

MEDIA RELEASE

Melbourne IT overcomes tough year – EBIT matches 2008 result Final Dividend unchanged at 8¢ fully franked

*NPAT up 4% due to effective treasury and tax planning
2009 EBIT \$23.4m due to strong second half rebound and strict cost control strategies*

Melbourne IT Group Consolidated Results – Year ending 31 Dec 2009:

		FY 09	FY 08
Revenue	↑ 8%	\$200.1m	\$186.2m
EBIT	↓ 1%	\$23.4m	\$23.7m
NPAT	↑ 4%	\$16.8m	\$16.2m
Basic EPS	↑ 3%	21.42¢	20.87¢
Final Dividend	Unchanged	8.0¢	8.0¢
Operating Cash	↓ 11%	\$23.6m	\$26.4m
Deferred Gross Margin	↑ 9%	\$31.1m	\$28.5m

MELBOURNE, Australia – 23 February 2010 – Melbourne IT (ASX: MLB) today announced its full year results for the year ending 31 December 2009, meeting full year guidance in reporting an 8% year-on-year rise in revenues to \$200.1 million and reporting earnings before income tax (EBIT) of \$23.4 million (down by \$300,000 or 1% year-on-year). 2009 net profit after tax (NPAT) rose 4% to \$16.8 million due to effective treasury and tax planning.

Earnings per share (EPS) increased 3% to 21.42¢ with a second half dividend of 8¢ payable, bringing the full year dividend to 15¢ fully franked which is unchanged from 2008.

“Melbourne IT has emerged from a challenging 2009 with a solid foundation for 2010. Most pleasing was the second half recovery which saw EBIT rise 50% to \$14.1 million compared to the first half of \$9.3million. Very strong performances from our Digital Brand Services and Enterprise Services divisions in the second half illustrate how our strategic shift to higher-margin services continues to deliver results, with almost 60% of total revenues now derived from IT services,” Melbourne IT CEO and Managing Director, Theo Hnarakis, said.

“The strength of the Australian dollar and the international impact of the global financial crisis impacted revenues across the board. Tight cost controls helped ensure our full year guidance was met. However, given that 57% of our revenues are derived internationally – particularly from the United States and Europe – the second half performance and full year result is pleasing as those markets have suffered far worse than Australia during the global financial crisis and the Australian dollar remains strong.”

Deferred revenue remained healthy at \$55.7 million while deferred margin was up 9% to \$31.1 million, underscoring the continued strength of Melbourne IT’s annuity business. Net debt reduced substantially to \$27.5 million as a result of weakness in the US Dollar and the retirement of \$3.5 million in debt. Melbourne IT’s primary debt facility is serviced by US dollar revenues and earnings. Strong cash flows continued at \$23.6 million, however operating cash was slightly down on 2008 given the continued trend towards corporate customers billing on account and our SMB customer base shifting from yearly to monthly packages.

Divisional Highlights

Digital Brand Services (DBS)

- Full year revenues up 25% to \$56 million and full year EBIT up 49% to \$6.4 million
- Strong second half rebound with EBIT up 226% to \$4.9 million from \$1.5 million in first half – reflecting our shifting focus from integration to sales growth activities
- Services revenue grew 35% year on year to \$8.6 million and services revenue now represents 15% of total division revenues, up from 14% in 2008
- 150 new customers added in 2009, including Schweppes Australia, Blaupunkt GmbH, Tetley Group Ltd
- Expect EBIT growth to continue in 2010, fuelled by increasing revenues from consultative services and industry trends (such as rising security and fraud issues, top level domain liberalisation) creating further opportunities

Enterprise Services (formerly Corporate & Government)

- Full year revenues of \$25.6 million down 2% on 2008 result of \$26.2 million
- Second half EBIT rebounded strongly to \$1.9 million compared to \$0.3 million in first half, delivering \$2.2 million full year result
- Dramatically reduced customer churn – 6.4% in Q4, down from 24.3% in Q1 due to service delivery improvements
- Forecasting 2010 growth in revenues, gross margin and EBIT on the back of Melbourne IT infrastructure investments, service delivery improvements, strong product line-up and continuing trend of enterprises outsourcing IT to enjoy lower costs and greater reliability

SMB eBusiness Solutions (formerly Business and Consumer)

- Full year revenues declined marginally to \$42.8 million compared to \$43.2 million in 2008
- ARPU down to \$307 in FY09 from \$329 in FY08 due to commoditisation of base services (domain names, email and basic hosting packages) and an increase in customers choosing monthly instead of annual packages
- Premium email, search engine marketing and software as a service revenue grew 29% to \$6.4 million from \$4.6 million year-on-year
- Expect continued price pressure on base services in 2010; focus will remain on consultative sales of higher-margin IT services

Global Partner Solutions

- Full year revenues rose 6% to \$64.9 million from \$61.3 million in 2008, boosted by AUD foreign exchange hedging at an average of USD 70¢
- Partner division forecast contribution to be lower in 2010 due to stronger Australian dollar and slow down of international partners' performances

ForTheRecord (FTR)

- Full year revenues rose 8% to \$9.6 million from \$8.9 million in 2008
- Strong first half, slower second half reflecting government budget tightening globally
- Senior leadership change with new Executive Vice President, Daniel Bennett, leading FTR in 2010

“At the end of the first half I said that we felt the worst was behind us and the second half performance has vindicated that view, particularly the encouraging growth from Digital Brand Services and Enterprise Services. However, the continued strength of the Australian dollar will put pressure on domain revenues from our partner division in 2010 and provides an unwelcome headwind to DBS's excellent growth potential,” Mr Hnarakis said.

Outlook

2010 is a year of investment for Melbourne IT in infrastructure, innovation, and two significant transformational projects which will build the platform for the company's next phase of growth.

Integrated Web Services (IWS) is an IT integration project which will allow Melbourne IT to fully leverage the value of the company's customer base by allowing the business to sell customers the full suite of services across business units and geographies. Operational Support Systems (OSS) will improve infrastructure stability and allow the organisation to manage a greater variety of products and services. Commencing in March 2010, this investment of \$25 million over

three years (which includes both the internal and external project costs, a significant proportion of which will be capitalised) has been approved by the board to complete these two projects, with \$3.9 million in operational expenses to impact our 2010 results. These important investments will build the foundations which will underpin the company's future growth.

The company will continue to focus heavily on innovation – including leveraging our strategic partnerships with global technology leaders – maintaining momentum on infrastructure upgrades and expanding into new geographies, particularly Asia, to help drive growth.

"There is now clear and undeniable evidence that our brand management and critical application hosting services have significant upside. We are well positioned to profit from the provision of services to our significant customer base of more than 350,000 SMBs, 3,300 DBS customers, and 900 enterprises," Mr Hnarakis said.

"Melbourne IT expects a strong rise in the underlying EBIT of the company in FY 2010, however due to the significant transformational investments the company is making, we expect net growth to be modest. Melbourne IT expects robust net profit growth to return in 2011."

The 2009 Full Year Results presentation to shareholders is available at <http://corporate.melbourneit.com.au/investor-relations>.

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, Aurecon Asia-Pacific, Coca-Cola Amatil and Twitter. For more information, visit www.melbourneit.com

Media contacts:

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