

2000

Annual Report | Concise Version



MELBOURNE **IT**

Annual General Meeting

The Annual General Meeting will be held at Le Meridien at Rialto, 495 Collins Street, Melbourne on 23 May, 2001 at 11am. Details of business are contained in the Notice of meeting enclosed with this Annual Report.

Attendance at the Annual General Meeting or voting by proxy is the most effective way for shareholders to participate in Melbourne IT's affairs. All shareholders are therefore encouraged to attend the meeting in person or complete and return the Proxy that accompanies the Notice of Meeting.

Who we are

Melbourne IT is a leading supplier of domain names and related services to the global market. On December 14, 1999 Melbourne IT's shares were listed on the Australian Stock Exchange, trading as MLB. The Company's domain name registration business, Internet Names WorldWide supplies a variety of ccTLD and gTLD domain names (.com, .net, .org) to customers worldwide and offers secure, scaleable and robust registration services and 24-hour customer service.

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www.melbourneit.com.au

Investor relations website

- Media releases relating to the Company's activities
- Calendar of events
- Announcements to the Australian Stock Exchange
- Publications such as the annual report, half-year report and prospectus
- Answers to frequently asked questions
- Details on the Company's ownership structure and history of trading in the Company's shares
- Company presentations such as those used for presentations to analysts and institutional investors.

* Shareholders can also visit www.corporatefile.com.au for detailed analyst styled reports on the company

IMPORTANT INFORMATION FOR SHAREHOLDERS

Melbourne IT's Annual Report, Concise Financial Report and Auditor's Statement contained within this document represent a Concise Report. The full financial report of Melbourne IT Limited for the financial year ended 31 December 2000 and the Auditor's Report will be sent to Shareholders upon request.

Shareholders wishing to receive a copy of the Full Financial Report and Auditor's Report may arrange delivery by emailing investor.enquiries@melbourneit.com.au

The Concise Financial Report contained within this document has been derived from the full financial report of Melbourne IT for the financial year ended 31 December 2000 and cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the company as the full financial report.

Operating Highlights

	2000	1999
Operating Revenue	\$43,320,000	\$14,963,000
EBIT	\$1,534,000	\$1,462,000
Net Profit after tax	\$1,481,000	\$1,020,000
Cashflow from operations in the period	\$10,640,000	\$4,586,000
Cash and liquid investments	\$14,982,000	\$9,309,000
Income in advance	\$10,497,000	\$4,447,902

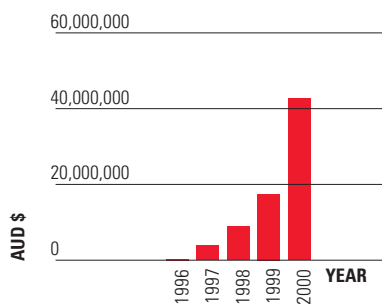


FIGURE 1
Total revenue excluding interest 1996-2000.

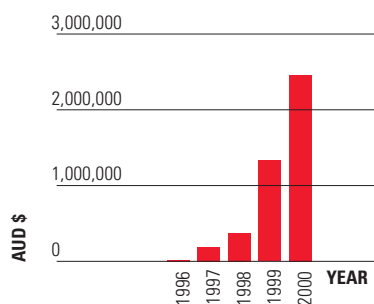
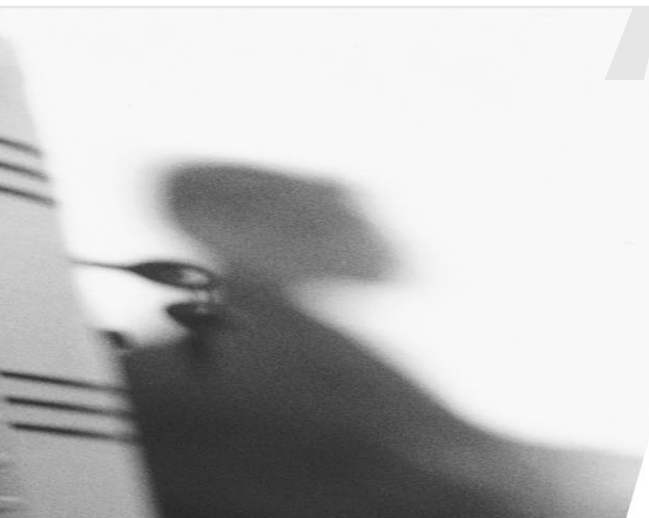


FIGURE 2
Profit before tax 1996-2000



Although 2000 was a very challenging year for Melbourne IT, the company improved EBIT, operating profit after tax and cash flow over 1999.

The Board firmly believes that with the strategic measures taken in investing in future business activities combined with reducing costs during the year, 2001 and beyond provides considerable opportunities.

Rob Stewart, Chairman

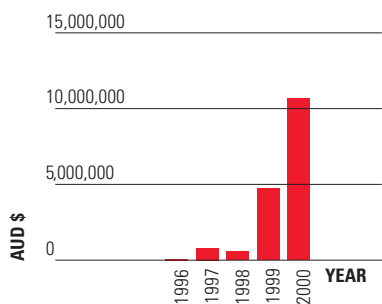


FIGURE 3
Cash flow from operations 1996-2000

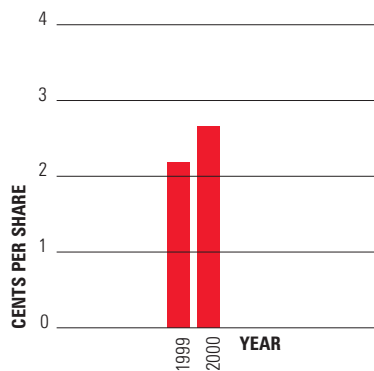
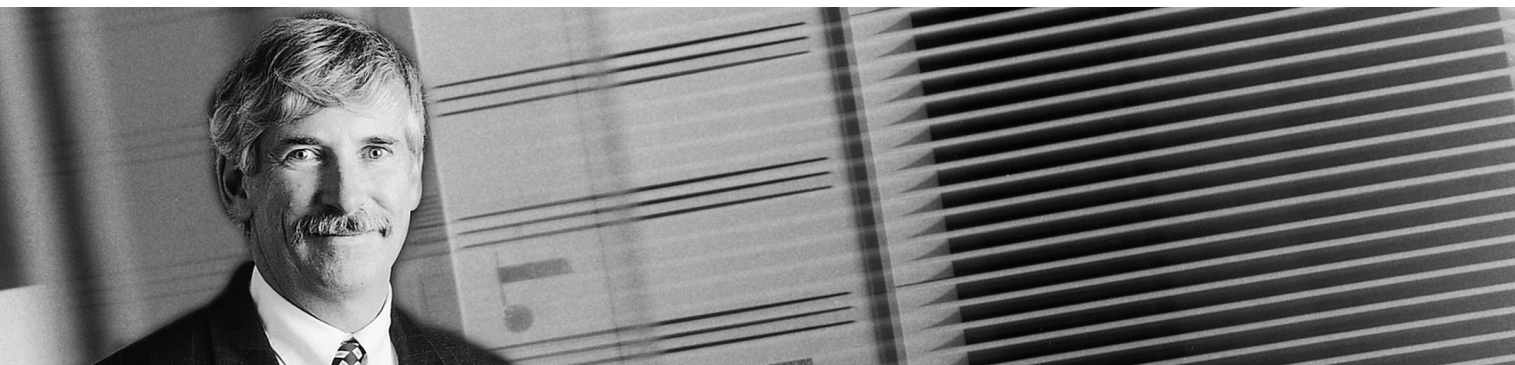


FIGURE 4
Basic earnings per share 1999-2000

Chairman's . report

The Board is pleased to present the 2000 Annual report to shareholders. The report covers the financial results for the year ended 31 December 2000 together with specific details of the company's performance during this period and an overview of planned activities for the future.



^ | Rob Stewart, Chairman

The year in review

History will reflect on the year 2000 as one of many contrasts.

The year that started with a focus on a Y2K bug, high levels of investment in dot com stocks, and then finished with an emerging global recession, is one that will be viewed as a watershed year for the IT sector.

History will no doubt be particularly critical of companies that failed to adopt fundamental business principles, or simply had unsustainable business models and relied on hype and marketing as the primary tools to grow their business. What will also be acknowledged however, is that the world economy is undergoing fundamental changes and that a number of new businesses will emerge from the NASDAQ led collapse and survive the global pressures attached to this, by virtue of their strong commitment to their balance sheet, technology, customers and staff.

Melbourne IT is such a business.

2000 was a year of considerable change, and presented the company with many challenges. Being a young company, having been established only in 1996 and being listed in December 1999, Melbourne IT experienced what

some would call 'growing pains' in our first full year as a publicly listed entity. The substantial growth of the market for generic top level domain names (gTLD's) in the first two quarters of 2000, led the company to expand its operations and build up an infrastructure beyond what the domain name market would support to ensure longer term profitability. This needed to be corrected following a slowing in the growth of the gTLD market and increased pricing pressures due to competition in that market.

As a result of the measures we have taken during the year, Melbourne IT enters 2001 in a strong cash position with just under \$15 million in cash and liquid investments, no debt and a highly skilled staff that are at the heart of Australian technology that is being delivered on a global scale.

Financial Results

For the year 2000, Melbourne IT achieved a net profit after tax of AUD\$1.481 million (1999: \$1.020 million) and revenue of \$43.3 million (1999: \$14.9 million). An EBIT of \$1.534 million (1999: \$1.462 million) exceeded the company's amended forecast of a full year EBIT "in the range of a \$0.5 million loss to \$1m profit" issued to the market in October. This EBIT figure represents a 16% increase on the 1999 result.

The EBIT result of \$1.534 million was achieved in light of the challenging environment the company faced through the year. Although not reaching original prospectus forecasts, the company has improved EBIT, operating profit after tax and cash flow generated over last year, notwithstanding over \$1.6 million of non-recurring project costs.

The company's Internet Names Worldwide division registered nearly 1.2 million generic top level domain names (gTLD's -.com, .org and .net) for the year. Combined with the continued solid performance in .com.au registrations, the company now has in excess of 1.5 million domain names under management overall.

Cashflow from operations throughout the year was \$10.6m (1999: \$4.6m) and Income in advance at 31 December 2000 was \$10.5m (1999: \$4.4m). At the end of the year, Melbourne IT had \$14.9 million in cash on its balance sheet and no debt.

Achievements

The year was highlighted by the company's commitment to innovation and strategic investment in activities that are designed to build long-term shareholder wealth. The company's focus on expanding its authorized reseller networks and building on the major accounts such as Verio and Intuit, gathered momentum during the year and Melbourne IT now has over 700 resellers globally. The commitment remains to secure high end reseller arrangements that deliver volume to the company, an example of which is the after balance date announcement of an agreement for Melbourne IT to provide .com, .net and .org domain names to users of Yahoo!® Domains (domains.yahoo.com).

Melbourne IT's long standing relationship with Ericsson also took another next step forward in 2000 with the announcement that the companies would create a joint venture company to develop mobile internet and secure mobile eCommerce applications. The new joint venture company 'ASAC21' will be officially launched in April 2001.

Technology is at the core of everything we do and 2000 was highlighted by considerable software development; examples include the introduction of value adding services like NameBuddy; 63 character domain name registrations; Bulk Transfers; and multi-lingual domain name registrations. All of this work was done by a team of dedicated software engineers who also ensure the stability, reliability and scalability of our systems remain at world's best standards.

The global recognition of the company's domain name systems development was taken to a new level when Melbourne IT bid in conjunction with NeuStar, the leading telephone registry services provider in the United States, to provide registry services for the new .biz top level domain. The proposed joint venture company Neulevel will provide global registry services and make a major contribution to the evolution of the domain name system. Importantly, the .biz TLD will be a dedicated space for businesses to intelligently interact.

Board and CEO changes

Non-Executive Director, Dr Stephen Gumley retired (after balance date) in January 2001 to take up opportunities in the IT sector in the USA. Steve made an outstanding contribution as a Director during his time with the Board and we wish him well. We have been delighted to have a new Non-Executive Director, Dr Mark Toner, join the Board in February, 2001.

In September, Melbourne IT's founding CEO, Professor Peter Gerrard retired from the company. Peter's contribution to build Melbourne IT from its early days at the University of Melbourne to an ASX listed and now global technology company is an achievement for which he can be very proud. The Board thanks Peter for his contributions.

Mr Adrian Kloeden, who commenced with the company in July as Chief Operating Officer, was appointed CEO in October and his efforts in bringing greater focus and discipline to the business are already clearly evident.

As always, change is constant, and 2001 and beyond will present both challenges and opportunities for Melbourne IT. The Board believes that with the strong technological base, improved marketing skills and the continued development of the company based on solid business principles, Melbourne IT will grow and prosper into the future.

On behalf of all shareholders I would like to thank the Board, management and staff for their very hard work throughout the year. We have even more hard work ahead in 2001 to build Melbourne IT into the global leader that we believe it can be.

Rob Stewart, Chairman



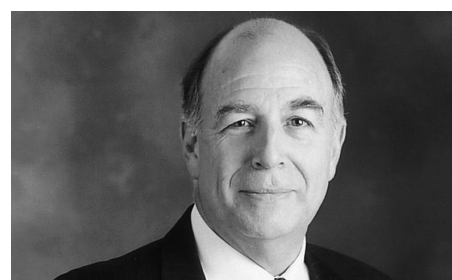
^ | Colin Adam



^ | Kevin Courtney

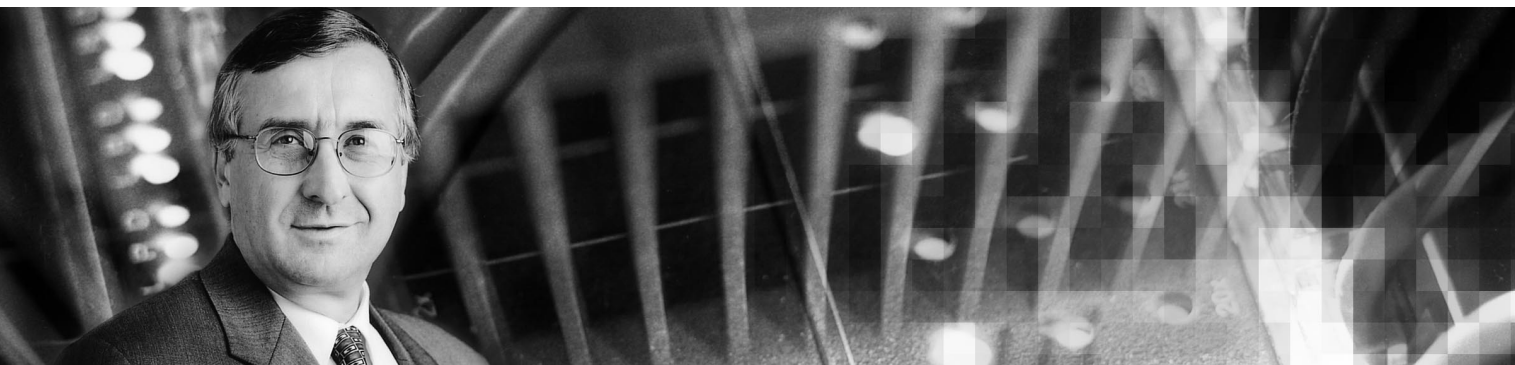


^ | Iain Morrison



^ | Mark Toner - appointed Feb 2001

CEO's . report



▲ | **Adrian Kloeden** Chief Executive Officer

The key features of the Melbourne IT business are that:

1. It is truly global in its activities
2. It has a sustainable cash flow and is debt free, and
3. It has significant growth potential in its various lines of business

By simplifying the key features of the business and categorising them into these three areas, we can prioritise the tasks ahead and plan our future rather than having it planned for us.

It is well documented that the IT sector went through an evolution of sorts during 2000, with many businesses not seeing the end of the year with the same level of spirit and optimism that may have been evident as they entered the new millennium. For many of those businesses, they failed to plan and accordingly their performance, their cash burn rates and the inherent lack of a sustainable marketplace for their products were reflective of this.

Enhancing our distribution network

Melbourne IT has always had a strong plan, supported by a suite of e-commerce products that are essential to obtaining a presence on the Internet. The Melbourne IT business model is supported by a superior technical platform that has achieved global recognition and we are building our reseller relationships at the highest level of the Internet marketplace globally. Considerable re-modelling of registrar businesses is taking place on a global scale and Melbourne IT has grown its reseller network during the year and secured leading Internet companies as resellers by maintaining its position as a trusted and neutral 3rd party registrar.

The company's plan from the day of listing to become the leading global wholesale domain name registrar is gathering momentum and as we move into 2001, the company is significantly closer to realising this as a result of a committed neutral 3rd party stance, dedication to strategic planning and pursuit of technical excellence in everything we do. The company is increasingly being referred to internationally as the 'registrar of choice' for many global Internet companies.

Sale of domain names

The sales figures for the year are a solid reflection of the company's growth during the period, with registration of 1.183 million gTLD's. These results were achieved in a gTLD market that was highly competitive and price sensitive.

In addition, the number of registrars grew and in the second half of 2000, demand slowed in anticipation of the introduction of new top level domains and a growing perception that the availability of marketable names had decreased.

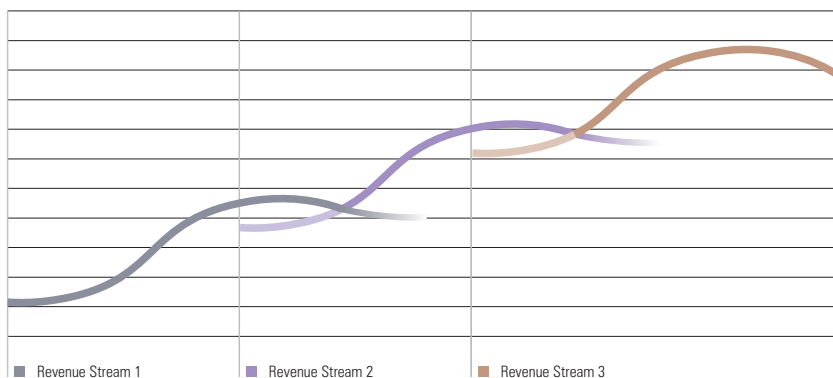
Although in the later stages of 2000 the gTLD prices and volumes stabilised, the market still remains fiercely competitive and difficult to forecast, even a month ahead.

In the .com.au market, Melbourne IT registered 87,516 domain names. This compares with 63,251 names during 1999, an increase of 38.4%. This volume of names recognised the continued development of the .com.au brand as a strong and viable domain space in Australia.

Competition

Much has been said about the impending competition in .com.au, some of which has been driven by the 'tall poppy' syndrome, not cognisant of Melbourne IT's role in actively growing the value of the '.com.au' market through significant investments in customer service and technical infrastructure. Melbourne IT, although not responsible for .com.au policy has sought to implement the policy for the space with a high degree of integrity. The process which is underway to review this policy and introduce a model for competition in the .com.au space has the potential to enhance or diminish the standing of the space domestically and internationally.

At Melbourne IT, we have shown a capacity to be highly competitive in the most challenging of global environments, and therefore we await the outcomes of this process with much interest. What is critical is the future development and stability of the space which must be a central consideration of any new policy.



^ | **FIGURE 5**
Melbourne IT revenue streams depicted by 'waves'

Pillars of the business

Although the registrar operation is the core pillar of the business, Melbourne IT took some significant steps forward during 2000 to complement this facet of the business with new and strategic business initiatives.

Two major developments took place:

- NeuLevel, a joint bid with US telecommunications company NeuStar for the .biz registry, and
- ASAC21 Ltd, the advanced software application joint venture with Ericsson

Melbourne IT also continued its support of the IT Incubator project, (Information City Victoria), in which the company holds a 35% interest. This organisation will see Melbourne IT working closely with emerging companies and new technologies.

These businesses all have considerable growth prospects and are outlined in more detail in the body of this report.

'New Waves' of Revenue

The pace of change on the Internet and the emergence of new technologies, new products and new distribution channels presents Melbourne IT with considerable opportunities. The company actively seeks to capture a 'first to market' advantage on new products, an example of which in 2000 was the commencement of domain name registrations in languages other than English. Although still early in their product lifecycle, the new multi-lingual domain name services, along with an increasing presence in a range of country code domain name environments, have added to Melbourne IT's suite of domain name product offerings. As a result, Melbourne IT is fast becoming a 'one-stop-shop' of choice for premium internet customers.

As indicated in figure 5 (adjacent), it is these 'waves' of products that emerge and provide the business with opportunities to generate new revenue lines which ultimately become an annuity income stream.

These are the fundamentals of the business – the core elements that underpin the business strategy that will guide the growth of the company into the future.

Due to the demands of the market outlined earlier, the business was put under the microscope in the second half of 2000. Some fine tuning took place and the organisation responded well to this. As I have stated publicly before, this is a business with a number of opportunities in the fastest growing sector in the world economy. With a strengthening balance sheet, no debt and a continuing focus on reducing costs, Melbourne IT is in a position to use its financial resources for strategic investments in new technology opportunities. We are still a young company and we have made our share of mistakes; which we are continuing to work our way through. However, we are learning fast in a challenging market.

These new opportunities will bring rewards for the company and provide for shareholder returns in the future.

Adrian Kloeden
Chief Executive Officer

Industry . overview

About Domain Names

Domain names, or web addresses are the electronic brands of the new economy. They are the starting point for any business wishing to establish an online presence and, potentially are a very profitable add-on service for global Internet Service Providers and web hosting companies who seek additional services to add value to their business propositions. Domain names are a window into organisations of all sizes and provide an interactive and immediate sales and promotional avenue for companies in their dealings with customers.

Domain names assist consumers or businesses find a specific web location quickly and easily (for example www.melbourneit.com.au) and enable businesses to profile different brands (for example www.melbourneit.com.au, www.inwww.com.au) and products (for example www.namebuddy.com)

Melbourne IT, the Asia Pacific's leading domain name registrar, has successfully leveraged its position to sell – through its global distribution channel – vital e-commerce services and infrastructure tools that help customers establish a presence on the World Wide Web. We are the starting point for establishing an online identity.

Domain Name Market

As illustrated in figure 6, the domain name system is a hierarchical structure, starting from the 'Top Level Domains' (TLDs). There are two classes of TLDs: three-letter 'generic TLDs' (gTLDs) such as .com, .net, .org; and two-letter 'country code TLDs' (ccTLDs), such as .au.

The country code domains can be further broken down into Second Level Domains such as .com.au, .net.au, etc. Individual domain names are formed by identifying a specific business or organisational name with the domain (for example telstra.com.au).

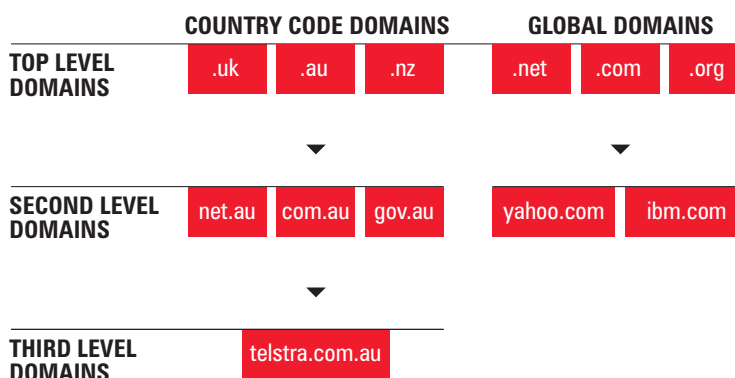


FIGURE 6
Domain name hierarchy

Policy framework

The development of policy for the .au domain is the responsibility of .au Domain Administration Limited, (auDA) the industry self-regulatory body for the .au namespace (Internet domains that end in .au). Recently, the Australian Government formally endorsed auDA as the appropriate entity to hold the delegation of authority for administration of the .au space. This will enable auDA to assume the role from Mr Robert Elz who currently holds the authority to administer .au from the Internet Assigned Numbers Authority (IANA).

Nearing the end of 2000, auDA established two advisory panels to prepare reports proposing changes to domain name policy and a model for introducing competition in the provision of domain name services in Australia. Melbourne IT assisted the development of the panels and has made submissions outlining its desired outcome from the process being undertaken.

The central themes of Melbourne IT's submissions have been that the company has worked within a challenging policy environment and administered the .com.au space for over 4 years to develop the space into one of the world's leading country codes. Melbourne IT advocates that the industry must be wary of any change that could unsettle the security, stability and positioning of the .au space. Change that brings certainty of policy and increases the international competitiveness of the .com.au space is however an absolute priority. For further information on .com.au policy, visit www.auda.org.au

By contrast to the .au domain, the gTLD space (.com, .net, .org) is less regulated and allows individuals and businesses to register multiple domain names.

The body responsible for the overall coordination of gTLD names is ICANN (Internet Corporation for Assigned Names). ICANN was formed to represent the interests of the broad Internet community and is a private, not for profit corporation. Its authority to oversee and regulate issues such as domain name administration is based on the voluntary compliance with its consensus-based policies by the wider Internet community. Melbourne IT is one of over 70 licensed ICANN registrars globally and is bound by ICANN's license conditions. For further information, visit www.icann.org

Outlook

Although 2000 has been a turbulent year for the domain name industry and more broadly, for the information technology sector as a whole, the market has still grown substantially during this time. According to NetNames in April 2001, the number of domain names registered on the Internet passed the 35 million mark for the first time. The total number of registrations was 35,326,996. These include both country code domain names such as .com.au and gTLD domains like .com, .net and .org.

Although it has taken close to a decade for the Internet to reach 35 million domain names, the next thirty five million will not take as long due to sustained demand and the introduction of 7 new gTLDs (.biz, .info, .name, .pro, .coop, .aero and .museum.) in late 2001.

The most popular Internet suffix is .com, with over 22 million domains (.net has over 4.2 million domains and .org, 2.6 million). Despite the USA having the greatest number of 'Internet surfers', few Americans make use of the country code .us. Britain has the most popular country code with .uk, (over 2 million domain registrations), closely followed by the German .de. Netherlands .nl, and .it for Italy are also popular suffixes. Australia's .au has over 220,000 registrations.

New Top Level Domains

The Internet Corporation for Assigned Names and Numbers (ICANN) announced in November its selections for registry operators of seven new Top Level Domains, which include a variety of different business, community or personal extensions that have not been addressed to date via the .com, .net or .org extensions. The new TLDs will create the first ever series of designated domain names, to enhance search capability and provide a degree of brand differentiation that has not been available to date on the World Wide Web.

The seven new TLD's are:

- .biz – a dedicated business space.
- .pro - to allow individuals, who prove their professional status, to have the option of registering their name as, for example, name.profession.pro. or billsmith.med.pro.
- .info – to be used for general information.
- .name - to allow individuals to register e.g. john.smith.name.
- .museum - to allow accredited museums worldwide to make searches less necessary.
- .coop - specially designated for business cooperatives, such as credit unions.
- .aero - for use by airlines, airports and computer reservation systems.

ICANN's reasons for introducing the new TLD's are:

- To improve navigation around the rapidly expanding domain name system
- To minimise the misuse of domains through infringement
- To promote competition in the domain name system
- To introduce non-commercial and personal domains

.Biz

"a dedicated space for businesses to intelligently interact"

Melbourne IT, in conjunction with NeuStar, was a successful bidder to operate the registry for the new .biz top level domain awarded by ICANN. The need for new TLD's and in particular, the .biz space has arisen due to the phenomenal growth of the Internet. Although the growth has enabled business to 'get online', the absence of any substantive strategic management of this growth has resulted in a crowded marketplace on the Internet where companies struggle to find domain names that are easy to remember and are representative of the company's name and services.

NeuLevel brings together Melbourne IT's domain name registration expertise and NeuStar's experience in supporting vital public communication infrastructure as a trusted, third party (NeuStar provides the registry service critical for the routing of all telephone calls in North America). The combination of these unmatched capabilities uniquely qualifies NeuLevel to deliver highly stable, secure, and scalable registry services.

.biz will be the place for businesses to establish their presence on the Internet. In addition, .biz will open the Internet up to more businesses as well as provide support for the introduction of new products and services that will provide increased services for the business community. Throughout all of this, NeuLevel's goal is to position .biz as the web address of choice for businesses by assuming the role of a trusted, neutral third party. The introduction of the .biz registry will create new and exciting opportunities for the business community. It is expected that the registry will commence in late 2001.

For more information, visit the NeuLevel website at www.neulevel.com

*At the time of publication, Melbourne IT's memorandum of understanding with NeuStar had yet to be formalised into a joint venture agreement. Melbourne IT was also actively engaged in fund raising activities to meet its investment obligations for the proposed joint venture. ICANN was also yet to formally contract with NeuLevel to operate the registry.

Internet . Names . WorldWide

Melbourne IT's business division, Internet Names WorldWide (INWW) provides businesses with Internet domain names.

INWW is the largest domain name registrar in the Asia Pacific Region and one of the largest wholesale registrars in the world, having registered in excess of 1.5 million domain names and with over 700 authorised resellers globally.

INWW's core activities are the supply of .com.au domain names to Australian companies and gTLD names (.com, .net, .org) to Australian and international customers. INWW's main markets are in the United States, the UK and Australia, although with a growing presence in Europe and Asia.

INWW's customers are authorised resellers, the majority of whom are web sector companies such as ISPs or web hosting providers who distribute INWW's products and services to the end customer. INWW is a trusted 3rd party provider of services and does not compete directly with its authorised resellers, but offers complementary services which can add value to their sales proposition. INWW does not offer competing services such as web access, web & DNS hosting, web and e-mail forwarding, but rather it offers authorised resellers many benefits including:

- an automated real time registration system;
- security and scalability;
- multiple interface options;
- a dedicated customer service centre and help desk available 24 hours a day, 7 days a week; and
- wholesale pricing.

In the domestic market in Australia, INWW has a strong direct market presence towards SMEs via the Melbourne IT brand which is recognised as the leading provider of domain name services in this country.

As the first non-US ICANN accredited registrar to offer .com, .net and .org domain names to the global market, INWW has attracted high profile clients and grown its business significantly during 2000.

INWW's registration systems for .com, .net and .org domain names have been in development since before ICANN accreditation and are mature, robust and scalable systems that offer some of the highest levels of service and security in the .com, .net and .org marketplace.

INWW is committed to technical excellence and delivering a new standard of performance in the automation and efficiency of domain name registration.

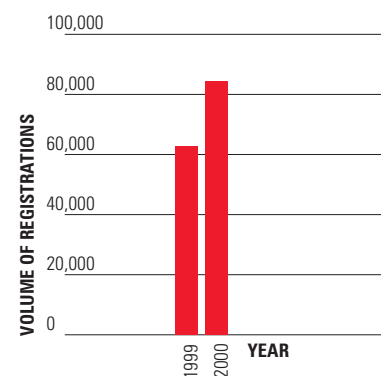
Performance

In 2000, INWW registered nearly 1.2 million gTLD's with its market share of the gTLD total names under management now standing at 4%*. Combined with .com.au registrations, INWW now has in excess of 1.5 million domain names under management worldwide.

In the .com.au market, INWW registered 87,516 domain names. This compares with 63,251 names during 1999, an increase of 38.4%. (as illustrated in fig 7.)

The first half of 2000 was a time of frenetic registration activity in gTLD's, with a sustained NASDAQ led surge in the valuation of dot com companies and a high volume of domain names being registered across the globe. Included in these registrations was a significant bulk/speculative activity that was aided by the introduction of a 1-year domain license. This effectively halved the capital outlay required to secure a significant portfolio of domains.

In contrast to the first half of the year, the second half of 2000 was highlighted by a decline in new gTLD registrations. Much of this was caused by the slowing down of speculative bulk name registrations received in the first half, and a global economic slowdown that led to a significant tightening in venture and working capital generally. Volumes may have also been impacted by the increasing shortage of new domain names in the existing gTLD space and from anticipation of the introduction of new TLDs (.biz, .info, .pro etc) expected in the second half of 2001.



^ | **FIGURE 7**
Melbourne IT com.au registrations

* ref ICANN Registrar Market share data March 2001

Although margins for the gTLD business declined significantly throughout the year as a result of increasing competition, in the later stages of 2000 the gTLD market pricing and volumes stabilised. During this time, INWW actively sought to position itself in the marketplace as the 'registrar of choice', via a commitment to provide an increasing and technically advanced suite of domain registration services, supported by strong customer service.

Digital Certificates

Early in 2000, Melbourne IT established an agreement with eSign to sell Verisign Digital Certificates into the web-server market in Australia and New Zealand. By year end, the company has experienced a significantly lower level of acceptance of the product by the target market than initially expected. The company is working with eSign to improve the rate of sales, and is also considering alternative arrangements for meeting the company's contractual commitments. This could involve an expense for the company in 2001 but it is not possible at this stage to predict the quantum.

Highlights for 2000

2000 was a year of considerable activity in the domain name industry and Melbourne IT's INWW division benefited from having an established presence in a fast and ever changing marketplace.

Early in the year, ICANN renewed Melbourne IT's domain registrar license for an additional five years, which consolidated the company's entry into the gTLD marketplace that had commenced when the company had been appointed as a testbed registrar in late 1999.

Other highlights for the year 2000 include:

- Registered nearly 1.2 million gTLD's
- Topped 1.5 million domain names under management
- Opened offices in the US and Spain
- Developed strong ties with the high end wholesale market (eg. Verio, Intuit) and established new reseller agreements with major volume providers
- Introduced a culture of continual improvement, combined with cost reduction strategies to maximise gross margin on domain name products
- Launched NameBuddy - the domain name industry's leading online name-generating technology tool
- Launched a Bulk Transfer service designed to automate the transfer of 100 plus domain names from any ICANN approved registrar to Melbourne IT
- Continued to grow the com.au market, with an increasing revenue stream from renewals
- Commenced registration of totally multi-lingual and multilingual.com domain names. (Multi-lingual domain names enable prefix characters in a domain name to be in the language of the country of origin, combined with the suffix '.com,' '.net' or '.org'. Melbourne IT is one of only 24 registrars accredited for this product).

Outlook

Melbourne IT's INWW will build on its positioning as the 'registrar of choice'. The business will further develop its technical platform, which has not only succeeded in making the .au space one of the world's leading country codes, but also established a growing global recognition of the company's registrar capabilities. It is now well positioned to grow in the world market and secure its place as a complete domain name manager.

In the year ahead INWW intends to capitalise on this positioning and increase market share to grow registration volumes.

It is projected that a 'wave' of products; notably the introduction of the seven new top level domains and new multilingual domains will evolve in the business during 2001. In addition to organic investments in new products such as ccTLD's and corporate domain services, these 'waves' of products will complement the strong renewal focus the business has on its 1.5 million domain names under management.

In the com.au market, the introduction of competition will see multiple registrars operating in the space nearing the end of 2001 and the company is well prepared for the demands and rigor of this increasing competition. The .com.au market is still relatively immature in terms of registration numbers (approximately 25% of the 900,000 actively trading businesses in Australia have a com.au domain name registered). This presents additional opportunities for INWW to capitalise on.

Professional . services

Advanced Services Application Centre (ASAC)

ASAC has been a successful joint venture between Melbourne IT and Ericsson since 1996. ASAC is one of Ericsson's global design centres, and is focused on delivering intelligent networking solutions and the product development of mobile data and mobile Internet technologies and applications for Ericsson and its telecommunications customers worldwide.

Melbourne IT had a team of approximately 35 staff providing development and management services to ASAC on a cost plus margin fee for service basis during 2000.

Ericsson and Melbourne IT signed a Shareholder's Agreement in 2000 to create a new joint venture company to develop mobile Internet and secure mobile eCommerce applications and to take over from the current ASAC business model during 2001.

ASAC21 Limited has been incorporated for that purpose.

Performance

ASAC maintained its excellent record during 2000 with the successful delivery of a number of key projects to both local and global customers.

Revenue to Melbourne IT for the 12 months to 31 December 2000 was AUD \$3,890,000 million and EBIT was AUD \$578,000. This represents a 12% increase on the previous year's revenue.

Highlights:

- Increased involvement in the service design and customisation of intelligent networks for the Asia Pacific and global customers;
- Successful delivery of mobile eCommerce products and applications to other Ericsson companies in Europe;
- Continued involvement in the prototyping and commercial trials of WAP and SMS applications to local Ericsson customers;
- Completion of the business planning necessary for future mode of operation.

Outlook

The new joint venture re-enforces Ericsson and Melbourne IT's business strategy of developing close alliances with trusted partners around the world, who can bring complementary competences to meet the requirements of their growing customer networks. ASAC21 will aim to capitalise on the expertise available within these organisations to develop new products and services. In particular, products that combine skills in domain name systems (DNS), mobility, location information, telephone number portability, and intelligent networks will be a priority consideration.

Research . and . technology

Melbourne IT has a strong commitment to maintaining its leadership position in the development of new technologies. The company has a world standard in-house software development capability that is utilised for its core domain name registration business, and maintains strong links with local and international research organisations to identify new product and service opportunities. Melbourne IT has further developed its strategic links with leading research and advanced technology organisations throughout 2000. Strategic partners Ericsson, who have been associated with the company since its inception, have formed an incorporated joint venture as outlined previously.

The University of Melbourne continued also to be a strategic link with ongoing research projects being built on during the year.

Melbourne IT's commitment to providing assistance to grass roots Australian R & D was evidenced via its continued support of the incubator program. Having been involved with the program since 1996, the endorsement via the receipt of three tiered government funding and support that has led to the establishment of Information City Victoria is an outstanding result that will continue to drive a program which has seen companies like Active Concepts and Blue Tongue Software emerge in recent years.

Nearing the end of 2000, Melbourne IT's joint bid with US telecommunications company, Neustar to seek approval for the new TLD registry has provided access to additional research and knowledge bases that will offer opportunities.

Highlights

- Substantially upgraded the core international domain name registration software to serve the needs of large international wholesale customers, and maintain its technological lead over competing registrars
- Set up a production domain name registration system with extensive built-in redundancy in a USA data centre to better serve international wholesale customers and ensure an availability in excess of 99%

Research . and . technology

- Conducted research into enabling technologies for web commerce including XML, metadata, multi-lingual capability, digital certification, online payment systems
- Provided core expertise in domain name systems to the ".biz" proposal with Neustar
- Awarded \$8 million funding by the Federal Government for the Information City Victoria incubator in partnership with Joint Technology Parks (JTP) Pty Ltd, supported by the private sector through companies such as ES Group Ventures and ADI. The incubator network aims to support over 100 high technology firms over the next 3 years.
- Funded scholarships for high achieving undergraduate and postgraduate students in IT related areas

Performance

Operational activities included:

- continued to fund the joint research project with the Department of Computer Science at The University of Melbourne to conduct research into the application of XML for eCommerce;
- participated with RMIT in a project called 'Telecentra' to design facilities for telecentres;
- conducted training seminars for Telstra on eCommerce;
- established a USA data centre as the primary location for the core domain name registration system, with a back-up site in Australia
- developed NameBuddy product for wholesale customers using an XML interface to assist end users to choose a domain name for their business which is not already registered

- re-engineered the core domain name registration software into discrete communicating software modules; one module is used to provide a consistent software interface for wholesale customers; and the other modules are used to provide specific functions such as credit card payments and interfaces to each domain name registry
- added multi-lingual capability to Melbourne IT databases and integrated with the iDNS registry for fully Chinese character domain names, and integrated with the Verisign Global Registry Service for multi-lingual ".com" names (Chinese, Japanese, Korean)
- added interfaces to country code domain name registries; ".co.uk" via an email interface, and ".to" via an http post interface
- added an interface for credit card payment systems in USA dollars, in addition to Australian dollars
- added an interface for wholesale customers to register digital certificates
- added services for wholesale customers to manage a collection of resources on behalf of their clients; this was first implemented for digital certificates in 2000
- added functions to the interface with wholesale customers to make it easier for them to create their own branded webpages as front-end interfaces to the registration system
- developed the inwww.es website so that it can switch seamlessly between Spanish and English for international domain name registrations in Spain and other Spanish speaking countries around the world

Outlook

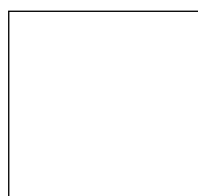
Melbourne IT will continue to enhance its core registration software to ensure it continues to build its client base of large wholesale customers.

Enhancements will include support for a wider range of country code domain names, and support for the new range of top level domains (eg ".biz", ".info", ".name"). Melbourne IT will seek to add new products and services to the range of services that wholesale partners can access through the core registration system.

The new ASAC21 joint venture between Melbourne IT and Ericsson will assist the development of new products and services for the global market.

Melbourne IT's involvement with the central city based Incubator will act as the hub of an incubator network with regional (Ballarat) and suburban (Heidelberg) representation. It also aims to provide a return both from its equity holding in the incubator, and through possible future partnerships with the high technology companies that graduate from the incubator. Melbourne IT will be able to use its growing wholesale distribution channel to market products and services developed by the incubator companies.

Our . people



Key Issues

Providing a workplace which fosters innovation and is supportive of employees' goals and aspirations is important to Melbourne IT. Throughout 2000 a number of initiatives and policies were introduced to enhance employee development and satisfaction, and to ensure the ongoing recruitment of the highest quality staff.

Melbourne IT has a highly skilled staff with over 75% tertiary educated.

As at 31 December 2000 there were 149 full time employees. The following is a breakdown of employees by division:

• <i>Production and Development</i>	43
• <i>ASAC Joint Venture</i>	39
• <i>Customer Services</i>	20
• <i>Sales</i>	21
• <i>Finance/ Administration</i>	15
• <i>Executives</i>	11
• TOTAL	149

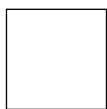
Performance

The Company's objectives for Human Resource management are:

- To recruit and retain above average, highly skilled employees.
- To continually develop and mentor employees, and foster long term internal career paths.
- To maximise communication and teamwork between business units.
- To ensure satisfactory working conditions for employees.

A number of policies and practices have been introduced to ensure the success of these objectives. For example the Employee Share Option Plan; Individual Development Plans and Performance Reviews; access to Death and Disability Insurance; and a Wellness plan including access to Gym Memberships, Yoga Classes, and Corporate Stress Relief massages.

A policy manual governing all areas of Human Resource Management has also been developed to ensure the implementation of best practice human resource policies.



Outlook

Human Resource, Training, Environmental, and Health and Safety policies and procedures are constantly being revised and updated as required.

Future directions identified for action include:

- OH&S employee development and training to enhance workplace awareness and involvement.
- Further development of current policies, including Performance Management and Travel / Relocation Policies.
- Introduction of a Management Development Training Program, and continual improvement of skills development programs across the organisation.



A COMMITMENT TO OUR CUSTOMERS

In the ever-accelerating race for competitive advantage, Melbourne IT's focus on customer service is a big differentiator. We are determined to build a customer-centric organisation; a company that will take advantage of unprecedented advances in technology and training to improve nearly every facet of our core operations, for the benefit of the customer. Our priority is to maintain a foundation of well-trained, multilingual, multiskilled and motivated staff who willingly and competently deliver excellent service, to create a positive customer experience.

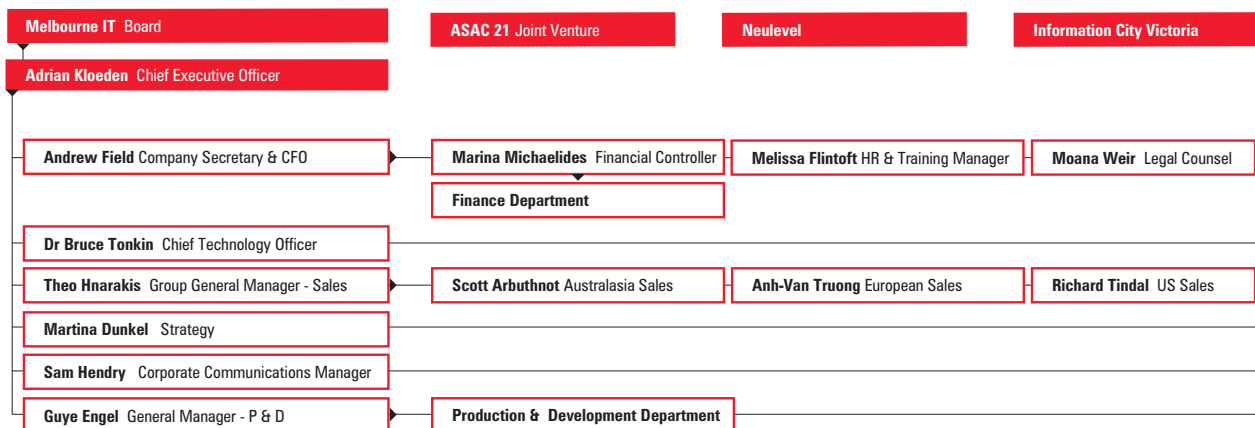
Customer Services supports all customer enquiries across our domain name product platforms from our retail and wholesale customer base globally on a 24 X 7 basis.

We use world best practices in assisting, processing and administering domain name applications and maintenance either by phone, fax, e-mail or web. Service staff are expert in their field of domain name administration and are empowered to take ownership of customer issues, build strong relationships, encourage repeat business and ensuring that the security of our customers is maintained via proven mechanisms.

Recent initiatives include new internal automated registration approval interfaces in assisting with application turnaround times for .com.au domains; automated and world first validation mechanisms for gTLD requests primarily for the registrar transfer process; planned implementation of more dependable and highly secure and

revenue driven gTLD organisation; name change maintenance systems. Response times have been a key issue and we have managed to either maintain, and in some cases, improve these by over 70%, reinforcing our expertise and commitment to customer satisfaction.

Our key goals remain as quality, accuracy, efficiency, and professionalism.



^ | **FIGURE 8**
Melbourne IT - Organisational Chart

Corporate . governance

The Board of Directors of Melbourne IT Ltd guides and monitors the affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board is responsible for the overall corporate governance of the Company.

Composition of the Board

The Constitution of Melbourne IT allows for the appointment of up to ten directors. There are currently five directors, all of whom are non-executive directors. They have been chosen so as to provide an appropriate mix of experience and qualifications for the governance of the Company. The Chairman is an independent non-executive director. One third of the directors must retire from office at the time of the Annual General Meeting each year. Retiring directors are eligible for re-election.

The performance of the Board is reviewed annually, both as to the performance of the Board as a whole and as to the performance of each individual director, including the Chairman and the CEO.

The Board generally meets monthly, with special meetings called from time to time if required between scheduled meetings. Agendas are established by the Chairman and the CEO to ensure proper coverage of strategic, technical and financial areas throughout the year.

The total remuneration available to non-executive directors is fixed by the shareholders at a General Meeting. The current limit is \$400,000. The issuing of options to directors must be approved by shareholders. Details of remuneration paid and options granted to directors in 2000 are set out in full in the Directors' Report.

Purchase and Sale of Shares by Directors

The Board encourages directors to own shares in the Company to further link their interests with those of the shareholders. Directors must comply with the Company's guidelines for buying and selling shares in Melbourne IT.

External Advice to Directors

In certain circumstances, a director may consider it necessary to seek independent professional advice in carrying out his duties. Should this arise, the director would discuss the matter with the Chairman and any advice considered necessary would be obtained at the expense of Melbourne IT.

Board Committees

The Board has established two committees to assist in carrying out its Corporate Governance role.

They are:

- Audit and Risk Management Committee, and
- Human Resources and Remuneration Committee

Prior to July 2000, a Technical Committee was also in operation (it met twice during 2000). However matters of a technical nature are so central to the company's business, it was decided to deal with these issues at a Board level.

Audit and Risk Management Committee (chaired by Mr K Courtney)

The Audit and Risk Management Committee is responsible for ensuring that proper accounting and auditing practices are maintained; that business risks are identified and managed effectively; that assets are protected against financial loss; and that legal and regulatory obligations are met. It is comprised of three non-executive directors.

It has direct access to the Company's auditors and senior management and is to meet at least three times each year.

Its role includes:

- reviewing reports submitted by external auditors;
- reviewing and recommending to the Board for approval half-yearly and yearly financial statements;
- funds management;
- foreign exchange risk management;
- capital expenditure approval procedures;
- insurances;
- monitoring regulatory compliance;
- risk management generally (including issues such as Occupational Health and Safety and management of information systems and internal controls).

Human Resources and Remuneration Committee (chaired by Dr M Toner)

The Human Resources and Remuneration Committee is responsible for ensuring the Company develops appropriate human resource management and remuneration policies. It is comprised of three non-executive directors.

It has direct access to the senior management of the Company and is to meet at least three times each year.

Particular issues it covers include:

- the recommendation to the Board of the compensation and key performance targets for the CEO;
- recommending to the Board appropriate compensation policies for the non-executive directors;
- approval of the compensation programmes and performance targets for senior executives;
- performance reviews for the CEO and Board
- succession planning for the Board, CEO and key executives;
- management of the Company's Share Option Plan;
- oversight of the Company's superannuation arrangements;
- overseeing the development of appropriate strategies and plans for staff

Directors

The names and details of the directors of the Company in office during the financial year and until the date of this report are:

Robert James Stewart (Chairman)

Mr Stewart was National Managing Partner of Minter Ellison, one of Australia's leading law firms, for eleven years, retiring in June 1999. He was also a non-executive director of Memtec Ltd, a high technology filtration company, from 1988 until 1997. Memtec listed on NASDAQ and then the New York Stock Exchange prior to being taken over by a US company in 1997. Mr Stewart spent five years with Pacific Dunlop from 1976 to 1981 in a variety of general management positions within the Footwear Group. He is also Chairman of Forest Enterprise Australia Limited, a plantation forestry company; Deputy Chairman of eMitch Limited, an online advertising and media placement company; and a Director of Uecomm Limited, a telecommunications carrier. Mr Stewart was appointed to the board on 14 September, 1999.

Iain Morrison

Professor Morrison is Professor of Information Systems at The University of Melbourne and has been closely involved for over ten years in the development of the Internet within Australia and in the effective applications of IT to business. He is a founding Director of Melbourne IT. He was elected to the auDA Board on 7 October 1999, and serves as an advisor and consultant to government and the higher education sector on telecommunications, copyright, online legislation and applications of IT and information systems.

Kevin Francis Courtney

Mr Courtney is a Chartered Accountant and a former regional managing partner of Ernst & Young. He is a Director of Adacel Technologies Limited, a Director of two National Australia Bank Group companies and Chairman of the Audit Committee of the National Competition Council. Mr Courtney has held a number of appointments including

Commissioner of the City of Melbourne, a member of the Victorian WorkCover Authority, a member of the Sunraysia Rural Water Authority and a Director of Connect.com.au, the Internet service provider sold to AAPT Limited. Mr Courtney was appointed to the board on 22 October, 1999. He is chairman of the Audit and Risk Management Committee.

Colin McLean Adam

Dr Adam is currently Special Adviser to the Chief Executive of the Commonwealth Scientific and Industrial Research Organisation (CSIRO) having acted as Chief Executive during the previous year. He is responsible for commercial activities of the organisation. He serves as a Board Member for a number of companies, including the Strategic Industry Research Foundation, Ceramic Fuel Cells Ltd and the Australia-Indonesia Institute. He also holds a non-executive Board position with UniSeed Pty Ltd, and has recently been nominated by Minister Kemp to the Board of the Australian Universities Quality Agency. Dr Adam was appointed to the board on 22 April, 1999.

Mark Christopher Toner

*Appointed to board on 1 February 2001

Dr Mark Toner is the former Managing Director of Kvaerner E&C Australia, a subsidiary of the international Engineering & Construction group, Kvaerner E&C which is headquartered in London.

Dr Toner's background is in marketing and management with a career focus on science and engineering, including IT and biotech. He has strong managerial experience in human resources, marketing and sales as well as IT. His qualifications include a BE(Chem) from the University of Melbourne and a PhD from Monash University. Dr Toner is President elect of the Institution of Chemical Engineers in Australia and President of the Business/Higher Education Round Table. Dr Toner was appointed to the board on 1 February 2001. He is chairman of the Human Resources and Remuneration Committee.

Stephen John Gumley

*Former Non-executive Director, retired on 26 January 2001

Dr Gumley was the Chief Executive Officer of the Preston Group Pty Ltd which develops advanced simulation and scheduling software for the international aviation industry. From 1992 to 1997, Dr Gumley was CEO of the entrepreneurial Global Lightning Technologies Group (GLT), which exported Australian developed technology and goods and services to over twenty-five countries in North America, Europe and Asia. Prior to that, he was General Manager of Critec Pty Ltd following several years as Engineering Director. Dr Gumley was appointed to the board on 1 October, 1999 and retired on 26 January 2001 as a result of a posting overseas. Dr Gumley has taken up the position of Vice President of Information Services with Boeing in the USA.

Peter Hamilton Gerrard

*Former CEO and Director, retired on 1 October 2000

Professor Gerrard was the founding CEO of Melbourne IT and is a Professorial Fellow in telecommunications at The University of Melbourne. He created the IT Incubator for eCommerce and Melbourne IT's Domain Name Bureau Service in 1996. Professor Gerrard has thirty years experience in the telecommunications industry. He was awarded the Charles Todd medal by the Australian Telecommunications User Group (ATUG) in 1998 for 'outstanding contributions to the telecommunications industry' and was named the ATUG 'Communicator of the Year'. He is a company Director and industry consultant, and has taken up the position of Executive Director of the Photonics Research Laboratory within the Australian Photonics Co-operative Research Centre.

corporate . governance / shareholders

Statement of Shareholdings As at 26 March 2001

Holding range	Name of 20 largest shareholders	No. of Holders	No. of Shares Held	% Held	Ordinary Shares
					Fully Paid
					Interest Notified Under s.671B
100,001 or more	MELBOURNE ENTERPRISES INTERNATIONAL LTD		7,500,000	15.00	7,500,000
	INVIA CUSTODIAN PTY LIMITED		2,450,000	4.90	-
	NIAKO INVESTMENTS PTY LTD		1,543,197	3.09	-
	AUSTRALIAN FOUNDATION INVESTMENT COMPANY LIMITED		1,000,000	2.00	-
	QUEENSLAND INVESTMENT		488,643	0.98	-
	SHIP AGENCIES AUSTRALIA PTY LTD		475,000	0.95	-
	MELBORD NOMINEES PTY LIMITED		467,000	0.93	-
	NATIONAL NOMINEES LIMITED		442,487	0.88	-
	RESERVE PROPERTIES PTY LTD		416,967	0.83	-
	MRS KAY MITRIS		363,376	0.73	-
	DJERRIWARRH INVESTMENTS		300,000	0.60	-
	CHASE MANHATTAN NOMINEES		292,839	0.59	-
	AMCIL LIMITED		275,000	0.55	-
	RACWA HOLDINGS PTY LTD		222,405	0.44	-
	MERRILL LYNCH (AUSTRALIA)		212,228	0.42	-
	MRS KHYLEE RODWELL		175,000	0.35	-
	WOODLAND INVESTMENT MANAGEMENT		160,000	0.32	-
	COMSEC NOMINEES PTY LIMITED		157,014	0.31	-
	C & G ASSET MANAGEMENT PTY LTD		150,000	0.30	-
	MR AFSHAD TALAIE		150,000	0.30	-
	OTHERS		367,065	0.75	-
100,001-	REPORT TOTAL	23	17,608,221	35.22	-
	REMAINDER		32,758,844	65.53	
10,001-100,000	VARIOUS	412	9,948,367	19.89	-
5,001-10,000	VARIOUS	810	6,525,565	13.05	
1,001-5,000	VARIOUS	4,788	12,589,502	25.18	-
1-1,000	VARIOUS	4,998	3,328,345	6.66	
	GRAND TOTAL		50,000,000	100.00	-

Substantial Shareholders

Shareholders appearing in the Registrar of Substantial Shareholders as at 26 March 2001 are as follows:

Name of Substantial Shareholder	Number of Shares	%
MELBOURNE ENTERPRISES *	7,500,000	15.00

* Melbourne Enterprises International Ltd retained 15% on listing.

Voting Rights

All ordinary shares carry one vote per share without restriction.

directors

The Directors present their report for the calendar year ended 31 December 2000 Melbourne IT ACN 073 716 793.

Directors

R J Stewart, I Morrison, C M Adam, K F Courtney, M C Toner. For information concerning the periods for which each of these persons have been directors and a description of their qualifications, experience and special responsibilities, please refer to the subsection headed 'Directors' in the Corporate Governance section of this Annual Report.

Chief Executive Officer

A J Kloeden

Company Secretary

A Field

Registered Office

Level Two 120 King Street Melbourne, Victoria, 3000 Telephone (03) 8624 2400

Interests in the Shares and Options of the Company

As at the date of this report, the interests of the directors in the shares and options of the Company were:

Shares 2000	Ordinary Shares	Options over Ordinary Shares
R J Stewart	50,000	58,650
I Morrison	10,000	29,325
C M Adam	40,000	29,325
K F Courtney	50,000	29,325

Principal Activities

The principal activities of the Company during the year were:

- administration of the internet name "com.au";
- registration of generic Top Level Domain (gTLD) names (.com, .net, .org);
- registration of multi-lingual generic Top Level Domain;
- research and development in information technologies and telecommunications.

The Online Enterprise Solutions division was restructured and the company sought a better financial return from its skilled staff previously in this division who were re-allocated roles. Other than this, there was no significant change in the nature of other business activities during the year.

Earnings Per Share

	Cents
Basic earnings per share	2.9
Diluted earnings per share	2.9

Results and Dividends

The profit after tax of the Melbourne IT Group for the year ended 31 December 2000 was \$1,481,635.

No dividends were provided for the year ended 31 December 2000.

Review and Result of Operations

Net profit after tax of AUD\$1.481 million (1999: \$1.020 million) and revenue of \$43.320 million (1999: \$14.9 million) for the year was achieved. An EBIT of \$1.534 million (1999:\$1.326 million) exceeded the company's amended forecast of a full year EBIT "in the range of a \$0.5 million loss to \$1m profit" issued to the market in October 2000. This EBIT figure represents a 16% increase on the 1999 result.

The EBIT result of \$1.534 million was achieved in light of a challenging environment the company faced through the year. Although not reaching original prospectus forecasts, the company has improved both EBIT and operating profit after tax over last year, notwithstanding over \$1.6 million of non-recurring project costs.

Summarised operating results for the year ended 31 December 2000 are:

	Actual \$ 000
Revenue	
Internet Names WorldWide	39,199
ASAC	3,890
Other Revenue	567
Total Revenue	43,656
Total Earnings Before Interest and Tax	1,534
Net Interest Income	806
Net Profit Before Tax	2,340
Tax Expense	(859)
Net Profit After Tax	1,481
Cashflow from operations	10,640

Significant Events after the Balance Date

On February 14, Melbourne IT announced it had signed an agreement with Yahoo!, a leading global internet communications, commerce and media company for Melbourne IT to provide .com, .net and .org domain names to users of Yahoo!® Domains (domains.yahoo.com).

At its Board meeting on 14 March, ICANN resolved to complete negotiations of the remaining unsponsored top-level domains, including negotiations with Melbourne IT's proposed joint venture company NeuLevel regarding the .biz TLD.

Melbourne IT's joint venture with Ericsson, Advanced Services Application Centre (ASAC 21 Ltd) will officially commence in April 2001.

Likely Developments and Expected Results

With the introduction of 7 new gTLD's, some of which may commence with pre-registrations in late 2001, the directors foresee growth in the volume of these domain name registrations globally which will provide an additional revenue source for the Company's INWW division, albeit the real growth in revenue from these gTLD 's is anticipated to commence in 2002. With regard to the existing gTLD market (.com, .net and .org), the continued expansion of the company's authorized reseller networks is foreseen, as is the forging of new relationships in new markets to capitalise on multilingual domain name registrations. Although the gTLD market and volumes have stabilized in the last quarter of 2000, the industry still remains fiercely competitive and is difficult to forecast, even a month ahead. In Australia, competition in the .com.au market is likely to commence in late 2001, which will present additional challenges for the company.

As a result of significantly lower level of acceptance of the digital certificates product by the target market than initially expected, the company is working with contracted parties to improve the rate of sales, and is also considering alternative arrangements for meeting the company's contractual commitments. This could involve an expense for the company in 2001 but it is not possible at this stage to predict the quantum.

Share Options

Details of share options are disclosed in Note 16 to the financial report

Indemnification and Insurance of Directors

During the financial year, the company entered into Deeds of Access, Indemnity and Insurance with its directors and certain senior officers.

During the financial year, the company paid a premium in respect of a Directors and Officers Liability Policy covering all directors and officers of the company and related bodies corporate. This contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Directors and other Officers Emoluments

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer, and the executive team. The Remuneration committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to the company's financial and operational performance. All senior executives have the opportunity to qualify for participation in the Executive Performance Bonus Plan which currently provides cash and share options incentives where specified criteria are met including criteria relating to the profitability, cash flow and share price growth. Details regarding the issue of share options under this plan are provided in Note 25 to the financial statements.

Details of the nature and amount of each element of the emolument of each director of the company and each of the five executive officers of the company receiving the highest emolument for the financial year are as follows:

Emoluments of Non-Executive Directors of Melbourne IT Ltd:

	Base Fee \$	Statutory Superannuation Contributions \$	Annual Emoluments Total \$	Long Term Emoluments Options Granted
Mr Robert Stewart	148,492	11,085	159,577	58,650
Dr Colin Adam	27,500		27,500	29,325
Prof Iain Morrison	42,317	2,969	45,286	29,325
Mr Kevin Courtney	31,937	2,347	34,284	29,325
Dr Stephen Gumley	31,937	2,347	34,284	0

Emoluments of the Executive Director and five most highly paid Executive Officers of Melbourne IT Ltd:

	Base Fee and Bonus \$	Other \$	Superannuation \$	Annual Emoluments Total \$	Long Term Emoluments Options Granted
Mr Adrian Kloedon*	109,431			109,431	480,000
Prof Peter Gerrand**	522,120	9,578	11,121	542,827	108,000
Mr Tom Dangthan	140,465	6,000	26,908	173,373	192,000
Mr Andrew Field	100,998	24,141	9,248	134,387	120,000
Mr Steve Mutabazi*	85,408	3,879	44,297	133,584	120,000
Mr Guye Engel	123,096		9,193	132,289	60,000

(* Base fee represents total amounts paid in the 2000 financial year. In the cases marked, it does not represent an annualised amount for officers who were employed for less than the full financial year)

(** Professor Peter Gerrand, former CEO and Executive Director was provided with an eligible termination payment on 30 September 2000)

Directors Meetings

**Directors
Meetings**

**Meetings of
Committees**

	Directors Meetings		Meetings of Committees		
	Eligible	Attended	Audit	Remuneration	Technical
Number of meetings held		18	4	7	2
Mr Robert Stewart	18	18	4	7	
Prof Peter Gerrand	15	15			1
Dr Colin Adam	18	15		4	2
Prof Iain Morrison	18	18	3		2
Dr Stephen Gumley	18	18		7	
Mr Kevin Courtney	18	17	4		

The previous table shows the numbers of meetings of directors held during 2000. The table also shows the number of meetings attended by each director and the number of meetings each director was eligible to attend.

As at the date of this report, the company had an Audit and Risk Management Committee and a Human Resources & Remuneration Committee of the Board of Directors.

The members of the Audit and Risk Management Committee are Mr K. Courtney (Chairman), Mr R. Stewart and Prof. I. Morrison.

The members of the Human Resources & Remuneration Committee are Dr M. Toner (Chairman), Mr R. Stewart and Dr C. Adam.

The members of the Technical Committee were Dr. C. Adam (Chairman), Prof. I. Morrison and Prof. P. Gerrand. The Technical Committee's functions were subsumed by the full Board in the second half of year 2000.

Notes :

Peter Gerrand retired on 1 October 2000

Steve Gumley retired on 26 January 2001. He had chaired the Human Resources & Remuneration Committee.

Mark Toner was appointed to the Board on 1 February 2001 and has taken over as Chairman of the Human Resources & Remuneration Committee.

Rounding

The amounts contained in this report and in the financial statements have been rounded off under the option available to the company under ASIC Class Order 98/100. 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 contained in the additional ASX information section of this annual report.

Signed in accordance with a resolution of the directors.



Kevin Francis Courtney (Non-executive Director)
Melbourne, 30th March 2001

Independent Audit Report

To the members of Melbourne IT Ltd

Scope

We have audited the financial report of Melbourne IT Ltd for the financial year ended 31 December 2000 as set out on pages 12 to 35, including the Directors Declaration. The financial report includes the financial statements of Melbourne IT Ltd, and the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at year s end or from time to time during the financial year. The company s directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

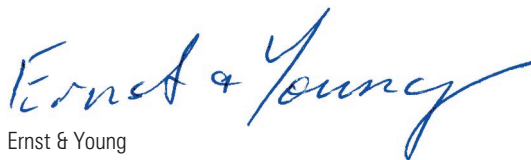
Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards, other mandatory professional reporting requirements and statutory requirements in Australia, so as to present a view which is consistent with our understanding of the company s and the consolidated entity s financial position and performance as presented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Melbourne IT Ltd is in accordance with:

- a the Corporations Law including:
 - (i) giving a true and fair view of the company s and the consolidated entity s financial position as at 31 December 2000 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- b other mandatory professional reporting requirements.



Ernst & Young



Donald C Brumley
Partner
Melbourne, 30th March 2001



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under the Professional Standards Act 1994 (NSW)

The reference to pages 12 to 35 contained in the independent Audit Report (above) relates to the full financial report and auditor's report which is available on request by contacting Melbourne IT.

directors . declaration

In accordance with a resolution of the directors of Melbourne IT Ltd, I state that:

- 1 In the opinion of the directors:
 - a the financial statements and notes of the Company are in accordance with the Corporations Law, including:
 - i giving a true and fair view of the Company's financial position as at 31 December 2000 and of the Company's performance for the year ended on that date; and
 - ii complying with Accounting Standards and Corporations Regulations; 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



Kevin Francis Courtney (Non-executive Director)
Melbourne, 30th March 2001

	Notes	Consolidated		Melbourne IT	
		2000 \$ 000	1999 \$ 000	2000 \$ 000	1999 \$ 000
Operating revenue	2	43,320	14,337	42,534	14,337
Non operating revenue	2	1,142	626	1,142	626
Total revenue		44,462	14,963	43,676	14,963
Operating profit before income tax	2	2,340	1,462	2,320	1,462
Income tax attributable to operating profit	3	859	442	853	442
Operating profit after income tax		1,481	1,020	1,467	1,020
Retained profits at the beginning of the financial year		500	380	500	380
Total available for appropriation		1,981	1,400	1,967	1,400
Dividends provided for or paid	4	0	900	0	900
Retained profits at the end of the financial year		1,981	500	1,967	500

* Note - numbers have been rounded.

	Notes	Consolidated		Melbourne IT	
		2000 \$ 000	1999 \$ 000	2000 \$ 000	1999 \$ 000
Current Assets					
Cash		6,811	1,915	6,652	1,915
Receivables	5	3,443	1,991	3,146	1,991
Investments	6	8,171	7,394	8,171	7,394
Other	7	6,315	2,205	7,409	2,205
Total current assets		24,740	13,505	25,378	13,505
Non Current Assets					
Investments	8	2,227	1	2,232	1
Property, plant and equipment	9	4,559	2,907	3,615	2,907
Other	10	464	411	464	411
Total non-current assets		7,250	3,319	6,311	3,319
Total assets		31,990	16,824	31,689	16,824
Current liabilities					
Accounts payable	11	5,256	1,764	5,051	1,764
Provisions	12	1,320	1,435	1,238	1,435
Other	13	12,323	3,979	12,323	3,979
Total current liabilities		18,899	7,178	18,612	7,178
Non-current liabilities					
Provisions	14	29	109	29	109
Other	15	4,268	2,223	4,268	2,223
Total non-current liabilities		4,297	2,333	4,297	2,333
Total liabilities		23,196	9,511	22,909	9,511
Net assets		8,794	7,313	8,780	7,313
Shareholders equity					
Share capital	16	6,813	6,813	6,813	6,813
Asset Revaluation Reserve		0	0	0	0
Retained earnings		1,981	500	1,967	500
Total shareholders equity		8,794	7,313	8,780	7,313

The accompanying notes form part of and are to be read in conjunction with the financial statements.

	Notes	Consolidated		Melbourne IT	
		2000 \$ 000	1999 \$ 000	2000 \$ 000	1999 \$ 000
Cash flows from operating activities					
Receipt of service revenue and recoveries		53,186	17,452	52,697	17,452
Payments to suppliers and employees		(41,769)	(12,865)	(41,436)	(12,865)
Interest received		806	134	806	134
Grant received		27	0	27	0
Bank charges		(427)	(135)	(425)	(135)
Income tax paid		(1,183)	0	(1,183)	0
Net cash flows from operating activities	17	10,640	4,586	10,486	4,586
Cash flows from Investing Activities					
Acquisition of property, plant and equipment		(2,789)	(2,576)	(1,669)	(2,576)
Proceeds from sale of property, plant and equipment		50	0	50	0
Acquisition of commercial bills		(2,228)	0	(3,348)	0
Net cash flows used in investing activities		(4,967)	(2,576)	(4,967)	(2,576)
Cash flows from financing activities					
Proceeds from issue of securities		0	7,500	0	7,500
Dividends paid		0	(970)	0	(970)
Cash outflow associated with listing on ASX		0	(1,037)	0	(1,037)
Net cash flows from (used in) financing activities		0	(5,493)	0	(5,493)
Net increase in cash held		5,673	7,502	5,519	7,502
Add opening cash brought forward		9,309	1,806	9,309	1,806
Effect of exchange rate changes on balances of cash held in foreign currency		0	0	0	0
Closing cash carried forward		14,982	9,308	14,824	9,308

The accompanying notes form part of and are to be read in conjunction with the financial statements.

glossary.of.terms

In the Annual Report the following words have these meanings unless the context requires otherwise:

ASAC Advanced Services Application Centre conducted jointly by Melbourne IT and Ericsson Australia Pty Ltd

ASX Australian Stock Exchange
auDA au Domain Administration (ACN 079 009 340), a non-profit making organisation established in April 1999 with the aim of becoming the Internet industry self-regulatory body for administering the .au namespace

Authority The authority granted to Melbourne IT to conduct the business of registration of domain names by the responsible person or regulatory body

.biz
A new top level domain awarded by ICANN.

Board The Board of Directors of Melbourne IT

Browser Software application used to display HTML documents. Browsers may be used to display and retrieve Internet webpages and documents

ccTLD country code Top Level Domain (eg .au or .nz)

Company Melbourne IT

DNS or Domain Name System
The Internet Domain Name System was created as a means of linking easier-to-understand, hierarchical names for host computers to unique numerical network addresses.

Digital Certificates A software application that is the equivalent of a passport unique, verifiable proof of identity, issued by a trusted third party that enables the receiver to validate the identity of the parties to electronic commerce transactions and activates a secure, encrypted link between the customer and the vendors' web site

Domain name The word or number immediately following the @ sign in an Internet address. The domain name system is a hierarchical system of host naming that groups hosts into categories. In the naming scheme, .com extensions identify businesses, .edu extensions identify educational institutions, and .gov extensions identify government sites. Outside the US, hosts are named for their country (for example, .au for Australia)

EBIT Earnings before interest and tax

eCommerce The conduct of commerce in goods and services, with the assistance of electronic networks (such as the Internet)

eSign A recently established Australian company which will issue Verisign digital certificates in Australia

gTLD generic Top Level Domain. Refers to the suffix attached to Internet domain names, such as .com, .gov, .edu, .org, .mil, .net

IANA Internet Assigned Numbers Authority, a university-based body funded by the US Government, whose key functions are being transferred to ICANN. The full transfer of authority is scheduled to be completed by September 2000.

ICANN or Internet Corporation for Assigned Names and Numbers
A non-profit corporation that was formed to assume responsibility for the Internet protocol address space allocation, protocol parameter assignment, domain name system management, and root server management functions now performed under US Government contract by IANA and other entities

Internet A global network of networks, of computers with a common addressing system using the Internet protocol for end-to-end communication

Internet Address See Domain Name

INWW Internet Names WorldWide a business division of Melbourne IT

ISP or Internet Service Provider
A company which provides companies or individuals with access to, or a visible presence on, the Internet

IT Information Technology

Melbourne IT Melbourne IT Limited ACN 073 716 793 and its related companies

Metadata Metadata is information about data. For example, a library catalogue entry that describes a book held in the library or a directory entry that describes a document available via the Internet

NeuLevel A proposed joint venture between Melbourne IT and NeuStar

NPAT Net profit after tax

NSI or Network Solutions Inc.
Founded in 1979, NSI pioneered the registration of domain names ending in .com, .net, .org and .edu. NSI is currently the largest registrar of domain names and is also responsible for maintaining the stability and security of the master file of Internet Web addresses (NSI's parent company is Verisign Inc.)

Online Directory Compendium of addresses and information, stored electronically and accessed via the Internet

Prospectus Melbourne IT's prospectus dated 3 November 1999 for the issue of 42,500,000 shares

Registry A central computer listing of registered domain names and their location on the Internet that is shared by all registrars to keep track of which names have been assigned, and to whom

Registrar An organisation that acts as an interface between domain name holders and a registry, providing registration services (collecting and recording applicant details, confirming availability of names, and updating the registry) in return for a registration fee

Resellers Melbourne IT's domain name resellers

Search Engine An electronic service that scans the Internet for web sites related to criteria entered by an end user and returns a list of relevant sites

Share Fully paid ordinary share in the Company

Share Registrar Perpetual Registrars Limited

SLD Second Level Domains such as .com.au

SME Small to medium size enterprises

SRN Security holder Reference Number
TLD Top Level Domains such as .au or .com

URL or Universal Reference Location
The address that defines the route to a file on the Web or any other Internet facility. URLs are typed into the browser in order to locate and view a Worldwide Web page. They are also embedded within the web pages themselves to provide simplified links to other pages

USA The United States of America

Website Hosting A service that provides an electronic repository (usually a computer) for information available to other computers on the network.

WWW, Worldwide Web or web
A system of Internet servers that support specially formatted documents. The documents are formatted in a language called HTML (Hypertext Markup Language) that supports links to other documents, as well as graphics, audio, and video files

Corporate Directory

Melbourne IT Limited

ACN 073 716 793

Level 2

120 King Street

Melbourne 3000

Telephone 613 8624 2400

Directors (April 2001)

Rob Stewart (Chairman)

Dr Colin Adam

Kevin Courtney

Professor Iain Morrison

Dr Mark Toner

Share Registrar

Perpetual Registrars Limited

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Melbourne Victoria 3000

Auditors

Ernst & Young

120 Collins Street

Melbourne Victoria 3000

Solicitors

Arthur Robinson & Hedderwicks

530 Collins Street

Melbourne Victoria 3000