

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*

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

		H1 2011	H1 2010
Revenue	↓ -11%	\$87.6m	\$98.1m
EBIT (Pre-Transformation)	↓ -20%	\$8.5m	\$10.6m
EBIT (Post-Transformation)	↓ -30%	\$7.0m	\$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

Media contacts:

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

Appendix 4D Half Yearly Report

Name of entity

Melbourne IT Limited

ABN or equivalent company reference
21 073 716 793

Reporting Period
30 June 2011
(Comparative period – 30 June 2010)

2.0 Results for announcement to the market

\$A'000

2.1 Total revenues from ordinary activities	Down	-11%	to	87,600
2.2 Profit from continuing operations after tax attributable to members	Down	-29%	to	4,947
2.3 Net profit for the period attributable to members	Down	-29%	to	4,947
2.4 Dividends (distributions)	Amount per security		Franked amount per security	
Current period	N/A		N/A	
Final dividend	<u>7.0 cents</u>		100%	
Interim dividend	7.0 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.	Friday 16 September 2011			

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 half year ended 30 June 2011 was \$87.600 million (2010: \$98.134 million), a decrease of 10.7%. Revenues for the half year ending 30 June 2011 have been significantly impacted by the stronger AUD compared to the same period last year. Revenues for the half year ended 30 June 2011 restated using 2010 exchange rates are \$91.828 million, equating to a 6.4% decrease on 2010 revenues on a like for like basis.
- Profit after Tax for the half year ended 30 June 2011 was \$4.947 million (2010: \$6.969 million), a decrease of 29%. Excluding tax effected transformation expense of \$1.031 million (2010: \$0.403 million), adjusted profit after tax was \$5.978 million, a decrease of 18.9%.
- Earnings Before Interest and Tax (EBIT) for the half year ended 30 June 2011 was \$7.047 million (2010: \$10.037 million), a decrease of 29.8%. Excluding transformation expenses of \$1.473 million (2010: \$0.576 million), adjusted EBIT was \$8.520 million, a decrease of 19.7%.
- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for the half year ended 30 June 2011 was \$10.208 million (2010: \$14.066 million), a decrease of 27.4%. Excluding transformation expenses of \$1.388 million (total expense less depreciation) (2010: \$0.576 million), adjusted EBITDA was \$11.596 million, a decrease of 20.8%.
- Earnings per share at 30 June 2011 was 6.16 cents (2010: 8.80 cents), a decrease of 30%.
- Cash and cash equivalents was \$19.696 million at 30 June 2011 (31 December 2010: \$23.379 million). At 30 June 2011 total external debt was \$41.521 million (USD \$44.0 million) (31 December 2010: \$46.246 million (USD \$47.0 million)). Net debt is \$21.825 million (31 December 2010: \$22.867 million) with the lower external debt offset by lower cash and cash equivalents.
- Positive Operating Cashflow for the half year ended 30 June 2011 was \$8.362 million (2010: \$11.542 million) a decrease of 27.6%. Included within the operating cashflow at 30 June 2011 is an interest expense totalling \$0.734 million (2010: \$0.892 million) of which \$0.708 million (2010: \$0.879 million) relates to borrowing costs associated with the acquisition of DBMS.
- During the half year, Melbourne IT has made two quarterly repayments of USD \$1.5m on the USD Overseas Currency loan, a total of USD \$3.0m (AUD \$2.80m). The Group has accelerated the debt repayments from USD \$1.25m per quarter to USD \$1.5m per quarter from 31 March 2011.
- Deferred Gross Margin (i.e.: income received in advance net of prepaid costs) was \$30.714 million at 30 June 2011 (December 2010: \$31.599 million) a decrease of 2.2%.
- At the 23 August 2011 Board Meeting, the directors declared a 7.0 cents fully franked interim dividend on ordinary shares in respect of the half year ended 30 June 2011 (30 June 2010: 7.0 cents).
- In accordance with Accounting Standards, the total amount of this interim dividend of \$5.646 million has not been provided for in the 30 June 2011 half yearly financial statements.
- The following table shows a reconciliation of the pre- and post-transformation financial results included in the discussion above to the reported profit after tax:

	2011			2010		
	Pre- transformation	Transformation	Post- transformation	Pre- transformation	Transformation	Post- transformation
	\$000	\$000	\$000	\$000	\$000	\$000
EBITDA	11,596	(1,388)	10,208	14,642	(576)	14,066
D & A	3,246	(85)	3,161	4,029	-	4,029
EBIT	8,520	(1,473)	7,047	10,613	(576)	10,037
Net Interest	491	-	491	629	-	629
Tax Expense	2,051	(442)	1,609	2,612	(173)	2,439
Profit After Tax	5,978	(1,031)	4,947	7,372	(403)	6,969

3.0 NTA Backing	Current period 30 June 2011	Previous Period 31 December 2010
Net tangible asset backing per ordinary security	(48.73 cents)	(48.92 cents)

Total Net Assets at 30 June 2011 were \$91.684 million including \$3.334 million of net deferred tax balances and \$127.660 million of intangible assets associated with the acquisition of Domainz Limited (September 2003), Melbourne IT DBS Group AB (formally the Cogent IPC Group AB) (April 2004), WebCentral Group Pty Ltd (September 2006), IDR Management Services Ltd (January 2007), VeriSign DBMS (May 2008), and Advantate Pty Ltd (May 2010).

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/loss during the period which had a material effect
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/loss during the period which had a material effect
4.3	Date from which such profit has been calculated	Not applicable, as there were no entities which control was gained/loss during the period which had a material effect
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/loss during the period which had a material effect

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	N/A	N/A	N/A
Interim	7.0 cents	100%	N/A
	7.0 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	N/A	8.0 cents
Interim	7.0 cents	7.0 cents
Total	7.0 cents	15.0 cents

Additional information on current year dividends

Date the dividend (distribution) is payable

Friday 14 October 2011

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

7.0 cents per Share
Totalling approximately \$5.646 million

The dividend or distribution plans shown below are in operation.

Melbourne IT Limited does participate in 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.

Friday 16 September 2011

6.0 Material interests in entities which are not controlled entities

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

7.0 Compliance Statement

The report has been prepared based on a 30 June 2011 Half Year Financial Report which has been reviewed by an independent Audit Firm in accordance with the requirements of S302 of the Corporations Act.

Signed here: Date: 23 August 2011

Ms. A Jegathesan
Company Secretary

MELBOURNE IT LTD
(ABN: 21 073 716 793)

FINANCIAL REPORT
FOR THE HALF YEAR ENDED
30 JUNE 2011

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	
Mr. R.J. Stewart	
Mr. A. Walsh	

MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER

Mr. T.J. Hnarakis

CHIEF OPERATING OFFICER

Mr. D. Walsh

CHIEF FINANCIAL OFFICER

Ms. C. Sutton

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 half year ended 30 June 2011 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 (Chairman)
Mr. T.J. Hnarakis (Managing Director & Chief Executive Officer)
Mr. T. Kiing
Prof. I. Morrison
Mr. R.J. Stewart
Mr. A. Walsh

COMPANY SECRETARY

Ms. A. Jegathesan

PRINCIPAL ACTIVITIES

The principal activities of the Group during the half year by operating segment 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, consulting 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.

Global Partner Solutions ("GPS")

Provider of products through the extensive global network of partners which include:

- Registration of generic Top Level Domain (gTLD) names (.com, .net, .org, .biz, .info, .name).
- Registration of .au and .nz domain names through the reseller channel.
- Registration of other country code (ccTLD) domain names (eg. .us, .co.uk, .fr, .de and .eu).
- Web and application hosting including Software and Services.

SMB eBusiness Solutions ("SMB")

- Registration of .au and .nz domain names.
- Registration of other country code (ccTLD) domain names (eg. .us, .it, .de, .to, .uk and .eu).
- Registration of generic Top Level Domain (gTLD) names (.com, .net, .org, .biz, .info, .name).
- Consultative and fulfilment services for Search Engine Marketing and Web site design and development.
- Website and email application hosting.
- 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**

	2011 Cents	2010 Cents
Basic earnings per share	6.16 cents	8.80 cents
Diluted earnings per share	6.09 cents	8.79 cents

RESULTS

The consolidated net profit after tax of the Melbourne IT Ltd Group for the half year ended 30 June 2011 was \$4.947 million (2010 \$6.969 million).

DIVIDENDS

	Cents	\$'000
Dividend declared and not yet recognised as a liability		
• On ordinary shares	7.0	5,646
Dividends paid during the half year on ordinary shares		
Final Dividend – 2010		
• On ordinary shares	8.0	6,404

MELBOURNE IT LTD**DIRECTORS' INFORMATION / continued****REVIEW AND RESULTS OF OPERATIONS**

Summarised operating results are as follows:

	Half year 30-Jun-11 \$'000	Half year 30-Jun-10 \$'000
Revenue		
Registration Revenue	33,883	38,685
Consulting Revenue	18,418	19,179
Hosting & Value-Added Product Sales	31,647	35,699
For The Record Revenue	3,196	3,958
Other Revenue	<u>204</u>	<u>350</u>
	87,348	97,871
Interest Revenue	243	263
Other Revenue	<u>9</u>	<u>-</u>
	252	263
Total consolidated Revenue	87,600	98,134
Total Earnings before Interest, Tax, Depreciation and Amortisation	10,208	14,066
Depreciation Expense	2,561	3,388
Amortisation Expense	<u>600</u>	<u>641</u>
	7,047	10,037
Total Earnings Before Interest and Tax	7,047	10,037
Net Interest Expense	<u>(491)</u>	<u>(629)</u>
Net Profit Before Tax	6,556	9,408
Tax Expense	(1,609)	(2,439)
Net Profit After Tax	4,947	6,969
Cashflow from Operations	8,362	11,542 *

* Restated - refer note 1 (c)

MELBOURNE IT LTD

DIRECTORS' INFORMATION / continued

REVIEW AND RESULTS OF OPERATIONS / continued

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs during the half year ended 30 June 2011.

SUBSEQUENT EVENTS

At the 23 August 2011 Board Meeting, the directors declared a 7.0 cents fully franked interim dividend on ordinary shares in respect of the half year ended 30 June 2011. The total amount of this interim dividend is \$5.646 million and has not been provided for in the 30 June 2011 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 half 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

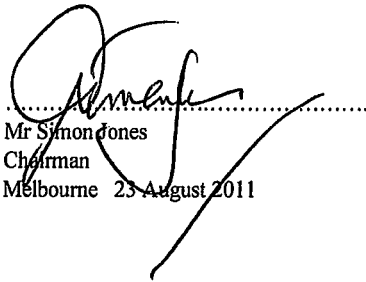
The amounts contained in the accompanying year financial information have been rounded to the nearest \$1,000 (where applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

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 2010 annual report.

Signed in accordance with a resolution of the directors.



.....
Mr Simon Jones

Chairman

Melbourne 23 August 2011

MELBOURNE IT LTD

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Melbourne IT Ltd;

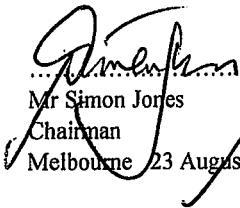
(1) I state that in the opinion of the directors:

(a) the financial statements of the consolidated entity:

- (i) give a true and fair view of the financial position as at 30 June 2011 and the performance for the half year ended on that date of the consolidated entity; and
- (ii) comply with Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board


.....
Mr Simon Jones
Chairman
Melbourne 23 August 2011

Auditor's Independence Declaration to the Directors of Melbourne IT Limited

In relation to our review of the financial report of Melbourne IT Limited for the half-year ended 30 June 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

A handwritten signature in black ink, appearing to read 'Joanne Lonergan'.

Joanne Lonergan
Partner
23 August 2011

To the members of Melbourne IT Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Melbourne IT Limited, which comprises the statement of financial position as at 30 June 2011, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising of a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Melbourne IT Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half year financial report of Melbourne IT Limited is not in accordance with the *Corporations Act 2001*, including:

- i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the half-year ended on that date; and
- ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

A handwritten signature in black ink, appearing to read 'Joanne Lonergan'.

Joanne Lonergan

Partner

Melbourne

23 August 2011

MELBOURNE IT LTD
**STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2011**
Melbourne IT Ltd - Consolidated Group

AS AT 30 JUNE 2011		CONSOLIDATED	
Melbourne IT Ltd - Consolidated Group	Notes	30-Jun-11 \$'000s	31-Dec-10 \$'000s
ASSETS			
Current Assets			
Cash and cash equivalents	9	19,696	23,379
Deposits received in advance		816	1,642
Trade and other receivables	5	24,800	24,890
Inventories		402	562
Prepayment of domain name registry charges		12,480	13,317
Derivative financial instruments		99	258
Current tax asset		148	-
Other assets	6	3,843	2,813
Total Current Assets		62,284	66,861
Non-current Assets			
Property, plant and equipment		6,600	7,665
Intangible assets	7	127,660	126,641
Deferred income tax asset		6,635	5,971
Prepayment of domain name registry charges		7,024	7,609
Other assets		47	43
Total Non-current Assets		147,966	147,929
TOTAL ASSETS		210,250	214,790
LIABILITIES			
Current Liabilities			
Trade and other payables		17,395	16,174
Interest-bearing loans and borrowings	11	5,662	5,904
Provisions		4,807	4,165
Current tax liabilities		-	904
Income received in advance		35,498	37,299
Total Current Liabilities		63,362	64,446
Non-current Liabilities			
Interest-bearing loans and borrowings	11	35,859	40,342
Deferred income tax liability		3,301	2,194
Provisions		769	716
Derivative financial instruments		555	597
Income received in advance		14,720	15,226
Total Non-current Liabilities		55,204	59,075
TOTAL LIABILITIES		118,566	123,521
NET ASSETS		91,684	91,269
EQUITY			
Contributed equity	8	65,970	64,839
Foreign currency translation reserve		(8,582)	(9,270)
Options reserve		4,060	3,880
Hedging reserve		(16)	111
Retained earnings		30,252	31,709
TOTAL EQUITY		91,684	91,269

MELBOURNE IT LTD

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 30 JUNE 2011**

		CONSOLIDATED	
	Notes	30-Jun-11 \$'000s	30-Jun-10 \$'000s
Revenue	2	87,591	98,134
Other income	2 (b)	9	-
Registry, hosting and sundry products costs		(31,598)	(38,703)
Gross profit		56,002	59,431
Salaries and employee benefit expenses		(34,644)	(36,264)
Depreciation expenses	3 (a)	(2,561)	(3,247)
Amortisation of intangible assets	3 (b)	(600)	(782)
Other expenses from ordinary activities	3 (c)	(11,641)	(9,710)
Share of net (loss) of an associate		-	(20)
Profit before tax		6,556	9,408
Income tax expense		(1,609)	(2,439)
Net profit attributable to members of Melbourne IT Ltd		4,947	6,969
Other comprehensive income			
Currency translation differences		688	(1,367)
Net losses on cashflow hedges		(127)	(634)
Other comprehensive income for the period, net of tax		561	(2,001)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		5,508	4,968
Profit attributable to members of the parent		4,947	6,969
Total comprehensive income attributable to members of the parent		5,508	4,968
Earnings per share		2011	2010
- Basic earnings per share		6.16 cents	8.80 cents
- Diluted earnings per share		6.09 cents	8.79 cents

MELBOURNE IT LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 30 JUNE 2011**

	FOREIGN CURRENCY RESERVE \$'000	OPTIONS RESERVE \$'000	CONSOLIDATED HEDGING RESERVE \$'000	CONTRIBUTED EQUITY \$'000	RETAINED EARNINGS \$'000	TOTAL \$'000
As at 1 January 2011	(9,270)	3,880	111	64,839	31,709	91,269
Profit for the period	-	-	-	-	4,947	4,947
Other comprehensive income	688	-	(127)	-	-	561
Total comprehensive income for the period	688	-	(127)	-	4,947	5,508
Transactions with owners in their capacity as owners:						
Share based payment	-	180	-	-	-	180
Dividend Reinvestment Plan	-	-	-	976	(976)	-
Exercise of Options	-	-	-	155	-	155
Equity Dividends	-	-	-	-	(5,428)	(5,428)
As at 30 June 2011	(8,582)	4,060	(16)	65,970	30,252	91,684
As at 1 January 2010	(5,900)	3,095	69	63,005	27,539	87,808
Profit for the period	-	-	-	-	6,969	6,969
Other comprehensive income	(1,367)	-	(634)	-	-	(2,001)
Total comprehensive income for the period	(1,367)	-	(634)	-	6,969	4,968
Transactions with owners in their capacity as owners:						
Share based payment	-	505	-	-	-	505
Dividend Reinvestment Plan	-	-	-	789	(789)	-
Exercise of Options	-	-	-	174	-	174
Equity Dividends	-	-	-	-	(5,531)	(5,531)
As at 30 June 2010	(7,267)	3,600	(565)	63,968	28,188	87,924

MELBOURNE IT LTD

**STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 30 JUNE 2011**

		CONSOLIDATED	
	Notes	30-Jun-11 \$'000s	30-Jun-10 \$'000s
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipt of service revenue and recoveries		94,716	105,314
Payments to suppliers and employees		(83,809)	(90,549)
Interest received	2	243	263
Interest paid	3 (c)	(734)	(892)
Bank charges and credit card merchant fees		(457)	(613)
Income tax paid		(1,597)	(1,981)
NET CASH FLOWS FROM OPERATING ACTIVITIES		8,362	11,542
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of plant and equipment and intangible assets		(1,512)	(1,968)
Purchase of Transformation plant and equipment and intangible assets		(2,613)	(4,129)
Proceeds from sale of plant and equipment		13	1,461
Receipt of Deposits to be transferred to ICANN		181	-
Investment in Associate - Advantate Pty Ltd		-	(20)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(3,931)	(4,656)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of interest bearing liabilities		(2,934)	(2,820)
Proceeds from issue of ordinary shares - ESOP	8	155	174
Payment of dividend on ordinary shares		(5,426)	(5,531)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(8,205)	(8,177)
NET DECREASE IN CASH & CASH EQUIVALENTS		(3,774)	(1,291)
Net foreign exchange differences		91	(195) *
Cash and cash equivalents at beginning of period		23,379	30,377
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	1 (d), 9	19,696	28,891

* Restated - refer note 1 (d)

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2011

CORPORATE INFORMATION

The financial information in this report for Melbourne IT Ltd for the half year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 23 August 2011.

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

The nature of the operations and principal activities of the Group are described within this note at 1(c) Segment Reporting and at note 10.

1. BASIS OF PREPARATION

This general purpose condensed financial report for the half year ended 30 June 2011 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

The half year financial 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.

It is recommended the half year financial report be read in conjunction with the annual report for the year ended 31 December 2010 and considered together with any public announcements made by Melbourne IT Ltd and its controlled entities during the half year ended 30 June 2011 in accordance with the continuous disclosure obligations of the ASX listing rules.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual report.

(a) Changes in accounting policy

The following amending Standards have been adopted from 1 January 2011. Adoption of these Standards did not have any effect on the financial position or performance of the Group:

AASB 5 Non-current Assets Held for Sale and Discontinued Operations: clarifies that the disclosure required in respect of non-current assets and disposal groups classified as held for sales or discontinued operations are only those set out in AASB 5. The disclosure requirements of other Accounting Standards only apply if specifically required for such non-current assets or discontinued operations.

AASB 107 Statement of Cash Flows: states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities. This amendment had no impact on the financial position or performance of the Group.

AASB 124 (Revised) Related Party Disclosures (December 2009): The revised AASB 124 simplifies the definition of a related party. This amendment has no impact on the financial position or performance of the Group.

AASB 136 Impairment of Assets: The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.

AASB Interpretation 17 Distribution of Non-cash Assets to Owners: This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position or the performance of the Group.

The Group has not elected to early adopt any other new Standards or amendments that are issued but not yet effective.

(b) Basis of Accounting

There have been no material adjustments to the accounting policies of the Group since December 2010.

The Group has not elected to early adopt any new standards or amendments.

(c) 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.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2010

1. BASIS OF PREPARATION (continued)

(b) Operating Segment reporting (continued)

SMB eBusiness Solutions ("SMB")

This Division 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.

Global Partner Solution Division ("GPS")

Melbourne IT 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.

Transfer prices between business segments are set on an arms' length basis in a manner similar to transactions with third parties. Segment revenue, expense and segment result include transfers between business segments. These transfers are eliminated on consolidation.

(d) Operating Cash Flow

In the second half of the previous financial year, the company has refined its methodology for capturing and reporting foreign exchange impacts on its cashflows. The 2010 Cashflow Statement has been re-presented using the current methodology, which results in a reallocation between net cash flow from operations and net foreign exchange differences of \$2.607 million.

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2011**

CONSOLIDATED
30-Jun-11 30-Jun-10
\$'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:

(a) Revenue

Registration Revenue	33,883	38,685
Consulting Revenue	18,418	19,179
Hosting & Value-Added Product Sales	31,647	35,699
For The Record Revenue	3,196	3,958
Other Revenue	204	350
	<u>87,348</u>	<u>97,871</u>

Interest Revenue	243	263
	<u>87,591</u>	<u>98,134</u>

(b) Other income

Other	9	-
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Total consolidated revenue	<u>87,600</u>	<u>98,134</u>
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3. EXPENSES

(a) Depreciation of non-current assets

Fit out	118	243
Plant and equipment	2,313	2,870
Furniture	121	134
Depreciation of Make good assets	9	141
Total depreciation of non-current assets	<u>2,561</u>	<u>3,388</u>

(b) Amortisation of intangible assets

Customer contracts	522	522
Capitalised software	78	119
Total amortisation of intangible assets	<u>600</u>	<u>641</u>

(c) Other expenses

Training and Recruitment	432	201
Premises	1,993	2,006
Travel and Accommodation	1,090	881
Communications	1,083	1,110
Marketing	1,116	949
Equipment	1,928	652
Finance and Legal	1,376	1,967
Foreign Exchange	864	221
Bad debts and doubtful debts	844	219
Interest expense	734	892
Other expenses	181	612
Total other expenses from ordinary activities	<u>11,641</u>	<u>9,710</u>

(d) Other

Expensing of share-based payments	<u>214</u>	<u>505</u>
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MELBOURNE IT LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2011**

CONSOLIDATED	
30-Jun-11	30-Jun-10
\$'000s	\$'000s

4. DIVIDENDS PAID AND PROPOSED

Equity dividends on ordinary shares:

(a) Dividends declared and paid during the half year on ordinary shares

Final franked dividend for the financial year ended 31 December 2010:

8.0 cents (2009: 8.0 cents per share)

6,404	6,320
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(b) Dividends proposed and not recognised as a liability

Interim franked dividend for the half year ended 30 June 2011:

7.0 cents (2010: 7.0 cents per share)

5,646	5,570
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At the 23 August 2011 Board Meeting, the directors declared an 7.0 cents fully franked interim dividend on ordinary shares in respect of the half year ended 30 June 2011. The total amount of this interim dividend is \$5.646 million and has not been provided for in the 30 June 2011 financial statements.

(c) Franking of dividends

The above paid and proposed dividends are 100% franked at the company's tax rate of 30% per share.

CONSOLIDATED	
30-Jun-11	31-Dec-10
\$'000s	\$'000s

5. TRADE AND OTHER RECEIVABLES (CURRENT)

Trade debtors	26,783	26,361
Allowance for impairment loss	(1,983)	(1,471)
Total Trade and Other Receivables (Current)	<u>24,800</u>	<u>24,890</u>

6. OTHER ASSETS (CURRENT)

Other prepayments	3,575	2,514
GST receivable	268	299
	<u>3,843</u>	<u>2,813</u>

MELBOURNE IT LTD
**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2011**

CONSOLIDATED
30-Jun-11 31-Dec-10
\$'000s \$'000s

7. INTANGIBLE ASSETS
(a) Carrying Amount of Intangible Assets

Goodwill	102,178	102,870
Marketing Related Intangibles	9,982	9,982
Accumulated amortisation	-	-
	<u>9,982</u>	<u>9,982</u>
Customer Contracts	10,232	10,619
Accumulated amortisation	(3,454)	(3,110)
	<u>6,777</u>	<u>7,509</u>
Capitalised Software	931	971
Accumulated amortisation	(610)	(532)
	<u>322</u>	<u>439</u>
Assets Under Construction - Transformation Projects (b)	8,296	5,683
Total Capitalised Software	<u>8,618</u>	<u>6,122</u>
Other Intangibles	315	315
Accumulated amortisation	(210)	(157)
	<u>105</u>	<u>158</u>
Total Intangible Assets	<u>127,660</u>	<u>126,641</u>

(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 three 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.

Operational Support Systems (OSS) project will improve infrastructure stability and allow the organisation to manage a greater variety of products and services.

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.

8. CONTRIBUTED EQUITY
Ordinary shares

Issued and fully paid

65,970	64,839
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Movements in ordinary shares on issue

	30-Jun-11		31-Dec-10	
	No. of Shares	\$'000s	No. of Shares	\$'000s
Beginning of the financial period	80,031,955	64,839	78,970,419	63,005
Issued during the period				
- Dividend reinvestment plan	537,766	976	887,136	1,622
- Executive and employee options exercised	92,900	155	174,400	212
End of the financial period	<u>80,662,621</u>	<u>65,970</u>	<u>80,031,955</u>	<u>64,839</u>

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2011**

CONSOLIDATED	
30-Jun-11	31-Dec-10
\$'000s	\$'000s

9. RECONCILIATION OF CASH

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following as at 30 June 2011:

Cash on hand	<u>19,696</u>	<u>23,379</u>
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MELBOURNE IT LTD
**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2011**
10. SEGMENT REPORTING

The following tables present the revenue and profit information regarding segments for the half years ended 30 June 2011 and 30 June 2010.

	SMB	GPS	DBS	ES	FTR	Total
Half Year ended 30 June 2011						
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue						
Revenue from operating activities						
Registration Revenue	10,196	17,857	5,831	-	-	33,883
Consulting Revenue	-	-	18,418	-	-	18,418
Hosting & Value-Added Product Sales	10,286	7,636	565	13,160	-	31,647
For The Record Revenue	-	-	-	-	3,196	3,196
Other Revenue	192	4	8	-	-	204
Total segment revenue	20,673	25,497	24,822	13,160	3,196	87,348
Interest revenue						243
Other income						9
Total consolidated revenue						87,600
Result						
Segment results	4,220	3,869	2,774	440	92	11,394
Unallocated expenses:						
- Corporate						(2,875)
- Transformation Projects						(1,473)
Earnings before interest and tax						7,047
Net Interest						
Interest revenue						243
Interest expense						(734)
Total Net Interest						(491)
Income tax expense						(1,609)
Net Profit after tax						4,947

MELBOURNE IT LTD
**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2010**
10. SEGMENT REPORTING (continued)

	SMB	GPS	DBS	ES	FTR	Total
Half Year ended 30 June 2010	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Segment revenue						
Revenue from operating activities						
Registration Revenue	11,071	21,033	6,581	-	-	38,685
Consulting Revenue	-	-	19,179	-	-	19,179
Hosting & Value-Added Product Sales	10,434	7,599	429	17,237	-	35,699
For The Record Revenue	-	-	-	-	3,958	3,958
Other Revenue	180	127	-	43	-	350
Total segment revenue	21,685	28,759	26,189	17,280	3,958	97,871
Interest revenue						263
Total consolidated revenue						98,134
Result						
Segment results	4,814	4,314	2,632	1,636	-	13,396
Share of loss in Advantate Pty Ltd - (50% Owned)						(20)
Unallocated expenses:						
- Corporate						(2,763)
- Transformation Projects						(576)
Earnings before interest and tax						10,037
Net Interest						
Interest revenue						263
Interest expense						(892)
Total Net Interest						(629)
Income tax expense						(2,439)
Net Profit after tax						6,969

MELBOURNE IT LTD

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF YEAR ENDED 30 JUNE 2011**

CONSOLIDATED	
30-Jun-11	31-Dec-10
\$'000s	\$'000s

11. INTEREST-BEARING LOANS AND BORROWINGS

Current

US Dollar Overseas Currency Loan	5,662	5,904
Total Interest-bearing Loans and Borrowings - Current	<u>5,662</u>	<u>5,904</u>

Non-current

US Dollar Overseas Currency Loan	35,859	40,342
Total Interest-bearing Loans and Borrowings - Non Current	<u>35,859</u>	<u>40,342</u>

(a) Reconciliation of net debt

The reconciliation of net debt is as follows:

Current	5,662	5,904
Non-current	<u>35,859</u>	<u>40,342</u>
	41,521	46,246
Less cash and cash equivalents	<u>(19,696)</u>	<u>(23,379)</u>
Total net debt	<u>21,825</u>	<u>22,867</u>

(b) Terms and conditions

Current and Non Current Interest-bearing loans and borrowings

US Dollar Overseas Currency Loan

The US Dollar Overseas Currency Loan of USD \$44.0 million (31 December 2010: USD \$47.0 million) is for a fixed term of 5 years, expiring in April 2013.

In line with the loan agreement, Melbourne IT has made two repayments of USD \$1.5 million (previously USD \$1.25 million), totalling USD \$3 million, with an increase in the repayments to USD \$1.5m applied with effect from the 31 March 2011 repayment.

For the period ended 30 June 2011 the average interest rate was 3.12%.

The Group has met all bank covenants during the period ended 30 June 2011.

MELBOURNE IT LTD

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 30 JUNE 2011

12. 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 GPS segment.

The Group has a USD \$20.0 million interest rate swap, exchanging the variable rate payable on the USD \$44.0 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 derivatives have been determined as being effective hedges and have been accounted for in accordance with AASB 139.

13. EVENTS AFTER THE BALANCE SHEET DATE

At the 23 August 2011 Board Meeting, the directors declared a 7.0 cents fully franked interim dividend on ordinary shares in respect of the half year ended 30 June 2011. In accordance with Australian Accounting Standards, the total amount of this interim dividend of \$5.646 million has not been provided for in the 30 June 2011 financial statements.

There has not been any other matter or circumstance in the interval between the end of the half 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.