

MEDIA RELEASE

Melbourne IT Delivers Full Year Results in line with Guidance

Board decides on (non-cash) goodwill impairment charge of \$2 million in relation to ForTheRecord Division

Partially franked final dividend of 7¢ announced

Melbourne IT Group Consolidated Results – Year ending 31 December 2012:

		FY 2012	FY 2011
Revenue	-5%	\$170.6m	\$179.8m
EBIT	-21%	\$15.0m	\$18.9m
EBIT (Pre-Impairment)	-10%	\$17.0m	\$18.9m
NPAT	-16%	\$11.4m	\$13.5m
NPAT (Pre-Impairment)	-1%	\$13.4m	\$13.5m
Basic EPS	-17%	13.96¢	16.77¢
Final Dividend	-13%	7.0¢	8.0¢
Operating Cash	11%	\$21.1m	\$19.1m
Deferred Gross Margin	-5%	\$27.7m	\$29.1m

NB Figures may not total exactly due to rounding

MELBOURNE, Australia – 26 February 2013 – Melbourne IT (ASX: MLB) today announced its full year results for the year ending 31 December 2012, reporting an 5% year-on-year decrease in revenue to \$170.6 million and earnings before interest and tax (EBIT) of \$15 million, down 21% year-on-year. Net profit after tax (NPAT) was down 16% year-on-year to \$11.4 million. The EBIT and NPAT results were affected by a non-cash impairment charge of \$2 million of the ForTheRecord division’s carrying value following a review by the Board.

Pre-impairment EBIT was in line with guidance (10% down on 2011), while pre-impairment net profit after tax was maintained at 2011 levels due to favourable R&D tax credits.

Operating cash flow was up 11% to \$21.1 million and the Board has shown its confidence in the future growth of Melbourne IT by declaring a 7¢ final dividend. This will bring total dividend payments for the year to 14¢, maintaining a healthy shareholder yield. The final dividend will, however, only be partially franked (40%) due to the use of the R&D tax credits and the fact that an increasing proportion of the company’s earnings are being derived from outside of Australia. These factors will continue to affect the level of franking credits going forward.

“Melbourne IT has undertaken a series of specific initiatives to reposition the business for future success and a return to growth. We strengthened our executive leadership with key hires in our Digital Brand Services (DBS) and SMB Solutions businesses, with the latter formed by the merger of our SMB and Global

Partner Solutions divisions to improve service delivery and realise operational efficiencies,” Melbourne IT CEO and Managing Director, Theo Hnarakis, said.

“Our transformation project has entered its final year and will allow the business to realise cost savings, streamline processes and launch new products. During 2013, as the project reaches its completion, we will be accelerating our efforts to deliver the project’s full benefits,” he said.

“In November 2012, Melbourne IT initiated a strategic review process to explore the possibilities of unlocking value for shareholders and delivering more focused investments, execution and operations for customers and staff. This strategic review is ongoing. The Board will update the market in accordance with its disclosure obligations once the outcome of the review has been determined.”

Divisional Highlights

Digital Brand Services (DBS)

- Full year revenue flat year-on-year at \$55.2 million (however on a constant currency basis, revenue up 3% on 2011), with EBIT up 6% year-on-year to \$9.5 million despite further adverse AUD headwind, especially against European currencies
- Significant investment to prepare for the arrival of new gTLDs in 2013 and beyond – new gTLDs are expected to drive increased demand for domain strategy consulting, increased registration revenue, brand protection growth and the commencement of more than 110 ‘.brand’ registry services contracts from H2 2013 onwards

SMB Solutions (SMB)

- Full year revenue down 8% year-on-year to \$82.2 million and EBIT down 17% to \$12.8 million
- Rebound in H2 2012 performance with H2 EBIT up 17% compared to H1 2012
- Investments in personnel, new products and improving customer experience expected to benefit division in 2013

Enterprise Services (ES)

- Revenue decreased 3% year-on-year to \$26.1 million while EBIT increased 35% year-on-year to \$2.3 million, driven by continued decrease in customer churn and greater operational efficiencies
- Key industry partnerships and differentiated market strategy positions the division well to take advantage of the growing shift from ‘bricks to clicks’ as traditional businesses invest in online strategies

ForTheRecord (FTR)

- Full year revenue down 12% to \$6.9 million year-on-year, EBIT contribution of \$0.1 million
- Following a review of the carrying value of the ForTheRecord division, the Board has written down the goodwill value of the asset by \$2 million
- 2013 has started strongly.

Outlook

The Melbourne IT Board continues to believe the outlook is positive for Melbourne IT and recognises the need to accelerate initiatives to position Melbourne IT for its next phase of sustained growth.

“2013 will be a significant inflection point for Melbourne IT. Although it is too early in the financial year to provide any detailed guidance for 2013 – particularly given the strategic review is in progress – we see good growth opportunities ahead for our business and by successfully executing our strategies, we expect the performance of each of our divisions to be maintained or improve in 2013 as we invest further in our people, marketing, systems transformation and enhancing the customer experience,” Mr Hnarakis said.

“When completed in late 2013, our transformation project will not only assist our divisions to grow revenue but allow the group to continue to rationalise costs and achieve greater efficiencies.

The record date for the final dividend is 28 March 2013 and will be payable to shareholders on 26 April 2013.

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

ENDS.

About Melbourne IT

Melbourne IT (ASX: MLB) helps organisations of all sizes to successfully do business online. Our complete portfolio of Internet-based technology services drives business effectiveness and profitability for more than 400,000 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 650 employees spread across 18 offices in 10 countries. For more information, visit www.melbourneit.info

Media contacts:

Tony Smith
Melbourne IT
+61 7 3230 7525
tony.smith@melbourneit.com.au

Appendix 4E Preliminary Financial Report

Name of entity

Melbourne IT Limited

ABN or equivalent company reference

21 073 716 793

Reporting Period

31 December 2012

(Comparative period – 31 December 2011)

2.0 Results for announcement to the market

\$A'000

2.1 Total revenues from ordinary activities	Down	-5.1%	to	170,567
2.2 Profit/(loss) from continuing operations after tax attributable to members	Down	-15.4%	to	11,441
2.3 Net profit/(loss) for the period attributable to members	Down	-15.4%	to	11,441
2.4 Dividends (distributions)		Amount per security	Franked amount per security	
Current period				
Final dividend		7.0 cents		40%
Interim dividend		<u>7.0 cents</u>		100%
		14.0 cents		
Previous corresponding period				
Final dividend		8.0 cents		100%
Interim dividend		<u>7.0 cents</u>		100%
		15.0 cents		
2.5 Record date for determining entitlements to the dividend.	28 March 2013			

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

Review and Results of Operations

Melbourne IT Ltd - Consolidated Group

- Total consolidated Revenue for the year ended 31 December 2012 was \$170.567 million (2011: \$179.778 million), a decrease of 5.1%.
- Profit after Tax for the year ended 31 December 2012 was \$11.441 million (2011: \$13.524 million), a decrease of 15.4%.
- The effective tax rate is 18% (2011: 24%), primarily as a result of the receipt of an R&D refund of \$2.628m (2011: \$0.584m).
- Included within Operating Expenses is an impairment of \$2 million in respect of the FTR cash generating unit. The Group has reduced its estimate of the carrying value of the FTR CGU as a result of ongoing weakness in the US economy and continued cuts in government spending.
- Excluding the goodwill impairment of \$2 million, adjusted profit after tax was \$13.441 million, a decrease of 0.6%.
- Earnings Before Interest and Tax ('EBIT') for the year ended 31 December 2012 was \$15.010 million (2011: \$18.911 million), a decrease of 20.6%. Excluding the FTR impairment of \$2 million, adjusted EBIT was \$17.010 million (2011: \$18.911 million), a decrease of 10.1%.
- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for the year ended 31 December 2012 was \$19.724 million (2011: \$25.036 million), a decrease of 21.2%. Excluding the FTR impairment of \$2 million, adjusted EBITDA was \$21.724 million (2011: \$25.036 million), a decrease of 13.2%.
- Earnings per share at 31 December 2012 was 13.96 cents (2011: 16.77 cents), a decrease of 16.8%.
- Cash and cash equivalents was \$17.857 million at 31 December 2012 (2011: \$19.047 million). At 31 December 2012 total external debt was \$33.818 million (US \$35.0 million) (2011: \$40.291 million (US \$41.0 million)). Net debt is \$15.961 million (2011: \$21.244 million), with the lower external debt partially offset by lower cash and cash equivalents.
- Positive Operating Cashflow for the year ended 31 December 2012 was \$21.134 million (2011: \$19.099 million), an increase of 10.7%.
- During the year, Melbourne IT has successfully refinanced its USD bank borrowings to a new maturity date of June 2016. The group continues to make quarterly repayments of USD \$1.5m, a total of USD \$6.0m in the year (AUD \$5.811m).
- Deferred Gross Margin (i.e. income received in advance net of prepaid costs) was \$27.681 million at 31 December 2012 (December 2011: \$29.051 million) a decrease of 4.7%.
- At the 26 February 2013 Board Meeting, the directors declared a 7.0 cents franked to 40% final dividend on ordinary shares in respect of the year ended 31 December 2012 (year ended 31 December 2011: 8.0 cents fully franked).
- In accordance with the accounting standards, the total amount of this final dividend of \$5.772 million has not been provided for in the 31 December 2012 financial statements.
- The following table shows a reconciliation of the pre- and post-impairment financial results included in the discussion above to the reported profit after tax. The company believes that this non-IFRS, unaudited information is relevant to the user's understanding of its results.

Non-IFRS information	2012			2011		
	Post-Impairment	Impairment	Pre-Impairment	Post-Impairment	Impairment	Pre-Impairment
	(audited) \$000	(audited) \$000	(unaudited) \$000	(audited) \$000	(audited) \$000	(unaudited) \$000
EBITDA	19,724	(2,000)	21,724	25,036	-	25,036
D & A	4,714	-	4,714	6,125	-	6,125
EBIT	15,010	(2,000)	17,010	18,911	-	18,911
Net Interest	1,062	-	1,062	1,002	-	1,002
Tax Expense	2,507	-	2,507	4,385	-	4,385
Profit After Tax	11,441	(2,000)	13,441	13,524	-	13,524

3.0 NTA Backing	Current period 31 December 2012	Previous Period 31 December 2011
Net tangible asset backing per ordinary security	(43.10 cents)	(47.62 cents)

Total Net Assets at 31 December 2012 were \$95,294 million including \$6,412 million of deferred tax assets, \$6,287 million of deferred tax liability and \$130.703 million of intangible assets associated with the acquisition of Domainz Limited (September 2003), Melbourne IT DBS Group AB (formerly the Cogent IPC Group AB) (April 2004), WebCentral Group Pty Ltd (September 2006), IDR Management Services Ltd (January 2007), VeriSign DBMS (May 2008), including capitalised costs of \$14.759 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.
4.2	Consolidated profit/(loss) from ordinary activities <u>after tax</u> of the controlled entity (or group of entities) since the date in the current period on which control was obtained.	Not applicable, as there were no entities which control was gained\ lost during the period.
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.
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.

5.0 Dividends

Amount per security

Dividends (distributions)	Amount per security	Franked amount per security	Amt per security of foreign sourced dividend
Current Year			
Final	7.0 cents	40%	N/A
Interim	7.0 cents	100%	N/A
	14.0 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	7.0 cents	8.0 cents
Interim	7.0 cents	7.0 cents
Total	14.0 cents	15.0 cents

Additional information on current year dividends

Date the dividend (distribution) is payable

26 April 2013

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

7.0 cents per Share
Totalling approximately \$5.772 million

The dividend or distribution plans shown below are in operation.

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

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

28 March 2013

6.0 Material interests in entities which are not controlled entities

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

7.0 Other Information

Annual Meeting

The annual meeting will be held as follows:

Place:

Level 1
No 1, Spring Street
Melbourne Vic 3000

Date:

Tuesday 21 May 2013

Time:

11:00 am

8.0 Compliance Statement

The report has been prepared based on a 31 December 2012 Annual Financial Report which is in the process of being audited by an independent audit firm in accordance with the requirements of S302 of the Corporations Act.

Signed here:

Ms. A Jegathesan
Company Secretary
26 February 2013

MELBOURNE IT LTD
(ABN: 21 073 716 793)

FINANCIAL INFORMATION

FOR THE YEAR ENDED
31 DECEMBER 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

Level Two
120 King Street
Melbourne, Victoria, 3000
Tel: +61 3 8624 2400

SHARE REGISTER

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

AUDITORS

Ernst & Young

INTERNET ADDRESS<http://www.melbourneit.com.au>**CONTENTS****PAGE**

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MELBOURNE IT LTD

DIRECTORS INFORMATION

The names of the company's directors in office during the year ended 31 December 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	
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 company during the year were:

Digital Brand Services ("DBS")

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

SMB Solutions

- Provider of products directly to SMB customers and through an extensive global network of partners. Products include:
- Registration of generic Top Level Domain (gTLD) names (.com, .net, .org, .biz, .info, .name).
- Registration of .au and .nz domain names.
- Registration of other country code (ccTLD) domain names (eg. .us,.co.uk,.fr,.de and .eu).
- Web and application hosting including Software and Services.
- Consultative and fulfilment services for Search Engine Marketing and Web site design and development.
- 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	13.96 cents	16.77 cents
Diluted earnings per share	13.77 cents	16.60 cents

RESULTS

The consolidated net profit after tax of the Melbourne IT Ltd Group for the year ended 31 December 2012 was \$11.441 million (2011 \$13.523 million).

DIVIDENDS

	Cents	\$'000
Final Dividends Recommended		
• On ordinary shares	<u>7.0</u>	<u>5,772</u>
Dividends paid in the year		
Final Dividend – 2011		
• On ordinary shares	8.0	6,507
Interim Dividend – 2012		
• On ordinary shares	<u>7.0</u>	<u>5,739</u>
	<u>15.0</u>	<u>12,246</u>

MELBOURNE IT LTD**DIRECTORS INFORMATION / continued**

Summarised operating results are as follows:

	Notes	31-Dec-12 \$'000	31-Dec-11 \$'000
Revenue			
Registration Revenue		62,097	65,748
Professional Services		40,153	42,414
Website & Email Hosting Revenue		61,030	63,065
For The Record Revenue		6,868	7,777
Other Revenue		<u>119</u>	<u>342</u>
		170,267	179,346
Interest Revenue		270	422
Other Income		<u>30</u>	<u>10</u>
Total Consolidated Revenue		170,567	179,778
Total Earnings before Net Interest, Tax, Depreciation and Amortisation		21,724	25,035
Depreciation Expense		(3,662)	(4,854)
Impairment Expense	10	(2,000)	-
Amortisation Expense		<u>(1,052)</u>	<u>(1,271)</u>
Total Earnings Before Net Interest and Tax		15,010	18,910
Net Interest		<u>(1,062)</u>	<u>(1,002)</u>
Net Profit Before Tax		13,948	17,908
Tax Expense		<u>(2,507)</u>	<u>(4,385)</u>
Net Profit After Tax		11,441	13,523
Cashflow from Operations		21,134	19,100

MELBOURNE IT LTD**DIRECTORS INFORMATION / continued****SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

There have been no significant changes in the state of affairs during the year ended 31 December 2012.

SUBSEQUENT EVENTS

At the 26 February 2013 Board Meeting, the directors declared a 7.0 cents final dividend franked to 40% on ordinary shares in respect of the year ended 31 December 2012. The total amount of this final dividend is \$5.772 million, and it has not been provided for in the 31 December 2012 financial statements.

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

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

ROUNDING

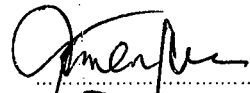
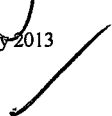
The amounts contained in the accompanying year financial information have been rounded to the nearest \$1,000 (where applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Melbourne IT Ltd support and have adhered to the principles of corporate governance.

The company's corporate governance statement is available on the company's website www.melbourneit.com.au, and also contained in the additional ASX information section of the 2012 annual report.

Signed in accordance with a resolution of the directors.


.....
Mr Simon Jones
Chairman
26 February 2013


MELBOURNE IT LTD

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012

		CONSOLIDATED	
	Notes	31-Dec-12 \$'000s	31-Dec-11 \$'000s
Melbourne IT Ltd - Consolidated Group			
ASSETS			
Current Assets			
Cash and cash equivalents	9	17,857	19,047
Trade and other receivables	5	22,966	29,244
Inventories		539	463
Prepayment of domain name registry charges		9,573	11,465
Derivative financial instruments		0	14
Other assets	6	2,755	3,847
Total Current Assets		53,690	64,080
Non-current Assets			
Property, plant and equipment		3,692	5,360
Intangible assets	7	130,703	130,661
Deferred income tax asset		6,412	6,536
Prepayment of domain name registry charges		6,255	6,534
Other assets		43	58
Total Non-current Assets		147,105	149,149
TOTAL ASSETS		200,795	213,229
LIABILITIES			
Current Liabilities			
Trade and other payables	10	15,639	21,042
Interest-bearing loans and borrowings	11	5,784	5,896
Provisions		4,325	4,568
Current tax liabilities		682	568
Income received in advance		29,144	33,093
Total Current Liabilities		55,574	65,167
Non-current Liabilities			
Interest-bearing loans and borrowings	11	28,034	34,395
Deferred income tax liability		6,287	4,226
Provisions		793	815
Derivative financial instruments		448	439
Income received in advance		14,365	13,957
Total Non-current Liabilities		49,927	53,832
TOTAL LIABILITIES		105,501	118,999
NET ASSETS		95,294	94,230
EQUITY			
Contributed equity	8	68,794	66,900
Foreign currency translation reserve		(9,901)	(9,892)
Options reserve		4,237	4,166
Hedging reserve		(214)	(127)
Retained earnings		32,378	33,183
TOTAL EQUITY		95,294	94,230

MELBOURNE IT LTD
**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012**

		CONSOLIDATED	
	Notes	31-Dec-12 \$'000s	31-Dec-11 \$'000s
Revenue	2 (i)	170,537	179,768
Other Income	2 (ii)	30	10
Registry, Hosting and Sundry Products costs		(60,267)	(62,327)
Gross profit		110,300	117,451
Salaries and employee benefit expenses		(68,589)	(71,264)
Depreciation of non current assets	3 (a)	(3,662)	(4,854)
Impairment of non current assets	3 (c)	(2,000)	-
Amortisation of identifiable intangible assets	3 (b)	(1,052)	(1,271)
Finance costs	3 (e)	(1,040)	(958)
Other expenses	3 (d)	(20,009)	(21,195)
Profit from continuing operations before tax		13,948	17,909
Income tax expense		(2,507)	(4,385)
Net Profit Attributable to Members of Melbourne IT Ltd		11,441	13,524
Other comprehensive income/(expenses)			
Currency translation differences		(9)	(622)
Net gains/(losses) on cashflow hedges		(87)	(238)
Other comprehensive income/(expenses) for the period, net of tax		(96)	(860)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		11,345	12,664
Profit attributable to members of the parent		11,441	13,524
Total comprehensive income attributable to members of the parent		11,345	12,664
Earnings per share (cents per share)			
- Basic earnings per share (cents per share)		13.96 cents	16.77 cents
- Diluted earnings per share (cents per share)		13.77 cents	16.60 cents

MELBOURNE IT LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012**

	FOREIGN CURRENCY RESERVE	OPTIONS RESERVE	CONSOLIDATED HEDGING RESERVE	CONTRIBUTED EQUITY	RETAINED EARNINGS	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 January 2012	(9,892)	4,166	(127)	66,900	33,183	94,230
Profit for the period					11,441	11,441
Other comprehensive income	(9)		(87)			(96)
Total comprehensive income for the period	(9)	-	(87)	-	11,441	11,345
Transactions with owners in their capacity as owners:						
Share-based payment		71				71
Dividend Reinvestment Plan				1,894	(1,894)	-
Exercise of Options				-		-
Equity Dividends					(10,352)	(10,352)
As at 31 December 2012	(9,901)	4,237	(214)	68,794	32,378	95,294
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

MELBOURNE IT LTD

**STATEMENT OF CASH FLOW
FOR THE YEAR ENDED 31 DECEMBER 2012**

		CONSOLIDATED	
		31-Dec-12	31-Dec-11
	Notes	\$'000s	\$'000s
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of service revenue and recoveries		194,872	192,108
Payments to suppliers and employees		(171,290)	(168,016)
Interest received	2(i)	270	422
Interest paid	3(d)	(1,335)	(1,424)
Bank charges and credit card merchant fees		(1,040)	(958)
Income tax paid		(343)	(3,033)
NET CASH FLOWS FROM OPERATING ACTIVITIES		21,134	19,099
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of plant and equipment and intangible assets		(2,357)	(2,759)
Purchase of Transformation plant and equipment and intangible assets		(3,592)	(5,488)
Proceeds on sale of plant and equipment		500	256
Transfer of deposits to/receipts of deposits to be transferred to ICANN		(742)	742
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(6,192)	(7,249)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Repayment of interest bearing liabilities	11(b)	(43,208)	(5,934)
Proceeds from issue of ordinary shares - ESOP	8	-	155
Proceeds from interest bearing liabilities	11(b)	37,398	-
Payment of dividend on ordinary shares	4	(10,352)	(10,144)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(16,162)	(15,923)
NET INCREASE/(DECREASE) IN CASH & CASH EQUIVALENTS		(1,220)	(4,073)
Net foreign exchange differences		30	(259)
Cash and cash equivalents at beginning of period		19,047	23,379
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	9	17,857	19,047

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2012

CORPORATE INFORMATION

The financial information in this report for Melbourne IT Ltd for the year ended 31 December 2012 was authorised for issue in accordance with a resolution of the directors on 26 February 2013.

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

The nature of the operations and principal activities of the Group are described within this note at 1(b) and the Segment Reporting at note 12.

1. BASIS OF PREPARATION

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

The financial information in this report should be read in conjunction with the Annual Financial Report of Melbourne IT Limited as at 31 December 2012, when it becomes available, which is prepared based on the Australian Accounting Standards (including Australian Accounting Interpretations).

It is also recommended that the Annual Financial Report of Melbourne IT Limited as at 31 December 2012 be considered together with any public announcements made by Melbourne IT Limited and its controlled entities during the year ended 31 December 2012, in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report. The company is a for profit entity.

(a) Basis of Accounting

There have been no material adjustments to the accounting policies of the Group since December 2011. The Group has not elected to adopt any new standards or amendments early.

(b) Operating Segment

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

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

SMB Solutions Division

SMB Solutions 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.

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

Digital Brand Services Division ("DBS")

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

Enterprise Services ("ES")

The 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.

MELBOURNE IT LTD
**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2012**

	CONSOLIDATED	
	31-Dec-12	31-Dec-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:		
(i) Revenue		
Registration Revenue	62,097	65,748
Professional Services Revenue	40,153	42,414
Hosting & Value-Added Product Sales	61,030	63,065
For The Record Revenue	6,868	7,777
Other Revenue	119	342
	<u>170,267</u>	<u>179,346</u>
Interest Revenue	270	422
Total consolidated revenue	<u>170,537</u>	<u>179,768</u>
(ii) Other income		
Other	30	10
3. EXPENSES		
(a) Depreciation of non-current assets		
Fit out	184	213
Plant and equipment	3,437	4,589
Furniture	41	52
Total depreciation of non-current assets	<u>3,662</u>	<u>4,854</u>
(b) Amortisation of identifiable intangible assets		
Amortisation of customer contracts	863	982
Amortisation of capitalised software	189	184
Amortisation of Other Intangibles	-	105
Total amortisation of identifiable intangible assets	<u>1,052</u>	<u>1,271</u>
(c) Impairment of intangible assets	<u>2,000</u>	<u>-</u>
(d) Other Expenses from ordinary activities		
Training & Recruitment	633	1,027
Premises	4,384	4,145
Travel & accommodation	2,005	2,368
Financial & legal	2,120	1,847
Communications	2,246	2,298
Equipment	4,160	3,862
Marketing	1,897	2,075
Net foreign currency exchange (gain)/loss	1,039	1,203
Bad debts and doubtful debts	258	565
Interest expense	1,332	1,424
(Gain) / Loss on disposal of fixed assets	(642)	-
Other expenses	577	381
Total other expenses from ordinary activities	<u>20,009</u>	<u>21,195</u>
(e) Finance costs		
Bank charges and credit card merchant fees	<u>1,040</u>	<u>958</u>
(f) Other		
Expensing of share-based payments	<u>57</u>	<u>381</u>

MELBOURNE IT LTD**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2012**

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

4. DIVIDENDS PAID AND PROPOSED**Equity dividends on ordinary shares:****(a) Dividends paid during the year****(i) Current year - interim**

Franked dividends (7.0 cents per share)
(2011: 7.0 cents per share)

5,739	5,646
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(ii) Previous year - final

Franked dividends (8.0 cents per share)
(2011: 8.0 cents per share)

6,507	6,404
12,246	12,050

The above dividends were paid as follows:

Cash payment

10,352	10,144
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Dividend reinvestment plan

1,894	1,906
12,246	12,050

(b) Dividends proposed and not recognised as a liability

Partially franked dividend (7.0 cents per share)
(2011: Fully Franked dividend 8.0 cents per share)

5,772	6,508
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At the 26 February 2013 Board Meeting, the directors declared a 7.0 cents final dividend franked to 40% on ordinary shares in respect of the year ended 31 December 2012. The total amount of this final dividend is \$5.772 million and has not been provided for in the 31 December 2012 financial statements.

(c) Franking of dividends

The dividends paid during 2012 were 100% franked at the company's tax rate of 30%. The final dividend proposed will be 40% franked at the company's tax rate of 30%.

5. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade debtors

24,225	30,591
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Allowance for impairment loss

(1,259)	(1,347)
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Total Trade and Other Receivables (Current)

22,966	29,244
--------	--------

6. OTHER ASSETS (CURRENT)

Other prepayments

2,677	3,674
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GST receivable

78	173
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Total Other Assets (Current)

2,755	3,847
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MELBOURNE IT LTD**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2012****CONSOLIDATED**
31-Dec-12 31-Dec-11
\$'000s \$'000s**7. INTANGIBLE ASSETS****(a) Carrying Amount of Intangible Assets**

Goodwill	100,265	102,406
Marketing Related Intangibles	9,982	9,982
Accumulated Amortisation	-	-
	9,982	9,982
Customer Contracts	10,446	10,627
Accumulated Amortisation	(4,847)	(4,050)
	5,599	6,578
Capitalised Software	952	970
Accumulated Amortisation	(854)	(694)
	98	275
Assets Under Construction - Transformation Projects (b)	14,759	11,367
Total Capitalised Software	14,857	11,642
Other Intangibles	315	315
Accumulated Amortisation	(315)	(262)
	-	53
Total Intangible Assets	130,703	130,661

(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 several 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. The project is expected to conclude during 2013.

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.

(c) Impairment of FTR Cash Generating Unit

Following a review of the carrying value of intangible assets, an impairment charge of \$2.0 million has been recorded in respect of the group's investment in FTR. The ongoing weakness in the US economy, and continued curbs on government expenditure, has led to a reduction in the expected cashflows to be generated by FTR in the future. There is no cash impact to this impairment charge.

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2012**

	CONSOLIDATED	
	31-Dec-12	31-Dec-11
	\$'000s	\$'000s
8. CONTRIBUTED EQUITY		
Ordinary shares		
Issued and fully paid	68,794	66,900

Movements in ordinary shares on issue	31-Dec-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 year				
- Dividend reinvestment plan	1,099,185	1,894	1,227,323	1,906
- Executive and employee options exercised	-	-	92,900	155
End of the financial period	82,451,363	68,794	81,352,178	66,900

	CONSOLIDATED	
	31-Dec-12	31-Dec-11
	\$'000s	\$'000s
9. RECONCILIATION OF CASH		

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

Cash on hand	17,857	19,047
Closing cash balance	17,857	19,047

10. TRADE AND OTHER PAYABLES (CURRENT)

Trade creditors	1,567	3,236
Sundry creditors	8,324	8,655
Deposits received in advance	1,903	3,079
Accrued expenses	3,845	6,072
Total payables	15,639	21,042

Terms and conditions relating to trade creditors:

- (i) Trade creditors are non-interest bearing and are normally settled within agreed trading terms.
- (ii) Sundry creditors are non-interest bearing and are normally settled within agreed trading terms.

MELBOURNE IT LTD**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2012**

	CONSOLIDATED	
	31-Dec-12	31-Dec-11
	\$'000s	\$'000s
11. INTEREST-BEARING LOANS AND BORROWINGS		
Current		
US Dollar Overseas Currency Loan	5,784	5,896
Total Interest-bearing Loans and Borrowings - Current	<u>5,784</u>	<u>5,896</u>
Non-current		
US Dollar Overseas Currency Loan	28,034	34,395
Total Interest-bearing Loans and Borrowings - Non current	<u>28,034</u>	<u>34,395</u>
USD equivalent of the total outstanding balance	USD 35,000	USD 41,000
(a) Reconciliation of net debt		
The reconciliation of net debt is as follows:		
Current	5,784	5,896
Non-current	<u>28,034</u>	<u>34,395</u>
	33,818	40,291
Less cash and cash equivalents	<u>(17,857)</u>	<u>(19,047)</u>
	<u>15,961</u>	<u>21,244</u>

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

In July 2012, the group's \$38.0 million US Dollar Overseas Currency Loan was settled and replaced by a new USD facility of the same amount with National Australia Bank. This new loan facility has a term of 4 years to 30 June 2016 and repayments continue at USD \$1.5 million per quarter. The balance outstanding at 31 December 2012 is USD \$35.0 million. For the year ended 31 December 2012 the average interest rate was 3.54%.

The Group has complied with its bank covenants during the year ended 31 December 2012.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2012

12. OPERATING SEGMENT

Operating Segment - Continuing Operations

The following table presents the revenue and profit information regarding business unit segments for the years ended 31 December 2012 and 31 December 2011.

Year ended 31 December 2012	SMB Solutions*	DBS	ES	FTR	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue					
Revenue from operating activities					
Registration Revenue	48,331	13,766	-	-	62,097
Professional Services Revenue	-	40,153	-	-	40,153
Hosting & Value-Added Product Sales	33,797	1,242	25,991	-	61,030
For The Record Revenue	-	-	-	6,868	6,868
Other Revenue	31	-	88	-	119
Total segment revenue	82,159	55,161	26,079	6,868	170,267
Interest revenue					270
Other Income					30
Total consolidated revenue					170,567
Result					
Segment results	12,801	9,541	2,304	101	24,747
Goodwill Impairment					(2,000)
					22,747
Unallocated expenses					
- Corporate					(5,515)
- Transformation Projects					(2,222)
Earnings Before Interest and Tax					15,010
Net Interest					
Interest revenue					270
Interest expense					(1,332)
Total Net Interest					(1,062)
Income tax expense					(2,507)
Net profit after tax					11,441

*The segments previously referred to as SMB and GPS have been combined into the SMB Solutions segment, in order to reflect how the business reports on performance to the board.

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2012**

12. OPERATING SEGMENT / continued

Operating Segment - Continuing Operations

Year ended 31 December 2011	SMB Solutions* \$'000	DBS \$'000	ES \$'000	FTR \$'000	Total \$'000
Segment revenue					
Revenue from operating activities					
Registration Revenue	53,951	11,797	-	-	65,747
Professional Services Revenue	-	42,414	-	-	42,413
Hosting & Value-Added Product Sales	35,133	1,115	26,817	-	63,064
For The Record Revenue	-	-	-	7,777	7,776
Other Revenue	334	8	-	-	342
Total segment revenue	89,418	55,334	26,818	7,777	179,342
Interest revenue					422
Other Income					10
Total consolidated revenue					179,774
Result					
Segment results	15,386	8,978	1,710	\$1,198	27,272
Unallocated expenses					
- Corporate					(5,363)
- Transformation Projects					(2,998)
Earnings Before Interest and Tax					18,911
Net Interest					
Interest revenue					422
Interest expense					(1,424)
Total Net Interest					(1,002)
Income tax expense					(4,385)
Net profit after tax					13,524

*The segments previously referred to as SMB and GPS have been combined into the SMB Solutions segment, in order to reflect how the business reports on performance to the board.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2012

13. HEDGING INSTRUMENTS

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

The Melbourne IT Ltd Group has also entered into an interest rate and cross currency swap starting at USD \$20m and USD \$4m respectively. The interest rate swap will fall to USD \$7m by June 2016, exchanging the variable rate payable on the USD \$35 million interest bearing liability for a fixed rate. The transaction reduces the Group's exposure to fluctuation in variable interest rates over the longer term. The cross currency swap hedges the USD/SEK spot exchange rate in relation to the USD \$35m loan facility.

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

14. EVENTS AFTER THE BALANCE SHEET DATE

At the 26 February 2013 Board Meeting, the directors declared a 7.0 cents partially franked final dividend on ordinary shares in respect of the year ended 31 December 2012. In accordance with Australian Accounting Standards, the total amount of this final dividend is \$5.572 million and it has not been provided for in the 31 December 2012 financial information within this report.

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

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