

20 April 2012

Melbourne IT Ltd

ACN 073716793

Level Two 120 King Street
Melbourne Victoria 3000
Australia

Dear Shareholder

2011 Annual Review

I am pleased to present a copy of the 2011 Melbourne IT Annual Review which provides a succinct summary of the company's 2011 performance. The full 2011 Melbourne IT Annual Report, including detailed financial statements, can be accessed via our website at annualreport.melbourneit.info

www.melbourneit.com.au
Telephone +61 3 8624 2400
Facsimile +61 3 8624 2499

Annual General Meeting

Please also find enclosed the Notice of Meeting and Proxy Form in relation to the Melbourne IT Annual General Meeting, which will be held at 11am on Tuesday, 22 May 2012 at the Spring Street Conference Centre, 1 Spring Street, Melbourne.

Yours sincerely



Simon Jones
Chairman



MELBOURNE **IT**

Americas EMEA Asia-Pacific



melbourneit.info

Momentum:

Shaping a new Internet era

2011

< Annual Review >

OUR SERVICES

For small & medium businesses

Domain names, web hosting, web design services, email, search engine marketing, online tools for business

www.melbourneit.com.au
www.webcentral.com.au
www.domainz.co.nz
www.advantate.com.au

For enterprise & government clients

Online brand protection and online brand performance
Agile, Enterprise-grade IT and infrastructure solutions
Digital recording, multimedia and content management solutions

www.melbourneitdbs.com
www.melbourneitenterprise.com
www.fortherecord.com

For partners & resellers

Domain names, web hosting, email and online tools for business

www.melbourneitgps.com

AGM DETAILS

The Annual General Meeting (AGM) will be held at:
Level 2, Spring Street Conference Centre, 1 Spring Street, Melbourne, Australia on Tuesday, 22 May 2012 at 11.00 am.

All shareholders are invited to attend the AGM or to complete and return the proxy form that accompanies the Notice of Meeting.



This report has been produced
using recycled paper.

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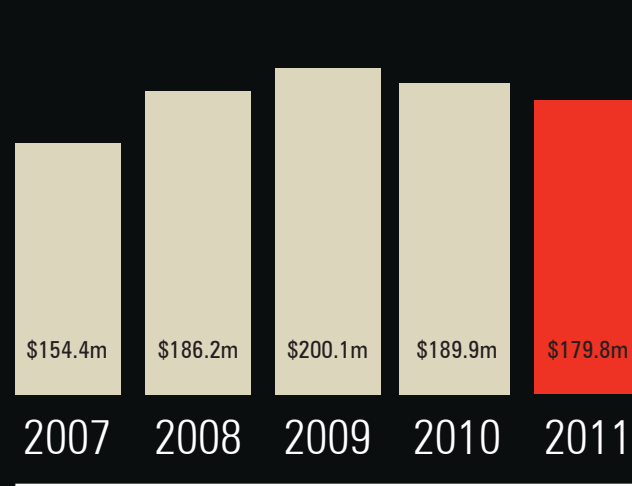
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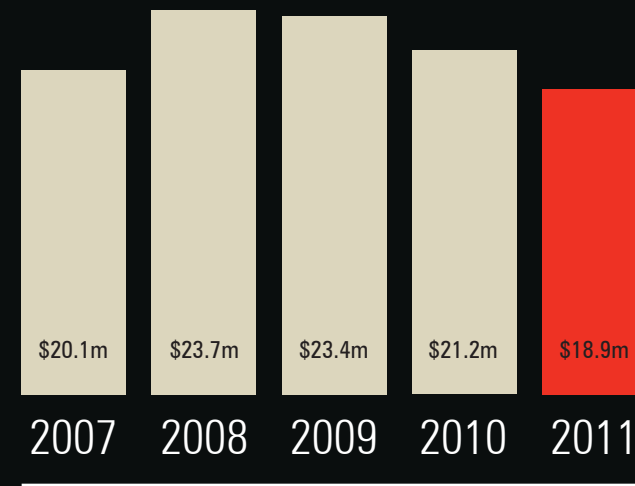
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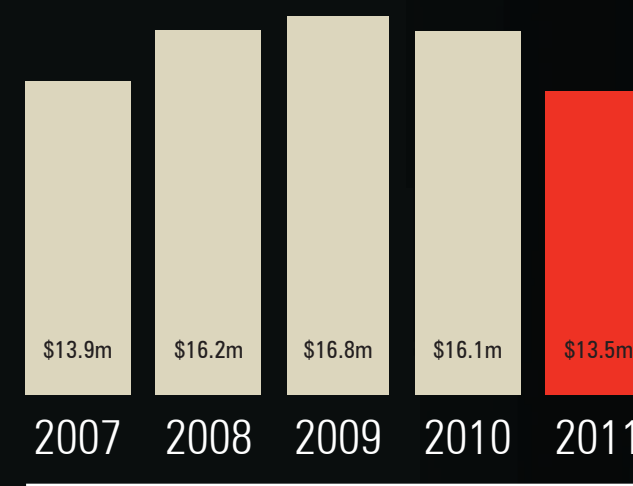
Revenue down
5% to \$179.8m



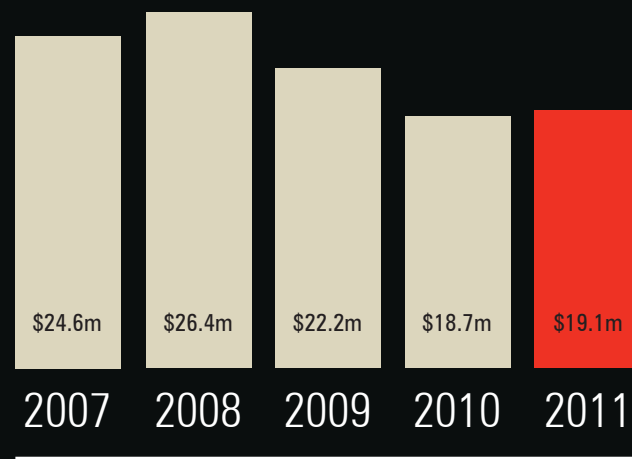
Earnings Before Interest and Tax down
11% to \$18.9m



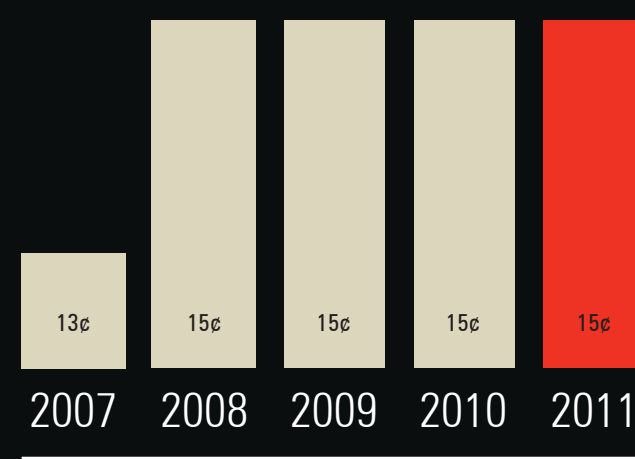
Net Profit after tax down
16% to \$13.5m



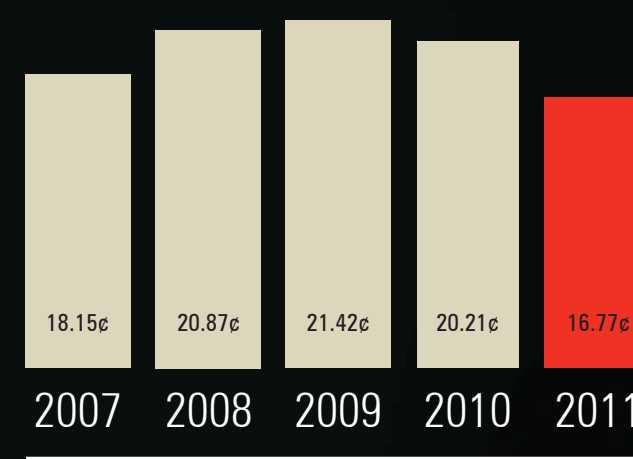
Operating Cash up
2% to \$19.1m



Dividend unchanged
15¢



Earnings Per Share down
17% to 16.77¢



Chairman's Review

Simon Jones



"I believe the much improved second half result provides a true reflection of the earning potential of Melbourne IT and the momentum of this result provides a platform for 2012 success."

On behalf of the Board of Melbourne IT, I am pleased to present the 2011 Annual Report and Annual Review. The Annual Review is a concise version of the past financial year while the complete Annual Report includes all financial details in much more depth. Both are available online at www.melbourneit.info.

Our most challenging year

2011 was a year of investment for Melbourne IT – not just in our systems transformation project, but in new products and capabilities to take advantage of the emerging market opportunities for this business. With

the benefits of those investments beginning to flow, and a strong second half of 2011 demonstrating real business momentum, I believe Melbourne IT is set to begin delivering meaningful earnings growth in 2012.

However, 2011 was also possibly the most challenging year in Melbourne IT's 15-year history. The outlay associated with the business investments, a continued foreign exchange headwind provided by a strong Australian Dollar, and a disappointing first half performance contributed to a lower full year result than we had initially expected.

Full year revenue in 2011 was down 5% year-on-year to \$179.8 million, from \$189.9 million in 2010. EBIT declined 11% year-on-year to \$18.9 million, with EBIT being primarily weighed down by the company's increased investment in the Transformation program and an estimated negative foreign exchange EBIT impact of \$2.5 million (based on 2010 rates).

These challenges contributed to a 16% fall in net profit after tax (NPAT) to \$13.5 million in 2011.

However, on an underlying basis Melbourne IT's performance showed bottom line growth. While 2011 revenue was \$187.6 million when restated on a constant currency basis (down 1% year-on-year), underlying EBIT was up 7% to \$24.4 million, taking into account the estimated foreign exchange impact of \$2.5 million and the Transformation operational expenditure (OPEX) investment of \$3 million.

The business continues to generate strong cash flow with a 2% increase in operating cash to \$19.1 million in 2011 from \$18.7 million the year prior. Net debt remains low at \$21.2 million and the company retired \$5.9 million of debt in 2011.

The Board remains confident in the future performance of the business and declared a final dividend of 8c, fully-franked, bringing the full year dividend to 15c. A primary reason for this is the strong second half performance which, we believe, is a sound indicator for the company's prospects in 2012.

Second half turnaround

After a poor start to 2011, Melbourne IT delivered second half revenue of \$92.2 million, up 5% on the first half revenue of \$87.6 million, and a 70% uplift in EBIT to \$11.9 million compared to \$7 million in EBIT in the first half of 2011.

The second half contribution to NPAT was \$8.6 million, up 76% on the first half NPAT figure of \$4.9 million.

The company's Digital Brand Services (DBS), Enterprise Services and ForTheRecord (FTR) divisions all enjoyed stronger second half performances, with DBS in particular buoyed by a second half EBIT contribution of \$6.2 million. This is almost the equivalent of the division's 2010 full year \$6.4 million EBIT result – despite being negatively impacted by a stronger foreign exchange rate.

Looking back on the past two years of the company's performance, the first half of 2011 stands out as a dip across all financial metrics. I believe the much-improved second half result provides a true reflection of the earning potential of Melbourne IT and a platform for 2012 success.

2011 Achievements

While 2011 was a challenging year, there were still notable achievements across the business.

The Transformation project continued in 2011, with Melbourne IT's new Oracle financial system rolled out across the entire business, unifying financial reporting across all locations. The pilot deployment of the company's new billing and customer relationship management (CRM) system was also successfully trialled in the New Zealand operation.

Digital Brand Services staked a legitimate claim to global leadership of the new Top Level Domain (TLD) opportunity in 2011. A compelling service offering, backed by one of the strongest TLD consultancy teams in the industry and a PR campaign which generated more than 1,000 pieces of media coverage across 66 countries, helped the DBS sales team sign more than 120 new TLD contracts in 2011. That number rose to 150 as this report went to print ahead of the 12 April 2012 application deadline.

Leadership, sales and operational changes made in Enterprise Services ensured the division's disappointing first half result was not repeated in the second half. The renewed focus on growing annuity revenue while reducing churn to historically low levels delivered an improved second half and bodes well for 2012.

SMB/GPS, while remaining a strong contributor to the company's EBIT, was hindered by a slowdown in domain registrations by some of the company's largest partners. Pleasingly, however, was the ability for the SMB division to maintain Average Revenue Per User (ARPU) by selling more higher-margin services in a market environment of discounting and commoditisation.

The return of FTR to a positive EBIT contribution was a notable achievement in 2011 and a testament to the investments made in the second half of 2010 to revitalise the sales channel and new product development.

Many of these achievements helped continue Melbourne IT's shift away from domain registration revenue, with IT services and consulting revenue representing 63% of total revenue in 2011, compared to 61% in 2010.

2012 Outlook

The extensive investments the company has made in its Transformation program and new product development will begin bearing fruit in 2012.

The company's Transformation program will deliver cost efficiencies and begin benefitting the SMB/GPS divisions this year, helping them maintain the current level of revenue and profitability.

Enterprise Services should continue to grow its annuity revenue base and will leverage its extensive Education market experience to win a greater share of project revenue in 2012. FTR is expected to deliver a similar result this year as in 2011.

DBS displayed its growth potential in 2011 and Melbourne IT expects that growth to continue in 2012. The company's global leadership of the new TLD opportunity will continue, while core brand protection and brand optimisation services should deliver strong revenue.

Assuming the Australian Dollar's value remains the same relative to the US Dollar and major European currencies in 2012, Melbourne IT expects 2012 full year EBIT to be up 10 per cent on 2011.

With thanks

The employees of Melbourne IT pulled together to deliver a strong finish to 2011 and I thank them for their dedication and tenacity.

I'd also like to thank my colleagues on the Board for their input and influence this year in helping guide Melbourne IT through a year of patient investment.

And finally I would like to thank Managing Director & CEO, Theo Hnarakis, and the Melbourne IT Executive Team for their perseverance during a challenging 12 months to steer this company towards a platform for future growth.

With the array of opportunities ahead I believe Melbourne IT has a prosperous future. I expect 2012 to be the year the company begins delivering on that promise.

Simon Jones
Chairman

Managing Director's Review

Theo Hnarakis



“Our investments, coupled with the momentum of the second half of 2011, provide the platform for Melbourne IT to successfully grasp the opportunities set before us this year.”

2011 was a year of mixed fortunes for Melbourne IT.

The successes of 2011 were significant. Melbourne IT established itself as the clear global leader in providing services around ICANN's new Top Level Domain (TLD) program. This leadership, combined with strong growth across key online brand protection and optimisation services, propelled Digital Brand Services to its best profit result to date.

ForTheRecord rebounded from a difficult 2010 to once again deliver a positive EBIT contribution, despite public spending restrictions in its core American market. Enterprise Services also rebounded strongly in the second half, contributing to the group's 70% uplift in EBIT to \$11.9 million compared to \$7 million in EBIT in the first half of 2011.

There were also plenty of challenges. The ongoing strength of the Australian Dollar relative to the US Dollar and major European currencies continued to impact our results and mask the underlying performance of

the business. A slowdown in domain registration by some of our larger partners impacted the revenue of our SMB/GPS division significantly, and some execution challenges in Enterprise Services during the first half contributed to a softer year for that division.

However, our significant investments in Transformation, product and service development, and infrastructure improvements in 2011 position Melbourne IT for long term success and will begin bearing fruit in 2012. These investments, coupled with the momentum of the second half of 2011, provide the platform for Melbourne IT to successfully grasp the opportunities set before us this year.

New TLD Opportunity 2012 & beyond

The single largest opportunity for Melbourne IT in 2012 continues to be the enormous changes coming to the internet's domain name system in 2013. Already, Melbourne IT DBS has signed contracts to help global brands apply for 150 new TLDs. A full suite of risk assessment, contention and objection consulting services will be available in 2012 to help brands deal with the increasing complexity and potential for infringement associated with the expansion of the domain name system.

In addition to these revenue opportunities in 2012, from 2013 onwards we expect to see a significant rise in registration revenue as the new domains begin appearing on the internet, enhancing DBS's annuity revenue stream.

The knock-on effect to DBS's existing digital optimisation and online brand protection services will also be substantial. We are already seeing the shift among large brands from traditional industries to doing more of their business online, and the introduction of new TLDs will only accelerate the need for quality online insights and strategy.

Online threats to brands are already significant. Phishing attacks – email scams which dupe consumers into providing personal details online – rose 37% between 2010 and 2011. Cybersquatting recovery cases rose 2.5% in 2011 to a record 2,764 cases spanning 4,781 domain names which were held by squatters. Online counterfeiting remains a multi-billion dollar problem. The complexity of this online environment will only increase with the potential introduction of up to 1,500 new TLDs and demand for monitoring and enforcement services will escalate.

Brand threats continue to evolve outside of domains, with malicious software now targeting more than just traditional desktop and laptop computers. The explosion in smart mobile device use – from tablet computers to feature-packed smartphones – has seen the emergence of mobile applications (or 'apps') as a new vector for fraud and brand damage.

In February this year, there was a prime example of this when a fake Pokémon app managed to reach number 2 on the Apple App Store and rake in an estimated \$10,000 before it was removed. In 2012 DBS will launch a new mobile application monitoring service to ensure our clients are protected in this emerging space and their brand is secured.

Beyond Digital Brand Services

Melbourne IT's prospects in 2012 are not limited to the opportunities for DBS, however.

Despite commoditisation and fierce competition, the Australian SMB market for online services continues to provide significant opportunities. A third of Australian SMBs still do not have a website, and for those that do, understanding how to do business online effectively is an acknowledged challenge by 42% of them.

SMBs are looking for easy-to-use products and advice to help them maximise their online presence and grow their business. With Australian online shopping expected to be worth \$21.7 billion by 2015 and the accelerating rollout of the NBN expected to reach 3.5 million premises by 2015, SMBs continue to invest in their web presence to take advantage of this combination of growing online access and spending.

At the same time, this growth in online access is progressing at a much faster rate in emerging economies globally, and the rapid expansion means an estimated 3 billion people will be online by 2015.

Our SMB/GPS division is ideally placed to capture revenue from both domestic and international trends. Our SMB eBusiness Centres are delivering value-added, higher margin services such as website design, email marketing and search engine marketing (SEM) to help Australian and New Zealand SMBs grow their online capabilities, while our GPS team continues to focus on accelerating partnerships in key emerging markets such as India and the Philippines.

With our systems Transformation project entering its final stages, the ability to deliver the full suite of products to all customers, as well as improve the provisioning and billing of products with both SMB customers and partners, is expected to help SMB/GPS benefit from customer demand faster.

Larger organisations are also investing more heavily in their online operations in Australia as the country's shift from 'bricks to clicks' continues. Woolworths recently publicly stated that it aims to generate \$1 billion of online sales within two years and ensure all its retail brands are trading on the web by 2015, with other large brands following suit with investments planned to bring their online platforms to life. Enterprise Services is set to benefit from this increased investment trend among large corporates by delivering agile platforms which can handle volatile web traffic movements and rapid online marketing campaign deployments.

An exciting year ahead

2012 promises to be an exciting year for Melbourne IT. While the challenge we face from an adverse foreign exchange rate is unlikely to disappear, the momentum in the business coupled with the benefits of our investments means the company is ideally positioned to capitalise on growth opportunities.

I would like to thank the Board for their continued support and confidence in the direction of Melbourne IT, as well as my hard-working colleagues on our Executive Team. Finally, I would like to show my appreciation for the efforts of all Melbourne IT employees in 2011.

We have a great team, we have a lot to do, but I am confident we have the talent and determination to achieve our goals in 2012.

Theo Hnarakis
Managing Director & CEO

Digital Brand Services

Overview

Melbourne IT Digital Brand Services (DBS) helps corporations manage, protect and optimise their brands online to maximise the value of their digital assets.

As the online business landscape increases in scope and opportunity, the complexity and risk associated with managing digital brands and transacting on the web is also increasing. Hundreds of companies, including some of the world's most recognisable names, trust Melbourne IT DBS to help them manage their online brands.

2011 Highlights

Digital Brand Services delivered a strong result in 2011 with full year revenue up 8% year-on-year to \$55.3 million and EBIT leaping 41% year-on-year to \$9 million. This is the highest EBIT result the division has recorded in its history, despite facing the headwind of a strong Australian Dollar. On a like-for-like constant currency basis using 2010 rates, full year 2011 revenue would have been up 15% to \$58.7 million.

Growth in the second half was robust. Revenue in H2 2011 was \$30.5 million, up 23% on H1 2011 revenue of \$24.8 million. H2 EBIT surged 121% to \$6.2 million from \$2.8 million in H1 2011.

ICANN's new Top Level Domain (TLD) program was approved in June 2011 and DBS quickly built a market leadership position around new TLDs which helped drive the strong second half result as companies sought DBS assistance to develop ".brand" applications.

Core DBS services also grew significantly throughout the year, with Digital Optimisation Services (formally Web Traffic Services) revenue up 74% year-on-year to \$1.6 million, and Brand and Reputation Protection Services revenue increasing 16% year-on-year to \$9.5 million. The number of digital brands under management rose 6% in 2011 to 620,000.

In 2011 DBS's customer base expanded to more than 3,800, with new customers including Dow Corning, Virgin Enterprises Limited and George Weston Foods.



EBIT grew 41 per cent to a record \$9 million in 2011.

DBS	FY11	FY10	CHANGE
Revenue	\$55.3m	\$51.1m	8%
EBIT Contribution	\$9.0m	\$6.4m	41%

Outlook

Digital Brand Services entered 2012 with significant momentum as the new TLD opportunity continues to drive revenue in 2012 and beyond. As of April 2012, Melbourne IT DBS has been engaged by leading global brands to manage more than 150 new TLD applications.

As the program moves from the application phase to the evaluation phase in May 2012, DBS will provide new services around managing application risk and contention / objection management to assist brands through the process.

Revenue from the new TLD opportunity will continue in 2013 and beyond, as the increasingly complex domain environment creates greater demand for both brand protection and brand optimisation services, in addition to significant growth in annuity revenues via increased domain registrations.

Threats to online brands continue to grow, with phishing attacks rising 37% in 2011 and online counterfeiting remaining a multi-billion dollar problem. Demand for online brand protection is expected to remain high, and investments in product development will further equip DBS to monetise this opportunity. In 2012 DBS will introduce a search channel monitoring product as well as a new mobile application monitoring service to help organisations combat fraud and phishing attacks via smartphone applications.

DBS's Digital Optimisation Services also stand to benefit in 2012 from the increasing number of companies relying on the internet as their primary route to market, with brands requiring more in-depth online consumer insights to drive their online strategy.

SMB / GPS

Overview

Melbourne IT's SMB and Partner divisions (SMB/GPS) delivers online business services to more than 400,000 small and medium-sized businesses in Australia and New Zealand and thousands more worldwide via a global network of 6,900 resellers.

Our eBusiness Centres help small businesses establish and build their online presence via a range of services including domain name registration, email and website hosting, online collaboration tools and eCommerce platforms.

Melbourne IT provides its global partner network with access to a management system to allow resellers to provide domains and value-added online business services to small businesses around the world.

2011 Highlights

A 13% decline in domain registration revenue and the effects of the strong Australian Dollar combined to lead revenue of Melbourne IT's small business divisions' – SMB eBusiness Solutions and Global Partner Solutions – 9% lower year-on-year to \$89.4 million. Consequently, the consolidated EBIT contribution for SMB/GPS in 2011 fell 13% year-on-year to \$15.4 million.

A slowdown in major partner activity in the USA contributed significantly to the domain registration revenue shortfall, with partner domains under management falling 12% to 3.6 million names from 4.1 million the year prior.

Despite continued discounting of domains and base level hosting, ARPU among the SMB customer base remained steady at \$301 year-on-year as commoditisation was offset by an uptake in higher-margin online marketing services. Search Engine Marketing (SEM) sales increased 9% year-on-year to \$2.1 million and combined SEM, Software-as-a-Service, and premium email sales grew 2% year-on-year to \$7.7 million.

Following a slow first half, hosting revenue rebounded in the second half of 2011 to \$4.7 million, up 7% on H1 2011 hosting revenue of \$4.4 million.

During the second half of 2011, Melbourne IT successfully piloted the outsourcing of 'Level 1' SMB customer support to consultants based in the Philippines. The success of the pilot in helping improve customer service and reducing support overheads means that all Level 1 SMB support will be outsourced by the end of the first half of 2012.

GPS also continued its expansion into emerging markets in 2011, signing new partners in the Philippines and India.



Despite domain registration revenue declining, SMB ARPU remained steady

CONSOLIDATED	FY 11	FY 10	CHANGE
Revenue	\$89.4m	\$98.6m	-9%
EBIT Contribution	\$15.4m	\$17.7m	-13%

Outlook

With Melbourne IT's Transformation project in its final year, SMB/GPS is expected to begin accruing benefits as the year progresses. During the course of the year, an increasing number of products will be made available on the new system and by the end of 2012, the complete suite of SMB products should be available across the entire SMB customer base.

Transformation provides the platform for SMB to deliver a strengthened product portfolio in 2012, including enhanced web design, email marketing and SEM products which target key areas of online investment which SMB customers are demanding. The expansion in delivery of these higher margin services will help further offset the commoditisation pressures facing domains registration and base level hosting revenue.

GPS will continue to expand Melbourne IT's partnerships in emerging markets while accelerating key partnerships which are due to begin delivering services in 2012, including Reckon in Australia.

Melbourne IT is confident that the positive impact of Transformation will help SMB/GPS deliver a 2012 EBIT result in line with 2011, and the division should begin delivering solid growth from 2013 when the full benefits of Transformation will be felt.

Enterprise Services

Overview

Melbourne IT Enterprise Services has a strong track record of delivering enterprise-grade Internet services to large organisations.

Hundreds of customers – from blue chip corporations to dynamic media companies and large government departments – rely on our Internet technology platforms and related services to manage customer interactions, manage information, improve productivity and foster innovation.

Our success relies on our deep expertise in the management of hosted and Internet services, our understanding of digital marketing outcomes, our ongoing customer management approach and our ability to define insights and outcomes that create value for our customers.

2011 Highlights

It was a disappointing year for Enterprise Services in 2011, with revenue and EBIT both down significantly on the previous year. Revenue decreased 15% to \$26.8 million and EBIT 51% to \$1.7 million, year-on-year. The performance shortfall was primarily due to an absence of large project contracts in 2011, with one off project revenue down 74% year-on-year to \$1.6 million from \$6.2 million in 2010.

However, a strong second half performance – focusing on growing New Monthly Recurring Revenue (NMRR), coupled with a leadership, sales and account management restructure – helped narrow the decline in full year revenue and EBIT. H2 2011 EBIT was \$1.3 million, up 325% on H1 2011 EBIT of \$0.4 million. Cumulative NMRR grew 15% year-on-year to \$507,000 from \$441,000 and customer churn experienced in the first half was reduced 69% in the second half of the year to historically low levels.

Melbourne IT's continued investments in infrastructure and management processes were recognised with ISO9001 Quality Management System Certification in 2011. The infrastructure platform remained very stable, maintaining 99.979% availability for the year.

Enterprise Services signed 182 new contracts in 2011. New customers include Oaks Hotels & Resorts, Cotton On, Credit Union Australia and Colonial First State Global Asset Management.

Enterprise Services is positioned to deliver solid revenue and EBIT growth in 2012.

ENTERPRISE SERVICES	FY 11	FY 10	CHANGE
Revenue	\$26.8m	\$31.6m	-15%
EBIT Contribution	\$1.7m	\$3.5m	-51%

Outlook

The momentum built in the second half of 2011 provides Enterprise Services with a solid platform for 2012 growth. Growing NMRR remains the focus to ensure the future of Enterprise Services as a long-term, sustainable business is realised.

In addition to growing annuity revenue, Enterprise Services' wealth of expertise servicing the education market ideally positions the division to boost project revenue in this vertical during 2012. Gartner predicts that Australian education technology spend in 2012 will reach \$1.8 billion and will continue to rise at an average rate of 2.7% between 2013-2015. Continued investments in Standards certification will help the business obtain additional government contracts.

Enterprise Services has vast experience in managing agile digital platforms to support customers who need to deal with high online traffic and dynamic customer interactions. The strategic shift towards our new Digital Platform Methodology allows Enterprise Services to create flexible and scalable hosting platforms and associated services to help customers successfully manage online interactions with customers and suppliers.

The accelerating movement by large Australian retailers with traditional 'bricks and mortar' operations towards developing effective eCommerce platforms provides an ideal opportunity for the division to grow its customer base of well-known Australian brands.

ForTheRecord

Overview

ForTheRecord (FTR) is a leading global provider of digital recording and content management solutions for courts, law enforcement and government agencies.

FTR provides easy to use, reliable, cost-effective and innovative solutions which enable customers to capture, index, access, review and manage digital audio and video recordings across the organisation, by leveraging a novel and patented annotation linking technology. The technology helps to significantly lower technology infrastructure and transcription costs while improving productivity and efficiency.

FTR has a proven track record of success, providing more than 22,500 digital recording solutions for court rooms, law enforcement and public hearing venues in over 55 countries.

2011 Highlights

ForTheRecord saw a return to profitability in 2011 following a challenging 2010. Despite U.S. Public Sector spending remaining constrained, the division reported \$7.8 million in revenue, down 1% year-on-year, and \$1.2 million in EBIT compared to no EBIT contribution in 2010.

On an underlying constant currency basis using 2010 exchange rates, revenue was up 10% to \$8.7 million. A higher proportion of software sales and significant investment in the unit’s reseller network helped deliver the improved performance.

Multiple large contracts were won with U.S. government agencies and international customers in 2011, including the roll out of FTR products in 352 court rooms across Slovenia for the Slovenian Ministry of Justice.



An improved 2011 delivered a return to positive EBIT contribution.

FTR	FY11	FY10	CHANGE
Revenue	\$7.8m	\$7.9m	-1%
EBIT Contribution	\$1.2m	\$0m	N/A

Outlook

ForTheRecord expects to maintain revenue and EBIT in 2012 despite the challenging environment for public sector spending in FTR’s primary geographic market, the United States.

Supported by the investment in additional product offerings, FTR will continue to push into new international and vertical markets.

The division is also investing in a new consultancy practice to advise courts on best practice for a smooth transition between traditional stenography and the digital capture and management of information. The consultancy arm will be headed by SueLynn Morgan, the former President of the U.S. National Court Reporters Association, who was hired in late 2011.

New product offerings in 2012 are expected to include FTR Notes, the division’s first mobile/iPad application and an upgrade to FTR Gold to encompass enterprise capabilities, helping grow new business opportunities.

Product & Innovation

Overview

In a world of limitless opportunities, Melbourne IT endeavours to create innovative and dynamic products to help make every online interaction successful. Our investment in product and service development helps our customers deliver a safe and rewarding online experience to their customers.

2011 Highlights

Melbourne IT's dedication to innovation and solving customer needs resulted in a number of successful new services launched in 2011.

A complete portfolio of new Top Level Domain (TLD) services was developed in 2011 in response to the approval of the new TLD program by ICANN in June. The initial services launched included TLD Strategy Consulting and Application Management, with Melbourne IT engaged to manage the application for 150 new TLDs at the time of writing. New risk and contention services were also developed for release in 2012 (see Outlook).

The release of the controversial .xxx domain in 2011 was a cause for concern for many of our customers. Melbourne IT became one of a selected number of accredited registrars during the "Sunrise" application period and provided a defensive registration service to our customers to allow them to protect their brand in the new domain space.

As part of our strong relationships with major technology vendors, Melbourne IT was granted exclusive rights in Australia to develop pre-release hosted products for SQL Server 2012, Microsoft's newest version of its popular database product. The SMB eBusiness team created two retail beta products, while Enterprise Services created a dedicated, fully customisable SQL product, which allowed clients to test and verify the utility of SQL Server 2012 on a real world hosted scenario. These offers were released to our global partner network, resulting in the signing up of several beta clients. The official product launch is scheduled for April 2012.

We have continued to build our highly flexible value analytics platform and through work with a large customer, successfully consumed and processed high volumes of data in an extremely short period of time. As a result of these tests, there is potential for the platform to support high demand brand protection applications for DBS. These opportunities will be further explored in 2012.

FTR also saw a strong pipeline of product upgrades and new solutions launch during 2011.

In addition to new product development, investments were made in day-to-day systems. Melbourne IT's quality management systems were recognised with the ISO 9001 accreditation in 2011. Investments in additional operational management systems were made to enhance monitoring of our hosting platform's stability and provide teams with alerts for system changes.

DIGITAL PLATFORM METHODOLOGY

Enterprise Services' DPM is a structured framework for platforms which experience dynamic online traffic. It ensures companies can successfully manage unpredictable online interactions with customers and suppliers in a safe and reliable environment.

NEW TLD APPLICATION CONSULTING

The new TLD application consulting service includes complete assembly of required corporate submission information, technical sections of the proposal, and business capability requirements.

FTR-AS-A-SERVICE PROGRAM

FTR-as-a-Service provides a monthly pay-as-you-go service model for FTR software solutions for law enforcement. The program enables clients to subscribe to services instead of making a large upfront capital investment.

SOCIAL ACCELERATOR

Social Accelerator assists small businesses to develop a social media presence using Facebook. The pack includes four professionally built and customised commercial Facebook pages; an introduction, coupons, forms and videos, which can then be integrated into the business' website, newsletter emails and business reports.



Melbourne IT has been engaged to complete 150 new TLD applications.

Outlook

As the convergence and adoption of smart phone and tablet devices continues to rise, the increasing threat of malicious software, malware and other forms of online fraud has also risen. In response, DBS is developing a new Mobile Application Monitoring service to help organisations protect themselves from brand damage via fraudulent mobile applications. This service has been trialled by several large European banks and is set for release in 2012.

New TLD risk management and contention management services are now available to help companies deal with potential infringement and risks associated with the progression of the TLD program to its application evaluation phases. Our application risk review services will help brands identify applications that pose potential risks and provide recommendations, while our contention management services will support brands wishing to file a formal objection against an application during the TLD evaluation process.

Enterprise Services' new Digital Platform Methodology (DPM) provides a robust and flexible framework to Australian enterprises aiming to drive successful online business interactions. DPM will be at the heart of Enterprise Services' agile digital platform offering in 2012 as companies seek to deliver a consistent online end user experience in high volume and unpredictable environments.

With the final stages of the company's new information management systems being implemented during 2012, internal security processes will be further strengthened. Achieving the international standard ISO 27001 as part of this process is one of our goals for 2012, providing a public endorsement of Melbourne IT's industry best practices in maintaining the availability, integrity and confidentiality of data. Enterprise Services' hosting solutions are the target for initial certification.

With more than 700 employees spread across 18 offices in 10 countries, Melbourne IT draws upon a diverse range of skills, abilities and cultural influences to help foster our culture of innovation and success. The human resources (HR) team at Melbourne IT is responsible for providing tools, processes and advice to management across the business to effectively attract, motivate and retain our talented employee base.



2011 Highlights

Melbourne IT introduced a number of new work practices, engagement initiatives and career development through training programs in 2011.

Staff in Brisbane, Cape Town and Malmo moved into new, vibrant work environments during the year, with attention paid to creating work spaces that foster collaboration and productivity.

The launch of the internal communication tool, Yammer, across the organisation has also improved interaction between colleagues. The real-time social media application helps staff share knowledge, collateral, news and business opportunities. The introduction of Yammer has been a huge success, with more than 80% of employees signed up and more than 5,400 messages sent to date.

Significant investments have been made to provide training opportunities for staff globally, including extended sales training and the roll out of our highly successful in-house Confident Managers Program to Brisbane and Melbourne offices. More than 3,000 training hours were achieved in 2011.

Continued investments in our people, have enabled us to either promote or move one hundred employees (14 per cent of the workforce) into new roles during the year.

Through further recruitment process improvements, Melbourne IT was able to once again decrease the average days to fill vacancies to a record 33 days. The company also hired a dedicated Internal Communications Manager to assist the company develop and enact a wider employee engagement program.

Melbourne IT is committed to ensuring that its employees and contractors work in an environment that is open, friendly and free of discrimination, harassment and bullying. To ensure employees can work to the best of their ability, Melbourne IT aims to create an environment where employees are treated with dignity, fairness and respect, and where everyone is judged according to merit.

- 65% of employees are male, 35% female. Technical roles, Customer Service and Sales in the IT industry are typically dominated by males. Human Resources, Finance and Legal continue to be dominated by females
- 20% of the executive roles were held by females
- Approximately 29% of managers (with direct reports) were female
- There is a balanced representation of males and females participating in leadership, compliance training and our study assistance program
- In 2011, all employees were required to complete online compliance training courses on Direct and Indirect Discrimination, Melbourne IT Code of Conduct, Harassment and Sexual Harassment
- The company is compliant with equal opportunity legislation administered by the Australian Government's Equal Opportunity for Women in the Workplace Agency (EOWA)

Outlook

In 2012, Melbourne IT is growing its employee engagement program to further boost productivity and ensure employee understanding of company strategy. Melbourne IT will continue to invest extensively in training.

Investments will be made in improved communication tools, including a revamp of the employee intranet as well as a scheduled program of executive events to increase visibility of senior leaders, while providing more opportunities for staff to provide direct feedback to the executive team.

The company plans to create a new group-wide, peer-nominated awards scheme to further recognise employees for their accomplishments with Melbourne IT. This scheme will supplement existing reward and recognition activities.

A more effective induction process will also be developed to provide staff with a strong understanding of Melbourne IT's objectives, vision and business targets. These improvements aim to improve the on-boarding process for new staff to ensure they become effective contributors in a shorter time.

At Melbourne IT, energy usage is the primary focus for our sustainability efforts as it has a greater environmental impact than other factors for the company due to the nature of our business and our operation of several large data centres.

2011 saw Melbourne IT accelerate its infrastructure life cycle program by upgrading ageing equipment with new, more energy efficient gear.

The hardware refresh, in conjunction with the introduction of automated storage tiering technology, has allowed Melbourne IT to support a larger customer base, thus store more data, while consuming less power.

Efficient systems implemented throughout the year also greatly contributed to Melbourne IT's energy reduction. New backup protection systems assisted with the decrease in tape usage, in turn reducing the amount of electronic waste produced. New operational support systems, which provide a greater level of visibility into our systems, have resulted in more efficient data centre utilisation.

Other efforts have included the installation of new seals on the outer walls of a key Melbourne IT datacentre as well as new air locks on the entrance doors to prevent the loss of cold air.

The company has a policy of selecting more energy efficient equipment when IT hardware is replaced and giving preference to virtualisation wherever possible in order to reduce the amount of hardware in use and subsequently the amount of energy consumed. Melbourne IT is a leader in virtualisation and increased the level of virtualised hardware in 2011 for greater efficiencies.

The impact of these investments in energy efficient data centre technology is magnified when customers choose to outsource their online services with us – instead of using their own (potentially older) equipment they are choosing a more energy efficient solution.

Outside of the data centre, Melbourne IT encourages sustainability efforts in our day-to-day operations.

Employees are encouraged to adopt personal working practices that support energy conservation, such as switching off their PCs and laptops, unused appliances and lights at the end of the day, and printing only what is required. Many processes which were formerly paper-based have now been fully automated.

General recycling facilities for paper and cardboard are provided in all Melbourne IT offices where there are more than ten employees. Where possible, all electronic waste is recycled, re-used or donated to charity to minimise disposable e-waste. Any disposal of electronic waste occurs in accordance with local laws.

Video conferencing technology is also used internally, where practical, to assist in reducing the associated emissions from business travel.

In 2012 we will continue to investigate new initiatives to mitigate the environmental impacts of our operations.

Simon Jones
Chairman



Mr Jones has extensive experience in investment advisory, valuations, mergers and acquisitions, public offerings, audit and venture capital and is a member of the Audit & Risk Management Committee (ARMC) and the Human Resources, Remuneration and Nomination Committee (HRRNC). Mr Jones was appointed Chairman of the Board in November 2009, having served as a Non-Executive Director since 12 March 2003.

Theo Hnarakis
Managing Director & CEO



Mr Hnarakis was appointed Chief Executive Officer of Melbourne IT in November 2002 and joined the Board on 20 September 2003. Prior to joining Melbourne IT, Mr Hnarakis held senior roles with News Corporation, Boral Group and the PMP Communications Group. He is an IT Fund for Kids Ambassador for the Starlight Children's Foundation.

Tom Kiing
Non-Executive Director



Mr Kiing has extensive experience in mergers and acquisitions, capital markets and corporate finance. He was appointed to the Board on 19 December 2002 and is a member of the Human Resources, Remuneration and Nominations Committee (HRRNC).

Professor Iain Morrison
Non-Executive Director



Professor Morrison is Head of Bond University's School of Information Technology. He was a founding director of Melbourne IT and was appointed to the Board in 1996. He is a member of the Audit & Risk Management Committee (ARMC).

Rob Stewart
Non-Executive Director



Mr Stewart is a company director and management consultant. Mr Stewart has extensive management and board experience within leading companies across a variety of industries, and was Chairman of Melbourne IT for more than a decade before standing down in October 2009. He is Chairman of the Audit & Risk Management Committee (ARMC).

Andrew Walsh
Non-Executive Director



Mr Walsh has extensive experience in the global internet industry, primarily in the development of successful online businesses and expanding into new geographies. He was appointed to the Board in June 2008 and is Chairman of the Human Resources, Remuneration and Nomination Committee (HRRNC).

Full details of the Directors' experience, expertise and directorships can be found on the Melbourne IT website at www.melbourneit.info

The Melbourne IT Board of Directors recognises the need for the highest standards of corporate behaviour and accountability. The Board is committed to optimising shareholder returns within a framework of ethical business practices.

Melbourne IT corporate governance practices and policies comply with the ASX Corporate Governance Council's revised "Corporate Governance Principles and Recommendations", including the most recent amendments in relation to diversity. This statement reflects a summary of Melbourne IT's corporate governance framework, policies and procedures during the 2011 year.

Further information on the Melbourne IT's corporate governance policies, including Board committee charters, are set out in the Corporate Governance website at <http://www.melbourneit.info/investor-centre/corporate-governance>

Principle 1 – Lay Solid Foundations for Management and Oversight by Board

Melbourne IT has established functions which are reserved to the Melbourne IT Board and those delegated to senior executives. A statement of those functions is available from the Melbourne IT corporate governance website.

The performance of the Board is regularly evaluated, both formally and informally.

Formal performance reviews are conducted for all staff, including senior executives, on an annual basis. The performance of the senior executives is evaluated on the basis of role descriptions, key performance metrics and 360 degree feedback.

An induction program is conducted for all new Melbourne IT staff, and is accessible for refresher programs for current staff via Melbourne IT's online learning centre.

Principle 2 – Structure the Board to Add Value

The qualifications of the current Board members are available from the Melbourne corporate governance website.

Four of the five non-executive directors (as at the end of 2011) are considered by the Board to be independent directors (Simon Jones, Iain Morrison, Rob Stewart and Andrew Walsh). Tom Kiing is a substantial shareholder in Melbourne IT, and therefore is not considered by the Board to be an independent director. Theo Hnarakis is the only executive director.

The Chairman, Simon Jones, is an independent non-executive director. The Chairman, and the Managing Director & CEO, are different people.

The Board has an appropriate mix of relevant skills, experience, expertise and diversity, which enables us to discharge its responsibilities and meet its objectives. The Board considers that diversity includes differences that relate to gender, age, ethnicity and cultural background as well as differences in skills, education and functional and industry expertise. A brief biography of each Director is included in the Directors report.

One third of the directors (with the exception of the Managing Director) must retire from office at the time of the Annual General Meeting each year. Directors are eligible for re-election. The directors who retire by rotation are those with the longest period in office since their appointment or last election. The maximum period that a director can be in office before facing re-election is three years. This period will sometimes be shorter due to the requirement that one third must retire each year. At the time when any director is coming up for re-election, the Board considers that question and makes a conscious decision as to whether to recommend that re-election to shareholders.

The Human Resources Remuneration & Nomination Committee (HRRNC) comprises three non-executive directors: Andrew Walsh (Chairperson), Tom Kiing and Simon Jones. Andrew Walsh and Simon Jones are both independent directors. The General Manager, Human Resources and the Managing Director & CEO attend all meetings by invitation. The HRRNC meets at least 3 times a year.

The performance of the Board, its committees and individual directors was informally reviewed during the 2011 financial year. Their performance will next be formally reviewed in the 2012 financial year, with the assistance of an external facilitator.

In certain circumstances a director may consider it necessary to seek independent professional advice in carrying out their duties. Should this arise, the director would discuss the matter first with the Chairman and any advice then considered necessary would be obtained at the company's expense.

Principle 3 – Promote Ethical and Responsible Decision Making

Code of Conduct

The Company has a Code of Conduct to guide the directors, the Managing Director & CEO, the Chief Financial Officer and other key executives as to:

- the practices necessary to maintain confidence in the company's integrity, and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Our Code of Conduct is available from Melbourne IT's corporate governance website.

Share Trading

The Company also has a Trading Policy concerning trading in company securities by directors, officers and employees involved in material transactions or privy to material information, which complies with the ASX Listing Rules. A copy is available from Melbourne IT's corporate governance website.

Diversity

Melbourne IT is committed to ensuring that its employees and contractors work in an environment that is open, friendly and free of discrimination, harassment and bullying. To ensure employees can work to the best of their ability, Melbourne IT aims to create an environment where employees are treated with dignity, fairness and respect, and where everyone is judged according to merit.

- 65% of employees are male, 35% female. Technical roles, Customer Service and Sales in the IT industry are typically dominated by males. Human Resources, Finance and Legal continue to be dominated by females
- 20% of the Executive roles are held by females
- Approximately 29% of Managers (with direct reports) are female
- There is a balanced representation of males and females participating in leadership, compliance training and also our study assistance program

Principle 4 – Safeguard Integrity in Financial Reporting

The Managing Director & CEO and the Chief Financial Officer have stated in writing to the Board for the 2011 year that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

The Audit and Risk Management Committee (ARMC) comprises four non-executive directors: Rob Stewart (Chairman), Simon Jones and Iain Morrison. The ARMC Chairman is not the Chairman of the Board. The

Chairman of the ARMC is an independent director, as are the majority of other members.

The Managing Director & CEO, Chief Financial Officer and the General Manager, Risk & Audit, attend the meetings by invitation of the ARMC. The relevant partner and staff of Melbourne IT's external auditors also attend by invitation from time to time.

The ARMC meets five times each year and has direct access to Melbourne IT's auditors and senior management. On at least one occasion each year it meets with the auditors without management being present.

The Committee also receives regular reports from both the external and internal auditors concerning any matters which arise in connection with the performance of their role, including adequacy of internal controls. The Committee reports to the Board on its activities after each meeting, and copies of the minutes of the Committee's meetings are provided to all directors.

The ARMC Charter is available from the Melbourne IT corporate governance website.

Principle 5 – Make timely and balanced disclosure

Melbourne IT is committed to complying with its disclosure obligations. To that end Melbourne IT has developed a written Market Disclosure Policy, which is available from the Corporate Governance section of Melbourne IT's website. The Board has appointed the Company Secretary as "Disclosure Officer", with responsibility for:

- Reviewing compliance with Melbourne IT's continuous disclosure obligations;
- Co-ordination of the timely release of information to the market; and
- Maintaining a record of disclosure information (including any information which was considered but rejected for disclosure and the reasons for non-disclosure).

All market disclosures are reviewed by the directors, together with the Disclosing Officer, to ensure that they are factually correct and complete.

Principle 6 – Respect the rights of shareholders

Melbourne IT aims to keep its shareholders informed of all important developments concerning the company. Melbourne IT communicates with its shareholders using the following means:

- Notices and explanatory memoranda of annual general meetings;
- The annual report;
- The annual general meeting;
- The Melbourne IT's corporate website located at <http://www.melbourneit.info>
- Periodic analyst briefings, which are released to the ASX; and
- Periodic shareholder announcements, which are also released to the ASX.

Melbourne IT's external auditors attend the Company's Annual General Meeting and are available to answer reasonable questions from shareholders in relation to the conduct of the audit, the independent audit report and the accounting policies adopted by Melbourne IT.

Principle 7 – Recognise and Manage Risk

The Board has established appropriate policies for the oversight and management of material business risks and a process for management to report as to the effectiveness of the company's management of its material business risks.

Recommendation 7.3 requires the Managing Director & CEO and the Chief Financial Officer to report to the Board that the declaration provided

in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. This recommendation was complied with in 2011 by the Managing Director & CEO and by the Chief Financial Officer.

Principle 8 – Remunerate Fairly and Responsibly

The Board has established the HRRNC to assist it to address the various issues in this area (see Principle 2 above). The Managing Director & CEO reviews the performance of his direct reports and makes recommendations to the HRRNC for approval in relation to their remuneration and Key Performance Indicators ('KPIs'). The Managing Director & CEO's own performance is reviewed by the Board, facilitated by the HRRNC and the Chairman.

The HRRNC also facilitates an annual review of the Board's performance – both of the Board as a whole and of individual directors.

The HRRNC reports to the Board on its activities after each meeting, and copies of the minutes of the Committee's meetings are provided to all directors.

Melbourne IT's remuneration policy has been set to ensure that the remuneration of directors and all staff properly reflects each person's accountabilities, duties and their level of performance, and to ensure that remuneration is competitive in attracting, motivating and retaining staff of the highest quality. All remuneration packages are reviewed at least annually, taking into account individual and company performance, market movements and expert advice.

Remuneration of non-executive directors in 2011 comprised of a fixed fee only.

Non executive directors are paid fixed fees in accordance with a determination of the Board but within a global limit fixed by the shareholders at a General Meeting. The current global limit of \$1,000,000 was approved by shareholders at the Annual General Meeting in 2008. Approval has not been sought to increase the fees paid to non-executive directors since that date. The Chairpersons of each committee receive an additional amount to reflect (at least to some extent) the additional workload and responsibility required of them to carry out that role.

Directors are not entitled as of right to any retirement or termination benefit (other than statutory superannuation benefits).

The remuneration of the Managing Director & CEO, and executives, comprises the following three elements:

- Fixed Salary
- Variable remuneration: short-term incentive
- Variable remuneration: long-term incentive

The short-term incentive for each executive is an annual cash payment determined by the amount of fixed salary and achievement of individual KPIs. The expected performances of the Managing Director & CEO, staff reporting directly to him (known as 'direct reports') and other senior staff members, are specified each year using Key Performance Indicators (KPIs) in individual role agreements. These KPIs include financial targets for Melbourne IT overall as well as personal objectives and targets, appropriate for each individual's role.

The long-term incentive is membership of the Employee Performance Share Option Plan and/or the Melbourne IT Performance Rights Plan (both of which have been approved by shareholders).

Payment of equity-based executive remuneration is made in accordance with thresholds set in Plans approved by shareholders.

	CONSOLIDATED	
	2011	2010
	\$'000	\$'000
ASSETS		
Current Assets		
Cash and cash equivalents	19,047	23,379
Trade and other receivables	29,244	24,890
Inventories	463	562
Prepayment of domain name registry charges	11,465	13,317
Derivative financial instruments	14	258
Other assets	3,847	2,813
Total Current Assets	64,080	65,219
Non-Current Assets		
Plant and equipment	5,360	7,665
Intangible assets	130,661	126,641
Deferred income tax assets	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	21,042	14,532
Interest-bearing loans and borrowings	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	34,395	40,342
Deferred income tax liability	4,226	2,194
Provisions	815	716
Income received in advance	13,957	15,226
Derivative financial instruments	439	597
Total Non-Current Liabilities	53,832	59,075
TOTAL LIABILITIES	118,999	121,879
NET ASSETS	94,230	91,269
EQUITY		
Contributed equity	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

This consolidated balance sheet is an extract from the 2011 Melbourne IT Annual Report.

The full Annual Report and notes relating to this statement are available at <http://annualreport.melbourneit.info>

	CONSOLIDATED	
	2011	2010
	\$'000	\$'000
Revenue	179,768	189,793
Other Income	10	69
Registry, Hosting and Sundry Other Product Costs	(62,327)	(73,435)
Gross profit	117,451	116,427
Salaries and employee benefits expenses	(71,264)	(68,706)
Depreciation and amortisation expenses	(4,854)	(6,169)
Amortisation of identifiable intangible assets	(1,271)	(1,200)
Finance costs	(958)	(1,254)
Other expenses	(21,195)	(19,018)
Share of net (loss) of an associate	–	(20)
Profit 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		
Currency translation differences	(622)	(3,370)
Net gains/(losses) on cashflow hedges (net of tax)	(238)	42
Other comprehensive income 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	2011	2010
Basic earnings per share	16.77 cents	20.21 cents
Diluted earnings per share	16.60 cents	20.20 cents

This consolidated statement of comprehensive income is an extract from the 2011 Melbourne IT Annual Report.

The full Annual Report and notes relating to this statement are available at <http://annualreport.melbourneit.info>

	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						
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

This consolidated statement of changes in equity is an extract from the 2011 Melbourne IT Annual Report.
The full Annual Report and notes relating to this statement are available at <http://annualreport.melbourneit.info>

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipt of service revenue and recoveries (inclusive of GST)	192,108	203,717
Payments to suppliers and employees (inclusive of GST)	(168,016)	(177,524)
Interest received	422	631
Interest paid	(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 FROM INVESTING ACTIVITIES		
Purchase of plant and equipment and intangible assets	(2,759)	(5,033)
Capitalisation of intangible expenditure	(5,488)	(5,500)
Proceeds on sale of plant and equipment	256	1,474
Receipt of deposits to be transferred to ICANN	742	0
Investment in joint venture – Advantate Pty Ltd	–	(20)
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(7,249)	(9,079)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of interest bearing liabilities	(5,934)	(5,337)
Proceeds from issue of ordinary shares – ESOP	155	212
Payment of dividend on ordinary shares	(10,144)	(10,268)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(15,923)	(15,393)
NET DECREASE IN CASH AND 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 PERIOD	19,047	23,379

This consolidated statement of cash flows is an extract from the 2011 Melbourne IT Annual Report.
The full Annual Report and notes relating to this statement are available at <http://annualreport.melbourneit.info>

MELBOURNE IT LTD

ABN: 21 073 716 793

DIRECTORS

Mr. S.D. Jones (Chairman)
Mr. T.J. Hnarakis (Managing Director)
Mr. T. Kiing
Prof. I. Morrison
Mr. R.J. Stewart
Mr. A. Walsh

SHARE REGISTRY

Link Market Services Limited
Level Nine
333 Collins Street
Melbourne, Victoria, 3000
Tel: +61 3 9615 9800
Fax: +61 3 9615 9900

MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. T.J. Hnarakis

CHIEF OPERATING OFFICER

Mr. D.M. 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

AUDITORS

Ernst & Young

IMPORTANT INFORMATION FOR SHAREHOLDERS

In 2011, Melbourne IT has produced two shareholder documents – an Annual Review and an Annual Report. The Annual Review is a more succinct shareholder overview designed to provide a high level summary of the strategic and operational performance of the company during 2011. The Annual Review cannot be expected to provide as full an understanding of the financial performance, financial position and investing activities of the company as the Annual Report.

In addition to the information in the Annual Review, the Annual Report contains a full financial report and our auditors’ report. Shareholders wishing to receive a copy of the more detailed Annual Report may do so by visiting <http://annualreport.melbourneit.info>

The Annual Review can also be accessed online at
<http://annualreport.melbourneit.info>

AUSTRALIA

Melbourne – Head Office

Melbourne IT Ltd
Level 2, 120 King St
Melbourne VIC, 3000, Australia
Phone: +61 3 8624 2300
Fax: +61 3 9620 2388

Brisbane

Melbourne IT Ltd
Level 7, 100 Wickham Street
Fortitude Valley QLD, 4006
Australia
Phone: +61 7 3230 7201
Fax: +61 7 3249 2533

Perth

FTR Pty Ltd
Suite 7, 16 Brodie Hall Drive
Technology Park
Perth WA, 6102, Australia
Phone: +33 1 40 26 50 44
Fax : +33 1 72 74 55 97

Sydney

Melbourne IT
Level 14, 111 Elizabeth Street
Sydney, NSW, 2000
Phone: +61 2 8223 3000
Fax: +61 2 9233 1679

NEW ZEALAND

Wellington

Domainz Limited
Level 11 Simpl House,
40 Mercer Street
Wellington, New Zealand
Phone: +64 4 473 4567
Fax: +64 4 4734 569

USA

Ashburn

Melbourne IT DBS
19775 Belmont Executive Plaza
Suite 100, Ashburn, VA
20147-7603, USA
phone: +1 571-233-6900

Mountain View

Melbourne IT DBS
2560 Mission College
Boulevard, Santa Clara,
California, USA, 95054

New York

Melbourne IT DBS
14 Penn Plaza, Suite 1416
New York NY, 10122, USA
phone: +1 866 907 3267

Phoenix

FTR Limited
2700 North Central Avenue
Suite 810
Phoenix, Arizona, AZ,
85004,USA
Phone: +1 602 650 0958
fax: +1 602 385 4990

EUROPE & AFRICA

Amsterdam

Melbourne IT
Benoordenhoutseweg 21-23
2596 BA Den Haag
The Netherlands
Phone: +31 20 615 26 65
Fax: +31 20 615 23 61

Cape Town

Melbourne IT DBS
The Colosseum 3rd Floor Foyer 3
Century Way, Century City
Cape Town, 7441, South Africa
Phone: +27 21 410 0899
Fax: +27 21 551 0167

London

Melbourne IT
1st Floor, 2-5 Benjamin Street
London, EC1M 5QL
United Kingdom
Phone: +44 207 549 4100
Fax: +44 207 549 4101

Madrid

INWW – Melbourne IT
Jorge Juan 8, 3A
28001 Madrid, Spain
Phone: +34 91 426 1951
Fax: +34 91 435 8264

Wiesbaden

Melbourne IT DBS
Borsigstraße 20 65205
Wiesbaden, Germany
Phone: +49 6122 7077 20
Fax: +49 612 270 772 70

Paris

Melbourne IT DBS,
29 rue du Jour
75001, Paris, France
Phone: +33 1 72 74 55 16
Fax: +33 1 72 74 55 97

Valbonne

Melbourne IT DBS
WTC 2, 120 route des Macarons
06560 Valbonne, France
Phone: +33 4 97 21 68 42
Fax: +33 4 93 00 07 29

Malmö

Melbourne IT DBS
Kalendegatan 4, Box 7101
Malmö, 20042, Sweden
Phone: +46 40 691 91 00
Fax: +46 40 691 91 59

Stockholm

Melbourne IT
Saltmätargatan 7, SE 113 59
Stockholm, Sweden
Phone: +46 8 553 40 200
Fax: +46 8 553 40 201

... visit us online!
<http://annualreport.melbourneit.info>