

MEDIA RELEASE

**Melbourne IT Maintains \$16m Net Profit Despite Challenging Year
Board Declares 8.0¢ Final Dividend Fully Franked**

*Revenue and EBIT down year-on-year, meeting October guidance
Significant impact from strong Australian Dollar
Transformation strategy on track and on budget*

Melbourne IT Group Consolidated Results – Year ending 31 December 2010:

		FY 2010	FY 2009
Revenue	↓ -5%	\$189.9m	\$200.1m
EBIT (Pre-Transformation)	↓ -4%	\$22.9m	\$23.9m
EBIT (Post-Transformation)	↓ -9%	\$21.2m	\$23.4m
NPAT	↓ -4%	\$16.1m	\$16.8m
Basic EPS	↓ -6%	20.21¢	21.42¢
Final Dividend	Unchanged	8.0¢	8.0¢
Operating Cash	↓ -16%	\$18.7m	\$22.2m*
Deferred Gross Margin	↑ 1%	\$31.6m	\$31.1m

**Restated*

MELBOURNE, Australia – 22 February 2011 – Melbourne IT (ASX: MLB) today announced its full year results for the year ending 31 December 2010, reporting a 5% year-on-year decrease in revenue to \$189.9m and earnings before interest and tax (EBIT) of \$21.2 million, down 9% year-on-year. Despite this, net profit after tax (NPAT) for the year was maintained above \$16 million with a final result of \$16.1 million (a decrease of 4% from 2009's NPAT of \$16.8 million).

“The underlying performance of the business in 2010 –on a constant currency basis using 2009 foreign exchange rates – was slightly better than 2009, with revenues up 3% to \$206.3 million and deferred revenues up 2% to \$55.7 million. Melbourne IT’s actual deferred gross margin remained strong at \$31.6 million which highlights the continued strength of our annuity business,” Melbourne IT CEO and Managing Director, Theo Hnarakis, said.

“Furthermore, foreign exchange negatively impacted 2010 EBIT by an estimated \$2.5 million. Given this adverse currency impact and the opex impact of the transformation investment of \$1.7 million, Melbourne IT’s underlying profit would have been up approximately 7% on a like-for-like basis in 2010.”

A fully-franked final dividend of 8¢ was declared by the Board, which is unchanged from 2009. Year-on-year earnings per share (EPS) decreased 6% to 20.21¢.

“Foreign exchange headwinds and a slower sales recovery in the United States and Europe than we predicted have delivered a lower revenue and EBIT result for 2010, however the final result is in line with

the updated guidance issued in October last year. Our ability to maintain net profit above the \$16 million level is pleasing given what was a challenging year," Mr Hnarakis, said.

"2010 was the first year of our critical transformation project. It is on track and on budget, with the first stage due to go live in New Zealand in Q1 this year and our Australian operations to follow by end of Q4 2011. Cost and revenue benefits will only be modest in 2011, however, we expect to see a significant return accruing to our company from 2012 once the Australian and New Zealand operations are fully integrated."

Melbourne IT's net debt at the end of 2010 was \$22.9 million, with \$5.3 million of debt retired this year. Operating cash flow decreased 16% to \$18.7 million reflecting lower EBITDA, timing of a significant receipt from a major customer and reduction of creditor balances. The company's shift to higher-margin IT services continued with 61% of revenue now derived from IT services rather than domain names.

Divisional Highlights

Digital Brand Services (DBS)

- Revenue in Australian Dollars down 9% year-on-year to \$51.1 million and EBIT unchanged from 2009 at \$6.4 million
- On constant currency basis using average 2009 exchange rates, revenue was up 4% year-on-year and deferred revenue grew 23% year-on-year
- Brand and reputation protection services revenues up 36% year-on-year to \$10.2 million including major contract signed with Royal Bank of Scotland Group
- New customers added in 2010 included Arnott's, Kimberley-Clark, Merz Pharma, Betfair Australia and Transurban Group
- Strong Australian Dollar will continue to impact DBS revenues and EBIT in 2011 however strong growth expected as a result of increasing market opportunity

Enterprise Services

- Strong full year result with revenues up 23% and EBIT up 59% year-on-year
- Service delivery improvements and investments continued to deliver excellent hosting platform stability: 99.994% in FY10
- 139 new contracts signed in 2010 with new customers including Urban Pacific, Victorian Electoral Commission, Thomson Reuters, OpenText and BP Australia
- Expect 2010 momentum to carry through 2011 and strong growth to continue under the leadership of new Executive General Manager, Peter Wright

SMB / GPS

- Consolidated SMB & GPS revenues down 8% to \$98.6 million; consolidated EBIT down 5% to \$17.7 million
- Commoditisation and discounting decreased ARPU 2% to \$301 for Australian SMB customers
- Higher margin services grew strongly – SaaS sales grew 14% year-on-year to \$3.8 million and online marketing sales grew 37% year-on-year to \$1.9 million following successful Advantate integration
- Strong Australian Dollar impacted GPS 2010 revenue by \$7.6 million on a constant currency basis using 2009 foreign exchange rates
- Lower-yielding NUM for GPS down 10% year on year from 4.5 million to 4.1 million primarily due to declining domain renewals from larger international partners
- SMB/GPS to remain solid contributors in 2011 despite GPS negative foreign exchange impact

ForTheRecord (FTR)

- Challenging year with revenue down 18% to \$7.9 million year-on-year and no contribution to EBIT
- Strategy and personnel changes made in 2010 delivered operational improvements

- Expect FTR to rebound in 2011 and return to stable profitability despite soft markets in US & Europe

“Market conditions varied considerably across our businesses in 2010. In Australia, there was strong demand for outsourced IT services among enterprises and government while at the other end of the scale, there was clear evidence that small businesses were very price conscious, lending weight to continued commoditisation of base services such as domain names and email services,” Mr Hnarakis said.

“Internationally, DBS experienced slower growth than anticipated as corporate spending in the US and Europe gradually recovered, while FTR was hit hard by spending cuts across the US public sector. The good news is that economies outside of Australia continue to strengthen and opportunities for growth continue to increase, particularly for DBS where we are investing heavily in our sales capability to take advantage of these opportunities.”

Outlook

“Melbourne IT expects transformation costs to impact EBIT by \$5 million in 2011. Nevertheless, the company believes 2011 EBIT will be line with 2010 once this investment and the continuing impact of the strong Australian dollar is absorbed. However, from an underlying growth perspective, Melbourne IT expects 2011 EBIT will be up approximately 15% on 2010 before incremental transformation costs and the forecast foreign exchange impact are applied.

Enterprise Services will continue its upwards growth trajectory. DBS will deliver more to its potential, contributing strongly following a range of initiatives implemented throughout 2010 to overcome previous obstacles. We expect FTR to return to stable profitability and the SMB/GPS divisions will continue to be significant contributors despite foreign exchange and commoditisation challenges,” Mr Hnarakis said.

“With the bulk of the Asia-Pacific transformation rollout complete by 2011, cost and revenue synergies will begin to accrue to SMB and GPS from 2012. Coupled with continued growth from our enterprise divisions, the commencement of transformation benefits should help return the company to stronger 2012 EBIT growth.”

The 2010 Full Year Results presentation to shareholders is available at <http://www.melbourneit.info/investor-centre/>.

ENDS.

About Melbourne IT

Melbourne IT (ASX: MLB) helps organisations of all sizes to successfully do business online. Our complete portfolio of Internet-based technology services drives business effectiveness and profitability for more than 350,000 customers around the world.

The breadth of Melbourne IT's offering extends from helping small businesses build an online presence through to managing the complex technology environments of large enterprises and governments – including Internet domain name services, web hosting, online brand protection and promotion, video content delivery, managed IT services and more.

Melbourne IT's culture of integrity, innovation, collaboration and customer centricity has been built by more than 700 employees spread across 18 offices in 10 countries. Our customers include Volvo, GlaxoSmithKline, LEGO, Queensland Department of Education and Training, Société Générale, Royal Bank of Scotland Group, Coca-Cola Amatil and Twitter. For more information, visit www.melbourneit.info

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Appendix 4E Preliminary Financial Report

Name of entity

Melbourne IT Limited

ABN or equivalent company reference
21 073 716 793

Reporting Period
31 December 2010
(Comparative period – 31 December 2009)

2.0 Results for announcement to the market

\$A'000

2.1 Total revenues from ordinary activities	Down	-5.1%	to	189,862
2.2 Profit/(loss) from continuing operations after tax attributable to members	Down	-4.5%	to	16,060
2.3 Net profit/(loss) for the period attributable to members	Down	-4.5%	to	16,060
2.4 Dividends (distributions)	Amount per security		Franked amount per security	
Current period				
Final dividend	8.0 cents		100%	
Interim dividend	<u>7.0 cents</u>		100%	
	15.0 cents			
Previous corresponding period				
Final dividend	8.0 cents		100%	
Interim dividend	<u>7.0 cents</u>		100%	
	15.0 cents			
2.5 Record date for determining entitlements to the dividend.	22 March 2011			

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

3.0 NTA Backing	Current period 31 December 2010	Previous Period 31 December 2009
Net tangible asset backing per ordinary security	(48.92 cents)	(56.09 cents)

Total Net Assets at 31 December 2010 were \$91.269 million including \$5.971 million of deferred tax assets, \$2.194 million of deferred tax liability and \$126.641 million of intangible assets associated with the acquisition of Domainz Limited (September 2003), Melbourne IT DBS Group AB (formerly the Cogent IPC Group AB) (April 2004), WebCentral Group Pty Ltd (September 2006), IDR Management Services Ltd (January 2007), VeriSign DBMS (May 2008) and capitalised costs of \$5.683 million in relation to the transformational project Integrated Web Services (IWS).

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.	Not applicable, as there were no entities which control was gained/lost during the period which had a material effect
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.	Not applicable, as there were no entities which control was gained/lost during the period which had a material effect
4.3	Date from which such profit has been calculated.	Not applicable, as there were no entities which control was gained/lost during the period which had a material effect
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.	Not applicable, as there were no entities which control was gained/lost during the period which had a material effect

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	8.0 cents	100%	N/A
Interim	7.0 cents	100%	N/A
	15.0 cents		
Previous Year			
Final	8.0 cents	100%	N/A
Interim	7.0 cents	100%	N/A
	15.0 cents		

Total Dividends (distributions) per security (interim + final)	Current Year	Previous Year
Final	8.0 cents	8.0 cents
Interim	7.0 cents	7.0 cents
Total	15.0 cents	15.0 cents

Additional information on current year dividends

Date the dividend (distribution) is payable

14 April 2011

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

8.0 cents per Share
Totalling approximately \$6.403 million

The dividend or distribution plans shown below are in operation.

The Melbourne IT Limited *Dividend Reinvestment Plan* under Rule 7.2.

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

22 March 2011

6.0 Material interests in entities which are not controlled entities

Not applicable, as there were no entities which control was gained\lost during the period which had a material effect.

7.0 Other Information

Annual Meeting

The annual meeting will be held as follows:

Place:

Level 1
No 1. Spring Street
Melbourne Vic 3000

Date:

Tuesday 24 May 2011

Time:

11:00 am

8.0 Compliance Statement

This report has been prepared in accordance with the Australian Accounting Standards (including Australian Accounting Interpretations).

The report has been prepared based on a 31 December 2010 Annual Financial Report which is in the process of being audited by an independent Audit Firm in accordance with the requirements of S302 of the Corporations Act.

Signed here: 

Ms. A Jegathesan
Company Secretary
22 February 2011

MELBOURNE IT LTD
(ABN: 21 073 716 793)

FINANCIAL INFORMATION

FOR THE YEAR ENDED
31 DECEMBER 2010

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

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

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Mr. T.J. Hnarakis

CHIEF OPERATING OFFICER

Mr. D. Walsh

CHIEF FINANCIAL OFFICER

Ms C. Sutton (Appointed 1 February 2010)
Mr. B. Smart (Resigned as Acting Chief Financial Officer 1 February 2010)

COMPANY SECRETARY

Ms. A. Jegathesan

REGISTERED OFFICE

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Melbourne, Victoria, 3000
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SHARE REGISTER

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AUDITORS

Ernst & Young

INTERNET ADDRESS

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

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MELBOURNE IT LTD

DIRECTORS INFORMATION

The names of the company's directors in office during the year ended 31 December 2010 and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

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

COMPANY SECRETARY

Ms. A. Jegathesan

PRINCIPAL ACTIVITIES

The principal activities of the company during the year were:

Digital Brand Services ("DBS")

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

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

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

For The Record ("FTR")

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

Global Partner Solutions ("GPS")

- Provider of products through the extensive global network of partners which include:
- Registration of generic Top Level Domain (gTLD) names (.com, .net, .org, .biz, .info, .name).
- Registration of .au and .nz domain names through the reseller channel.
- Registration of other country code (ccTLD) domain names (eg. .us, .co.uk, .fr, .de and .eu).
- Web and application hosting including Software and Services.

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

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

MELBOURNE IT LTD**DIRECTORS INFORMATION / continued****EARNINGS PER SHARE**

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

RESULTS

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

DIVIDENDS

	Cents	\$'000
Final Dividends Recommended		
• On ordinary shares	8.0	6,403
Dividends paid in the year		
Final Dividend – 2009		
• On ordinary shares	8.0	6,320
Interim Dividend – 2010		
• On ordinary shares	7.0	5,570
	15.0	11,890

MELBOURNE IT LTD**DIRECTORS INFORMATION / continued****REVIEW AND RESULTS OF OPERATIONS / continued**

Summarised operating results are as follows:

	Notes	31-Dec-10 \$'000	31-Dec-09 \$'000
Revenue			
Registration Revenue		74,165	84,186
Consulting Revenue		38,459	42,576
Website & Email Hosting Revenue		67,734	62,193
For The Record Revenue		7,915	9,609
Other Revenue		889	389
		<u>189,162</u>	<u>198,953</u>
 Interest revenue		631	778
Other Income		69	371
		<u>189,862</u>	<u>200,102</u>
 Total Consolidated Revenue			
		<u>189,862</u>	<u>200,102</u>
 Total Earnings before Interest, Tax, Depreciation and Amortisation		28,551	32,271
 Depreciation Expense		(6,169)	(7,464)
Amortisation Expense		(1,200)	(1,394)
		<u>21,182</u>	<u>23,413</u>
 Total Earnings Before Interest and Tax			
		<u>21,182</u>	<u>23,413</u>
 Total Earnings before Interest and Tax and share of associate		21,202	23,977
 Share of loss in Advantate Pty Ltd before income tax expense (50% owned)	10	(20)	(564)
		<u>21,182</u>	<u>23,413</u>
 Total Earnings Before Interest and Tax			
		<u>21,182</u>	<u>23,413</u>
 Net Interest		(1,122)	(1,285)
		<u>20,060</u>	<u>22,128</u>
 Net Profit Before Tax			
		<u>20,060</u>	<u>22,128</u>
 Tax Expense		(4,000)	(5,320)
		<u>16,060</u>	<u>16,808</u>
 Net Profit After Tax			
		<u>16,060</u>	<u>16,808</u>
 Cashflow from Operations		18,729	22,238

MELBOURNE IT LTD

DIRECTORS INFORMATION / continued

REVIEW AND RESULTS OF OPERATIONS / continued

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs during the year ended 31 December 2010.

SUBSEQUENT EVENTS

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

No other significant events have occurred after the balance date and up to the date of this report that require disclosure.

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 year 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.com.au, and also contained in the additional ASX information section of the 2010 annual report.

Signed in accordance with a resolution of the directors.



Mr Simon Jones
Chairman

Brisbane 22 February 2011

MELBOURNE IT LTD

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010

AS AT 31 DECEMBER 2010

	Notes	31-Dec-10 S'000s	31-Dec-09 S'000s
Melbourne IT Ltd - Consolidated Group			
ASSETS			
Current Assets			
Cash and cash equivalents	9	23,379	30,377
Trade and other receivables	5	24,890	25,831
Inventories		562	582
Prepayment of domain name registry charges		13,317	15,138
Derivative financial instruments		258	115
Other assets	6	2,813	2,584
Total Current Assets		65,219	74,627
Non-current Assets			
Property, plant and equipment		7,665	11,174
Intangible assets	7	126,641	129,522
Deferred income tax asset		5,971	2,581
Prepayment of domain name registry charges		7,609	9,433
Investments in associates	11 (b)	-	-
Other assets		43	7
Total Non-current Assets		147,929	152,717
TOTAL ASSETS		213,148	227,344
LIABILITIES			
Current Liabilities			
Trade and other payables		14,532	19,656
Interest-bearing loans and borrowings	12	5,904	4,451
Provisions		4,165	3,649
Current tax liabilities		904	2,053
Income received in advance		37,299	37,536
Total Current Liabilities		62,804	67,345
Non-current Liabilities			
Interest-bearing loans and borrowings	12	40,342	53,410
Deferred income tax liability		2,194	-
Provisions		716	605
Derivative financial instruments		597	-
Income received in advance		15,226	18,176
Total Non-current Liabilities		59,075	72,191
TOTAL LIABILITIES		121,879	139,536
NET ASSETS		91,269	87,808
EQUITY			
Contributed equity	8	64,839	63,005
Foreign Currency Translation Reserve		(9,270)	(5,900)
Options reserve		3,880	3,095
Hedging reserve		111	69
Retained earnings		31,709	27,539
TOTAL EQUITY		91,269	87,808

MELBOURNE IT LTD

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2010

	Notes	CONSOLIDATED	
		31-Dec-10 S'000s	31-Dec-09 S'000s
Revenue	2 (i)	189,793	199,731
Other Income	2 (ii)	69	371
Registry, Hosting and Sundry Products costs		(73,435)	(77,746)
Gross profit		116,427	122,356
Salaries and employee benefit expenses		(68,706)	(70,395)
Depreciation of non current assets	3 (a)	(6,169)	(7,464)
Amortisation of identifiable intangible assets	3 (b)	(1,200)	(1,394)
Other expenses from ordinary activities	3 (c)	(20,272)	(20,411)
Share of profits/(loss) of an associate	11(b)	(20)	(564)
Profit from continuing operations before tax		20,060	22,128
Income tax expense		(4,000)	(5,320)
Net Profit Attributable to Members of Melbourne IT Ltd		16,060	16,808
Other comprehensive income/(expenses)			
Currency translation differences		(3,370)	(3,460)
Net gains/(losses) on cashflow hedges		42	(512)
Other comprehensive income/(expenses) for the period, net of tax		(3,328)	(3,972)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		12,732	12,836
Profit attributable to members of the parent		16,060	16,808
Total comprehensive income attributable to members of the parent		12,732	12,836
Earnings per share (cents per share)			
- Basic earnings per share (cents per share)		20.21 cents	21.42 cents
- Diluted earnings per share (cents per share)		20.20 cents	21.40 cents

MELBOURNE IT LIMITED
**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2010**

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

MELBOURNE IT LTD

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2010

FOR THE YEAR ENDED 31 DECEMBER 2010		CONSOLIDATED	
	Notes	31-Dec-10 S'000s	31-Dec-09 S'000s
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of service revenue and recoveries		203,717	222,752
Payments to suppliers and employees		(177,524)	(190,864)
Interest received	2(i)	631	778
Interest paid	3(c)	(1,753)	(2,063)
Bank charges and credit card merchant fees		(1,254)	(1,358)
Income tax paid		(5,088)	(7,007)
NET CASH FLOWS FROM OPERATING ACTIVITIES		<u>18,729</u>	<u>22,238</u>
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of plant and equipment and intangible assets		(10,533)	(3,867)
Proceeds on sale of plant and equipment		1,474	-
Acquisition of subsidiary, net of cash acquired - DBMS	10	-	(340)
Investment in Joint Venture - Advantate Pty Ltd	11	(20)	(200)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		<u>(9,079)</u>	<u>(4,407)</u>
CASH FLOWS USED IN FINANCING ACTIVITIES			
Repayment of interest bearing liabilities	12(b)	(5,337)	(3,501)
Proceeds from issue of ordinary shares - ESOP	8	212	252
Payment of dividend on ordinary shares	4	(10,268)	(10,192)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		<u>(15,393)</u>	<u>(13,441)</u>
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS			
		(5,743)	4,390
Net foreign exchange differences		(1,255)	(2,395)
Cash and cash equivalents at beginning of period		30,377	28,382
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	9	<u>23,379</u>	<u>30,377</u>

MELBOURNE IT LTD

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

CORPORATE INFORMATION

The financial information in this report for Melbourne IT Ltd for the year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 22 February 2011.

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

The nature of the operations and principal activities of the Group are described within this note at 1(b) and the Segment Reporting at note 13.

1. 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.

The financial information in this report should be read in conjunction with the Annual Financial Report of Melbourne IT Limited as at 31 December 2010, when it becomes available, which is prepared based on the Australian Accounting Standards (including Australian Accounting Interpretations).

It is also recommended that the Annual Financial Report of Melbourne IT Limited as at 31 December 2010 be considered together with any public announcements made by Melbourne IT Limited and its controlled entities during the year ended 31 December 2010, in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

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

(a) Basis of Accounting

There have been no material adjustments to the accounting policies of the Group since December 2009. The Group has not elected to adopt any new standards or amendments early.

(b) Operating Segment

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

Operating segments have been identified based on the information provided to the chief operating decision makers, being the executive management team.

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

This Division has a focus on the Australian and New Zealand markets developing integrated online solutions for the fast-growing SME (Small to Medium Enterprise) and SOHO (Small Office and Home Office) sectors. These solutions include domain forwarding, web hosting, search engine optimisation and web site development.

Global Partner Solution Division ("GPS")

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

Digital Brand Services Division ("DBS")

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

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

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

For The Record Division ("FTR")

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

Transfer prices between business segments are set on an arms' length basis in a manner similar to transactions with third parties. Segment revenue, expense and segment result include transfers between business segments. Those transfers are eliminated on consolidation.

(c) Operating Cash Flow

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

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

CONSOLIDATED
31-Dec-10 31-Dec-09
S'000s S'000s

2. REVENUE

Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:

(i) Revenue

Registration Revenue	74,165	84,186
Consulting Revenue	38,459	42,576
Hosting & Value-Added Product Sales	67,734	62,193
For The Record Revenue	7,915	9,609
Other Revenue	889	389
	<u>189,162</u>	<u>198,953</u>

Interest Revenue	631	778
	<u>189,793</u>	<u>199,731</u>

(ii) Other income

Other	69	371
	<u>69</u>	<u>371</u>

Total consolidated revenue	<u>189,862</u>	<u>200,102</u>
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3. EXPENSES
(a) Depreciation of non-current assets

Fit out	432	900
Plant and equipment	5,323	6,346
Furniture	414	218
Total depreciation of non-current assets	<u>6,169</u>	<u>7,464</u>

(b) Amortisation of identifiable intangible assets

Amortisation of customer contracts	668	1,024
Amortisation of capitalised software	532	370
Total amortisation of identifiable intangible assets	<u>1,200</u>	<u>1,394</u>

(c) Other Expenses from ordinary activities

Travel & accommodation	1,712	1,672
Financial & legal	2,519	2,670
Rental – operating leases	3,338	3,328
Communications	2,217	2,534
Maintenance costs	1,534	898
Marketing	2,117	1,991
Net foreign currency exchange (gain)/loss	353	771
Bad debts and doubtful debts	698	547
Interest expense	1,753	2,063
Bank charges and credit card merchant fees	1,254	1,358
Other expenses	2,777	2,579
Total other expenses from ordinary activities	<u>20,272</u>	<u>20,411</u>

(d) Other

Expensing of share-based payments	785	848
	<u>785</u>	<u>848</u>

MELBOURNE IT LTD

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

CONSOLIDATED
31-Dec-10 31-Dec-09
\$'000s \$'000s

4. DIVIDENDS PAID AND PROPOSED

Equity dividends on ordinary shares:

(a) Dividends paid during the year

(i) Current year - interim

Franked dividends (7.0 cents per share)
(2009: 7.0 cents per share)

5,570	5,503
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(ii) Previous year - final

Franked dividends (8.0 cents per share)
(2009: 8.0 cents per share)

6,320	6,238
11,890	11,741

The above dividends were paid as follows:

Cash payment
Dividend reinvestment plan

10,268	10,192
1,622	1,549
11,890	11,741

(b) Dividends proposed and not recognised as a liability

(i) Franked dividend (8.0 cents per share)

(2009: 8.0 cents per share)

6,403	6,320
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At the 22 February 2011 Board Meeting, the directors declared a 8.0 cents fully franked final dividend on ordinary shares in respect of the year ended 31 December 2010. The total amount of this final dividend is \$6.403 million and has not been provided for in the 31 December 2010 financial statements.

(c) Franking of dividends

The above paid and proposed dividends are 100% franked at the company's tax rate of 30% per share.

5. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade debtors
Allowance for impairment loss

26,361	27,661
(1,471)	(1,830)

Total Trade and Other Receivables (Current)

24,890	25,831
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6. OTHER ASSETS (CURRENT)

Other prepayments

2,813	2,584
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Total Other Assets (Current)

2,813	2,584
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MELBOURNE IT LTD

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

Notes	CONSOLIDATED	
	31-Dec-10 S'000s	31-Dec-09 S'000s
7. INTANGIBLE ASSETS		
(a) Carrying Amount of Intangible Assets		
Goodwill	102,870	109,070
Marketing Related Intangibles	9,982	9,982
	9,982	9,982
Customer Contracts	10,619	11,904
Accumulated Amortisation	(3,110)	(2,425)
	7,509	9,479
Capitalised Software	971	1,098
Accumulated Amortisation	(532)	(370)
	439	728
Assets Under Construction - Transformation Projects (b)	5,683	-
Total Capitalised Software	6,122	728
Other Intangibles	315	315
Accumulated Amortisation	(157)	(52)
	158	263
Total Intangible Assets	126,641	129,522

(b) Capitalised Software:

Assets Under Construction - Transformation Projects

Melbourne IT Ltd is currently undertaking a significant investment in infrastructure, innovation, and transformational projects which will provide the platform for the Group's next phase of growth.

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

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

In line with AASB 138 Intangible Assets, costs relating to the research phase of the project are expensed while costs relating to the development phase are capitalised as Capitalised Software: Assets Under Construction - Transformation Projects. Once operational they will be amortised over a useful life of 4 years for hardware and 5 years for license, integration and labour costs in accordance with the accounting policy.

MELBOURNE IT LTD

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

	CONSOLIDATED	
	31-Dec-10	31-Dec-09
	S'000s	S'000s
8. CONTRIBUTED EQUITY		
Ordinary shares		
Issued and fully paid	64,839	63,005

Movements in ordinary shares on issue

	31-Dec-10		31-Dec-09	
	No. of Shares	S'000s	No. of Shares	S'000s
Beginning of the financial period	78,970,419	63,005	77,960,832	61,204
Issued during the year				
- Dividend reinvestment plan	887,136	1,622	873,587	1,549
- Executive and employee options exercised	174,400	212	136,000	252
End of the financial period	80,031,955	64,839	78,970,419	63,005

	CONSOLIDATED	
	31-Dec-10	31-Dec-09
	S'000s	S'000s
9. RECONCILIATION OF CASH		

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following:

Cash on hand	23,379	30,377
Closing cash balance	23,379	30,377

10. BUSINESS COMBINATIONS

Change in composition of Melbourne IT Ltd

2010

On 18 May 2010, Melbourne IT purchased the remaining 50% share of the associate Advantate Pty Ltd. Effective 19 May 2010 Advantate ceased being an associate and became a 100% subsidiary. Activities from this business are no longer equity accounted as an associate, but consolidated into the SMB business unit. The impact to 31 December 2010 was immaterial.

MELBOURNE IT LTD

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

CONSOLIDATED	
31-Dec-10	31-Dec-09
\$'000s	\$'000s

11. NON-CURRENT ASSETS - INVESTMENTS IN ASSOCIATES

(a) Investment Details

Advantate Pty Ltd

On 18 May 2010 Advantate Pty Ltd ceased being an associate and is now a wholly owned subsidiary of Melbourne IT Ltd.

(b) Movements in the carrying amount of the Group's interest in associates

Carrying amount at beginning of the year	-	519
Investments during the year	20	200
Share of associated company's profit/(loss) before tax	(20)	(564)
Share of associated company's tax benefit	-	(155)
	<u>-</u>	<u>-</u>
Carrying amount at end of the year	<u>-</u>	<u>-</u>

(c) Fair value of investment, in associate

The fair value of the Group's investment in Advantate is NIL.

(d) Summarised financial information

The following table illustrates the summarised financial information relating to the Group's associate:

Extract from associates' balance sheet

Current assets	-	312
Non-current assets	-	206
	<u>-</u>	<u>518</u>
Current liabilities	-	(980)
Non-current liabilities	-	(8)
	<u>-</u>	<u>(988)</u>
Net assets/(liabilities)	<u>-</u>	<u>(470)</u>
Share of associates' net assets/(liabilities) (2010: 100%; 2009: 50%)	-	(235)
	<u>-</u>	<u>(235)</u>

MELBOURNE IT LTD

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

	CONSOLIDATED	
	31-Dec-10	31-Dec-09
	S'000s	S'000s
12. INTEREST-BEARING LOANS AND BORROWINGS		
Current		
US Dollar Overseas Currency Loan	5,904	4,451
Total Interest-bearing Loans and Borrowings - Current	<u>5,904</u>	<u>4,451</u>
Non-current		
US Dollar Overseas currency Loan	40,342	53,410
Total Interest-bearing Loans and Borrowings - Non current	<u>40,342</u>	<u>53,410</u>

(a) Reconciliation of net debt

The reconciliation of net debt is as follows:

Current	5,904	4,451
Non-current	<u>40,342</u>	<u>53,410</u>
	46,246	57,861
Less cash and cash equivalents	<u>(23,379)</u>	<u>(30,377)</u>
	<u>22,867</u>	<u>27,484</u>

(b) Terms and Conditions

Current and Interest-bearing loans and borrowings

US Dollar Overseas Currency Loan

The US Dollar Overseas Currency Loan of USD \$47.0 million (2009: USD \$52.0 million) is for a fixed term of 5 years, expiring in April 2013.

In line with the loan agreement, Melbourne IT has made four repayments of USD \$1.25 million (previously USD \$1.0 million), total USD \$5 million, and will further increase repayments to USD \$1.5m from 1 January 2011.

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

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

MELBOURNE IT LTD

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

13. OPERATING SEGMENT

Operating Segment - Continuing Operations

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

Year ended 31 December 2010	SMB \$'000	GPS \$'000	DBS \$'000	ES \$'000	FTR \$'000	Total \$'000
Segment revenue						
Revenue from operating activities						
Registration Revenue	21,444	40,287	12,433	-	-	74,165
Consulting Revenue	-	-	38,459	-	-	38,459
Hosting & Value-Added Product Sales	20,808	15,357	112	31,458	-	67,734
For The Record Revenue	-	-	-	-	7,915	7,915
Other Revenue	470	198	61	160	-	889
Total segment revenue	42,722	55,843	51,065	31,617	7,915	189,162
Interest revenue						631
Other Income						69
Total consolidated revenue						189,862
Result						
Segment results	9,448	8,253	6,370	3,536	(30)	27,577
Share of loss in Advantate Pty Ltd - (50% owned - Financial Report Note 10)						(20)
Unallocated expenses						
- Corporate						(4,633)
- Transformation Projects						(1,742)
Earnings Before Interest and Tax						21,182
Net Interest						
Interest revenue						631
Interest expense						(1,753)
Total Net Interest						(1,122)
Income tax expense						(4,000)
Net profit after tax						16,060

MELBOURNE IT LTD

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

13. OPERATING SEGMENT / continued

Operating Segment - Continuing Operations

Year ended 31 December 2009	SMB \$'000	GPS \$'000	DBS \$'000	ES \$'000	FTR \$'000	Total \$'000
Segment revenue						
Revenue from operating activities						
Registration Revenue	21,330	49,423	13,433	-	-	84,186
Consulting Revenue	-	-	42,576	-	-	42,576
Hosting & Value-Added Product Sales	21,291	15,437	14	25,451	-	62,193
For The Record Revenue	-	-	-	-	9,609	9,609
Other Revenue	154	70	22	143	-	389
Total segment revenue	42,775	64,930	56,045	25,594	9,609	198,953
Interest revenue						778
Other Income						371
Total consolidated revenue						200,102
Result						
Segment results	10,137	8,552	6,367	2,216	1,010	28,282
Share of loss in Advantate Pty Ltd - (50% owned)						(564)
Unallocated expenses						(4,305)
Earnings Before Interest and Tax						23,413
Net Interest						
Interest revenue						778
Interest expense						(2,063)
Total Net Interest						(1,285)
Income tax expense						(5,320)
Net profit after tax						16,808

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

MELBOURNE IT LTD

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

14. HEDGING INSTRUMENTS

Melbourne IT Ltd has continued to use USD foreign exchange collars to provide a greater degree of certainty over future exchange rates over a portion of the USD sales in the GPS segment.

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

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

15. EVENTS AFTER THE BALANCE SHEET DATE

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

No other significant events have occurred after the balance date and up to the date of this report that require disclosure.

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.