

MEDIA RELEASE

Stronger Second Half Forecast as Melbourne IT Delivers Half Year Results to Guidance

Foundation for stronger second half built on senior leadership appointments and the start of transformation benefits helping deliver \$3 million cost savings in second half

Transformation program final delivery delay until mid-2013

Melbourne IT Group Consolidated Results – Half ending 30 June 2012:

		H1 2012	H1 2011
Revenue	↑ 2.5%	\$89.8m	\$87.6m
EBIT	↑ 4%	\$7.3m	\$7.0m
NPAT	↑ 18%	\$5.8m	\$4.9m
Basic EPS	↑ 16%	7.1¢	6.2¢
Interim Dividend	Unchanged	7.0¢	7.0¢
Operating Cash	↑ 38%	\$11.6m	\$8.4m
Deferred Gross Margin	↓ -7%	\$28.5m	\$30.7m

NB Figures may not total exactly due to rounding

MELBOURNE, Australia – 21 August 2012 – Melbourne IT (ASX: MLB) today announced its half year results for the six months ending 30 June 2012, reporting an 2.5% year-on-year increase in revenue to \$89.8 million and earnings before interest and tax (EBIT) of \$7.3 million, up 4% year-on-year. Net profit after tax (NPAT) for the first half increased 18% to \$5.8 million year-on-year with the interim dividend maintained at 7¢ fully franked. EPS will continue to benefit from R&D tax concessions for the next eighteen months.

“Melbourne IT’s first half result was in line with H1 2011, meeting our market guidance, with solid contributions from our Digital Brand Services and Enterprise Services divisions offsetting disappointing results from our small business divisions. We are continuing to focus on making our business more efficient and effective, and have taken decisive action in the first half to position the business for an improved second half performance,” Melbourne IT CEO and Managing Director, Theo Hnarakis, said.

“We have moved to strengthen our senior leadership with two new executives appointed. Former Verio President of SME Hosting, Doug Schneider, has just commenced as head of our small business divisions and former Managing Director of Thomson CompuMark, Martin Burke, will be joining us later in the year to lead our DBS division. In addition, we strengthened DBS further by transferring former FTR EVP, Daniel Bennett, to the key SVP Global Sales role for DBS,” he said.

“With benefits beginning to accrue from our systems transformation project, the company will deliver more than \$3 million in operational expenditure savings in the second half.

“We believe these initiatives, combined with continued revenue growth and cost savings from our structural and business process transformation activities, will allow Melbourne IT to deliver a significantly stronger second half performance and set up the business for further growth in 2013.”

During recent weeks a realignment of Melbourne IT’s technology Transformation program has taken place as a result of some challenges emerging in the rollout phase. The project remains on track to deliver full project benefits, however, the company believes additional fixes and functionality fine-tuning will increase total project cost from \$25 million to between \$28 million and \$30 million and delay final completion by six months to mid-2013.

“The time and cost increase to our Transformation project is disappointing, however, we are focused on delivering the full benefits of the investment and these changes are necessary to ensure the company achieves the full benefits. We are already realising cost rationalisation benefits in 2012 as a result of the program,” Mr Hnarakis said.

The increased total project cost will not impact on FY 2012 operational expenditure or capital expenditure forecasts.

Divisional Highlights

Digital Brand Services (DBS)

- First half revenue up 19% year-on-year to \$29.6 million and EBIT up 86% year-on-year to \$5.2 million despite further adverse AUD headwind, especially against European currencies
- Melbourne IT took leadership position on ‘.brand’ domains opportunity filing 146 applications for global brands including Visa, UBS, Orange, Ralph Lauren and Ladbrokes
- The focus on optimizing our .brand opportunity, however, contributed to Brand Protection falling short of our expectations despite solid growth. Realignment of sales team focus and a strong sales pipeline provides confidence of achieving H2 targets set for these services
- DBS second half EBIT contribution is expected to remain strong. New EVP, Martin Burke, to join in December 2012

Enterprise Services (ES)

- Maintained momentum with revenue up 5% year-on-year to \$13.8 million and EBIT increasing 225% year-on-year to \$1.3 million
- Performance driven by growth in both project and annuity revenue, coupled with continued improvement in service delivery and customer support to ensure churn remains low
- Expect strong second half performance to deliver double digit EBIT growth in comparison to first half

SMB eBusiness Solutions & Global Partner Solutions (SMB/GPS)

- Disappointing result with first half revenue down year-on-year 8% to \$42.6 million and EBIT down 27% to \$5.9 million
- Combination of increased commoditisation, operational execution issues, and customer service impacts as a result of a large partner customer migration negatively impacted H1 results
- Former President of Verio’s global SMB hosting business, Doug Schneider, joined as Executive General Manager of SMB/GPS, in late July
- Expect second half EBIT to improve due to operational investments made to improve customer experience, plus cost savings

ForTheRecord (FTR)

- First half revenue up 13% to \$3.6 million year-on-year, EBIT contribution of -\$0.2 million
- New EVP, Rick Spotts, appointed in June

- Larger potential contracts delayed until second half, which are expected to provide significant EBIT boost

Outlook

“The proactive steps we have taken to strengthen our executive management, lower our cost base, and focus on improving our service delivery means Melbourne IT is confident of a much-improved second half performance and we maintain our full year guidance that 2012 EBIT will be up 10 per cent on 2011’s EBIT result,” Mr Hnarakis said.

“Looking ahead to 2013, Melbourne IT can expect strong growth as a result of benefits flowing from the final delivery of our systems transformation project, new top level domains beginning to go live on the Internet, and the improvements we are making to our business processes and leadership,” he said.

The record date for the interim dividend is 28 September 2012 and will be payable to shareholders on 26 October 2012.

The 2012 First Half Results presentation to shareholders is available at <http://www.melbourneit.info/investor-centre/>.

ENDS.

About Melbourne IT

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

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

Melbourne IT’s culture of integrity, innovation, collaboration and customer centricity has been built by more than 700 employees spread across 18 offices in 10 countries. For more information, visit www.melbourneit.info

Media contacts:

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Appendix 4D
Half Yearly Report

Name of entity

Melbourne IT Limited

ABN or equivalent company reference
21 073 716 793

Reporting Period
30 June 2012
 (Comparative period – 30 June 2011)

2.0 Results for announcement to the market

\$A'000

2.1 Total revenues from ordinary activities	Up	2.5%	to	89,788
2.2 Profit from continuing operations after tax attributable to members	Up	18%	to	5,813
2.3 Net profit for the period attributable to members	Up	18%	to	5,813
2.4 Dividends (distributions)	Amount per security		Franked amount per security	
Current period				
Final dividend	N/A		N/A	
Interim dividend	<u>7.0 cents</u> 7.0 cents		100%	
Previous corresponding period				
Final dividend	8.0 cents		100%	
Interim dividend	<u>7.0 cents</u> 15.0 cents		100%	
2.5 Record date for determining entitlements to the dividend.	Friday 28 September 2012			

It is recommended the Appendix 4D be read in conjunction with the annual report for the year ended 31 December 2011 and considered together with any public announcements made by Melbourne IT Ltd and its controlled entities during the half year ended 30 June 2012 in accordance with the continuous disclosure obligations of the ASX listing rules.

2.6 Brief explanation of any of the figures reported above necessary to enable the figures to be understood.

Review and Results of Operations

Melbourne IT Ltd - Consolidated Group

Non-IFRS information included in the summary of results below are unaudited. The table below shows a reconciliation of the pre- and post-transformation financial results to the reported profit after tax, but these performance measures are unaudited except for post-transformation tax expense and profit after tax.

- Total consolidated Revenue for the half year ended 30 June 2012 was \$89.788 million (2011: \$87.600 million), an increase of 2.5%. Revenues for the half year ended 30 June 2012 have been impacted by the stronger AUD compared to the same period last year. Revenues for the half year ended 30 June 2012 restated using 2011 exchange rates are \$91.075 million (unaudited), equating to a 4% increase on 2011 revenues on a like for like basis.
- Profit after Tax for the half year ended 30 June 2012 was \$5.813 million (2011: \$4.947 million), an increase of 17.5%. Excluding tax effected transformation expense of \$0.485 million (2011: \$1.031 million), adjusted profit after tax was \$6.298 million (2011: \$5.978 million), an increase of 5.4%.
- Earnings Before Interest and Tax ('EBIT') for the half year ended 30 June 2012 was \$7.321 million (2011: \$7.047 million), an increase of 3.9%. Excluding transformation expenses of \$1.351 million (2011: \$1.473 million), adjusted EBIT was \$8.672 million (2011: \$8.520 million), an increase of 1.8%.
- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for the half year ended 30 June 2012 was \$9.650 million (2011: \$10.208 million), a decrease of 5.5%. Excluding transformation expenses of \$1.341 million (total expense less depreciation) (2011: \$1.388 million), adjusted EBITDA was \$10.991 million (2011: \$11.596 million), a decrease of 5.2%.
- Earnings per share at 30 June 2012 was 7.12 cents (2011: 6.16 cents), an increase of 15.6%.
- Cash and cash equivalents was \$16.634 million at 30 June 2012 (31 December 2011: \$19.047 million). At 30 June 2012 total external debt was \$37.398 million (USD \$38.0 million) (31 December 2011: \$40.291 million (USD \$41.0 million)). Net debt is \$20.764 million (31 December 2011: \$21.244 million) with the lower external debt offset by lower cash and cash equivalents.
- Positive Operating Cashflow for the half year ended 30 June 2012 was \$11.575 million (2011: \$8.362 million) an increase of 38.4%. Included within the operating cashflow at 30 June 2012 is an interest expense totalling \$0.638 million (2011: \$0.734 million) of which \$0.637 million (2011: \$0.708 million) relates to borrowing costs associated with the acquisition of DBMS.
- During the half year, Melbourne IT has made two quarterly repayments of USD \$1.5m on the USD Overseas Currency loan, a total of USD \$3.0m (AUD \$2.90m).
- Deferred Gross Margin (i.e.: income received in advance net of prepaid costs) was \$28.515 million at 30 June 2012 (unaudited) (31 December 2011: \$29.051 million) a decrease of 1.8%.
- At the 21 August 2012 Board Meeting, the directors declared a 7.0 cents fully franked interim dividend on ordinary shares in respect of the half year ended 30 June 2012 (30 June 2011: 7.0 cents).
- The following table shows a reconciliation of the pre- and post-transformation financial results included 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

	2012			2011		
	Pre-transformation	Transformation	Post-transformation	Pre-transformation	Transformation	Post-transformation
	\$000	\$000	\$000	\$000	\$000	\$000
EBITDA *	10,991	(1,341)	9,650	11,596	(1,388)	10,208
D & A *	2,319	10	2,329	3,076	85	3,161
EBIT *	8,672	(1,351)	7,321	8,520	(1,473)	7,047
Net Interest *	542	-	542	491	-	491
Tax Expense *	1,832	(866)	966	2,051	(442)	1,609
Profit After Tax *	6,298	(485)	5,813	5,978	(1,031)	4,947

* A review statement has only been provided for post-transformation tax expense and profit after tax.

3.0 NTA Backing	Current period 30 June 2012	Previous Period 31 December 2011
Net tangible asset backing per ordinary security	(47.41 cents)	(47.62 cents)

Total Net Assets at 30 June 2012 were \$94.060 million including \$0.806 million of net deferred tax balances and \$132.117 million of intangible assets associated with the acquisition of Domainz Limited (September 2003), Melbourne IT DBS Group AB (formally 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 \$13.722 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 after tax 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	N/A	N/A	N/A
Interim	7.0 cents	100%	N/A
	7.0 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	N/A	8.0 cents
Interim	7.0 cents	7.0 cents
Total	7.0 cents	15.0 cents

Additional information on current year dividends

Date the dividend (distribution) is payable

Friday 26 October 2012

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

7.0 cents per Share
Totalling approximately \$5.738 million

The dividend or distribution plans shown below are in operation.

Melbourne IT Limited does participate in 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.

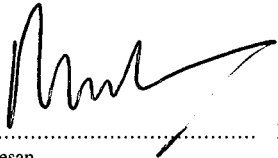
Friday 28 September 2012

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 Compliance Statement

The report has been prepared based on a 30 June 2012 Half Year Financial Report which has been reviewed by an independent Audit Firm in accordance with the requirements of S302 of the Corporations Act.



Signed here: Date: 21 August 2012

Ms. A Jegathesan
Company Secretary

MELBOURNE IT LTD
(ABN: 21 073 716 793)

FINANCIAL REPORT

FOR THE HALF YEAR ENDED
30 JUNE 2012

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	(Resigned 22 May 2012)
Mr. R.J. Stewart AM	
Mr. A. Walsh	
Ms. N. Sparks	(Appointed 19 April 2012)

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Mr. T.J. Hnarakis

CHIEF FINANCIAL OFFICER

Mr. P. Findlay

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>**CONTENTS****PAGE**

Directors' Information	7
Directors' Declaration	11
Statement of Financial Position	15
Statement of Comprehensive Income	16
Statement of Changes in Equity	17
Statement of Cash Flows	18
Notes to the Financial Statements	19

MELBOURNE IT LTD

DIRECTORS' INFORMATION

The names of the company's directors in office during the half year ended 30 June 2012 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	(Chairman)
Mr. T.J. Hnarakis	(Managing Director & Chief Executive Officer)
Mr. T. Kiing	
Prof. I. Morrison	(Resigned 22 May 2012)
Mr. R.J. Stewart AM	
Mr. A. Walsh	
Ms. N. Sparks	(Appointed 19 April 2012)

COMPANY SECRETARY

Ms. A. Jegathesan

PRINCIPAL ACTIVITIES

The principal activities of the Group during the half year by operating segment 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 fulfillment 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**

	2012 Cents	2011 Cents
Basic earnings per share	7.12 cents	6.16 cents
Diluted earnings per share	7.04 cents	6.09 cents

RESULTS

The consolidated net profit after tax of the Melbourne IT Ltd Group for the half year ended 30 June 2012 was \$5.813 million (2011: \$4.947 million).

DIVIDENDS

	Cents	\$'000
Dividend declared and not yet recognised as a liability		
• On ordinary shares	7.0	5,738
Dividends paid during the half year on ordinary shares		
Final Dividend – 2011		
• On ordinary shares	8.0	6,508

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

Summarised operating results are as follows:

	Half year 30-Jun-12 \$'000	Half year 30-Jun-11 \$'000
Revenue		
Registration Revenue	31,188	33,883
Professional Services Revenue	23,088	18,418
Hosting & Value-Added Product Sales	31,508	31,647
For The Record Revenue	3,617	3,196
Other Revenue	<u>252</u>	<u>204</u>
	89,653	87,348
Interest Revenue	106	243
Other Revenue	<u>29</u>	<u>9</u>
	135	252
Total consolidated Revenue	89,788	87,600
Total Earnings Before Interest, Tax, Depreciation and Amortisation	9,650	10,208
Depreciation Expense	1,750	2,497
Amortisation Expense	<u>579</u>	<u>664</u>
Total Earnings Before Interest and Tax	7,321	7,047
Net Interest Expense	<u>(542)</u>	<u>(491)</u>
Net Profit Before Tax	6,779	6,556
Tax Expense	(966)	(1,609)
Net Profit After Tax	5,813	4,947
Cashflow from Operations	11,575	8,362

The financial measures of EBIT and EBITDA used in the Directors Report are non-IFRS measures and unaudited. The company believes this non-IFRS information is relevant to the user's understanding of its results, given its use in determining financial performance.

MELBOURNE IT LTD**DIRECTORS' INFORMATION / continued****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 half year ended 30 June 2012.

SUBSEQUENT EVENTS

At the 21 August 2012 Board Meeting, the directors declared a 7.0 cents fully franked interim dividend on ordinary shares in respect of the half year ended 30 June 2012. The total amount of this interim dividend is \$5.738 million and has not been provided for in the 30 June 2012 financial statements.

On 16 July 2012 the outstanding USD \$38.0 million loan was settled and replaced by a new USD \$38.0 million loan facility with National Australia Bank. This new loan facility has a term of 4 years to 30 June 2016 with principal repayments of USD \$1.5 million a quarter. The new facility agreement was executed on 26 June 2012 meaning the loan is classified as non current apart from the USD \$6.0 million of repayments due within the next 12 months.

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 half year and the date of this report that has materially affected or may materially affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial periods.

ROUNDING

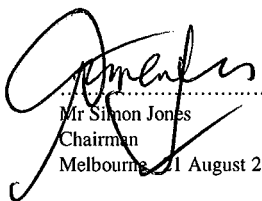
The amounts contained in the accompanying year financial information have been rounded to the nearest \$1,000 (where applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

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
Melbourne 21 August 2012

MELBOURNE IT LTD

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Melbourne IT Ltd;

(1) I state that in the opinion of the directors:

(a) the financial statements of the consolidated entity:

- (i) give a true and fair view of the financial position as at 30 June 2012 and the performance for the half year ended on that date of the consolidated entity; and
- (ii) comply with Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



.....
Mr Simon Jones
Chairman
Melbourne 21 August 2012

To the members of Melbourne IT Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Melbourne IT Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising of a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Melbourne IT Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Melbourne IT Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst + Young

Ernst & Young

Joanne Lonergan

Partner

Melbourne

21 August 2012

Auditor's Independence Declaration to the Directors of Melbourne IT Limited

In relation to our review of the financial report of Melbourne IT Limited for the half-year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

A handwritten signature in blue ink, appearing to read 'Joanne Lonergan', written over a faint circular stamp.

Joanne Lonergan
Partner
21 August 2012

MELBOURNE IT LTD

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2012

		CONSOLIDATED	
	Notes	30-Jun-12 \$'000s	31-Dec-11 \$'000s
ASSETS			
Current Assets			
Cash and cash equivalents	9	16,634	19,047
Trade and other receivables	5	27,266	29,244
Inventories		482	463
Prepayment of domain name registry charges		11,714	11,465
Derivative financial instruments		-	14
Current tax asset		1,467	-
Other assets	6	3,318	3,847
Total Current Assets		60,881	64,080
Non-current Assets			
Property, plant and equipment		5,044	5,360
Intangible assets	7	132,117	130,661
Deferred income tax asset		7,245	6,536
Prepayment of domain name registry charges		6,282	6,534
Other assets		153	58
Total Non-current Assets		150,841	149,149
TOTAL ASSETS		211,722	213,229
LIABILITIES			
Current Liabilities			
Trade and other payables	11	21,278	21,042
Interest-bearing loans and borrowings	12	5,905	5,896
Provisions		4,920	4,568
Current tax liabilities		-	568
Income received in advance		32,801	33,093
Total Current Liabilities		64,904	65,167
Non-current Liabilities			
Interest-bearing loans and borrowings	12	31,493	34,395
Deferred income tax liability		6,439	4,226
Provisions		810	815
Derivative financial instruments		306	439
Income received in advance		13,710	13,957
Total Non-current Liabilities		52,758	53,832
TOTAL LIABILITIES		117,662	118,999
NET ASSETS		94,060	94,230
EQUITY			
Contributed equity	8	67,943	66,900
Foreign currency translation reserve		(10,474)	(9,892)
Options reserve		4,186	4,166
Hedging reserve		(83)	(127)
Retained earnings		32,488	33,183
TOTAL EQUITY		94,060	94,230

MELBOURNE IT LTD

STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2012

	Notes	CONSOLIDATED	
		30-Jun-12 \$'000s	30-Jun-11 \$'000s
Revenue	2	89,759	87,591
Other income	2 (b)	29	9
Registry, hosting and sundry products costs		(31,101)	(31,598)
Gross profit		58,687	56,002
Salaries and employee benefit expenses		(37,565)	(34,644)
Depreciation expenses	3 (a)	(1,750)	(2,497)
Amortisation of intangible assets	3 (b)	(579)	(664)
Other expenses from ordinary activities	3 (c)	(12,014)	(11,641)
Profit before tax		6,779	6,556
Income tax expense		(966)	(1,609)
Net profit attributable to members of Melbourne IT Ltd		5,813	4,947
Other comprehensive income			
Currency translation differences		(582)	688
Net gains/(losses) on cashflow hedges (net of tax)		44	(127)
Other comprehensive income for the period, net of tax		(538)	561
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		5,275	5,508
Profit attributable to members of the parent		5,813	4,947
Total comprehensive income attributable to members of the parent		5,275	5,508
Earnings per share		2012	2011
- Basic earnings per share		7.12 cents	6.16 cents
- Diluted earnings per share		7.04 cents	6.09 cents

MELBOURNE IT LTD
**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 30 JUNE 2012**

	FOREIGN CURRENCY RESERVE \$'000	OPTIONS RESERVE \$'000	CONSOLIDATED HEDGING RESERVE \$'000	CONTRIBUTED EQUITY \$'000	RETAINED EARNINGS \$'000	TOTAL \$'000
As at 1 January 2012	(9,892)	4,166	(127)	66,900	33,183	94,230
Profit for the period	-	-	-	-	5,813	5,813
Other comprehensive income	(582)	-	44	-	-	(538)
Total comprehensive income for the period	(582)	-	44	-	5,813	5,275
Transactions:						
Share based payment	-	20	-	-	-	20
Dividend Reinvestment Plan	-	-	-	1,043	(1,043)	-
Equity Dividends	-	-	-	-	(5,465)	(5,465)
As at 30 June 2012	(10,474)	4,186	(83)	67,943	32,488	94,060
As at 1 January 2011	(9,270)	3,880	111	64,839	31,709	91,269
Profit for the period	-	-	-	-	4,947	4,947
Other comprehensive income	688	-	(127)	-	-	561
Total comprehensive income for the period	688	-	(127)	-	4,947	5,508
Transactions:						
Share based payment	-	180	-	-	-	180
Dividend Reinvestment Plan	-	-	-	976	(976)	-
Exercise of Options	-	-	-	155	-	155
Equity Dividends	-	-	-	-	(5,428)	(5,428)
As at 30 June 2011	(8,582)	4,060	(16)	65,970	30,252	91,684

MELBOURNE IT LTD

STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 JUNE 2012

		CONSOLIDATED	
	Notes	30-Jun-12 \$'000s	30-Jun-11 \$'000s
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of service revenue and recoveries		101,692	94,716
Payments to suppliers and employees		(87,421)	(83,809)
Interest received	2	106	243
Interest paid		(744)	(734)
Bank charges and credit card merchant fees		(536)	(457)
Income tax paid		(1,522)	(1,597)
NET CASH FLOWS FROM OPERATING ACTIVITIES		11,575	8,362
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment and intangible assets		(1,550)	(1,512)
Purchase of Transformation plant and equipment and intangible assets		(2,354)	(2,613)
Proceeds from sale of plant and equipment		0	13
Net payment of ICANN Deposits held on account		(1,631)	181
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(5,535)	(3,931)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of interest bearing liabilities		(2,896)	(2,934)
Proceeds from issue of ordinary shares - ESOP	8	-	155
Payment of dividend on ordinary shares		(5,465)	(5,426)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(8,361)	(8,205)
NET DECREASE IN CASH & CASH EQUIVALENTS		(2,321)	(3,774)
Net foreign exchange differences		(92)	91
Cash and cash equivalents at beginning of period		19,047	23,379
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		16,634	19,696

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2012**

CORPORATE INFORMATION

The financial information in this report for Melbourne IT Ltd for the half year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 21 August 2012.

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

The nature of the operations and principal activities of the Group are described within this note at 1(b) Segment Reporting and at note 10.

1. BASIS OF PREPARATION

This general purpose condensed financial report for the half year ended 30 June 2012 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended the half year financial report be read in conjunction with the annual report for the year ended 31 December 2011 and considered together with any public announcements made by Melbourne IT Ltd and its controlled entities during the half year ended 30 June 2012 in accordance with the continuous disclosure obligations of the ASX listing rules.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual report.

(a) Changes in accounting policy

There have been no amending Standards that have been adopted from 1 January 2012. The Group has not elected to early adopt any other new Standards or amendments that are issued but not yet effective.

(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.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2012

1. BASIS OF PREPARATION (continued)

(b) Operating Segment reporting (continued)

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 Enterprise Services 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.

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.

SMB eBusiness Solutions ("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.

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. These transfers are eliminated on consolidation.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2012**

CONSOLIDATED
30-Jun-12 30-Jun-11
\$'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:

(a) Revenue

Registration Revenue	31,188	33,883
Professional Services Revenue	23,088	18,418
Hosting & Value-Added Product Sales	31,508	31,647
For The Record Revenue	3,617	3,196
Other Revenue	252	204
	<u>89,653</u>	<u>87,348</u>
Interest Revenue	106	243
Total consolidated revenue	<u>89,759</u>	<u>87,591</u>

(b) Other income

Other	29	9
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3. EXPENSES**(a) Depreciation of non-current assets**

Fit out	84	127
Plant and equipment	1,581	2,249
Furniture	85	121
Total depreciation of non-current assets	<u>1,750</u>	<u>2,497</u>

(b) Amortisation of intangible assets

Customer contracts	429	522
Capitalised software	98	89
Other intangibles	52	53
Total amortisation of intangible assets	<u>579</u>	<u>664</u>

(c) Other expenses

Training and Recruitment	366	432
Premises	2,144	1,993
Travel and Accommodation	1,264	1,090
Communications	1,155	1,083
Marketing	1,305	1,116
Equipment	2,002	1,928
Finance and Legal	1,683	1,376
Foreign Exchange	486	864
Bad debts and doubtful debts	386	844
Interest expense	648	734
Other expenses	575	181
Total other expenses from ordinary activities	<u>12,014</u>	<u>11,641</u>

(d) Expensing of share based payments

Equity & cash settled share based payments	<u>(15)</u>	<u>214</u>
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MELBOURNE IT LTD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2012**

CONSOLIDATED	
30-Jun-12	30-Jun-11
\$'000s	\$'000s

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

Final franked dividend for the financial year ended 31 December 2011:

8.0 cents (2010: 8.0 cents per share)	6,508	6,404
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(b) Dividends proposed and not recognised as a liability

Interim franked dividend for the half year ended 30 June 2012:

7.0 cents (2011: 7.0 cents per share)	5,738	5,646
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At the 21 August 2011 Board Meeting, the directors declared an 7.0 cents fully franked interim dividend on ordinary shares in respect of the half year ended 30 June 2012. The total amount of this interim dividend is \$5.738 million and has not been provided for in the 30 June 2012 financial statements.

(c) Franking of dividends

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

CONSOLIDATED	
30-Jun-12	31-Dec-11
\$'000s	\$'000s

5. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade debtors	28,542	30,591
Allowance for impairment loss	(1,276)	(1,347)
Total Trade and Other Receivables (Current)	27,266	29,244

6. OTHER ASSETS (CURRENT)

Other prepayments	3,222	3,674
GST receivable	96	173
Total Other Assets (Current)	3,318	3,847

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2012**

7. INTANGIBLE ASSETS

(a) Carrying Amount of Intangible Assets

	CONSOLIDATED	
	30-Jun-12	31-Dec-11
	\$'000s	\$'000s
Goodwill	102,095	102,406
Marketing Related Intangibles	9,982	9,982
Accumulated amortisation	-	-
	<u>9,982</u>	<u>9,982</u>
Customer Contracts	10,609	10,627
Accumulated amortisation	(4,486)	(4,050)
	<u>6,123</u>	<u>6,577</u>
Capitalised Software	971	970
Accumulated amortisation	(776)	(694)
	<u>195</u>	<u>276</u>
Assets Under Construction - Transformation Projects (b)	13,722	11,367
Total Capitalised Software	<u>13,917</u>	<u>11,643</u>
Other Intangibles	315	315
Accumulated amortisation	(315)	(262)
	<u>-</u>	<u>53</u>
Total Intangible Assets	<u>132,117</u>	<u>130,661</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 four 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.

8. CONTRIBUTED EQUITY

Ordinary shares

Issued and fully paid	67,943	66,900
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Movements in ordinary shares on issue

	30-Jun-12		31-Dec-11	
	No. of Shares	\$'000s	No. of Shares	\$'000s
Beginning of the financial period	81,352,178	66,900	80,031,955	64,839
Issued during the period				
- Dividend reinvestment plan	613,814	1,043	1,227,323	1,906
- Executive and employee options exercised	-	-	92,900	155
End of the financial period	<u>81,965,992</u>	<u>67,943</u>	<u>81,352,178</u>	<u>66,900</u>

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2012**

CONSOLIDATED	
30-Jun-12	31-Dec-11
\$'000s	\$'000s

9. RECONCILIATION OF CASH

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

Cash at banks and on hand	16,634	19,047
Closing cash balance	<u>16,634</u>	<u>19,047</u>

MELBOURNE IT LTD
**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2012**
10. SEGMENT REPORTING

The following tables present the revenue and profit information regarding segments for the half years ended 30 June 2012 and 30 June 2011.

	SMB	GPS	DBS	ES	FTR	Total
Half Year ended 30 June 2012						
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue						
Revenue from operating activities						
Registration Revenue	9,554	15,734	5,900	-	-	31,188
Professional Services Revenue	-	-	23,088	-	-	23,088
Hosting & Value-Added Product Sales	9,695	7,398	581	13,834	-	31,508
For The Record Revenue	-	-	-	-	3,617	3,617
Other Revenue	212	-	40	-	-	252
Total segment revenue	19,461	23,132	29,609	13,834	3,617	89,653
Interest revenue						106
Other income						29
Total consolidated revenue						89,788
Result						
Segment results	2,931	2,972	5,163	1,292	(234)	12,124
Unallocated expenses:						
- Corporate						(3,452)
- Transformation Projects						(1,351)
Earnings before interest and tax						7,321
Net Interest						
Interest revenue						106
Interest expense						(648)
Total Net Interest						(542)
Income tax expense						(966)
Net Profit after tax						5,813

MELBOURNE IT LTD
**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2012**
10. SEGMENT REPORTING (continued)

	SMB	GPS	DBS	ES	FTR	Total
Half Year ended 30 June 2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue						
Revenue from operating activities						
Registration Revenue	10,195	17,857	5,831	-	-	33,883
Professional Services Revenue	-	-	18,418	-	-	18,418
Hosting & Value-Added Product Sales	10,286	7,636	565	13,160	-	31,647
For The Record Revenue	-	-	-	-	3,196	3,196
Other Revenue	192	4	8	-	-	204
Total segment revenue	20,673	25,497	24,822	13,160	3,196	87,348
Interest revenue						243
Other income						9
Total consolidated revenue						87,600
Result						
Segment results	4,220	3,869	2,774	440	92	11,395
Unallocated expenses:						
- Corporate						(2,875)
- Transformation Projects						(1,473)
Earnings before interest and tax						7,047
Net Interest						
Interest revenue						243
Interest expense						(734)
Total Net Interest						(491)
Income tax expense						(1,609)
Net Profit after tax						4,947

MELBOURNE IT LTD**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2012**

CONSOLIDATED	
30-Jun-12	31-Dec-11
\$'000s	\$'000s

11. TRADE AND OTHER PAYABLES (CURRENT)

Trade creditors	3,956	3,236
Sundry creditors	9,622	8,655
Deposits received in advance	2,041	3,079
Accrued expenses	5,659	6,072
Total payables	<u>21,278</u>	<u>21,042</u>

(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.

12. INTEREST-BEARING LOANS AND BORROWINGS**Current**

US Dollar Overseas Currency Loan	5,905	5,896
Total Interest-bearing Loans and Borrowings - Current	<u>5,905</u>	<u>5,896</u>

Non-current

US Dollar Overseas Currency Loan	31,493	34,395
Total Interest-bearing Loans and Borrowings - Non Current	<u>31,493</u>	<u>34,395</u>

(a) Reconciliation of net debt

The reconciliation of net debt is as follows:

Current	5,905	5,896
Non-current	31,493	34,395
	<u>37,398</u>	<u>40,291</u>
Less cash and cash equivalents	(16,634)	(19,047)
Total net debt	<u>20,764</u>	<u>21,244</u>

(b) Terms and conditions**Current and Non Current Interest-bearing loans and borrowings****US Dollar Overseas Currency Loan**

The US Dollar Overseas Currency Loan of USD \$38.0 million (31 December 2011: USD \$41.0 million) is for a fixed term of 5 years, expiring in April 2013. Subsequent to balance date this loan debt has now been refinanced and the new loan facility has a term of 4 years to 30 June 2016 (See note 14).

In line with the loan agreement, Melbourne IT has made two repayments of USD \$1.5 million, totalling USD \$3 million, during the period.

For the period ended 30 June 2012 the average interest rate was 2.33%.

The Group has complied with bank covenants during the period ended 30 June 2012.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2012

13. HEDGING INSTRUMENTS

Melbourne IT Ltd has continued to use USD foreign exchange collars (five exchange collars to sell put options and buy call options with notional amounts totalling USD \$1.625 million respectively) to provide a greater degree of certainty over future exchange rates over a portion of the USD sales in the GPS segment.

The Group has a USD \$20.0 million interest rate swap, exchanging the variable rate payable on the USD \$38.0 million interest bearing liability for a fixed rate. The transaction reduces the Group's exposure to fluctuations 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.

14. EVENTS AFTER BALANCE DATE

At the 21 August 2012 Board Meeting, the directors declared a 7.0 cents fully franked interim dividend on ordinary shares in respect of the half year ended 30 June 2012. In accordance with Australian Accounting Standards, the total amount of this interim dividend of \$5.738 million has not been provided for in the 30 June 2012 financial statements.

On 16 July 2012 the outstanding USD \$38.0 million loan was settled and replaced by a new USD \$38.0 million loan facility with National Australia Bank. This new loan facility has a term of 4 years to 30 June 2016 with principal repayments of USD \$1.5 million a quarter. The new facility agreement was executed on 26 June 2012 meaning the loan is classified as non current apart from the USD \$6.0 million of repayments due within the next 12 months.

There has not been any other matter or circumstance in the interval between the end of the half year and the date of this report that has materially affected or may materially affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial periods.