cents per share (2015: 4.0 cents per share)

6,091 4,017

(ii) Interim franked dividend for the year ended 31 December 2017:
3.5 cents per share (2016: 2.0 cent per share)

4,090 2,015

10,181 6,032

(b) Dividends proposed and not recognised as a liability

Final franked dividend for the year ended 31 December 2017:
7.5 cents per share (2016: 6.0 cents per share)

8,803 6,052

(c) Franking credit balance

The amount of franking credits available for the subsequent financial year are:

- franking account balance as at the end of the financial year at 30% (2016: 30%)

4,731 1,184

A5. EARNINGS PER SHARE

Basic earnings per share

12.56 cents 10.86 cents

Diluted earnings per share

12.39 cents 10.67 cents

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

Profit for the year attributable to members of the parent

13,957 10,727

Number of shares

Weighted average number of ordinary shares used in the calculation of basic earnings per share

111,149,089 98,819,025

Effect of dilution:

Share options/rights

1,473,982 1,705,684

Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share

112,623,071 100,524,709

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.

MELBOURNE IT LTD

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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

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 2017 and 31 December 2016.

	SMB Solutions	ES	Total
	\$'000	\$'000	\$'000
Year ended 31 December 2017			
Segment revenue			
Revenue from operating activities			
Registration revenue	37,912	-	37,912
Solutions, hosting & services	64,470	95,325	159,795
Total segment revenue	102,382	95,325	197,707
Result			
Segment results	21,372	17,275	38,647
Unallocated expenses:			
- Corporate (including transaction costs relating to acquisition)			(4,622)
- Gain on accelerated settlement of Outware option liability			(5,814)
- Remuneration expense from accelerated settlement of Outware option liability			3,733
Earnings before interest, tax, depreciation & amortisation			31,944
Net Interest			
Interest revenue			53
Interest expense on debt and borrowings			(2,164)
Unwinding of discount on other financial liabilities			(189)
Total Net Interest			(2,300)
Depreciation & amortisation			(9,628)
Profit before tax for the year			20,016
Income tax expense			(5,737)
Profit after tax for the year			14,279

MELBOURNE IT LTD

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

A6. OPERATING SEGMENTS (Continued)

	SMB Solutions	ES	Total
Year ended 31 December 2016	\$'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)
Depreciation & amortisation			(7,055)
Profit before tax for the year			19,757
Income tax expense			(7,049)
Profit after tax for the year			12,708

	CONSOLIDATED	
	2017	2016
	\$'000	\$'000
Reconciliation of revenue		
Segment revenue	197,707	168,169
Interest revenue	53	267
Total revenue	197,760	168,436

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.

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017**

SECTION B: OPERATING ASSETS AND LIABILITIES**CONSOLIDATED****Restated**

2017 **2016**
\$'000s **\$'000s**

B1. TRADE AND OTHER RECEIVABLES

Trade debtors	26,275	18,929
Allowance for impairment loss	(1,030)	(836)
Total trade and other receivables (Current)	<u>25,245</u>	<u>18,093</u>

B2. OTHER CURRENT ASSETS

Accrued revenue	4,969	1,946
Prepayments	2,374	2,538
Funds held in escrow	3,487	-
Lease incentive receivable	362	-
Total other assets (Current)	<u>11,191</u>	<u>4,484</u>

Funds held in escrow relate to monetary assets held in trust with the Group's lawyers in which disbursement will occur upon satisfaction of contingent consideration liability obligations described in in Note C3.

B3. INTANGIBLE ASSETS**Carrying Amount of Intangible Assets**

Goodwill	<u>237,500</u>	<u>202,540</u>
Marketing Related Intangibles (a)	9,053	9,052
Accumulated Amortisation	<u>(1,817)</u>	<u>(35)</u>
	<u>7,236</u>	<u>9,017</u>
Customer Contracts (b)	10,520	7,977
Accumulated Amortisation	<u>(4,764)</u>	<u>(3,305)</u>
	<u>5,756</u>	<u>4,672</u>
Software Intangibles (c)	15,739	13,239
Accumulated Amortisation	<u>(7,135)</u>	<u>(4,727)</u>
	<u>8,604</u>	<u>8,512</u>
Total Intangible Assets	<u>259,096</u>	<u>224,741</u>

(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.

On 31 October 2017, Melbourne IT approved the retirement of the WebCentral brand in line with a group-wide brand review. The Group anticipates the retirement of the WebCentral brand will be complete within 12 months, and as a result the useful life of the related brand intangible asset has been revised to 12 months ending 31 October 2018. As a result, \$1.782m of accelerated amortisation expense has been recognised in the Statement of Comprehensive Income.

(b) Customer Contracts

Following the acquisition of WME Group during the year, customer contracts amounting to \$3.206 million were recognised based on an external valuation. The customer contracts are amortised over the period of 3-5 years based on the historical attrition rate.

(c) Software Intangibles

Software intangibles represents capitalised costs primarily consisting of employee costs (carrying value of \$4.482 million) and software acquired from Netregistry Pty Ltd (carrying value of \$3.165 million), Oracle Financials, the common financial reporting system used by all entities in the Group (carrying value of \$0.375 million), software acquired from WME Group (carrying value of \$0.479 million) and software acquired from Outware (carrying value of \$0.103 million).

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017

SECTION B: OPERATING ASSETS AND LIABILITIES (cont.)

B4. NON-CURRENT FINANCIAL ASSETS

	CONSOLIDATED	
	2017	2016
	\$'000s	\$'000s
Investment in Tiger Pistol - Ordinary Shares	1,695	1,795
Bank Guarantee Receivable	390	-
	<u>2,085</u>	<u>1,795</u>

The Group holds 603,205 shares in Tiger Pistol Pty Ltd, a digital marketing agency, providing social advertisement automation solutions. 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.

B5. TRADE AND OTHER PAYABLES

Trade creditors	3,059	5,449
Sundry creditors	5,745	3,959
Deposits received in advance	1,234	1,549
Accrued expenses	10,027	7,847
Total payables	<u>20,065</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.

SECTION C: CAPITAL AND FINANCIAL RISK MANAGEMENT

C1. CONTRIBUTED EQUITY AND PERFORMANCE RIGHTS

Ordinary shares

Issued and fully paid	83,507	51,026
-----------------------	--------	--------

Movements in ordinary shares on issue

	2017		2016	
	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 year				
- Capital raising	14,609,443	30,680	7,500,000	15,000
- Performance rights vested (2014 LTI Plan)	659,913	-	-	-
- Dividend reinvestment plan	1,238,302	3,082	416,938	821
- Transaction costs on capital raising and share repurchase, net of tax	-	(1,281)	-	(424)
End of the financial period	<u>117,368,988</u>	<u>83,507</u>	<u>100,861,330</u>	<u>51,026</u>

Treasury shares

Beginning of the financial period	-	-	-	-
Share repurchase during the year	521,520	1,884	-	-
End of the financial period	<u>521,520</u>	<u>1,884</u>	<u>-</u>	<u>-</u>

As part of the 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, 521,520 ordinary shares were repurchased in anticipation of satisfaction of Deed obligations. This has been subsequently transferred to the vendors on 3 January 2018 as disclosed in Note E1.

Performance rights

	2017	2016
	No. of Rights	No. of Rights
Unissued ordinary shares under performance rights	1,473,982	1,705,684

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017**

SECTION C: CAPITAL AND FINANCIAL RISK MANAGEMENT (cont.)

C2. INTEREST BEARING LOANS AND BORROWINGS

Current

Bank loan

Finance lease liabilities

CONSOLIDATED

2017 2016
\$'000s \$'000s

	9,000	-
	29	92
	<u>9,029</u>	<u>92</u>
Non-current		
Bank loan	65,992	36,500
Finance lease liabilities	-	36
	<u>65,992</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 \$0.037 million (2016: \$0.128 million).

As part of the WME Group acquisition, the ANZ bank facility was renegotiated and repayments for Tranche B begin from 30 June 2018. 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. On 12 September 2017, a further \$10,800,000 was drawn down from Tranche B to fund the acquisition of WME Group. The Group is currently in the process of renegotiating this banking facility.

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 2017, the Group made no loan repayments.

C3. OTHER FINANCIAL LIABILITIES

Current

Put options liability

Dividend liability to non-controlling interests

Outware remuneration liability

Contingent consideration liability

	-	29,828
	-	1,261
	2,683	-
	2,351	-
	<u>5,034</u>	<u>31,089</u>

Non-current

Contingent consideration liability

	6,593	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 was held in escrow in the form of shares in Melbourne IT Group, and \$2,683,000 was held in escrow in cash as at 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 \$3,733,000 that has been recognised in the Statement of Comprehensive Income.

C4. DERIVATIVE FINANCIAL ASSETS/ (LIABILITIES)

Foreign exchange contracts (a)

Interest rate swap (b)

	-	155
	(128)	(151)
	<u>(128)</u>	<u>4</u>

(a) Foreign exchange contracts

At 31 December 2017, Melbourne IT Ltd held no (2016: 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 2017, the Group held three (2016: two) interest rate swap contracts for \$15.000 million, \$5.300 million and \$10.000 million designed to hedge the variable interest rate exposure relating to the facility tranches of \$30.000 million, \$21.400 million and \$27.692 million respectively.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

SECTION D: GROUP STRUCTURE

D1. BUSINESS COMBINATIONS

Acquisition in 2017

(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	34,960
Purchase consideration	<u><u>38,687</u></u>

As at 31 December 2017, the Group has completed the fair value assessment on the net assets acquired. There have been no significant changes to the fair value assessment presented in the financial statements for the half year ended 30 June 2017.

From the date of acquisition to 31 December 2017, WME Group has contributed \$13,473,000 to the revenue and \$3,330,000 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 \$200,702,000 and profit after tax attributable to members of the parent would have been \$16,614,000.

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>

On 21 August 2017, the net of the working capital adjustment of (\$3,734,000) and the net debt adjustment of \$5,256,000 has been refunded.

On 13 September 2017, contingent consideration of \$12,887,000 was paid which has been included in the cash flows from investing activities.

Transaction costs associated with the acquisition WME Group and the related equity raise of \$794,000 were expensed through the Statement of Comprehensive Income and equity raising costs totalling \$1,807,000 were taken directly to equity for the year ended 31 December 2017. This was included in the cash flows from financing 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>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

SECTION D: GROUP STRUCTURE

D1. BUSINESS COMBINATIONS (continued)

Acquisition in 2016

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

	Fair value recognised on acquisition \$'000s
Assets	
Trade and other receivables	2,088
Plant and equipment	44
Intangibles	847
Deferred tax assets	171
Other assets	85
	<u>3,235</u>
Liabilities	
Trade and other payables	1,359
Provisions	518
Deferred tax liabilities	254
	<u>2,131</u>
Total identifiable net liabilities at fair value	1,104
Goodwill arising on acquisition	<u>23,565</u>
Purchase consideration transferred (cash paid)	<u><u>24,669</u></u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

D1. BUSINESS COMBINATIONS (continued)

Acquisition in 2016 (continued)

(b) 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
	<u>24,669</u>

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 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 period 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 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 earn out period over the EBITDA threshold amount specified in the SPA for each of the earn out 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 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 first earn out 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 2017 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 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 INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2017**

SECTION E: OTHER INFORMATION

E1. EVENTS AFTER THE BALANCE SHEET DATE

On 20 February 2018, the directors declared a final dividend of 7.5 cents per ordinary share, franked at 100%, amounting to \$8.803 million. The expected payment date of the dividend is 30 April 2018.

On 31 December 2017, the owners of the non-controlling interest of Outware met the service conditions of the Deed of Variation and Option Exercise. 521,720 ordinary shares in Melbourne IT Ltd, and \$2,683,000 in cash was transferred to the vendors on 3 January 2018 as per the Deed of Variation and Option Exercise. This has extinguished the Group's remuneration liability to non-controlling interests in Outware.

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.