

2009

Half Year Results

August 2009

First Half Overview

- Modest growth in revenue vs H1 08
- EBITDA down 9% against H1 08
- EBIT down 20% against H1 08
- H1 09 dividend to be maintained at 7 cents, unchanged from H1 08
- Opex reduction strategies implemented
- Substantial progress on DBMS integration
- Evolution to IT services continuing
 - 60% of revenue now derived from IT services
 - 85%+ revenue continuing from annuity sources
- Large contract refresh with Dept Education & Training
 - Signed 30 June 2009
- Encouraging growth from newer services
 - Brand and fraud services up 50% to \$1.8m
 - DNS Assurance services grew 130% to \$1.0m
 - Software as a Service (SaaS) up 59% to \$2.9m

First Half Overview

- One-off expenses impacted H1 09 profit
 - DBMS integration \$2.5m
 - Blueprint for IWS transformation \$0.5m
 - Investments to support Advantate \$0.5m
- Difficult global trading environment
 - Some geographies impacted more severely than APAC
- Customers delaying or reducing expenditure
 - Signoff on some major contracts shifting to H2 09, impacting C&G and FTR
 - DBS international customers reducing or deferring spend
- Gross margin impacted by price commoditisation in domains and shared hosting
- NUM fell 5% to 5.7m against H1 08

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Financial Results

| Half Year ended 30 June (A\$) | H1 09 | H1 08 | ↕% |
|--|----------|---------|-----------|
| Revenue | \$104.4m | \$86.6m | 21% |
| EBITDA | \$13.9m | \$15.3m | -9% |
| EBIT | \$9.3m | \$11.6m | -20% |
| NPAT | \$6.3m | \$7.8m | -20% |
| Basic EPS | 8.0¢ | 10.1¢ | -20% |
| Operating Cash | \$8.1m | \$13.7m | -41% |
| Interim Dividend <small>(Fully franked)</small> | 7.0¢ | 7.0¢ | Unchanged |
| Deferred Gross Margin | \$30.9m | \$26.8m | 16% |

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Divisional Performance

| Half Year ended 30 June (A\$) | H1 09 | H1 08 | ↕% |
|-------------------------------|-----------------|----------------|-------------|
| Revenue | \$104.4m | \$86.6m | 21% |
| Business & Consumer | \$21.5m | \$21.5m | 0% |
| Global Partner Solutions | \$35.2m | \$30.2m | 16% |
| Corporate & Government | \$12.2m | \$13.6m | -10% |
| Digital Brand Services* | \$29.3m | \$16.3m | 80% |
| For The Record | \$5.8m | \$4.6m | 26% |
| Interest and Other Revenue | \$0.3m | \$0.4m | -25% |
| EBIT | \$9.3m | \$11.6m | -20% |
| Business & Consumer | \$5.0m | \$5.9m | -16% |
| Global Partner Solutions | \$4.0m | \$3.6m | 12% |
| Corporate & Government | \$0.3m | \$1.7m | -82% |
| Digital Brand Services* | \$1.5m | \$1.8m | -18% |
| For The Record | \$1.1m | \$0.2m | 529% |
| Corporate Overhead | -\$2.1m | -\$1.4m | 50% |

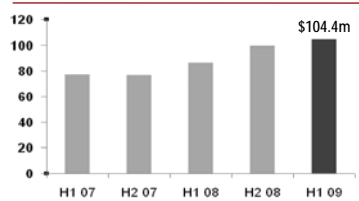
NB Figures may not total exactly due to rounding.

* Includes 2 months contribution from DBMS acquisition in H1 08 and 6 months in H1 09

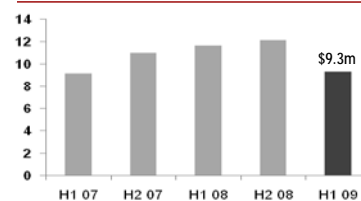
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Financial Performance

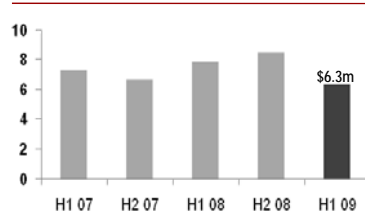
Revenue (\$m)



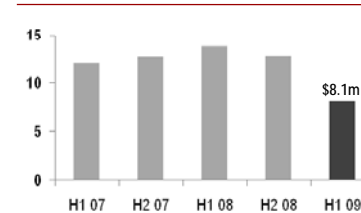
EBIT(\$m)



NPAT(\$m)



Operating Cash (\$m)

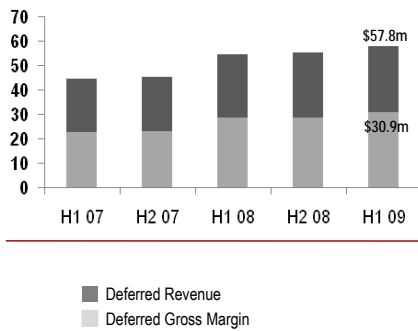


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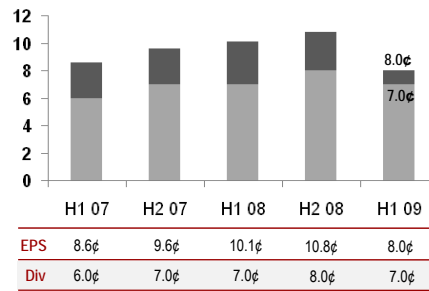
Financial Performance



Deferred Gross Margin (\$m)



Basic EPS & Dividend (¢)



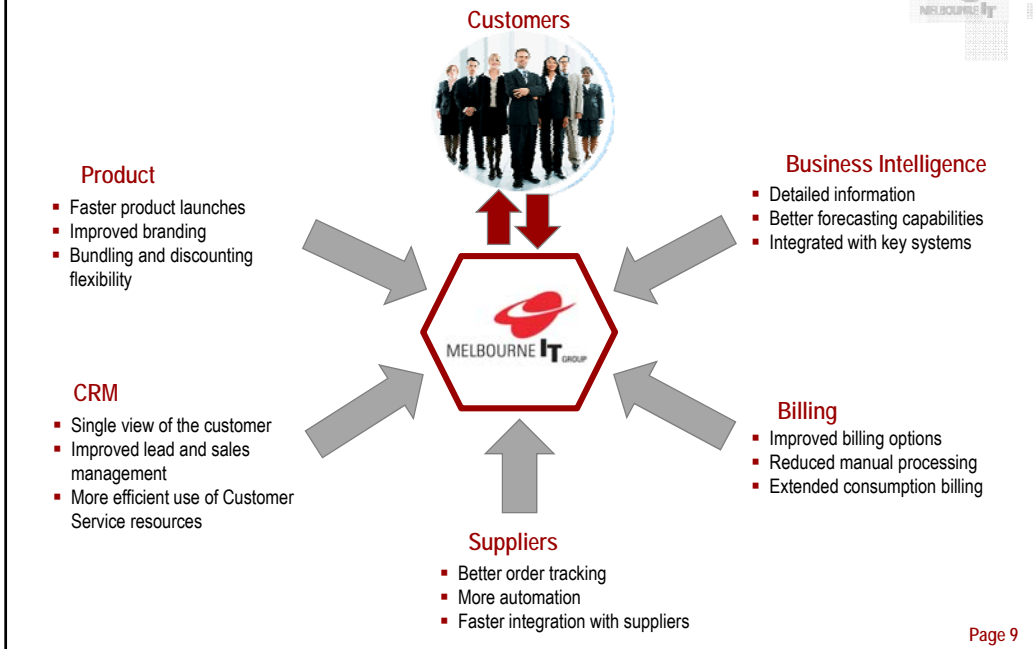
Investment for Growth



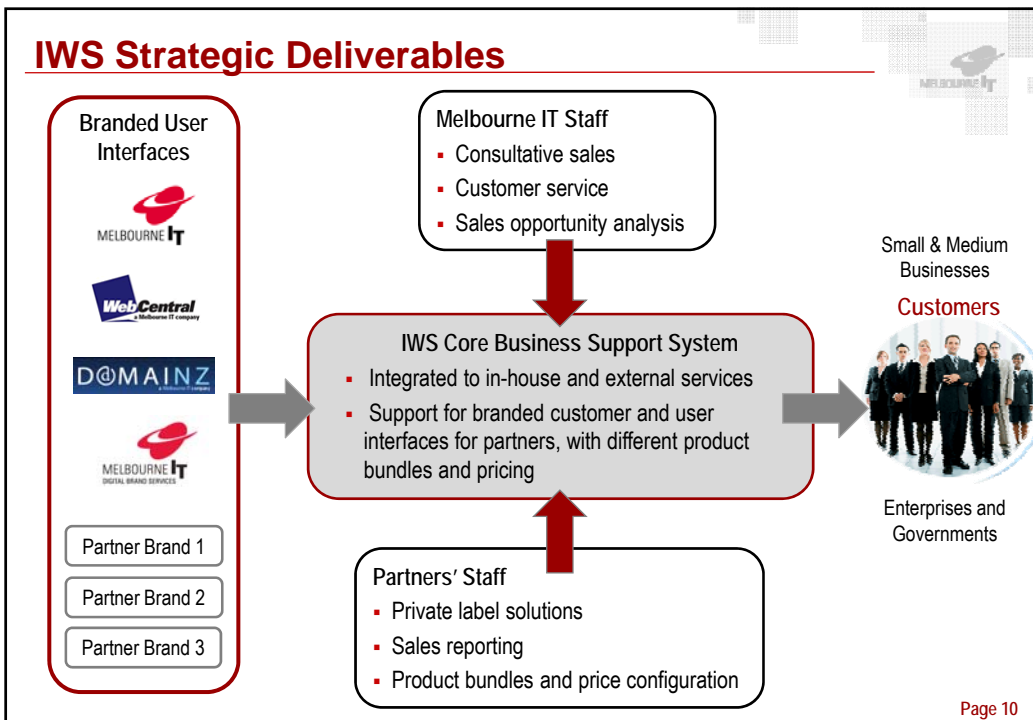
IWS Transformation Project

- Significant revamp of business support systems
- Board has signed off on blueprint for IWS
- Key deliverables have been agreed
- Investment to ramp up in early 2010
 - Expect to invest in IWS over the next four years
 - Invest up to \$8m in capital equipment
 - Invest approximately \$10m in project transformation costs
 - A proportion to be facilitated by internal resources
 - Benefits to start to flow in 2010
- Leverage capabilities across Melbourne IT through establishing business system foundations to support and accelerate next phase of growth
- Recruiting experienced project management skills to lead implementation

Benefits of IWS 2.0



IWS Strategic Deliverables



Investments in Infrastructure & Service



- **Stabilising infrastructure**
 - Closure of end-of-life data centre footprints
 - Consolidation from 10 to 7 data centre facilities worldwide
 - Upgraded core hosting platform to Windows Server 2008
 - Upgraded core database offering to SQL 2008

- **Improving service delivery**
 - Re-structure of IT Services division
 - Launched 'Customer First' initiative
 - Launched Service Status page to provide up to date information to customers
 - Confident Managers Program extended from Australia and Europe to US offices
 - Sales and customer service training

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Focus on Innovation



- **Leading global proponent of virtualisation and cloud computing**
 - First company in the world to use new VMware vSphere in production in 2009
 - Soon to launch 'pay as you go' cloud computing products
 - 10 Second Server product revamp, affordable virtual servers for Windows and Linux
 - Leveraging supplier expertise to rapidly create and launch new products

- **Enhancing position as trusted advisor on digital brand protection and promotion**
 - Consulting services to global clients re maximising new '.brand' gTLDs
 - Mission critical DNS hosting through alliance with VeriSign
 - Launched Strategist 2.0 domain portfolio management service
 - Strong growth in brand infringement services

- **Maintaining pace with latest hosting technologies**
 - Managed PC Backup giving customers peace of mind that their important data is protected
 - Latest Windows Server 2008 hosting plans
 - Dedicated SharePoint MOSS corporate collaboration solution
 - Expanding FTR services to hosting and storage with 'TheRecord Online'

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Advantate Update



- Advantate has also been impacted by tough trading conditions
 - Expect to achieve break even position by year end
 - Melbourne IT's 50% share of investments in Advantate in H1 09 was -\$464k
- Forecast Melbourne IT's 50% share of this investment in H2 09 to be -\$200k
- We will continue to monitor Advantate closely

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Capex & Treasury



- Continued strong cash reserves
 - Closing cash position of \$25.0m
- Operating cash down 41% to \$8.1m
 - Interest payments of \$1.2m
 - Lower earnings
 - Changing nature of the billing cycle
- Capex in H1 09 down 65% to \$2.3m
- External debt balance of \$67.1m as at 30 June 09
 - Retired \$1.2m in debt during the half
 - Interest cover >11 times
- Partner Division Gross Margin hedged at mid USD \$0.60's until December 2009

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Business & Consumer

Results

| | H1 09 | H1 08 | Change |
|---------------------|---------|---------|--------|
| Revenue | \$21.5m | \$21.5m | 0% |
| Contribution Margin | \$5.0m | \$5.9m | -16% |

- Customers shifting from yearly to monthly plans has had negative impact on revenue and ARPU
- Gross margin lower in domains and shared hosting due to discounting
- Contribution margin down due to higher COGS and increased labour as we enhance eBusiness Centre sales capabilities
- Outages in WebCentral business have increased customer churn; Melbourne IT & Domainz services have been stable

- ▶ 3 market leading brands
- ▶ 350,000+ customers
- ▶ 40,000+ transactions/mth

Business & Consumer

Outlook

- Improving service delivery under WebCentral brand by investing in infrastructure
- Releasing new products to emphasise innovation and leadership position in core product groups
 - Managed PC Backup
 - Latest Windows Server 2008 shared hosting plans
- Proactive initiatives to minimise customer churn showing success

Global Partner Solutions (formerly Reseller)

Results

| | H1 09 | H1 08 | Change |
|------------------------|---------|---------|--------|
| Revenue | \$35.2m | \$30.2m | 16% |
| Contribution Margin | \$4.0m | \$3.6m | 12% |
| Names Under Management | 4.7m | 5.0m | -5% |

- NUM impacted due to slowdown & challenges facing large resellers
 - New top level domain registrations down 17% industry-wide in Q1 09 vs Q1 08
- Revenue growth assisted by favourable foreign exchange movements but gross margin erosion due to competitive pressure and commoditisation
- Recruited almost 100 new SMB partners
- Strong growth in SaaS products continues - up 39% in H1 09 to almost \$1m

▶ 2000+ active resellers

▶ 45+ countries

▶ 2 reseller types:

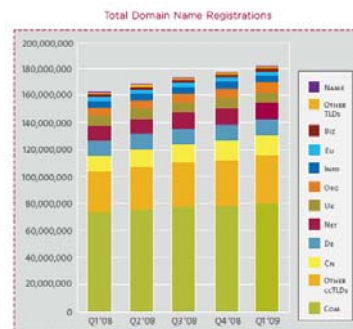
- ▶ SMB Partners
- ▶ Strategic Partners



Global Partner Solutions

Outlook

- Target emerging markets such as India
 - 12.5m SMBs, 40m internet users, 400M+ mobile phone subscribers
 - Establish reseller base
 - Full suite of domain, hosting and web design products
- Continue to develop reseller base in mature markets – Australia, US, Europe & Japan
 - Drive uptake of email, hosting and related products



VeriSign Domain Name Industry Brief – June 2009

Corporate & Government

Results

| | H1 09 | H1 08 | Change |
|-----------------------------|---------|---------|--------|
| Revenue | \$12.2m | \$13.6m | -10% |
| Contribution Margin | \$0.3m | \$1.7m | -82% |
| New Contracts Signed | 73 | 96 | -24% |
| Total Contract Value Signed | \$33.6m | \$12.7m | 159% |

- Outages in Brisbane operations have resulted in some customer churn, investments have been made to stabilise and improve reliability
- Global economy has resulted in delayed or reduced expenditure from some clients
- Number of new contracts signed is lower, but contract value continues to grow
- Re-signed major contract with Queensland Department of Education & Training in June 2009 - \$23.6m over 3 years
- Key client wins
 - Victorian Department of Primary Industries
 - Aurecon Asia Pacific
 - Canstar Cannex
 - Beyond Blue

▶ 900+ clients

▶ 1,300 servers

▶ 75+TB data transfer/mth



Corporate & Government

Outlook

- Growing partner relationships and expanding our indirect sales footprint
- Leverage experience from successful bids to convert a greater percentage of higher value deals
- Continue to improve our service delivery methodology to retain and grow the customer base
- Enhance strategic alliances with key vendors like Cisco, Sun and VMware
- New product 'Virtual Lab' in development
 - Virtual application testing environment to improve productivity and work flow for corporate development teams

Digital Brand Services

Results

| | H1 09* | H1 08* | Change |
|--------------------------|---------|---------|--------|
| Revenue | \$29.3m | \$16.3m | 80% |
| Consulting Revenue | \$24.8m | \$11.6m | 115% |
| Contribution Margin | \$1.5m | \$1.8m | -18% |
| Digital Brands Under Mgt | 513,208 | 497,344 | 3% |
| Total Clients | 3,170 | 2,350 | 35% |

- Decline in contribution margin due to integration costs and margin pressure
- H1 08 figures only reflect 2 months of DBMS contribution
 - Revenue grew 3% from \$28.6m in H2 08 to \$29.4m in H1 09
 - Consulting revenue grew 5% from \$23.6m in H2 08 to \$24.8m in H1 09
- 75 new clients signed including
 - Twitter
 - Warner Music Australia
 - Coca-Cola Amatil (Asia)
 - Société Générale
- Almost 50% growth in brand infringement and fraud services to \$1.8m

* Includes contribution from DBMS acquisition, May 2008

▶ 3,100+ clients

▶ 99%+ client retention

▶ 90%+ client satisfaction



Digital Brand Services

Outlook

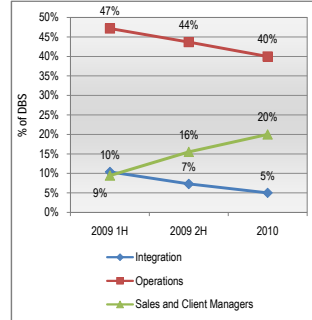
- With the majority of the DBMS integration complete, up-selling to the combined customer base is a key priority
- Profitability to benefit from reduction in integration costs from \$2.5m in H1 09 to \$1m in H2 09
- Drive customer acquisition strategy in new geographies and underdeveloped markets such as Asia
- Leverage digital brand performance expertise
 - Implement new gTLD registry services for clients seeking '.brand'
 - New alliance with VeriSign for mission critical DNS and registry services
 - DNS Assurance with 100% SLA
 - Strategist 2.0 for streamlined domain portfolio management

Digital Brand Services

Integration Update

- Majority of integration has been completed
- Realigning the organisation structure to be more client focused
 - By 2010, 20% of all DBS staff will be focused on sales generation
- Achieving scale & efficiency through centralised fulfilment
 - By 2010, operations staff within DBS will be down from 47% to 40%
- Consolidation of systems & suppliers
 - Client portal
 - Finance systems
 - Consolidating domain suppliers to reduce COGS and increase efficiencies
 - Data centre migration

DBS Staff Roles (%)



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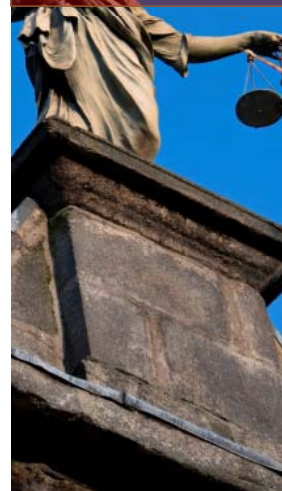
ForTheRecord

Results

| | H1 09 | H1 08 | Change |
|--------------------------|--------|--------|--------|
| Revenue | \$5.8m | \$4.6m | 26% |
| Contribution Margin | \$1.1m | \$0.2m | 529% |
| Recording Solutions Sold | 1,548 | 1,508 | 3% |

- Division is benefiting from economies of scale and focussed sales activities
- Growing annuity business continues to be focus
- Key digital recording customers signed in H1 09 include:
 - Colorado Courts
 - Manitoba Courts, Canada
 - South Australia Courts
 - Alberta Judiciary, Canada
 - New Zealand Ministry of Justice
- Signing of some key new contracts delayed to H2 09 due to economic conditions
- Expanded reseller network in Latin America with Stencil alliance
- New products – FTR Mixer, FTR Hearings, 'TheRecord Online'

- ▶ 15+ years experience
- ▶ 22,500+ installed solutions
- ▶ 250+ global resellers



ForTheRecord



Outlook

- Grow service offerings and annuity revenue
- Continue expansion into Middle East, Latin America & Eastern Europe
- Target government agencies as new vertical market following release of new FTR Hearing product
- Strengthen alliances with USAID and other bodies that provide finance for judicial reform in developing nations
- Leverage 'TheRecord Online' transcript product with storage, software & support
 - Supports growth of annuity business
 - Access to new vertical markets through transcript offering
 - Strengthen FTR's dominant offering among the legal and government markets
 - Gateway to up-selling of premium services such as storage, web hosting and advertising

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Executive Appointments



- New COO to commence 21 September 2009 – Damian Walsh
 - Strong experience in implementing transformation projects in Australian and Hong Kong
 - Currently working in a senior role at NAB
 - Responsibility for many of our Shared Services: IT Services, Customer Service, Risk Management & Corporate Communications
 - Accountability for driving IWS Transformation project
- Glenn Gore appointed Chief Technology Officer in June 2009
- Lori Harmon appointed Executive General Manager, Global Partner Solutions in March 2009
- Kanchan Mhatre appointed Executive General Manager, DBS in March 2009
- Continuing to recruit for new CFO

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Outlook

- Forecast for 2009 full year
 - Definite performance improvement in H2 09, but uncertainty re revenue and margin improvement
 - Cost savings give confidence H2 09 will outperform H1 09
 - Full year EBIT for 2009 expected to be in line with 2008 results
 - NPAT and EPS may be slightly down on 2008 due to interest on debt from DBMS acquisition
- Disciplined cost control and elimination of one-off costs to deliver \$500k/mth in H2 09
 - DBMS integration costs forecast to drop from \$2.5m to \$1m
 - IWS blueprint cost elimination \$500k
 - Advantate move from \$500K loss impact to \$200k loss
 - Additional opex savings
- Varying trading conditions are persisting, based on geography and industry vertical
 - Encouraging signs emerging, but inconsistent
 - Earnings run rate expected to improve during H2 09
 - Expect 2010 to outperform 2009 based on sustainable run rate
- Preparing for next phase of growth
 - Maintaining disciplined management of costs
 - Focused on growing sales, leveraging innovation, improving service delivery and improving customer experience

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