MEDIA RELEASE

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

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

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

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

**Restated*

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

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

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

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

"Foreign exchange headwinds and a slower sales recovery in the United States and Europe than we predicted have delivered a lower revenue and EBIT result for 2010, however the final result is in line with the updated guidance issued in October last year. Our ability to maintain net profit above the $16 million level is pleasing given what was a challenging year," Mr Hnarakis, said.

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

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

Divisional Highlights

Digital Brand Services (DBS)

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

Enterprise Services

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

SMB / GPS

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

ForTheRecord (FTR)

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

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

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

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

Outlook

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

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

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

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

ENDS.

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

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

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

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