

MEDIA RELEASE

**Strong Second Half Performance Delivers Melbourne IT
Full Year EBIT of \$18.9 million**

Second Half 2011 EBIT up 70% on First Half 2011

Board declares 8 cent fully-franked final dividend reflecting confidence in future business performance

Melbourne IT Group Consolidated Results – Year ending 31 December 2011:

		FY 2011	FY 2010
Revenue	-5%	\$179.8m	\$189.9m
EBIT	-11%	\$18.9m	\$21.2m
EBITDA	-13%	\$25.0m	\$28.6m
NPAT	-16%	\$13.5m	\$16.1m
Basic EPS	-17%	16.77¢	20.21¢
Final Dividend	Unchanged	8.0¢	8.0¢
Operating Cash	2%	\$19.1m	\$18.7m
Deferred Gross Margin	-8%	\$29.1m	\$31.6m

MELBOURNE, Australia – 21 February 2012 – Melbourne IT (ASX: MLB) today announced its full year results for the year ending 31 December 2011, reporting a 5% year-on-year decrease in revenue to \$179.8m and earnings before interest and tax (EBIT) of \$18.9 million, down 11% year-on-year. The result was in line with the company’s updated market guidance, provided with the first half results in August, which predicted a stronger second half. H2 2011 EBIT contribution of \$11.9 million was well up on the H1 2011 EBIT contribution of \$7.0 million.

Net profit after tax (NPAT) for the year was \$13.5 million, a decrease of 16% year-on-year, while operating cash remained strong, growing 2% year-on-year to \$19.1 million. A fully-franked final dividend of 8 cents was declared by the Board, which is unchanged from 2010.

“Strong growth from our Digital Brand Services division, coupled with a rebound from our Enterprise Services and ForTheRecord business units, delivered a much improved second half performance which contributed \$92.2 million in revenue and \$11.9 million in EBIT. The improvements made and strong momentum of the second half provide the company with an ideal platform for 2012,” Melbourne IT CEO and Managing Director, Theo Hnarakis, said.

“2011 was one of our most challenging years yet as we were not only dealing with further unfavourable foreign exchange headwinds and continued difficult global trading conditions but also making significant investments in system transformation where the benefits are not scheduled to flow until 2012. Despite the

negative impact of a strong Australian Dollar on our financial growth, Melbourne IT is positioned well for 2012 and beyond,” he said.

“We made solid progress in our systems transformation project, and invested heavily in new product and service development, which support our belief that 2012 will see a return to profit growth. The Board’s decision to declare an 8 cent, fully franked dividend is a mark of the confidence they have in the company’s 2012 prospects.”

The underlying performance of the business in 2011 –on a constant currency basis using 2010 foreign exchange rates – showed revenues were down 1% to \$187.6 million. Foreign exchange negatively impacted 2011 EBIT by an estimated \$2.5 million. Without this foreign exchange impact, and excluding the additional \$1.3 million opex impact of the transformation project (\$3m in 2012 compared to \$1.7m in 2011), Melbourne IT’s underlying EBIT would have been up approximately 7% to \$24.4 million¹.

Divisional Key Points

Digital Brand Services (DBS)

- Strong full year performance with revenue up 8% year-on-year to \$55.3 million and EBIT up 41% year-on-year to \$9.0 million
- Excellent second half performance – H2 2011 revenue was \$30.5 million, up 23% on H1 2011 revenue of \$24.8 million; H2 2011 EBIT was \$6.2 million, up 121% on H1 2011 EBIT of \$2.8 million
- Brand and Reputation Protection Services revenue grew 16% year-on-year to \$9.5 million
- A global leadership position on new ‘.brand’ TLDs boosted 2011 result and the company expects the .brand opportunity to drive significant revenue growth again in 2012 and beyond

Enterprise Services (ES)

- Disappointing full year result with revenue down 15% to \$26.8 million and EBIT down 51% to \$1.7 million. A \$4.6 million drop in one-off project revenue was the major factor.
- Improved second half following refocused strategy on annuity revenue, with new monthly recurring revenue growing 15% year-on-year and churn dropping 69% in the second half. H2 2011 EBIT was \$1.3m compared to \$0.4m for H1 2011.

SMB / GPS

- Consolidated SMB & GPS revenue down 9% year-on-year to \$89.4 million; consolidated EBIT down 13% year-on-year to \$15.4 million, primarily due to lower domain registration revenue
- SMB ARPU remained steady at \$301 as commoditisation of domains and base hosting was offset by growth in higher-margin SMB online marketing services (SEM, SaaS and premium email sales up 2% year-on-year to \$7.7 million)

ForTheRecord (FTR)

- Improved 2011 performance delivered a positive EBIT contribution of \$1.2 million

Outlook

“The significant investments Melbourne IT has made in the transformation project and new services over the past two years, coupled with the compelling DBS opportunity, will help deliver strong net growth in 2012. Melbourne IT expects 2012 EBIT to be up at least 10% on the 2011 result, assuming that the Australian dollar exchange rate remains at current levels,” Mr Hnarakis said.

The 2011 Full Year Results presentation to shareholders is available at <http://www.melbourneit.info/investor-centre/>.

¹ This is a non-IFRS, unaudited accounting measure which the company believes is relevant to the user’s understanding of its results given the value of the transformation investments and the foreign exchange impact in 2011.

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. 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 2011
(Comparative period – 31 December 2010)

2.0 Results for announcement to the market

Results for announcement to the market

				\$A'000
2.1 Total revenues from ordinary activities	Down	-5.3%	to	179,778
2.2 Profit/(loss) from continuing operations after tax attributable to members	Down	-15.8%	to	13,524
2.3 Net profit/(loss) for the period attributable to members	Down	-15.8%	to	13,524
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.	20 March 2012			

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 2011 was \$179.778 million (2010: \$189.862 million), a decrease of 5.3%. Revenues for the year ended 31 December 2011 have been significantly impacted by the stronger AUD compared to the same period last year. Revenues for the year ended 31 December 2011 restated using 2010 exchange rates are \$187.643 million (unaudited), equating to a 1.2% decrease on 2010 revenues on a like for like basis.
- Profit after Tax for the year ended 31 December 2011 was \$13.524 million (2010: \$16.060 million), a decrease of 15.8%. Excluding tax effected transformation expense of \$2.098 million (2010: \$1.220 million), adjusted profit after tax was \$15.622 million, a decrease of 9.6%.
- Earnings Before Interest and Tax ('EBIT') for the year ended 31 December 2011 was \$18.911 million (2010: \$21.182 million), a decrease of 10.7%. Excluding transformation expenses of \$2.998 million (2010: \$1.742 million), adjusted EBIT was \$21.909 million (2010: \$22.924 million), a decrease of 4.4%.
- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for the year ended 31 December 2011 was \$25.036 million (2010: \$28.551 million), a decrease of 12.3%. Excluding transformation expenses of \$2.853 million (total expense less depreciation) (2010: \$1.720 million), adjusted EBITDA was \$27.889 million (2010: \$30.271 million), a decrease of 7.9%.
- Earnings per share at 31 December 2011 was 16.77 cents (2010: 20.21 cents), a decrease of 17%.
- Cash and cash equivalents was \$19.047 million at 31 December 2011 (2010: \$23.379 million). At 31 December total external debt was \$40.291 million (US \$41.0 million) (2010: \$46.246 million (US \$47.0 million)). Net debt is \$21.244 million (2010: \$22.867 million), with the lower external debt offset by lower cash and cash equivalents.
- Positive Operating Cashflow for the year ended 31 December 2011 was \$19.099 million (2010: \$18.729 million), an increase of 2%. Included within the operating cashflow at 31 December 2011 is an interest expense totalling \$1.424 million (2010: \$1.753 million) of which \$1.373 million (2010: \$1.742 million) related to borrowing costs associated with the acquisition of DBMS.
- During the year, Melbourne IT has made quarterly repayments of USD \$1.5m on the USD Overseas Currency loan, a total of USD \$6.0m (AUD \$5.934m).
- Deferred Gross Margin (i.e.: income received in advance net of prepaid costs) was \$29.051 million at 31 December 2011 (December 2010: \$31.599 million) a decrease of 8.1%.
- At the 21 February 2012 Board Meeting, the directors declared an 8.0 cents fully franked final dividend on ordinary shares in respect of the year ended 31 December 2011 (year ended 31 December 2010: 8.0 cents).
- In accordance with accounting standards, the total amount of this final dividend of \$6.508 million has not been provided for in the 31 December 2011 financial statements.
- The following table shows a reconciliation of the pre- and post-transformation financial results included in the discussion above to the reported profit after tax. The company believes that this non-IFRS information is relevant to the user's understanding of its results, given the significant value of the transformation investment being made.

Non-IFRS information

	2011			2010		
	Pre-transformation (unaudited) \$000	Transformation (audited) \$000	Post-transformation (audited) \$000	Pre-transformation (unaudited) \$000	Transformation (audited) \$000	Post-transformation (audited) \$000
EBITDA	27,889	(2,853)	25,036	30,271	(1,720)	28,551
D & A	5,980	145	6,125	7,347	22	7,369
EBIT	21,909	(2,998)	18,911	22,924	(1,742)	21,182
Net Interest	1,002	-	1,002	1,122	-	1,122
Tax Expense	5,285	(900)	4,385	4,522	(522)	4,000
Profit After Tax	15,622	(2,098)	13,524	17,280	(1,220)	16,060

3.0 NTA Backing	Current period 31 December 2011	Previous Period 31 December 2010
Net tangible asset backing per ordinary security	(47.62 cents)	(48.92 cents)

Total Net Assets at 31 December 2011 were \$94.230 million including \$6.536 million of deferred tax assets, \$4.226 million of deferred tax liability and \$130.661 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), including capitalised costs of \$11.367 million in relation to the transformational project Integrated Web Services (IWS) and common financial reporting system (Oracle Financials).

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

13 April 2012

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

8.0 cents per Share
Totalling approximately \$6.508 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.

20 March 2012

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 22 May 2012

Time:

11:00 am

8.0 Compliance Statement

The report has been prepared based on a 31 December 2011 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
21 February 2012

MELBOURNE IT LTD
(ABN: 21 073 716 793)

FINANCIAL INFORMATION
FOR THE YEAR ENDED
31 DECEMBER 2011

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
Mr. A. Walsh

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Mr. T.J. Hnarakis

CHIEF OPERATING OFFICER

Mr. D. Walsh

CHIEF FINANCIAL OFFICER

Mr P. Findlay (Appointed 17 October 2011)
Mr. B. Smart (Appointed Acting Chief Financial Officer 24 August 2011 and resigned 16 October 2011)
Ms C. Sutton (Resigned 23 August 2011)

COMPANY SECRETARY

Ms. A. Jegathesan

REGISTERED OFFICE

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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 2011 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
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")

- 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")

- 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**

	2011 Cents	2010 Cents
Basic earnings per share	16.77 cents	20.21 cents
Diluted earnings per share	16.60 cents	20.20 cents

RESULTS

The consolidated net profit after tax of the Melbourne IT Ltd Group for the year ended 31 December 2011 was \$13.524 million (2010 \$16.060 million).

DIVIDENDS

	Cents	\$'000
Final Dividends Recommended		
• On ordinary shares	<u>8.0</u>	<u>6,508</u>
Dividends paid in the year		
Final Dividend – 2010		
• On ordinary shares	8.0	6,404
Interim Dividend – 2011		
• On ordinary shares	<u>7.0</u>	<u>5,646</u>
	<u>15.0</u>	<u>12,050</u>

MELBOURNE IT LTD

DIRECTORS INFORMATION / continued

REVIEW AND RESULTS OF OPERATIONS / continued

Summarised operating results are as follows:

	Notes	31-Dec-11 \$'000	31-Dec-10 \$'000
Revenue			
Registration Revenue		65,748	74,274
Consulting Revenue		42,414	37,620
Website & Email Hosting Revenue		63,065	68,677
For The Record Revenue		7,777	7,915
Other Revenue		342	676
		<u>179,346</u>	<u>189,162</u>
Interest revenue		422	631
Other Income		<u>10</u>	<u>69</u>
Total Consolidated Revenue		179,778	189,862
Total Earnings before Net Interest, Tax, Depreciation and Amortisation		25,036	28,551
Depreciation Expense		(4,854)	(6,169)
Amortisation Expense		<u>(1,271)</u>	<u>(1,200)</u>
Total Earnings Before Net Interest and Tax		18,911	21,182
Total Earnings before Net Interest and Tax and share of associate		18,911	21,202
Share of loss in Advantate Pty Ltd before income tax expense (50% owned)	10	<u>-</u>	<u>(20)</u>
Total Earnings Before Net Interest and Tax		18,911	21,182
Net Interest		<u>(1,002)</u>	<u>(1,122)</u>
Net Profit Before Tax		17,909	20,060
Tax Expense		<u>(4,385)</u>	<u>(4,000)</u>
Net Profit After Tax		13,524	16,060
Cashflow from Operations		19,099	18,729

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 2011.

SUBSEQUENT EVENTS

At the 21 February 2012 Board Meeting, the directors declared a 8.0 cents fully franked final dividend on ordinary shares in respect of the year ended 31 December 2011. The total amount of this final dividend is \$6.508 million, and it has not been provided for in the 31 December 2011 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

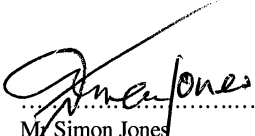
The amounts contained in the accompanying year financial information have been rounded to the nearest \$1,000 (where applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

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 2011 annual report.

Signed in accordance with a resolution of the directors.


.....
Mr Simon Jones
Chairman
21 February 2012

MELBOURNE IT LTD

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011

		CONSOLIDATED	
	Notes	31-Dec-11 \$'000s	31-Dec-10 \$'000s
Melbourne IT Ltd - Consolidated Group			
ASSETS			
Current Assets			
Cash and cash equivalents	9	19,047	23,379
Trade and other receivables	5	29,244	24,890
Inventories		463	562
Prepayment of domain name registry charges		11,465	13,317
Derivative financial instruments		14	258
Other assets	6	3,847	2,813
Total Current Assets		64,080	65,219
Non-current Assets			
Property, plant and equipment		5,360	7,665
Intangible assets	7	130,661	126,641
Deferred income tax asset		6,536	5,971
Prepayment of domain name registry charges		6,534	7,609
Other assets		58	43
Total Non-current Assets		149,149	147,929
TOTAL ASSETS		213,229	213,148
LIABILITIES			
Current Liabilities			
Trade and other payables	11	21,042	14,532
Interest-bearing loans and borrowings	12	5,896	5,904
Provisions		4,568	4,165
Current tax liabilities		568	904
Income received in advance		33,093	37,299
Total Current Liabilities		65,167	62,804
Non-current Liabilities			
Interest-bearing loans and borrowings	12	34,395	40,342
Deferred income tax liability		4,226	2,194
Provisions		815	716
Derivative financial instruments		439	597
Income received in advance		13,957	15,226
Total Non-current Liabilities		53,832	59,075
TOTAL LIABILITIES		118,999	121,879
NET ASSETS		94,230	91,269
EQUITY			
Contributed equity	8	66,900	64,839
Foreign currency translation reserve		(9,892)	(9,270)
Options reserve		4,166	3,880
Hedging reserve		(127)	111
Retained earnings		33,183	31,709
TOTAL EQUITY		94,230	91,269

MELBOURNE IT LTD

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

		CONSOLIDATED	
	Notes	31-Dec-11 \$'000s	31-Dec-10 \$'000s
Revenue	2 (i)	179,768	189,793
Other Income	2 (ii)	10	69
Registry, Hosting and Sundry Products costs		(62,327)	(73,435)
Gross profit		117,451	116,427
Salaries and employee benefit expenses		(71,264)	(68,706)
Depreciation of non current assets	3 (a)	(4,854)	(6,169)
Amortisation of identifiable intangible assets	3 (b)	(1,271)	(1,200)
Other expenses	3 (c)	(22,153)	(20,272)
Share of profits/(loss) of an associate	10	-	(20)
Profit from continuing operations before tax		17,909	20,060
Income tax expense		(4,385)	(4,000)
Net Profit Attributable to Members of Melbourne IT Ltd		13,524	16,060
Other comprehensive income/(expenses)			
Currency translation differences		(622)	(3,370)
Net gains/(losses) on cashflow hedges		(238)	42
Other comprehensive income/(expenses) for the period, net of tax		(860)	(3,328)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		12,664	12,732
Profit attributable to members of the parent		13,524	16,060
Total comprehensive income attributable to members of the parent		12,664	12,732
Earnings per share (cents per share)			
- Basic earnings per share (cents per share)		16.77 cents	20.21 cents
- Diluted earnings per share (cents per share)		16.60 cents	20.20 cents

MELBOURNE IT LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011**

	CONSOLIDATED					
	FOREIGN CURRENCY RESERVE	OPTIONS RESERVE	HEDGING RESERVE	CONTRIBUTED EQUITY	RETAINED EARNINGS	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 January 2011	(9,270)	3,880	111	64,839	31,709	91,269
Profit for the period					13,524	13,524
Other comprehensive income	(622)		(238)			(860)
Total comprehensive income for the period	(622)	-	(238)	-	13,524	12,664
Transactions with owners in their capacity as owners:						
Share-based payment		286				286
Dividend Reinvestment Plan				1,906	(1,906)	-
Exercise of Options				155		155
Equity Dividends					(10,144)	(10,144)
As at 31 December 2011	(9,892)	4,166	(127)	66,900	33,183	94,230
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

MELBOURNE IT LTD

STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2011

		CONSOLIDATED	
		31-Dec-11	31-Dec-10
Notes		\$'000s	\$'000s
CASH FLOWS FROM OPERATING ACTIVITIES			
		192,108	203,717
Receipt of service revenue and recoveries			
Payments to suppliers and employees		(168,016)	(177,524)
Interest received	2(i)	422	631
Interest paid	3(c)	(1,424)	(1,753)
Bank charges and credit card merchant fees		(958)	(1,254)
Income tax paid		(3,033)	(5,088)
NET CASH FLOWS FROM OPERATING ACTIVITIES		19,099	18,729
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of plant and equipment and intangible assets		(2,759)	(5,033)
Purchase of Transformation plant and equipment and intangible assets		(5,488)	(5,500)
Proceeds on sale of plant and equipment		256	1,474
Receipts of Deposits to be transferred to ICANN		742	-
Investment in Joint Venture - Advantate Pty Ltd	10	-	(20)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(7,249)	(9,079)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Repayment of interest bearing liabilities	12(b)	(5,934)	(5,337)
Proceeds from issue of ordinary shares - ESOP	8	155	212
Payment of dividend on ordinary shares	4	(10,144)	(10,268)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(15,923)	(15,393)
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS		(4,073)	(5,743)
Net foreign exchange differences		(259)	(1,255)
Cash and cash equivalents at beginning of period		23,379	30,377
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	9	19,047	23,379

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2011

CORPORATE INFORMATION

The financial information in this report for Melbourne IT Ltd for the year ended 31 December 2011 was authorised for issue in accordance with a resolution of the directors on 21 February 2012.

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 2011, 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 2011 be considered together with any public announcements made by Melbourne IT Limited and its controlled entities during the year ended 31 December 2011, 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 2010. 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")

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")

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.

MELBOURNE IT LTD
**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2011**

CONSOLIDATED	
31-Dec-11	31-Dec-10
\$'000s	\$'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	65,748	74,274
Consulting Revenue	42,414	37,620
Hosting & Value-Added Product Sales	63,065	68,677
For The Record Revenue	7,777	7,915
Other Revenue	342	676
	<u>179,346</u>	<u>189,162</u>
Interest Revenue	422	631
Total consolidated revenue	<u>179,768</u>	<u>189,793</u>

(ii) Other income

Other	10	69
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3. EXPENSES
(a) Depreciation of non-current assets

Fit out	213	432
Plant and equipment	4,589	5,323
Furniture	52	414
Total depreciation of non-current assets	<u>4,854</u>	<u>6,169</u>

(b) Amortisation of identifiable intangible assets

Amortisation of customer contracts	982	933
Amortisation of capitalised software	184	162
Amortisation of Other Intangibles	105	105
Total amortisation of identifiable intangible assets	<u>1,271</u>	<u>1,200</u>

(c) Other Expenses from ordinary activities

Training & Recruitment	1,027	434
Premises	4,145	4,233
Travel & accommodation	2,368	1,712
Financial & legal	1,847	2,519
Communications	2,298	2,217
Equipment	3,862	2,113
Marketing	2,075	2,117
Net foreign currency exchange (gain)/loss	1,203	353
Bad debts and doubtful debts	565	698
Interest expense	1,424	1,753
Bank charges and credit card merchant fees	958	1,254
Other expenses	381	869
Total other expenses from ordinary activities	<u>22,153</u>	<u>20,272</u>

(d) Other

Expensing of share-based payments	381	785
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MELBOURNE IT LTD**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2011**

CONSOLIDATED	
31-Dec-11	31-Dec-10
\$'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)

(2010: 7.0 cents per share)

5,646	5,570
-------	-------

(ii) Previous year - final

Franked dividends (8.0 cents per share)

(2010: 8.0 cents per share)

6,404	6,320
-------	-------

12,050	11,890
--------	--------

The above dividends were paid as follows:

Cash payment

10,144	10,268
--------	--------

Dividend reinvestment plan

1,906	1,622
-------	-------

12,050	11,890
--------	--------

(b) Dividends proposed and not recognised as a liability**(i) Franked dividend (8.0 cents per share)**

(2010: 8.0 cents per share)

6,508	6,403
-------	-------

At the 21 February 2012 Board Meeting, the directors declared a 8.0 cents fully franked final dividend on ordinary shares in respect of the year ended 31 December 2011. The total amount of this final dividend is \$6.508 million and has not been provided for in the 31 December 2011 financial statements.

(c) Franking of dividends

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

5. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade debtors

30,591	26,361
--------	--------

Allowance for impairment loss

(1,347)	(1,471)
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Total Trade and Other Receivables (Current)

29,244	24,890
--------	--------

6. OTHER ASSETS (CURRENT)

Other prepayments

3,674	2,514
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GST receivable

173	299
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Total Other Assets (Current)

3,847	2,813
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MELBOURNE IT LTD

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2011**

	CONSOLIDATED	
	31-Dec-11	31-Dec-10
Notes	\$'000s	\$'000s
7. INTANGIBLE ASSETS		
(a) Carrying Amount of Intangible Assets		
Goodwill	102,406	102,870
Marketing Related Intangibles	9,982	9,982
	<u>9,982</u>	<u>9,982</u>
Customer Contracts	10,627	10,619
Accumulated Amortisation	(4,050)	(3,110)
	<u>6,577</u>	<u>7,509</u>
Capitalised Software	970	971
Accumulated Amortisation	(694)	(532)
	<u>276</u>	<u>439</u>
Assets Under Construction - Transformation Projects (b)	11,367	5,683
Total Capitalised Software	<u>11,643</u>	<u>6,122</u>
Other Intangibles	315	315
Accumulated Amortisation	(262)	(157)
	<u>53</u>	<u>158</u>
Total Intangible Assets	<u>130,661</u>	<u>126,641</u>

(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 2011**

	CONSOLIDATED	
	31-Dec-11	31-Dec-10
	\$'000s	\$'000s

8. CONTRIBUTED EQUITY
Ordinary shares

Issued and fully paid

66,900	64,839
--------	--------

Movements in ordinary shares on issue

	31-Dec-11		31-Dec-10	
	No. of Shares	\$'000s	No. of Shares	\$'000s
Beginning of the financial period	80,031,955	64,839	78,970,419	63,005
Issued during the year				
- Dividend reinvestment plan	1,227,323	1,906	887,136	1,622
- Executive and employee options exercised	92,900	155	174,400	212
End of the financial period	81,352,178	66,900	80,031,955	64,839

	CONSOLIDATED	
	31-Dec-11	31-Dec-10
	\$'000s	\$'000s

9. RECONCILIATION OF CASH

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

Cash on hand	19,047	23,379
Closing cash balance	19,047	23,379

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.

11. TRADE AND OTHER PAYABLES (CURRENT)

Trade creditors	3,236	2,441
Sundry creditors	8,655	4,718
Deposits received in advance	3,079	1,733
Accrued expenses	6,072	5,640
Total payables	21,042	14,532

(a) Terms and conditions relating to trade 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.

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2011**

	CONSOLIDATED	
	31-Dec-11	31-Dec-10
	\$'000s	\$'000s
12. INTEREST-BEARING LOANS AND BORROWINGS		
Current		
US Dollar Overseas Currency Loan	5,896	5,904
Total Interest-bearing Loans and Borrowings - Current	<u>5,896</u>	<u>5,904</u>
Non-current		
US Dollar Overseas Currency Loan	34,395	40,342
Total Interest-bearing Loans and Borrowings - Non current	<u>34,395</u>	<u>40,342</u>

(a) Reconciliation of net debt

The reconciliation of net debt is as follows:

Current	5,896	5,904
Non-current	<u>34,395</u>	<u>40,342</u>
	40,291	46,246
Less cash and cash equivalents	<u>(19,047)</u>	<u>(23,379)</u>
	<u>21,244</u>	<u>22,867</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 \$41.0 million (2010: USD \$47.0 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 \$1.5 million in the year (previously USD \$1.25 million), total USD \$6 million.

For the year ended 31 December 2011 the average interest rate was 3.16%.

The Group has complied with its bank covenants during the year ended 31 December 2011.

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2011**

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 2011 and 31 December 2010.

Year ended 31 December 2011	SMB \$'000	GPS \$'000	DBS \$'000	ES \$'000	FTR \$'000	Total \$'000
Segment revenue						
Revenue from operating activities						
Registration Revenue	20,494	33,457	11,797	-	-	65,748
Consulting Revenue	-	-	42,414	-	-	42,414
Hosting & Value-Added Product Sales	19,967	15,166	1,115	26,817	-	63,065
For The Record Revenue	-	-	-	-	7,777	7,777
Other Revenue	330	4	8	-	-	342
Total segment revenue	40,791	48,627	55,334	26,817	7,777	179,346
Interest revenue						422
Other Income						10
Total consolidated revenue						179,778
Result						
Segment results	8,258	7,128	8,978	1,710	1,198	27,272
Unallocated expenses						
- Corporate						(5,363)
- Transformation Projects						(2,998)
Earnings Before Interest and Tax						18,911
Net Interest						
Interest revenue						422
Interest expense						(1,424)
Total Net Interest						(1,002)
Income tax expense						(4,385)
Net profit after tax						13,524

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 2010	SMB \$'000	GPS \$'000	DBS \$'000	ES \$'000	FTR \$'000	Total \$'000
Segment revenue						
Revenue from operating activities						
Registration Revenue	21,554	40,287	12,433	-	-	74,274
Consulting Revenue	-	-	37,620	-	-	37,620
Hosting & Value-Added Product Sales	20,808	15,357	951	31,561	-	68,677
For The Record Revenue	-	-	-	-	7,915	7,915
Other Revenue	360	198	61	57	-	676
Total segment revenue	42,722	55,842	51,065	31,618	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

The 2010 operating segment note has been restated to be prepared on a consistent basis with the 2011 note, reflecting how Management view the business. This does not materially change any segment revenue or result.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2011

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 \$41.0 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 21 February 2012 Board Meeting, the directors declared a 8.0 cents fully franked final dividend on ordinary shares in respect of the year ended 31 December 2011. In accordance with Australian Accounting Standards, the total amount of this final dividend is \$6.508 million and it has not been provided for in the 31 December 2011 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.