MEDIA RELEASE

Melbourne IT Maintains Interim Dividend and Forecasts Stronger Second Half Performance After a Challenging First Half

Strong Australian Dollar continues to negatively impact results
New Top Level Domain opportunity to support second half performance

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Melbourne IT Group Consolidated Results – Half ending 30 June 2011:

		H1 2011	H1 2010
Revenue	⇩ -11%	**$87.6m**	$98.1m
EBIT (Pre-Transformation) **EBIT (Post-Transformation)**	⇩ -20% ⇩ -30%	**$8.5m** **$7.0m**	$10.6m $10.0m
NPAT	⇩ -29%	**$4.9m**	$7.0m
Basic EPS	⇩ -30%	**6.2¢**	8.8¢
Interim Dividend	Unchanged	**7.0¢**	7.0¢
Operating Cash	⇩ -27%	**$8.4m**	$11.5m
Deferred Gross Margin	⇩ -3%	**$30.7m**	$31.8m

NB Figures may not total exactly due to rounding

MELBOURNE, Australia – 23 August 2011 – Melbourne IT (ASX: MLB) today announced its half year results for the six months ending 30 June 2011, reporting an 11% year-on-year decrease in revenue to $87.6 million and earnings before interest and tax (EBIT) of $7.0 million, down 30% year-on-year. Net profit after tax (NPAT) for the first half declined 29% to $4.9 million year-on-year, however the first half dividend was maintained at 7¢ fully franked, which is unchanged from H1 2010.

"Melbourne IT's first half result was disappointing, being particularly severely impacted by the succession of post-float highs registered by the Australian Dollar in the past six months and continued soft conditions in the United States and Europe. On a constant currency basis using 2010 foreign exchange rates, revenues were down 6% to $92.1 million and deferred revenues down 4% to $52.1 million," Melbourne IT CEO and Managing Director, Theo Hnarakis, said.

"We remain confident of a much improved second half. The domain name industry's decision to allow companies to register a wave of new, high-value, Top Level Domains provides a significant opportunity for Melbourne IT DBS, and we also expect improved performances from our Enterprise Services (ES) and ForTheRecord (FTR) divisions," he said.

"In the first half of 2011, transformation costs were up $0.9 million on the corresponding period a year ago. Additionally, the company's Enterprise Services division signed a significant deal in the first half of 2010 but there was no comparable-sized deal in the first half of 2011. These factors, when combined with foreign exchange revenue impacts, would have narrowed the year-on-year revenue decline to low single digits.

"However, our trading results in the first half of 2011 were softer than the corresponding period a year ago, with slower international markets, commoditisation in base online small business services, and delays in a large FTR customer order (signed in August) all contributing."

Melbourne IT's Transformation program progressed broadly in line with expectations in the first half of 2011 with the New Zealand pilot of the new systems going live in the second quarter and the Oracle financials component rolled out in Australia.

Based on learnings from the New Zealand pilot, the Transformation implementation schedule has been revised for the remainder of 2011 and 2012 with a partial rollout of CRM and billing systems due to go live in Melbourne later this year as well as continued rollout of Oracle financials into the US and EMEA. Transformation benefits in 2012 are expected to offset the 2012 project opex impact, thus transformation EBIT impact is expected to be neutral next financial year. The company still anticipates completion by the end of 2012.

At the end of the first half, net debt remained modest at $21.8 million with a further $2.9 million in debt retired in the past six months.

Divisional Highlights

Digital Brand Services (DBS)

- EBIT up 8% year-on-year to $2.8 million
- First half revenue down 5% year-on-year to $24.8 million. On constant currency basis using average 2010 exchange rates, revenue was up 2% year-on-year
- New customers added in H1 included Virgin Enterprises Limited, The Body Shop Australia, Australian Red Cross, Sony Computer Entertainment Australia
- DBS is expected to perform strongly in the second half on the back of the new Top Level Domain opportunity. Seventeen customers have already signed and more than 230 expressions of interest from large companies have been received in relation to obtaining a '.brand' domain

Enterprise Services (ES)

- Challenging first half with revenue down 24% year-on-year to $13.2 million and EBIT down 75% year-on-year to $0.4 million
- An absence of larger contracts in H1 2011 contributed to the year-on-year shortfall. A comparable sized contract to the large deal signed with the Queensland Department Education & Training in H1 2010 would have narrowed year-on-year revenue decline in ES to low single digits
- New customers added in H1 include Essential Services Commission (Victoria), Australian Red Cross Blood Service, and IMG Sports Technology Group
- Significant leadership and sales re-organisation in H1 and a stronger pipeline will help drive improved performance in H2

SMB eBusiness Solutions & Global Partner Solutions

- First half revenue and EBIT down year-on-year, with revenue down 9% to $46.2 million and EBIT down 11% to $8.1 million
- Strong Australian Dollar continues to negatively impact revenues - on constant currency basis using average 2010 exchange rates, revenue was $48.3 million, or down 4% year-on-year
- Memorandum of understanding signed with Reckon to offer online SMB services to Reckon customers
- Second half performance expected to remain steady despite negative currency impact

ForTheRecord (FTR)

- First half revenue down 19% to $3.2 million year-on-year, EBIT contribution of $0.1 million
- Sales pipeline is lumpy and timing of large contracts has been more unpredictable in H1 2011

- Large contract signed in August lays foundation for significantly improved second half performance

Outlook

"We remain confident of a stronger second half, particularly for DBS and FTR, to contribute to full year revenue and EBIT. However, the continuing strength of the Australian Dollar, and subdued economic climate in Europe and North America could contribute to Melbourne IT's full year EBIT being down on last year by up to 10%, coming in between $19 million and $21 million," Mr Hnarakis said.

"This guidance is after the company absorbs the $3.7 million EBIT impact associated with the transformation program and a potential full year negative foreign exchange EBIT impact of $2 million. From an underlying growth perspective, this guidance means 2011 EBIT will be up approximately 5-10% on 2010 before the incremental transformation costs and the forecast foreign exchange impact are applied," he said.

"Furthermore, the Board expects that the full year dividend will be 14 to 15 cents, depending on the final full year result.

"Improved trading results in the second half, coupled with transformation benefits offsetting transformation expenses in 2012, are expected to lay the foundations for Melbourne IT's net 2012 growth."

The 2011 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. Our customers include Volvo, GlaxoSmithKline, LEGO, Queensland Department of Education and Training, Société Générale, Royal Bank of Scotland Group and Coca-Cola Amatil. For more information, visit www.melbourneit.info

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