



MELBOURNE **IT**

# Transformation:

Building the future Melbourne IT

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2010

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< Annual Review >

## OUR SERVICES

### For small & medium businesses

Domain names, web hosting, web design services, email, search engine marketing, online tools for business

[www.melbourneit.com.au](http://www.melbourneit.com.au)  
[www.webcentral.com.au](http://www.webcentral.com.au)  
[www.domainz.co.nz](http://www.domainz.co.nz)  
[www.advantate.com.au](http://www.advantate.com.au)

### For enterprise & government clients

Online brand protection and online brand performance  
Enterprise-grade IT and infrastructure solutions  
Digital recording, multimedia and content management solutions

[www.melbourneitdbs.com](http://www.melbourneitdbs.com)  
[www.melbourneitenterprise.com](http://www.melbourneitenterprise.com)  
[www.fortherecord.com](http://www.fortherecord.com)

### For partners & resellers

Domain names, web hosting, email and online tools for business

[www.melbourneitgps.com](http://www.melbourneitgps.com)

## AGM DETAILS

The Annual General Meeting (AGM) will be held at Level 2, Spring Street Conference Centre, 1 Spring Street, Melbourne, Australia on Tuesday, 24 May 2011 at 11.00am.

All shareholders are invited to attend the AGM or to complete and return the proxy form that accompanies the Notice of Meeting.



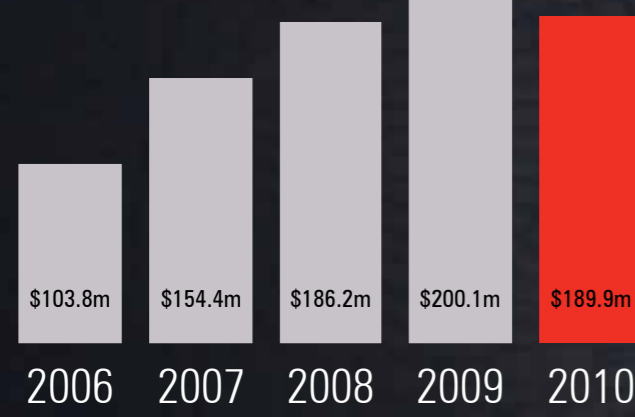
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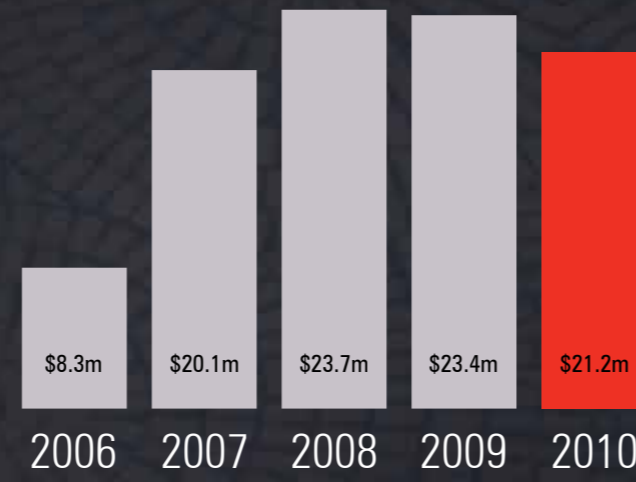
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## Performance over 5 years

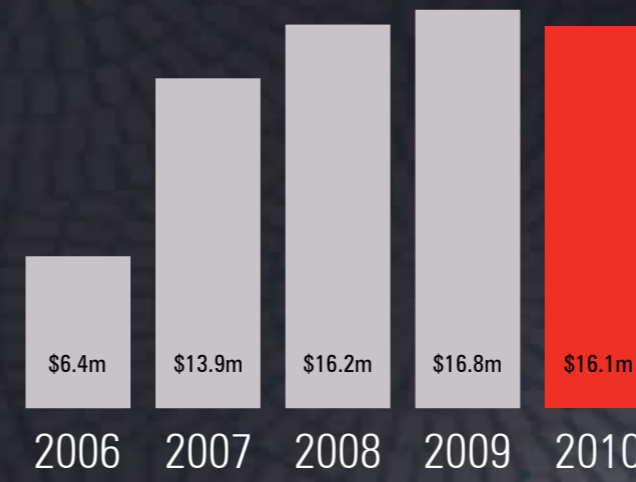
Revenue down  
**5%** to \$189.9m



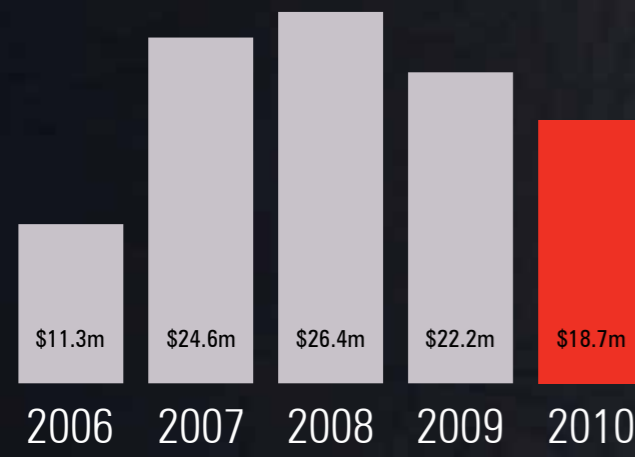
Earnings before interest and tax down  
**9%** to \$21.2m



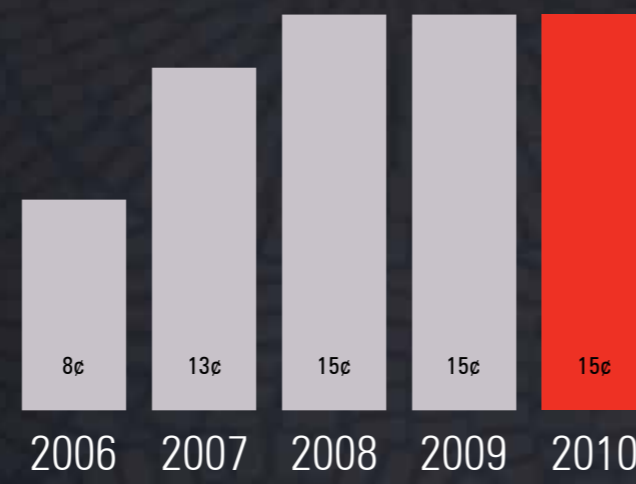
Net profit after tax down  
**4%** to \$16.1m



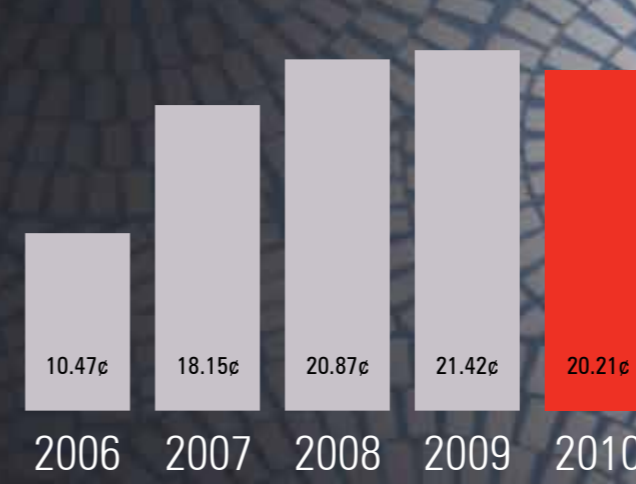
Operating cash down  
**16%** to \$18.7m



Dividend unchanged  
**15¢**



Earnings per share down  
**6%** to 20.21¢





On behalf of the Board of Melbourne IT, I am pleased to present the 2010 Annual Report and Annual Review. The Annual Review is a concise version of the past year while the complete Annual Report includes all financial details in much more depth. Both are available online at [www.melbourneit.info](http://www.melbourneit.info).

### Overcoming Global Hurdles

Melbourne IT faced a number of significant hurdles in 2010. Slow recovery in the United States and European markets, coupled with the continuing strength of the Australian Dollar and restrained small business spending in Australia all contributed to a challenging year.

However, the company's business fundamentals remained strong and there were many positive outcomes from 2010 that position the business well for 2011.

Full year revenue in Australian dollars decreased 5 per cent year-on-year to \$189.9 million. On a constant currency basis using 2009 foreign exchange rates, however, Melbourne IT's underlying performance in 2010 showed revenue growth of 3 per cent to \$206.3 million and deferred revenue up 2 per cent to \$55.7 million.

Earnings before interest and tax (EBIT) was \$21.2 million, down 9 per cent on 2009's EBIT result of \$23.4 million. The company estimates that foreign exchange headwinds negatively impacted 2010 EBIT by around \$2.5 million. Considering this and the operational expenditure (OPEX) of \$1.7 million made on the first year of Melbourne IT's transformation project, the company's underlying profit would have been up approximately 7 per cent on a like-for-like basis in 2010.

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 per cent on 2009's NPAT of \$16.8 million. Earnings per share decreased 6 per cent year-on-year to 20.21c. Notwithstanding this, a fully-franked final dividend of 8c was declared by the Board, which is unchanged from 2009.

Deferred gross margin – which reflects income received in advance net of prepaid costs – was steady at \$31.6 million, again reflecting the strength of Melbourne IT's annuity business.

Net debt remained modest at \$22.9 million with \$5.3 million in debt retired this year. Operating cash flow decreased 16 per cent to \$18.7 million reflecting lower EBITDA, timing of a significant receipt from a major customer and reduction of creditor balances.

### 2010 Achievements

There were some pleasing developments throughout the business in 2010 that point to stronger momentum in 2011.

Melbourne IT's Enterprise Services division recorded strong year-on-year growth with a 23 per cent uplift in revenue to \$31.6 million and a 59 per cent gain in EBIT to \$3.5 million. The significant investment made in service delivery in 2009 and 2010 underpinned this result, with platform stability of 99.994 per cent availability in 2010.

While Digital Brand Services (DBS) did not grow as rapidly as we predicted, Brand and Reputation Protection Services (BRPS) still experienced 36 per cent growth to \$10.2 million. The acquisition of Royal Bank of Scotland Group as a new BRPS customer was a landmark win for DBS.

Higher margin services expanded strongly in our SMB division as well. Software as a Service sales grew 14 per cent year-on-year to \$3.8 million and online marketing services (including Search Engine Optimisation) increased 37 per cent year-on-year to \$1.9 million following the successful Advantate integration.

These results maintained momentum in the company's strategic shift to higher-margin IT services with 61 per cent of revenue now derived from IT services rather than domain names.

### The First Step to Transformation

2010 was the first year of Melbourne IT's critical transformation project. I am pleased to report that the project is on track and on budget, with the first stage due to go live in New Zealand in the first half of 2011 and our Australian operations to follow by the end of 2011.

The transformation project is vital to the future growth of Melbourne IT. Once complete, this investment will provide the company with an enhanced ability to sell across the entire customer base and realise revenues faster through improved provisioning and billing processes. Cost savings will also result from the reduction in the number of back office systems currently in place.

The cost and revenue benefits from transformation are only expected to be modest in 2011. However, we expect to see a significant return accruing to the business from 2012 once the Australian and New Zealand operations are fully integrated.

### 2011 Outlook

We believe Melbourne IT's underlying performance will strengthen in 2011. Enterprise Services (ES) will maintain its robust performance while a range of operational initiatives – plus several key sales executive hires – will ensure Digital Brand Services delivers more to its potential this year.

Foreign exchange impacts from the strong Australian Dollar are expected to continue, with EBIT from our Global Partner Solutions (GPS) division expected to decline as a result in 2011. However, GPS will remain a vital contributor to the overall revenue and EBIT of the Group; as will SMB eBusiness Solutions which will benefit in 2011 from new product development investments made in email and hosting in 2010 to help counter the effects of commoditisation.

Melbourne IT expects transformation costs to impact EBIT by \$5 million in 2011. Nevertheless, the company believes 2011 EBIT will be in 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 per cent on 2010 before incremental transformation costs and the forecast foreign exchange impact are applied.

Continued growth from our DBS and ES divisions and the commencement of the realisation of transformation benefits in late 2011 should help the company to even stronger underlying EBIT growth in 2012.

### In Appreciation

On behalf of the Board I would like to thank the staff of Melbourne IT for their dedication and perseverance during a challenging 2010. While it may sound cliché, our skilled employees remain Melbourne IT's biggest asset in a fast-moving industry.

I'd also like to thank my Board colleagues for their input and guidance during the year, which was my first full year as Chairman. In particular, special tribute is due to Lucy Turnbull who stepped down from the Board in December. Lucy contributed significantly to Melbourne IT during the four years she spent on the Board and prior to that, as Chair of WebCentral Ltd before it was acquired by Melbourne IT. We wish her all the best.

Finally, I thank CEO & Managing Director, Theo Hnarakis, and the Melbourne IT executive team for their efforts in 2010.

With the bulk of the transformation project due to be completed this year and significant business opportunities emerging, 2011 promises to be a watershed year for Melbourne IT as we look to our next phase of growth.

**Simon Jones**  
Chairman



Melbourne IT continues to invest to take advantage of growing market opportunities and I look forward to 2011 with great optimism.

Melbourne IT continues to perform despite facing a range of challenges – some within our control and some beyond our control. I would like to reassure shareholders that we are not resting on our laurels; we don't accept the status quo, we continue to seek new growth opportunities and also build on the ones we already have. Our industry is based on fast moving changes, competitive threats and disruptive technologies. Our leadership team is very aware of these challenges and continues to execute our business plans to allow us to succeed.

During 2009, 2010 and continuing through 2011, our global expansion has delivered a robust business model setting up our company for exciting opportunities. However, throughout this time, we have (faced and expect in 2011 to continue to face) headwinds relating to the strengthening Australian Dollar. Although our foreign exchange exposure is partially mitigated by natural hedges in relation to non-Australian Dollar purchases and operating costs, revenue and margin have been, and will continue to be impacted while the Australian currency remains strong.

In addition, the effects of the global financial crisis have lingered far longer than we had hoped, holding back corporate spending in the United States and European markets. Small business spending in Australia was also sluggish in 2010.

However, I am pleased to say despite these headwinds, Melbourne IT continues to invest to take advantage of growing market opportunities and I look forward to 2011 with great optimism.

#### Setting the platform for 2011

Melbourne IT began preparing for the new year with a number of strategic investments in product innovation and developing our people towards the end of 2010 and more is planned in 2011 to ensure our business is well positioned for growth.

We continue to invest in our cloud computing-based infrastructure services and plan to extend our offering in 2011 to take advantage of the growing trend among enterprise customers to outsource applications to achieve cost benefits and improved service delivery.

A refresh of our email and hosting product suite under the WebCentral brand has launched in the first quarter of 2011, providing the SMB business with a highly competitive, advanced solution for small businesses.

Our Brand and Reputation Protection Services product suite has been extended to incorporate new information security elements in what DBS will deliver as a complete managed service to large customers, such as financial institutions, where the highest level of brand protection is required.

We have made strategic hires to strengthen our DBS sales team with the appointment of a new Senior Vice President of Global Sales and a new Vice President of North American Sales in early 2011. These hires are part of a plan to increase the DBS sales team over the course of the year by 25 per cent. We also appointed a new Executive General Manager of Enterprise Services, Peter Wright, who has an enviable track record of sales growth during his career of more than 28 years.

Coupled with a significant uplift in training for the sales teams across the business, I believe these initiatives will make Melbourne IT more competitive than ever before in our key markets.

In parallel to all of this is Melbourne IT's transformation project which enters its crucial second year as New Zealand, then Australia, switch over to our new operational systems by the end of the year. Modest benefits will accrue to the business in 2011 from transformation, but our SMB and GPS businesses will be the primary beneficiaries of cost and revenue synergies from 2012.

Once completed, the transformation project provides the foundations for Melbourne IT's next era of growth.

#### 2011 Market Opportunities

In the immediate future, however, market developments provide Melbourne IT with excellent prospects for growth.

The Internet is now clearly seen as the primary route to market for a growing number of businesses and e-commerce continues to grow rapidly. Australian online retail sales are predicted to almost double from \$16.9 billion in 2009 to \$33.3 billion by 2015 according to researchers Forrester. A record \$32.6 billion USD was spent online in the end of year US holiday sales in 2010, a jump of 12 per cent year-on-year.

This growth has clear implications for our SMB / GPS divisions in helping small businesses grow their operations online, and for our larger enterprise customers where DBS can not only ensure large companies increase their share of online traffic to boost sales, but also protect against malicious activity as fraudsters seek to take a slice of the e-commerce pie.

Brand protection remains a key focus for global organisations. Industry data confirms that phishing attacks – email scams which dupe users into providing personal details – are still rising (up 27 per cent in 2010) and the brand and reputation impact on businesses resulting from online incidents has increased 180 per cent over the past three years. We expect more leading organisations like Royal Bank of Scotland Group to embrace DBS's brand and reputation protection services in response to the growing threat.

While previously derided by some industry commentators as hype, cloud computing is proving to be more than just a buzzword with enterprises looking to outsource their IT services to enjoy lower costs and greater reliability driving the uptake of 'cloud services'. As Melbourne IT's Enterprise Services division demonstrated during the recent 2011 Brisbane floods – where vital government websites maintained 100 per cent uptime despite enormous spikes in traffic – flexible and agile cloud infrastructure can allow organisations to cope with rapidly changing requirements effectively.

Finally, we expect that the biggest ever change to the Internet domain name system will begin in 2011 with applications opening for the new ".brand" domains under ICANN's long-awaited liberalisation plan. Organisations will be able to apply for their own brand (such as .canon or .hitachi) and generic terms (such as .food or .travel) as an alternative to them using existing top level domains such as .com or .net.

The advent of these new .brand domains will deliver significant marketing and branding opportunities for companies but at the same time, will add greater complexity to managing online brands and present sizeable challenges in protecting against intellectual property infringement.

This is a major opportunity for DBS and Melbourne IT is already in discussions with more than 100 multi-national organisations that are considering applying for a .brand domain.

#### The road ahead

No doubt we will still face challenges in 2011. The Australian Dollar remains strong against the US and European currencies; international markets have still not fully recovered; and commoditisation remains an issue facing our SMB and GPS businesses.

However, I believe the investments we are making and the strategic direction we have taken will allow Melbourne IT to deliver on its promise and achieve sustained growth well into the future.

I'd like to thank the Board for their support and counsel during 2010 and I'd also like to thank all our staff for their resolve and loyalty during a difficult year. The talent in our business is the strongest it has ever been and I look forward to working with our team as we make 2011 a success.

**Theo Hnarakis**  
Managing Director & CEO

## Overview

Melbourne IT Digital Brand Services (DBS) helps corporations manage, protect and optimise their brands online to maximise the value of their digital assets.

As the online business landscape increases in scope and opportunity, the complexity and risk associated with managing digital brands and transacting on the web is also increasing. Hundreds of companies including some of the world's most recognisable names trust Melbourne IT DBS to help manage their online brands.

## 2010 Highlights

A slower sales recovery in the United States and European markets than expected, coupled with a strengthening Australian Dollar, led DBS revenue 9 per cent lower year-on-year to \$51.1 million. EBIT remained steady at \$6.4 million.

However, the underlying performance of the DBS division in 2010 improved on 2009, with revenue up 4 per cent to \$58.5 million and deferred revenue up 23 per cent to \$13.0 million on a constant currency basis using 2009 foreign exchange rates.

There was strong growth in Brand and Reputation Protection Services with revenue up 36 per cent year-on-year to \$10.2 million, including the commencement of a major contract with Royal Bank of Scotland Group for brand, fraud and malware protection services.

Names Under Management (NUM) rose 5 per cent from 557,000 to 583,000 year-on-year. DBS's customer base grew to more than 3,500 in 2010, with new customers including Lufthansa Systems, Tabcorp Holdings, Linde AG, Deloitte, Arnott's, Kimberley-Clark, Merz Pharma and the Transurban Group.

In December, DBS appointed Armando Dacal as Senior Vice President of Global Sales. Armando brings a wealth of senior sales experience to Melbourne IT DBS following global leadership positions with Symantec and VeriSign.

## Brand and Reputation Protection Services revenue grew 36 per cent in 2010.

### Outlook

Digital Brand Services is ideally placed to take advantage of growth opportunities in 2011. Increasing digital brand complexity and the continuing rise of Internet security and brand infringement issues only stand to benefit DBS.

We expect the second half of 2011 to see the beginning of the long-awaited .brand domain application process. Organisations from around the world will be able to apply for their own .brand domain (for example .canon, .hitachi, .sydney) and categories (such as .sport, .food).

Melbourne IT is currently in discussions with more than 100 multi-national organisations which are considering applying for a .brand gTLD.

While the effects of the strong Australian Dollar will continue to influence DBS's results, Melbourne IT is investing in the division's sales capabilities to underpin significant growth.

We expect to see the DBS sales force grow by 25 per cent over the course of the year and extensive training for the entire sales team is planned to help drive further strong growth in higher margin brand protection and security services. The team of DBS solution specialists to support the sales force in identifying and closing larger-sized deals will also be expanded.

In addition, DBS continues to refine customer management processes and is innovating with new administration tools to improve the customer experience and lower online brand management costs.

DBS	FY10	FY09	CHANGE
Revenue	\$51.1m	\$56.0m	-9%
Contribution margin	\$6.4m	\$6.4m	Unchanged

## Overview

Melbourne IT's small business divisions – SMB eBusiness Solutions (SMB) and Global Partner Solutions (GPS) – deliver online business services to more than 400,000 small and medium-sized businesses in Australia and New Zealand and thousands more worldwide via a global network of 6,900 resellers.

Our eBusiness Centres in Australia and New Zealand help small businesses establish and build their online presence via a range of services including domain name registration, email and website hosting, online collaboration tools and eCommerce platforms.

Melbourne IT provides its global partner network with access to a state-of-the-art domain registry and management system to allow resellers to extend domain and value-added online business services to small businesses around the world.

## 2010 Highlights

SMB and GPS experienced a slower 2010 due to adverse foreign exchange impacts on international partner revenues, slower partner domain renewals and the effects of commoditisation of base services in the Australia and New Zealand region. Combined revenue for the divisions was down 8 per cent year-on-year to \$98.6 million, with EBIT down 5 per cent to \$17.7 million.

The majority of the revenue decline resulted from reduced domain renewals from international partners and a \$7.6 million negative foreign exchange rate impact, which lowered GPS revenue 14 per cent to \$55.8 million. Given this significant fall in Australian Dollar revenue, contribution margin for GPS held up reasonably well, only falling by 3 per cent.

While SMB's 2010 revenue remained steady at \$42.7 million, restrained small business spending in Australia hampered growth and ARPU declined 2 per cent from \$308 to \$301 as a result of discounting. However, names under management for SMB rose by 4 per cent to 455,000 in 2010.

Higher margin services experienced solid sales growth with software as a service sales up 14 per cent year-on-year to \$3.8 million and online marketing sales growing 37 per cent year-on-year to \$1.9 million. eBusiness Centre sales grew 5 per cent to \$19.7 million in 2010, continuing to validate Melbourne IT's consultative sales approach.

The core reseller offering to partners was expanded in 2010 to include a new online backup tool and the Promoter email marketing platform. New partners acquired included Jamcracker and Reputation.com.

Lower-yielding GPS domain names under management were down 10 per cent year-on-year from 4.5 million to 4.1 million.



## Melbourne IT expects continued growth in higher margin SMB products and services.

### Outlook

Despite the expected continued negative foreign exchange impact on international partner revenue, Melbourne IT expects SMB / GPS to remain significant contributors to revenue and EBIT in 2011.

Investment in product development during 2010 is expected to deliver benefits in 2011 with the launch of new email and hosting products based on Managed Exchange 2010 and Windows 2008 hosting in the first half of the year through the WebCentral brand. These products will launch to Australian and New Zealand customers first before subsequently being rolled out to partners.

New SMB retail websites focused on improving the customer experience, making product and service selection easier, will also launch in 2011.

Melbourne IT expects continued growth in higher margin SMB products and services, particularly online marketing following the successful integration of Advantate in 2010.

The focus on growing our offering of higher margin services to our partners will continue in 2011.

CONSOLIDATED	FY 10	FY 09	CHANGE
Revenue	\$98.6m	\$107.7m	-8%
Contribution Margin	\$17.7m	\$18.7m	-5%
SMB	FY 10	FY 09	CHANGE
Revenue	\$42.7m	\$42.8m	-
Contribution Margin	\$9.4m	\$10.1m	-6%
GPS	FY 10	FY 09	CHANGE
Revenue	\$55.8m	\$64.9m	-14%
Contribution Margin	\$8.3m	\$8.6m	-3%

## Overview

Melbourne IT Enterprise Services has a strong track record of delivering enterprise-grade Internet and IT services to large organisations.

Hundreds of customers – from blue chip corporations to dynamic media companies and large government departments – rely on our technology services to manage information, lower costs, improve productivity and foster innovation. Our success has been built on a deep understanding of our customers' needs and developing tailored solutions which help them achieve their business objectives.

## 2010 Highlights

Enterprise Services delivered a strong full year result with revenue up 23 per cent year-on-year to \$31.6 million and EBIT growing 59 per cent to \$3.5 million as the momentum built in the second half of 2009 continued throughout 2010.

The significant investments begun in 2009 in new technology infrastructure (including a complete refresh of the storage environment) coupled with ongoing process improvement ensured excellent stability of the hosting platform: 99.994 per cent availability in 2010.

The improved service delivery contributed significantly to the division's final result, as did continued investment in the partner channel to increase its revenue contribution.

Enterprise Services signed 139 new contracts in 2010 including new customers such as Urban Pacific, Victorian Electoral Commission, Thomson Reuters, Translink Transit Authority, OpenText and BP Australia.



## Enterprise Services expects 2010's strong growth to continue in 2011.

### Outlook

Melbourne IT Enterprise Services expects the growth experienced during 2010 to continue throughout 2011, with a strong uplift in revenue and EBIT forecast.

To fuel ongoing growth, Enterprise Services will expand its professional services capability through strategic hires of specialist staff and training. Work is also underway to obtain ISO27001 and ISO9001 certification.

New product offerings, including Cisco UCS, Storage as a Service, SharePoint 2010 and vCloud are planned in 2011 as Melbourne IT continues to stay at the forefront of the growing cloud computing market.

Melbourne IT's cloud computing capabilities were recently ranked 4th by Australian IT industry analysts, Longhaus, out of 110 providers in Australia. The company was placed ahead of all its perceived major cloud computing rivals including Telstra (5th), Optus (13th) and Macquarie Telecom (25th).

As customer numbers continue to increase it is likely that further investment in new data centre capacity will be required to cater for this growth in the second half of 2011.

In February 2011, Peter Wright was appointed as the new Executive General Manager for Enterprise Services. He joins Melbourne IT with more than 28 years experience in the Australian technology sector, driving strong sales growth for businesses such as REA Group, Optus and Alphawest.

ES	FY10	FY09	CHANGE
Revenue	\$31.6m	\$25.6m	23%
Contribution margin	\$3.5m	\$2.2m	59%

## Overview

ForTheRecord (FTR) is a leading global provider of digital recording and content management solutions for justice and civic venues.

FTR provides easy to use, reliable, cost-effective and innovative solutions which enable customers to capture, index, access and manage digital audio and video recordings and linked notes across the organisation. The technology helps to significantly lower transcription costs and improve productivity and efficiency.

FTR has a proven track record of success, providing more than 22,500 digital recording solutions for court rooms, law enforcement and public hearing venues across 55 countries.

## 2010 Highlights

2010 was a challenging year for FTR. Deep public sector budget cuts across the United States led to drastically reduced spending and forced closures of court houses, significantly impacting FTR revenue and EBIT.

Operational and strategy changes were made at the beginning of the year, including the appointment of Daniel Bennett as the new Executive Vice President of FTR. Under the new leadership, FTR has made significant operational improvements including a partner re-engagement programme which helped rebuild the sales pipeline for the second half of 2010 and position the division for renewed growth in 2011.

FTR also continued to expand its international footprint with contract wins in the South Pacific and Eastern Europe.

In 2010, FTR introduced the new FTR Touch product and a significant upgrade to its flagship product, FTR Reporter – both of which provide FTR with an ideal product portfolio moving into 2011.



Significant operational improvements position FTR for renewed growth in 2011.

### Outlook

Melbourne IT expects FTR to rebound in 2011 and return to stable profitability despite continued soft markets in the US and Europe.

The new products developed in 2010 are expected to deliver a solid return in 2011. New product launches are also planned to target both new and existing customers – a law enforcement product to increase market penetration in this key market and a new content management product suite for courts is expected to increase revenue from the existing customer base.

Investments made in the partner network and new strategies developed to reduce barriers to sale will also help the division return to growth.

FTR	FY10	FY09	CHANGE
Revenue	\$7.9m	\$9.6m	-18%
Contribution margin	\$0.0m	\$1.0m	-100%

## Overview

Melbourne IT is committed to creating innovative and dynamic products which excite customers and help them grow their business. The Product and Innovation team at Melbourne IT is continuously looking to improve the way existing products and services are delivered while at the same time, bringing new solutions to market to solve customers' business needs.

## 2010 Highlights

Melbourne IT's commitment to creating innovative products and services resulted in a number of exciting new services launched in 2010.

The company strengthened its infrastructure offerings through ongoing software and hardware upgrades and investments. Melbourne IT maintains strong relationships with major technology vendors in this area and our business continues to partner with vendors in joint research and development for unreleased products.

The increased scale and functionality of our cloud computing environment recently resulted in a favourable report from Australian IT industry analysts, Longhaus, which ranked Melbourne IT's cloud capabilities 4th in the Australian market and categorised Melbourne IT as a leader – well ahead of our major competitors.

New email and hosting products based on Managed Exchange 2010 and the latest available Windows hosting were developed in 2010 as part of a major product refresh program for the WebCentral brand. The new products, which aim to provide businesses with a seamless, self-administered management interface for their email and websites, will launch in early 2011.

A strong pipeline of products were released to Melbourne IT's global partner network in 2010 to help build the range of online small business services they offer. The services now available to partners include a new online backup tool and interactive one page websites geared to getting small businesses online faster and plugged in to social media immediately. Upgrades to the Promoter email marketing platform; the addition of 10 new SSL security encryption certificate products; and new business email products all enhanced product offerings in the partner channel this year.

Digital Brand Services strengthened its portfolio with the new Brand and Reputation Protection Managed Service, an extended package of brand and reputation protection services including brand, fraud and malware protection offered as a managed service. This approach was validated with the awarding of a major brand protection contract with the Royal Bank of Scotland Group at the end of 2010.

In May 2010, the Columbian domain space (.co) was released to the global market. Melbourne IT was selected as one of only 10 global registrars for this newly-liberalised space, prompting further investment in our domain registration systems which allowed Melbourne IT to capture significant revenue from the launch.

Research into huge-data analytics has been a major area of investment throughout 2010. As the amount of digital information continues to grow at a rapid pace, the challenge of extracting information that drives business decisions from large complex data sets becomes more difficult. Melbourne IT is working with customers in 2011 in applying the analytics platform to solve real-world problems.



Melbourne IT has been recognised as an Australian leader in cloud computing by independent analysts.

### Outlook

As the online business landscape increases in scope and opportunity, the complexity and risk associated with managing online brands and transacting on the web is also increasing. Melbourne IT will continue to invest in new services in 2011 to help organisations protect and promote their brands online, and we expect to see further customer interest in the new Brand and Reputation Protection Managed Service.

2011 will see a significant growth in digital data, driving new storage offerings across the globe. As a result, Melbourne IT's hosting innovation focus will centre around updating online backup services, Storage as a Service and multiple-site storage replication services. These investments will drive benefits for our small business and enterprise hosting customers.

Throughout 2011, the research and development around analytics will move from pure research towards customer trials and deployments. The analytics platform will also be utilised internally to help Melbourne IT extract sales and marketing data from existing services to drive new sales opportunities.

### ENTERPRISE CLOUD SERVICES

Our next generation Infrastructure as a Service (IaaS) offering is built on Cisco's Unified Computing System (UCS) and provides a powerful end to end solution optimised for virtualised environments while still having the ability to support traditional hosting operations.

### FTR TOUCH

FTR Touch is an elegant touch screen-based product with up to 8-channels of digital audio recording for courtrooms. The product helps court transcriptionists increase process efficiencies and provides reliability, ease of use, and improved security benefits.

### BRAND AND REPUTATION PROTECTION MANAGED SERVICE

The fully managed Brand and Reputation Managed Service delivers web content monitoring, domain name monitoring with enforcement services, anti-phishing, credential recovery, malware detection and the ability to detect blended threats.

### EMAIL AND HOSTING SERVICES

New email and hosting products based on Managed Exchange 2010 and the latest Windows hosting services, coupled with a new management interface, will launch in 2011. The interface allows customers to easily manage their products, billing and account details as well as purchase additional products.

With more than 700 employees spread across 18 offices in 10 countries, Melbourne IT draws upon a diverse range of skills, abilities and cultural influences to help foster our culture of innovation and success. The human resources (HR) team at Melbourne IT is responsible for providing tools, processes and advice to management across the business to effectively attract, motivate and retain our talented employee base.



## 2010 Highlights

Retaining and developing key employees remains one of Melbourne IT's top priorities and in 2010, the business rolled out a number of initiatives to upskill and keep talent within the organisation.

The company launched a new Online Learning Centre in early 2010, allowing employees to access a range of new and existing training courses online and track their progress against training goals set by their managers.

The company's highly successful Confident Managers training program was extended to Europe in 2010 to help improve management capabilities and a senior HR Manager was relocated to Stockholm to help drive HR programs in the EMEA region and strengthen relationships with industrial relations and compliance experts.

A more competitive Long Term Incentive benefit was introduced to ensure those employees who have the greatest potential long term impact on the business have a more motivating incentive based around driving long term business performance.

As a result of these initiatives (and a range of others), Melbourne IT successfully retained greater than 90 per cent of the employees identified as "star" or "critical" in 2010.

The company also improved its ability to attract and induct new employees faster through process and structure improvements in our HR team. More than 200 new employees were recruited in 2010, with the time to fill vacancies reduced to an average of 35 days.

A new online corporate induction program with interactive tools and fact sheets was established to standardise and enhance the induction and on-boarding process, while access to HR resources such as company policies and forms was simplified with the consolidation of information onto a new Melbourne IT intranet site, The Hub.

Further development of the company's careers website improved usability and an online employee exit process was implemented to reduce risk associated with incomplete processing of employee exits and streamline a process which was formerly paper-based.

Melbourne IT is committed to ensuring that its employees and contractors work in an environment that is open, friendly and free of discrimination, harassment and bullying. We provide a workplace environment where employees are treated with dignity, fairness and respect, and where everyone is judged according to merit. In December 2010, Melbourne IT reported:

- 69 per cent of employees were male and 31 per cent female, with technical, customer service and sales roles chiefly held by males and human resources, finance and legal roles predominantly carried out by females
- 29 per cent of the executive roles were held by females
- Approximately 30 per cent of managers (with direct reports) were female
- The Training and Development budget was equally available to all staff, with a balanced representation of males and females participating in the study assistance program, leadership and compliance training
- The company is compliant with equal opportunity legislation administered by the Australian Government's Equal Opportunity for Women in the Workplace Agency (EOWA).

## Outlook

Melbourne IT will invest extensively in company-wide training, with a strong focus on up-skilling the sales force and senior management in 2011. Sales training will be concentrated in particular on the company's Digital Brand Services sales force to help grow brand protection services as well as increase product knowledge to broaden sales opportunities. An expansion of the Online Learning Centre will see new compliance, management and leadership training opportunities, while guidelines for managers to encourage staff to upskill their management skills will be available later in the year.

The employment of a sales/service trainer and delivery of tailored sales/service training programs with certified modules will provide career advancement opportunities for employees across the company. The rollout of a new Online Career Planning tool will improve succession planning and allow employees to monitor and manage their career plans to ensure they grasp the significant opportunities available within Melbourne IT.

Further improvements to the induction program in the form of division-specific onboarding guidelines and surveys (including roles and responsibilities), aim to accelerate the induction of new hires while reducing turnover. To continue driving higher retention rates among our employees, Melbourne IT will examine the company's compensation and benefits structure to ensure that it is as transparent, simplified and competitive as possible.

Melbourne IT also intends to establish an employee alumni program in 2011 to ensure links with past employees are not lost and strengthen our existing employee referral networks.

At Melbourne IT, energy usage is the primary focus for our sustainability efforts as it has a greater environmental impact than other factors for the company due to the nature of our business and our operation of several large data centres.

In 2010, Melbourne IT rolled out a multi-million dollar complete refresh of the data storage and back-up equipment across our data centres, replacing older and less-efficient equipment. The investment in the new hardware has allowed the business to store and back-up data at a higher density while consuming less power.

In 2011, Melbourne IT plans to introduce new automated storage tiering technology which will further increase the density of the storage platform to reduce the amount of power per gigabyte of content stored.

The company's data centre consolidation strategy also continued in 2010 with the decommissioning of our ageing East Brisbane facility. Nearly all data storage equipment is now located in purpose-built, energy efficient environments with consolidation plans currently under consideration to move the remaining equipment in the next 12-18 months.

The company has a policy of selecting more energy efficient equipment when IT hardware is replaced and giving preference to virtualisation wherever possible in order to reduce the amount of hardware in use and consequently the amount of energy consumed. Melbourne IT is a leader in virtualisation and increased the level of virtualised hardware in 2010 for greater efficiencies.

The impact of these investments in energy efficient data centre technology is magnified when customers choose to outsource their online services with us – instead of using their own (potentially older) equipment they are choosing a more energy efficient solution.

Outside of the data centres, Melbourne IT encourages sustainability efforts in our day-to-day operations.

Employees are encouraged to adopt personal working practices that support energy conservation, such as switching off their PCs and laptops, unused appliances and lights at the end of the day, and printing only what is required. Many processes which were formerly paper-based have now been fully automated.

General recycling facilities for paper and cardboard are provided in all Melbourne IT offices where there are more than ten employees. Where possible, all electronic waste is recycled, re-used or donated to charity to minimise disposable e-waste. Any disposal of e-waste occurs in accordance with local laws.

Video conferencing technology is also used internally where practical to assist in reducing the associated emissions from business travel.

In 2011 we will continue to investigate new initiatives to mitigate the environmental impacts of our operations.

**Simon Jones**  
Chairman



Mr Jones has extensive experience in investment advisory, valuations, mergers and acquisitions, public offerings, audit and venture capital and is a member of the Audit & Risk Management Committee (ARMC) and the Human Resources, Remuneration and Nomination Committee (HRRNC). Mr Jones was appointed Chairman of the Board in November 2009, having served as a Non-Executive Director since 12 March 2003.

**Theo Hnarakis**  
Managing Director & CEO



Mr Hnarakis was appointed Chief Executive Officer of Melbourne IT in November 2002 and joined the Board on 20 September 2003. Prior to joining Melbourne IT, Mr Hnarakis held senior roles with News Corporation, Boral Group and the PMP Communications Group. He is an IT Fund for Kids Ambassador for the Starlight Children's Foundation.

**Tom Kiing**  
Non-Executive Director



Mr Kiing has extensive experience in mergers and acquisitions, capital markets and corporate finance. He was appointed to the Board on 19 December 2002 and is a member of the Human Resources, Remuneration and Nominations Committee (HRRNC).

**Professor Iain Morrison**  
Non-Executive Director



Professor Morrison is Head of Bond University's School of Information Technology. He was a founding director of Melbourne IT and was appointed to the Board in 1996. He is a member of the Audit & Risk Management Committee (ARMC).

**Rob Stewart**  
Non-Executive Director



Mr Stewart is a company director and management consultant. Mr Stewart has extensive management and board experience within leading companies across a variety of industries, and was Chairman of Melbourne IT for more than a decade before standing down in October 2009. He is Chairman of the Audit & Risk Management Committee (ARMC).

**Andrew Walsh**  
Non-Executive Director



Mr Walsh has extensive experience in the global internet industry, primarily in the development of successful online businesses and expanding into new geographies. He was appointed to the Board in June 2008 and is Chairman of the Human Resources, Remuneration and Nomination Committee (HRRNC).

Full details of the Directors' experience, expertise and directorships can be found on the Melbourne IT website at [www.melbourneit.info](http://www.melbourneit.info)

The Melbourne IT Board of Directors recognises the need for the highest standards of corporate behaviour and accountability. The Board is committed to optimising shareholder returns within a framework of ethical business practices.

This Corporate Governance statement reflects a summary of Melbourne IT's corporate governance framework, policies and procedures during the 2010 year, reported against the ASX Corporate Governance Council's revised "Corporate Governance Principles and Recommendations". It is the view of Melbourne IT that its corporate governance practices are consistent with the revised Principles.

This statement, together with Company's corporate governance policies and Board committee charters, are set out in the Corporate Governance website at <http://www.melbourneit.info/investor-centre/corporate-governance>

### Principle 1 – Lay Solid Foundations for Management and Oversight by Board

Melbourne IT has established functions which are reserved to the Melbourne IT Board and those delegated to senior executives. A statement of those functions is available from the Melbourne IT corporate governance website.

The performance of the Board is regularly evaluated. The last formal performance evaluation was conducted during the 2010 financial year.

Formal performance reviews are conducted for all staff, including senior executives, on an annual basis. The performance of the senior executives is evaluated on the basis of role descriptions, key performance metrics and 360 degree feedback.

An induction program is conducted for all new Melbourne IT staff, and is accessible for refresher programs for current staff via Melbourne IT's online learning centre.

### Principle 2 – Structure the Board to Add Value

The qualifications of the current Board members are available from the Melbourne corporate governance website.

Four of the five non-executive directors (as at the end of 2010) are considered by the Board to be independent directors (Simon Jones, Iain Morrison, Rob Stewart and Andrew Walsh). Tom Kiing is a substantial shareholder in Melbourne IT, and therefore is not considered by the Board to be an independent director. This was also the case with Lucy Turnbull prior to her resignation from the Board in November 2010. Theo Hnarakis is the only executive director.

The Chairman, Simon Jones, is an independent non-executive director. The Chairman, and the Managing Director & CEO, are different people.

In certain circumstances a director may consider it necessary to seek independent professional advice in carrying out their duties. Should this arise, the director would discuss the matter first with the Chairman and any advice then considered necessary would be obtained at the company's expense.

One third of the directors (with the exception of the Managing Director) must retire from office at the time of the Annual General Meeting each year. Directors are eligible for re-election. The directors who retire by rotation are those with the longest period in office since their appointment or last election. The maximum period that a director can be in office before facing re-election is three years. This period will sometimes be shorter due to the requirement that one third must retire each year. At the time when any director is coming up for re-election,

the Board considers that question and makes a conscious decision as to whether to recommend that re-election to shareholders.

The Human Resources Remuneration & Nomination Committee (HRRNC) comprises three non-executive directors: Andrew Walsh (Chairperson), Tom Kiing and Simon Jones. Andrew Walsh and Simon Jones are both independent directors. The General Manager, Human Resources and the Managing Director & CEO attend all meetings by invitation. The HRRNC meets at least 4 times a year.

The performance of the Board, its committees and individual directors was formally reviewed during the 2010 financial year, with the assistance of an external facilitator. Their performance will next be formally reviewed in the 2012 financial year.

### Principle 3 – Promote Ethical and Responsible Decision Making

The Company has a Code of Conduct to guide the directors, the Managing Director & CEO, the Chief Operating Officer, the Chief Financial Officer and other key executives as to:

- the practices necessary to maintain confidence in the company's integrity and
- the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

Our Code of Conduct is available from Melbourne IT's corporate governance website.

The Company also has a Trading Policy concerning trading in company securities by directors, officers and employees involved in material transactions or privy to material information. This policy was updated in 2010 to reflect changes in the ASX Listing Rules. A copy is available from Melbourne IT's corporate governance website.

### Principle 4 – Safeguard Integrity in Financial Reporting

The Managing Director & CEO and the Chief Financial Officer have stated in writing to the Board for the 2010 year that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

The Audit and Risk Management Committee (ARMC) comprises three non-executive directors: Rob Stewart (Chairman), Simon Jones and Iain Morrison. The ARMC Chairman is not the Chairman of the Board. The Chairman of the ARMC is an independent director, as are the other members.

The Managing Director & CEO, Chief Operating Officer, Chief Financial Officer and the General Manager, Risk, attend the meetings by invitation of the ARMC. The relevant partner and staff of Melbourne IT's external auditors also attend by invitation from time to time.

The ARMC meets at least four times each year and has direct access to Melbourne IT's auditors and senior management. On at least one occasion each year it meets with the auditors without management being present.

The Committee also receives regular reports from both the external and internal auditors concerning any matters which arise in connection with the performance of their role, including adequacy of internal controls. The Committee reports to the Board on its activities after each meeting, and copies of the minutes of the Committee's meetings are provided to all directors.

The ARMC Charter is available from the Melbourne IT corporate governance website.

### Principle 5 – Make timely and balanced disclosure

Melbourne IT is committed to complying with its disclosure obligations. To that end Melbourne IT has a Market Disclosure Policy, which is available from the Corporate Governance section of Melbourne IT's website. The Board has appointed the Company Secretary as "Disclosure Officer", with responsibility for:

- Reviewing compliance with Melbourne IT's continuous disclosure obligations;
- Co-ordination of the timely release of information to the market; and
- Maintaining a record of disclosure information (including any information which was considered but rejected for disclosure and the reasons for non-disclosure).

All 'non-routine' market disclosures are reviewed by the directors, together with the Disclosing Officer, to ensure that they are factually correct and complete.

### Principle 6 – Respect the rights of shareholders

Melbourne IT aims to keep its shareholders informed of all important developments concerning the company. Melbourne IT communicates with its shareholders using the following means:

- Notices and explanatory memoranda of annual general meetings;
- The annual report;
- The annual general meeting;
- The Melbourne IT's corporate website located at <http://www.melbourneit.info>
- Periodic analyst briefings, which are released to the ASX; and
- Periodic shareholder announcements, which are also released to the ASX.

Melbourne IT's external auditors attend the Company's Annual General Meeting and is available to answer reasonable questions from shareholders in relation to the conduct of the audit, the independent audit report and the accounting policies adopted by Melbourne IT.

### Principle 7 – Recognise and Manage Risk

The Board has established appropriate policies for the oversight and management of material business risks and a process for management to report as to the effectiveness of the company's management of its material business risks.

Recommendation 7.3 requires the Managing Director & CEO and the Chief Financial Officer to report to the Board that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. This recommendation was complied with in 2010 by the Managing Director & CEO and by the Chief Financial Officer.

### Principle 8 – Remunerate Fairly and Responsibly

The Board has established the HRRNC to assist it to address the various issues in this area (see Principle 2 above). The Managing Director & CEO reviews the performance of his direct reports and makes recommendations to the HRRNC for approval in relation to their remuneration and Key Performance Indicators ('KPIs'). The Managing Director & CEO's own performance is reviewed by the Board, facilitated by the HRRNC and the Chairman.

The HRRNC also facilitates a regular review of the Board's performance – both of the Board as a whole and of individual directors. The reviews of the Board and of the Managing Director & CEO respectively, have been conducted with the assistance of an external facilitator, including '360 degree' feedback.

The HRRNC reports to the Board on its activities after each meeting, and copies of the minutes of the Committee's meetings are provided to all directors.

Melbourne IT's remuneration policy has been set to ensure that the remuneration of directors and all staff properly reflects each person's accountabilities, duties and their level of performance, and to ensure that remuneration is competitive in attracting, motivating and retaining staff of the highest quality. All remuneration packages are reviewed at least annually, taking into account individual and company performance, market movements and expert advice.

Remuneration of non-executive directors in 2010 comprised two elements:

1. Fixed fee
2. Variable remuneration: long-term incentive via a Deferred Share Plan (part-year).

Non executive directors are paid fixed fees in accordance with a determination of the Board but within a global limit fixed by the shareholders at a General Meeting. The current global limit of \$1,000,000 was approved by shareholders at the Annual General Meeting in 2008. The Chairpersons of each committee receive an additional amount to reflect (at least to some extent) the additional workload and responsibility required of them to carry out that role.

The long-term incentive for non-executive directors, being membership of a Share Purchase Plan, was suspended in February 2010. Prior to its suspension, those directors who were eligible (which is all directors other than those who hold more than 5% of the issued capital of the company) were required to contribute a minimum of 15% of their directors' fees to purchase shares on market each quarter. This Plan was designed to encourage share ownership in the company by directors. No replacement for this Plan has yet been proposed.

Directors are not entitled as of right to any retirement or termination benefit (other than statutory superannuation benefits).

The remuneration of the Managing Director & CEO, and executives, comprises the following three elements:

1. Fixed Salary
2. Variable remuneration: short-term incentive
3. Variable remuneration: long-term incentive

The short-term incentive for each executive is an annual cash payment determined by relationship to the amount of fixed salary and achievement of individual KPIs. The expected performances of the Managing Director & CEO, staff reporting directly to him (known as 'direct reports') and other senior staff members, are specified each year using Key Performance Indicators (KPIs) in individual role agreements. These KPIs include financial targets for Melbourne IT overall as well as personal objectives and targets, appropriate for each individual's role.

The long-term incentive is membership of the Employee Performance Share Option Plan and/or the Melbourne IT Performance Rights Plan (both of which have been approved by shareholders).

Payment of equity-based executive remuneration is made in accordance with thresholds set in Plans approved by shareholders.

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	23,379	30,377
Trade and other receivables	24,890	25,831
Inventories	562	582
Prepayment of domain name registry charges	13,317	15,138
Derivative financial instruments	258	115
Other assets	2,813	2,584
<b>Total Current Assets</b>	<b>65,219</b>	<b>74,627</b>
<b>Non-Current Assets</b>		
Plant and equipment	7,665	11,174
Intangible assets	126,641	129,522
Deferred income tax assets	5,971	2,581
Prepayment of domain name registry charges	7,609	9,433
Investments in associates	–	–
Other assets	43	7
<b>Total Non-Current Assets</b>	<b>147,929</b>	<b>152,717</b>
<b>TOTAL ASSETS</b>	<b>213,148</b>	<b>227,344</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Trade and other payables	14,532	19,656
Interest-bearing loans and borrowings	5,904	4,451
Provisions	4,165	3,649
Current tax liabilities	904	2,053
Income received in advance	37,299	37,536
<b>Total Current Liabilities</b>	<b>62,804</b>	<b>67,345</b>
<b>Non-Current Liabilities</b>		
Interest-bearing loans and borrowings	40,342	53,410
Deferred income tax liability	2,194	–
Provisions	716	605
Income received in advance	15,226	18,176
Derivative financial instruments	597	–
<b>Total Non-Current Liabilities</b>	<b>59,075</b>	<b>72,191</b>
<b>TOTAL LIABILITIES</b>	<b>121,879</b>	<b>139,536</b>
<b>NET ASSETS</b>	<b>91,269</b>	<b>87,808</b>
<b>EQUITY</b>		
Contributed equity	64,839	63,005
Foreign currency translation reserve	(9,270)	(5,900)
Options reserve	3,880	3,095
Hedging reserve	111	69
Retained earnings	31,709	27,539
<b>TOTAL EQUITY</b>	<b>91,269</b>	<b>87,808</b>

This consolidated balance sheet is an extract from the 2010 Melbourne IT Annual Report.

The full Annual Report and notes relating to this statement are available at <http://annualreport.melbourneit.info>

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Revenue	189,793	199,731
Other Income	69	371
Registry, Hosting and Sundry Other Product Costs	(73,435)	(77,746)
<b>Gross profit</b>	<b>116,427</b>	<b>122,356</b>
Salaries and employee benefits expenses	(68,706)	(70,395)
Depreciation and amortisation expenses	(6,169)	(7,464)
Amortisation of identifiable intangible assets	(1,200)	(1,394)
Other expenses	(20,272)	(20,411)
Share of net (loss) of an associate	(20)	(564)
<b>Profit before tax</b>	<b>20,060</b>	<b>22,128</b>
Income tax expense	(4,000)	(5,320)
<b>Net Profit attributable to members of Melbourne IT Ltd</b>	<b>16,060</b>	<b>16,808</b>
<b>Other comprehensive income</b>		
Currency translation differences	(3,370)	(3,460)
Net gains/(losses) on cashflow hedges	42	(512)
<b>Other comprehensive income for the period, net of tax</b>	<b>(3,328)</b>	<b>(3,972)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>12,732</b>	<b>12,836</b>
Profit attributable to members of the parent	16,060	16,808
Total comprehensive income attributable to members of the parent	12,732	12,836
<b>EARNINGS PER SHARE</b>	<b>2010</b>	<b>2009</b>
Basic earnings per share	20.21 cents	21.42 cents
Diluted earnings per share	20.20 cents	21.40 cents

This consolidated statement of comprehensive income is an extract from the 2010 Melbourne IT Annual Report.

The full Annual Report and notes relating to this statement are available at <http://annualreport.melbourneit.info>

	FOREIGN CURRENCY RESERVE	OPTIONS RESERVE	HEDGING RESERVE	CONTRIBUTED EQUITY	RETAINED EARNINGS	TOTAL
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 1 January 2010</b>	<b>(5,900)</b>	<b>3,095</b>	<b>69</b>	<b>63,005</b>	<b>27,539</b>	<b>87,808</b>
Profit for the period	–	–	–	–	16,060	<b>16,060</b>
Other comprehensive income	(3,370)	–	42	–	–	<b>(3,328)</b>
<b>Total comprehensive income for the period</b>	<b>(3,370)</b>	<b>–</b>	<b>42</b>	<b>–</b>	<b>16,060</b>	<b>12,732</b>
<b>Transactions with owners in their capacity as owners:</b>						
Share based payment	–	785	–	–	–	<b>785</b>
Dividend Reinvestment Plan	–	–	–	1,622	(1,622)	–
Exercise of Options	–	–	–	212	–	<b>212</b>
Equity Dividends	–	–	–	–	(10,268)	<b>(10,268)</b>
<b>As at 31 December 2010</b>	<b>(9,270)</b>	<b>3,880</b>	<b>111</b>	<b>64,839</b>	<b>31,709</b>	<b>91,269</b>
<b>As at 1 January 2009</b>	<b>(2,440)</b>	<b>2,247</b>	<b>581</b>	<b>61,204</b>	<b>22,472</b>	<b>84,064</b>
Profit for the period	–	–	–	–	16,808	<b>16,808</b>
Other comprehensive income	(3,460)	–	(512)	–	–	<b>(3,972)</b>
<b>Total comprehensive income for the period</b>	<b>(3,460)</b>	<b>–</b>	<b>(512)</b>	<b>–</b>	<b>16,808</b>	<b>12,836</b>
<b>Transactions with owners in their capacity as owners:</b>						
Share based payment	–	848	–	–	–	<b>848</b>
Dividend Reinvestment Plan	–	–	–	1,549	(1,549)	–
Exercise of Options	–	–	–	252	–	<b>252</b>
Equity Dividends	–	–	–	–	(10,192)	<b>(10,192)</b>
<b>As at 31 December 2009</b>	<b>(5,900)</b>	<b>3,095</b>	<b>69</b>	<b>63,005</b>	<b>27,539</b>	<b>87,808</b>

This consolidated statement of changes in equity is an extract from the 2010 Melbourne IT Annual Report.  
The full Annual Report and notes relating to this statement are available at <http://annualreport.melbourneit.info>

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipt of service revenue and recoveries (inclusive of GST)	203,717	222,752
Payments to suppliers and employees (inclusive of GST)	(177,524)	(190,864)
Interest received	631	778
Interest paid	(1,753)	(2,063)
Bank charges and credit card merchant fees	(1,254)	(1,358)
Income tax paid	(5,088)	(7,007)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>18,729</b>	<b>22,238</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of plant and equipment and intangible assets	(10,533)	(3,867)
Proceeds on sale of plant and equipment	1,474	–
Acquisition of subsidiary, net of cash acquired – DBMS	–	(340)
Investment in Joint Venture – Advantate Pty Ltd	(20)	(200)
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(9,079)</b>	<b>(4,407)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of interest bearing liabilities	(5,337)	(3,501)
Proceeds from issue of ordinary shares – ESOP	212	252
Payment of dividend on ordinary shares	(10,268)	(10,192)
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>	<b>(15,393)</b>	<b>(13,441)</b>
<b>NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(5,743)</b>	<b>4,390</b>
Net foreign exchange differences	(1,255)	(2,395)
Cash and cash equivalents at beginning of period	30,377	28,382
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>23,379</b>	<b>30,377</b>

This consolidated statement of cash flows is an extract from the 2010 Melbourne IT Annual Report.  
The full Annual Report and notes relating to this statement are available at <http://annualreport.melbourneit.info>

## MELBOURNE IT LTD

ABN: 21 073 716 793

## DIRECTORS

Mr. S.D. Jones (Chairman)  
Mr. T.J. Hnarakis (Managing Director)  
Mr. T. Kiing  
Prof. I. Morrison  
Mr. R.J. Stewart  
Mr. A. Walsh

## SHARE REGISTRY

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## MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER

Mr. T.J. Hnarakis

## CHIEF OPERATING OFFICER

Mr. D.M. Walsh

## CHIEF FINANCIAL OFFICER

Ms. C.M. Sutton

## COMPANY SECRETARY

Ms. A. Jegathesan

## AUDITORS

Ernst & Young

## IMPORTANT INFORMATION FOR SHAREHOLDERS

In 2010, Melbourne IT has produced two shareholder documents – an Annual Review and an Annual Report. The Annual Review is a more succinct shareholder overview designed to provide a high level summary of the strategic and operational performance of the company during 2010. The Annual Report cannot be expected to provide as full an understanding of the financial performance, financial position and investing activities of the company as the Annual Report.

In addition to the information in the Annual Review, the Annual Report contains a full financial report and our auditors' report. Shareholders wishing to receive a copy of the more detailed Annual Report may do so by visiting <http://annualreport.melbourneit.info>

The Annual Review can also be accessed online at <http://annualreport.melbourneit.info>

... visit us online!  
<http://annualreport.melbourneit.info>

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