



< Annual Report | Concise Version >

# 2001

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MELBOURNE IT

### ANNUAL GENERAL MEETING

The Annual General Meeting will be held at Le Meridien at Rialto, 495 Collins Street, Melbourne on 22 May, 2002 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 world leader in the supply of domain names and related services. We supply a variety of domain names to customers throughout the world. We also provide professional consulting services to business.

Listed on the Australian Stock Exchange in December 1999 under the code MLB, we have approximately 9,000 shareholders.

### WHAT WE BELIEVE IN

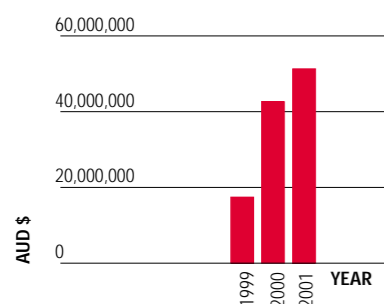
Melbourne IT has a commitment to building long-term, sustainable shareholder value. We will do this by generating excellent returns and through the careful stewardship of shareholder funds.

We will continue to develop our international markets by being the best service provider and the most technologically advanced domain name supplier in the world.

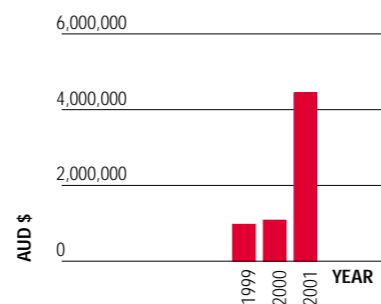
We aim to always be a first choice employer that attracts and retains the best people by offering a stimulating and rewarding workplace. Through these people, we will continue to nurture a culture in which innovation and creativity are encouraged but always with the clear objective of making maximum commercial gains from the superior products and services that we create.

# Highlights

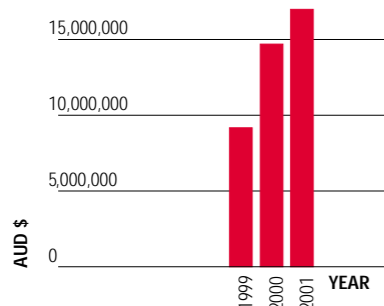
# Chairman's . report



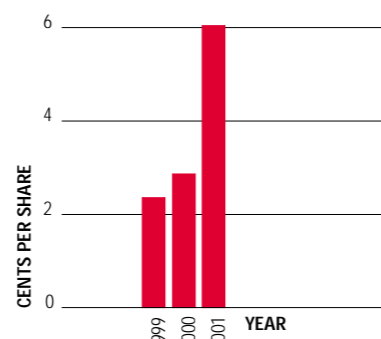
**FIGURE 1**  
Total revenue excluding interest 1996-2001



**FIGURE 2**  
Earnings before interest and tax 1999-2001



**FIGURE 3**  
Cash and liquid investments 1999-2001



**FIGURE 4**  
Basic earnings per share 1999-2001

By any measure, 2001 was a very successful year for Melbourne IT. Much was achieved in securing the sustainable long term future of the company as a world leader in the domain name sector.

The year's highlights were:

- An EBIT of \$4.22 million – up 175% over the previous year;
- Profit after tax of \$3.05 million;
- For the year, net positive operating cash flow was \$4.48 million, and at year end we had \$15.9 million in cash on the balance sheet with no debt;
- The establishment of new, highly significant strategic partnerships with industry leaders, Yahoo! Inc, Yahoo! Australia & NZ and Pacific Access;
- For the six months to December 2001, Melbourne IT led the world in registrations of net new, top level domain names (.com, .net, .org);
- The creation of the NeuLevel joint venture for the registration of .biz names;
- Melbourne IT has a 10% interest in this international business;
- The take-up of equity by institutional investors after the divestment of Melbourne University's remaining 15% equity in the Melbourne IT.

## Results

Earnings Before Interest and Tax for 2001 was \$4.22 million, an increase of 175% over the previous year (\$1.534 million). Revenue for the year was \$51.2 million compared with \$43.3 million for 2000. Profit after tax was \$3.05 million.

This profit has been earned on

shareholders funds employed of \$8.8 million. The strong improvement in margins was particularly encouraging with profit before tax as a percentage of revenue increasing from 5.26% in 2000 to 9.41% in 2001.

Cash flow from operations throughout the year was \$4.48 million, and reporting for all four quarters revealed strong cash positions. We finished the year with \$15.9 million in cash and no debt. Management's focus on cash management throughout the year resulted in this strong position. The company also has gross margin in advance of \$10.37 million.

In view of the slow down in many of the world's largest economies, and the much slower growth in e commerce during 2001, this was an excellent result.

In November, Melbourne University, which had originally floated Melbourne IT as a public listed company in December 1999, divested its remaining 15% equity in the company. It was particularly pleasing to see that this shareholding of some 7.5 million shares was taken up by institutions.

We believe that the emergence of several major institutions on our register during the final quarter of 2001 is a vote of confidence in the future of our business.

## Directors

In January, Dr Stephen Gumley resigned as a Non-Executive Director of the company to take up a senior position with Boeing in Seattle. Dr Mark Toner, an eminent engineer with a strong management background, joined the Board in February to replace Dr Gumley. The Board thanks Dr Gumley for an outstanding contribution and wishes him every success for the future.

## People

Melbourne IT's great strength is the quality of its people. Our excellent result for the year can be attributed in part to our Intellectual Property, which is world class and which we continually enhance to secure our market leadership. It can also be attributed to the new management team that has been put in place under the leadership of Chief Executive Officer, Adrian Kloeden. The team has turned around the company's financial performance from a disappointing 2000 result, as well as having developed and implemented a sound, long-range business plan.

On behalf of shareholders, I thank the Board and all Melbourne IT people for their excellent contribution in 2001.

## Operating Highlights

	2001	2000
Operating revenue	\$51,272,000	\$43,320,000
EBIT	\$4,224,000	\$1,534,000
Net profit after tax	\$3,053,000	\$1,481,000
Cashflow from operations in the period	\$4,488,000	\$10,640,000
Cash and liquid investments	\$15,976,000	\$14,982,000
Gross margin in advance	\$10,374,000	\$10,497,000



^ | Rob Stewart, Chairman





^ | Adrian Kloeden Chief Executive Officer

## Review of Operations

Melbourne IT completed a very satisfactory year of operations with strong international growth, entry into new, strategic partnerships with organisations recognised as leaders in their field and a solid platform for future growth.

For the year, we registered a total of one million generic Top Level Domain names, including 184,000 renewals.

In October, we announced that we had entered into two new strategic partnerships for the provision of domain names and related services. The agreements with Pacific Access and Yahoo! Australia & NZ, are part of our overall business strategy of "technology with relationships".

Both agreements will provide Melbourne IT with access to large new wholesale domain name markets in Australia and New Zealand.

Another important partnership agreement was reached in September with the Chartered Secretaries Association. Under the terms of this agreement we, with the CSA, will assist Australian companies manage their domain name portfolios. The agreement arose from the demand for specialist advice from major corporations on the registration and renewal of domain names in Australia and overseas.

Melbourne IT's leadership in international markets was confirmed by the authoritative State of the Domain monthly survey conducted by SnapNames ([www.stateofthedomain.com](http://www.stateofthedomain.com)). The survey showed that, for the six months to December 2001, Melbourne IT's international business, Internet Names Worldwide (INWW), led the world in registrations of net new, top level domain names (.com, .net, .org). At the end of 2001, we were the fifth largest registrar of these names.

In May, we announced the establishment of NeuLevel, a joint-venture business with an American telecommunications company, NeuStar, for the registration of the new .biz, Top Level names. Under the terms of the agreement, Melbourne IT took an initial 10% interest in this joint venture with an option to take up to a further 20% equity. Because of the prevailing economic conditions, we decided to not increase our equity. By the end of the year, nearly 500,000 .biz names were registered and active. This was achieved in the face of legal action initiated in the United States over a number of disputed names and the economic downturn that was deepened by terrorism events of September 11.

During the fourth quarter, the contractual arrangement with eSign over the sale of digital certificates was renegotiated to both parties' satisfaction. The new arrangement gives Melbourne IT access to a broader range of security products during 2002 which we have purchased from eSign to sell to Melbourne IT customers. Early indications are that the digital certificates market has softened and therefore sale of these products will be a major challenge for the company in 2002.

## Share Price

The Melbourne IT share price recovered strongly from its historical low of 25.5 cents in September to finish the year at 66 cents, slightly ahead of its position at the beginning of the year. Shareholders' funds during the year increased by 40%. There were very few listed information technology companies in Australia that managed to achieve a comparable performance and this was reflected in the CommSec IT 100 Index for 2001. Melbourne IT was in the top quartile (13th), of the Index, we outperformed our sub-sector (Internet software & services) by 37%, the CommSec IT100 Index by 55% and the Nasdaq Composite by 22%.

## The Business Environment

The deregulation of the Australian Domain name market, due to occur during 2002, received extensive coverage during 2001.

From Melbourne IT's perspective, the deregulation of the Australian market is welcomed. We have always argued that this will increase the overall size of the market but, we have also lobbied for international best practice technologies and business processes in what is a global industry. The challenge remains for the domain name authority, auDA, and the licensed registry business, to deliver world class systems that are technically robust and commercially sound.

As part of the deregulation process, auDA announced the separation of the registry business from registrar activities and called for tenders for managing the registry business. Under the terms of the tender, it was not possible for one organisation to act as both the registry and a registrar. Melbourne IT decided not to be a direct tenderer for the registry business because we see our future as a global registrar and service provider.

Overall, deregulation in Australia means that Melbourne IT will have a smaller share of what is likely to be a larger market. As our focus is on increasing our share of international registrar markets, the Australian market will become a smaller percentage of our overall revenue.

However, there will be a period of adjustment during which prices, and our market share, are expected to fall to some degree. Because of the very high registry fee agreed by auDA, and auDA's own high fees, it is our view that prices should not fall dramatically.

Internationally, there was a slowdown in the overall registration of new domain names in the latter part of the year. However, this was expected due to weaker economic conditions and the gradual disappearance of free and cheap offers for new names.

The slowdown was, to some degree, offset by the launch of the new generation of domain names (.biz and .info) and to a steady increase in renewal rates. Melbourne IT's renewal rates are solid and represent a healthy annuity stream for the company.

## Outlook

With growth opportunities throughout the world, a strong cash position and a sound business plan, Melbourne IT is well positioned for 2002.

New strategic partnerships are actively being sought, our renewal rates for domain names are high and the new generation of domain names is growing steadily.

Global economic conditions will influence our rate of growth. The domain name market is highly competitive and difficult to predict. Nevertheless, the solid platform established during 2001 provides us with cautious optimism for 2002 and beyond.

# World . Wide . Activities



Melbourne IT's business division, Internet Names WorldWide (INWW), provides businesses with Internet domain names. Early in 2002, it was decided that we would phase out the INWW name and trade under our best-known brand name, Melbourne IT.

Our core activities are the supply of generic Top Level Domain (gTLD) names (.com, .net, .org) to Australian and international customers. INWW's main markets are in the United States, the UK and Australia and we have a growing presence in Europe and Asia.

In 2001, Melbourne IT continued to be the largest domain name registrar in the Asia Pacific Region. In addition, from July to December 2001, Melbourne IT was also confirmed as being the fastest growing Top Ten registrar in the world by SnapNames, the American data collection agency that publishes The State of the Domain monthly surveys. According to the State of the Domain report, Melbourne IT was, at year end, the fifth largest registrar of gTLD names in the world.

During the year, we worked hard on establishing major channel relationships throughout the world with globally recognised leaders in the internet and telecommunication industries.

Many of these companies include leading Internet Service Providers (ISPs), web hosting and telecommunications companies, major portals and trademark protection companies.

Some of the major new international agreements signed during the year were with Yahoo! Inc.; Fibrant Services, a leading UK-based ISP; Mark-I, Japan's leading ISP and trademark company; and Isle Inc, Japan's leading web hosting business.

Two significant new agreements in Australia were announced in 2001. These agreements, with Yahoo! Australia and New Zealand and Pacific Access, are for the provision of domain names and related services to the customers of both organisations.

Pacific Access announced that it would be offering a new, online product designed specifically for small to medium enterprises (SME's). This product, known as Pacific AccessWebWorks®, includes the building of a website and, through Melbourne IT, offers domain name registration and a unique Universal Resource Locator (URL) or website address.

Yahoo! Australia & New Zealand launched a new site that brings ease and simplicity to buying domain names. This service is being provided through its agreement with Melbourne IT. Through the new Yahoo! site, individuals and small businesses can easily search, register and pay for a domain name.

Melbourne IT was the only global domain name registrar to receive an overall rating of four stars by the Domain Name Buyers Guide in 2001. (See [www.domainbuyersguide.com](http://www.domainbuyersguide.com))

Melbourne IT has had extensive experience in domain names acting as one of the first test bed registrars for .com, .net .org, and since then has developed many more world firsts including :

- Automated registrar transfers
- Name generation technologies
- Multi lingual domain names
- Fully functional wholesale Application Program Interface (API) and real time registration system
- Wholesale .biz, .info and .name

In 2001, we registered just over one million gTLD's including the new generation (.biz, .info) names. Combined with .com.au registrations, Melbourne IT now has in excess of 1.7 million domain names under management worldwide.

## Digital Certificates

Early in 2000, Melbourne IT established an agreement with eSign to sell Verisign digital certificates to the web-server market in Australia and New Zealand. Digital certificates are security products that protect data in transit between a user and a web server. By the end of 2000, we had experienced a significantly lower level of acceptance of the product than initially expected.

Since Melbourne IT began selling digital certificates, we have worked closely with eSign to improve the rate of sales. However, by early 2001 it was apparent that Melbourne IT would have to consider alternative arrangements for meeting the company's contractual commitments to eSign.

A renegotiation of these contractual arrangements was completed to both parties' satisfaction in late 2001. The new arrangement gives Melbourne IT a wider range of security products to sell to our customers on a broader geographic basis over the next 12 months.

This will enable Melbourne IT to market both VeriSign and Thawte digital certificates at competitive prices across targeted overseas markets.

The digital certificate market has grown, but at a slower rate than predicted before 2000. The market has also become very price sensitive and therefore selling these products will still represent a challenge in the coming year.

## Outlook

Melbourne IT will continue to develop partnerships with leading companies throughout the world in the provision of domain name services and related products.

Many new domain names will be launched in 2002 including .aero, .museum, .coop, .pro. In addition, the .us Country Code Top Level Domain (ccTLD) will be deregulated during April 2002. This will be an open space available to companies and individuals who have a connection to the United States of America. The United States market currently accounts for approximately two thirds of all gTLD domain names currently registered worldwide, and as such, Melbourne IT has high expectations of a broad acceptance of this space.

Following soon after the re-release of .us, the new personal global domain space .name will go live. This space is the first Internet domain dedicated solely to the needs of individuals around the world. Early indications are that .name is achieving significant acceptance with companies such as Telstra and Optus recognising the value of this product for their consumer market.

The European Parliament has recently approved the .eu domain extension. As a result, this domain space is likely to be available in late 2002. The European market accounts for close to 15 million gTLDs and ccTLDs and as such, the .eu ccTLD is likely to be highly sought.

With the introduction of these new name spaces and the continued growth of internet penetration throughout the world, we expect a significant increase in domain names under management in 2002. In addition, we expect from this proliferation of domain spaces that many more companies will commence using our Corporate Domain Management services.

The deregulation of the Australian market will create some volatility but there will also be new opportunities created. With our proven track record and an emphasis on value-added services, we believe that we will continue to do well in the domestic market.



# Professional . services

Melbourne IT is a provider of high quality professional services to businesses. We provide a range of value added services designed to enhance the productivity and quality of business customers' internet infrastructure. During the year, a number of initiatives were taken to increase our presence in the professional services market.

## Corporate Domain Management

In September 2001, Melbourne IT launched its Corporate Domain Management (CDM) offering, a "blue chip" service aimed at corporations that have multiple brands and domain names. This service is being offered in partnership with the Chartered Secretaries Association. Under the terms of this agreement we, with the CSA, will assist Australian companies manage their domain name portfolios.

The task of managing and protecting valuable on-line brands is now a critical Corporate Governance responsibility. Our research indicates that many organisations today utilise multiple domain name service providers and employ a fragmented internal management approach. This can create a risk of failing to renew domain names and making inappropriate branding decisions, and also represents an inefficient and inappropriate use of internal skills.

The CDM service addresses these issues through the consolidation of all domain names under one account and providing access to an account manager who will be responsible for managing all domain name issues across all domain spaces. This enhances the level of management and protection of an organisation's on-line brands while at the same time allowing internal resources to focus on their core responsibilities.

Since the launch, the service has attracted extensive and very encouraging levels of interest. We have won business from several large corporations and have received expressions of interest from businesses across a number of industry sectors, including construction, banking, transport and IT. We have focused initially on the Australian market but the service will be progressively rolled out in international markets during 2002/03.

## Australian Online Business Guide

In February 2002, we extended our professional services offering with the launch of our Australian Online Business Guide.

The guide provides easy-to-understand, non-technical information for Australian small businesses which are venturing in to the online world and are seeking guidance after they have registered their domain name. The Guide provides this information simply, clearly and objectively.

The Australian Online Business Guide covers five key areas of interest - domain names and online brand protection, developing a website, online marketing, website hosting and more general business issues surrounding both software and hardware.

Companies that have successfully transferred all or part of their business into the online world will be showcased as case studies for companies just starting.

## ASAC21 LTD

ASAC21 Ltd, the company's telecommunications software development joint venture with Ericsson was discontinued in the second half of 2001. This was made necessary by the global softening of demand for telecommunications services. Melbourne IT and Ericsson will continue to explore new business opportunities together that leverage Melbourne IT's knowledge in registrars and registries, and leverage Ericsson's knowledge of mobile technology.

## Outlook

The outlook for professional services is encouraging over the longer term as it is an area that Melbourne IT can develop by leveraging its existing skills and offering value added services to our extensive client base. With the continuing growth of online transactions across all business sectors, there is a growing need for high quality but economic professional services to support these activities. Melbourne IT is well positioned to provide many of these services.

# Research . and . development

Melbourne IT has a strong commitment to maintaining our leadership in the development of new technologies. The company has a world standard in-house software development capability for its core domain name registration business, and maintains strong links with local and international research organisations to identify new product and service opportunities.

The major challenge for 2001 was to deliver a range of new domain name product lines (such as .biz, .info, .name) to our wholesale customers. The new product lines were released at similar times and the technical specifications for these were only released by the suppliers shortly before introduction. While most registrars struggled to keep up with demand for software development resources, Melbourne IT delivered all new product lines on schedule.

## Highlights

- Continued upgrading of core international domain name registration software to serve the needs of customers and maintain our lead over competing registrars;
- Software development to support the queuing of requests for entry into the batch processing pools (known as the pre-registration phase) of the new .biz, .info, and .name generic top level domain names (TLDs);
- .biz and .info added to our wholesale product line, when immediate "first-come first-served" registration was available from these new tlds in late 2001; and,
- Most major country code (ccTLDs) domains added to our wholesale product line.

## Performance

Operational activities included:

- Continued development of our multi-lingual capability ready for the further standardisation of multi-lingual technology by the Internet Engineering Task Force (IETF) expected towards the second half of 2002, which should lead to greater international acceptance of the technology and integration into the core .com, .net, and .org registry;
- Developed software to support the renewal of .com, .net, and .org domain names;
- Developed software to allow wholesale customers to monitor and manage the status of their billing accounts online;
- Provided the capability to support online renewals of .com.au registrations;
- Improved the security of transfers of domain name management between .com.au wholesale customers to ensure protection of consumers;
- Changed the software development environment for our

front-end web interfaces to allow programmable control of website operations for more flexibility and speed to market with new features (ie changes can be made to the website functionality without requiring changes in the underlying core registration software);

- Added the capability to our core network infrastructure to manage the utilisation of our wholesale system interfaces across all our customers to ensure that we can avoid one wholesale customer from utilizing all the system bandwidth at times of peak load (for example when batches of desirable names are released from the .com registry);
- Continued to update our monitoring software to detect unusual behaviour from wholesale customers that may lead to inappropriate usage of registry resources;
- Developed software to interface with major country code (ccTLDs) domains including United Kingdom (.uk), France (.fr), Germany (.de), Italy (.it), Spain (.es), New Zealand (.nz), South Africa (.za), Netherlands (.nl), and Japan (.jp). As each registry requires different procedures the completion of this work places Melbourne IT at a distinct advantage over smaller registrars and new entrants into the market;
- Interfaced to the new .biz and .info registries using the new EPP protocol, that has since been selected for use in the new .au registry; and,
- Developed software to support pre-registration processes during the start-up phases of new top level domains (.biz, .info and .name).

## Outlook

During 2002, we plan to use our relationships with major domain name registries to offer new value-added domain name services. Large corporations are increasingly seeking value-added services to protect their existing investment in domain name assets. Looking towards 2003 and 2004, Melbourne IT will be investigating our role as a registrar in new registry products.

We will work closely with existing major customers to establish demand for new services and create low-cost prototypes of these new services to stimulate new growth opportunities.

# Our . people

## Key Issues

Providing a safe, healthy and challenging workplace which fosters innovation, career satisfaction and is supportive of employees' goals and aspirations is important to Melbourne IT. Throughout 2001 our focus continued on delivering initiatives and policies which enhance employee development and satisfaction, and ensure the ongoing recruitment and retention of the best possible employees.

Some of these initiatives were:

- A management development program aimed at further developing Leadership and Management skills was launched;
- A recruitment process based on Competency Assessment was developed and is now conducted on site, increasing quality and consistency, and significantly reducing costs;
- Key Performance Indicators were developed for all employees.
- Performance Reviews occurred for all employees;
- The Occupational Health and Safety Committee underwent Safety and First Aid Training;
- Some key Policies introduced include: Travel, Recruitment, Authority Levels, OH&S Code of Practice; and,
- Additional Human Resources support for our US employees

Melbourne IT currently has a highly skilled staff with over 75% being tertiary educated. As at 31 December 2001 there were 114 full time employees.

The following is a breakdown of employees by division:

• Production and Development	46
• Customer Services	24
• Sales	21
• Finance/ Administration	14
• Corporate	9
• TOTAL	114

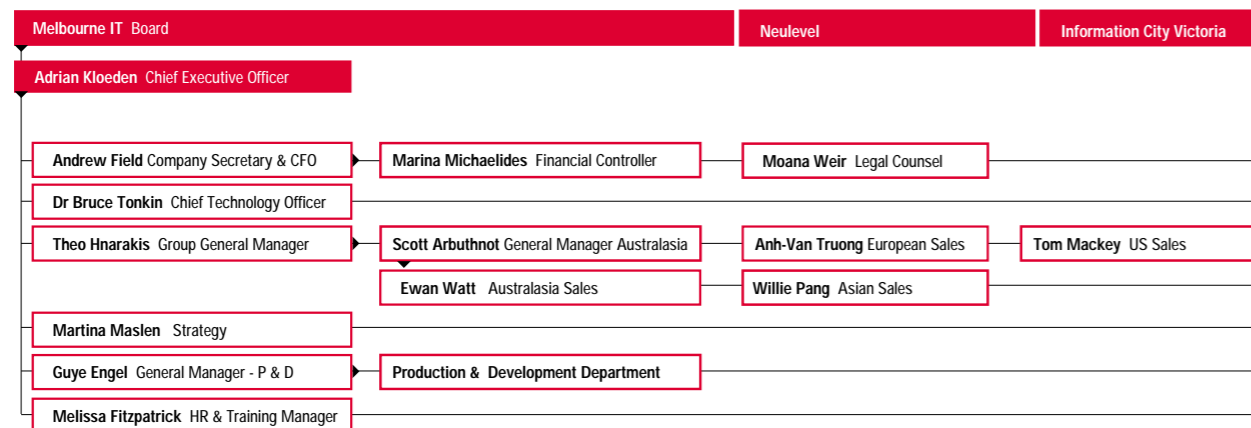


FIGURE 5  
Melbourne IT - Organisational Chart

## Performance

The company's objectives for Human Resource Management are:

- To recruit and retain best possible, highly skilled employees;
- To develop and mentor employees, fostering long term internal career paths;
- To maximise communication and teamwork between business units; and
- To ensure satisfactory and safe working conditions for employees.

A policy intranet governing all areas of human resource management is in place and is supported by regular training for all employees, to ensure the implementation of best practice in Human Resources.

## Outlook

Human resource, training, and occupational health and Safety policies and procedures are constantly being revised and updated as required.

Future directions identified for action include:

- Succession planning and career mapping
- Sales training and development
- SafetyMap accreditation through WorkCover
- Interpersonal skills development for all employees
- Online 'HR' system

# Industry . and . Market . overview

## About Domain Names

Domain names, or web addresses, are the electronic brands of the new economy. They are the entry point for any business wishing to establish an online presence. Domain names are a "shop window" for organisations of all sizes and provide an interactive and immediate transactional avenue for companies in their dealings with customers.

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 organizational name with the domain (for example telstra.com.au).

By the end of 2001, the total domain name market was approximately 45 million names. After growing strongly in 1999 and 2000, the overall market softened slightly in the second half of 2001 as the speculative "bubble" washed out of the market. Many of the speculative names registered in 1999/00, were not renewed and the spectacular growth in the number of new names being registered slowed. An analysis of the industry indicated that renewals and transfers made up more than 50% of all domain transactions during the second half.

Of the 45 million names registered world wide, traditional gTLD's (.com, .net, .org) accounted for approximately 30 million. This profile is expected to gradually change as the new generation of domain names gathers momentum.

The bulk of the generic Top Level Domain name (gTLD) market is based in North America and the downturn in that region's economy, particularly after September 11, was a contributor to the overall reduction in the domain name market.

In the second half, two of the new generation of domain names, .biz and .info were launched. The .biz market was subject to legal action in the United States over the methodology to be used in the pre-registration phase. A decision was reached whereby the sale of uncontested names could proceed and the initial response was, despite the economic and legal impediments, very encouraging. By the end of the year, The State of the Domain report indicated that there were over 472,000 .biz and a further

668,000 .info names registered and active. We see this as an early indicator that the forecast second wave of domain names will generate an additional new market for the industry.

Melbourne IT continued to build its global market share during 2001 and, for the second half, was the fastest growing "top ten" registrar for new, top level domain names (.com, .net, .org) according to the authoritative State of the Domain report issued by the industry data analysts, SnapNames. By the end of the year, our market share reached nearly 5%, up from less than 4% in 2000.

## Future Directions

2001 has been a turbulent year for the domain name industry and, more broadly, for the information technology sector as a whole. Nevertheless, by early 2002, there were some signs of stabilisation with IT industry leaders reporting improved fourth quarter 2001 earnings and more positive outlooks.

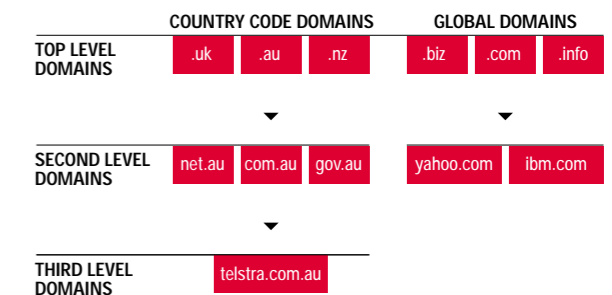


FIGURE 6  
Domain name hierarchy

# Industry . and . Market . overview / continued

## *New Top Level Domains*

The Internet Corporation for Assigned Names and Numbers (ICANN) in late 2000 announced the introduction of seven new Top Level Domains, which included a variety of different business, community or personal extensions that had not been addressed to date via the .com, .net or .org extensions.

The following new TLDs have created the first series of designated domain names, to enhance search capability and provide a degree of brand differentiation that had not been previously available on the World Wide Web. There are seven new TLDs:

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

In addition to these, we will see the revamp in the first half 2002 of the country code domain for the United States of America entitled .us. This will be an open space available to companies and individuals and we expect that there will be strong demand for this new name.

## *.biz*

Melbourne IT's joint venture business, NeuLevel, was a successful bidder to operate the registry for the new .biz top level domain awarded by ICANN. We have a 10% shareholding in NeuLevel. The need for new TLD's and in particular, the .biz space has arisen due to the continuing growth of Internet use. Although the growth has enabled business to "get online", the absence any substantive strategic management of this growth has resulted in a crowded marketplace on the Internet where companies have struggled to find domain names that are easy to remember and are representative of the company's name and services.

NeuLevel, Inc, a joint venture company between Melbourne IT and US telecommunications company NeuStar, brought 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).

.biz is 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.

For more information, visit the NeuLevel website at [www.neulevel.biz](http://www.neulevel.biz)

## *Policy Framework - .com.au*

The development of policy for the .au domain is the responsibility of .au Domain Administration Limited, (auDA) the industry self-regulatory body for Internet domains that end in .au. Melbourne IT provided input to the policy process throughout 2001 under the principles that the integrity and operational stability of .com.au must be preserved and improved wherever possible and that Australian consumers should continue to be protected and directly benefit from any changes in the new environment.

At times we were disappointed that the interests of some members of the industry were given a higher priority than the benefits to consumers. For example changes in the names policy that would immediately benefit consumers were delayed for over a year.

## *Current two level industry model for .com.au*

Melbourne IT performs .com.au registry function in combination with auDA (which maintains the database of contact details for domain name registrants), and the University of Melbourne (which provides the primary DNS name service to resolve a domain name to a physical Internet location).

The registry function includes the task of checking all domain name applications against the domain name policy developed by Mr Robert Elz. Melbourne IT charges a total, two-year fee of \$112 for this function, which includes full wholesale customer support. Melbourne IT issues all .com.au domain name licences and also provides retail services directly to domain name holders for a \$140 registration fee.

Melbourne IT has been required to pay a fee to auDA of around \$770,000 per annum. Over 500 companies are wholesale customers of Melbourne for .com.au domain names, and act as agents of the domain name registrants. There are virtually no barriers to entry for these companies, and Melbourne IT has strongly encouraged the development of this .com.au domain name industry. There is strong retail competition amongst domain name retailers.

## *New three level industry model for .com.au*

AusRegistry will take over full responsibility for all registry functions for .com.au, .net.au, .org.au, .asn.au, .org.au and potentially .edu.au and .gov.au.

There is a stronger concentration of monopoly power than currently exists, where there are separate operators for the various domain name spaces within .au. AusRegistry will charge a wholesale registry fee of \$50 for a two-year .com.au domain name licence, which includes a \$11 per domain fee for auDA. AusRegistry will only be able to provide wholesale services, and will not directly deal with domain name registrants. The new registry model is equivalent to the model for .biz and .info. Some of the over 500 reseller companies will be licensed by auDA to connect directly to AusRegistry and will be called registrars. Melbourne IT will be one of these registrars. The policy checking function will be the responsibility of these registrars, and will now be open to competition. The competition in policy checking services is the only new area subject to competition.

The bulk of the over 500 companies will continue to provide domain name retail services, but will need to go through a registrar to connect to the registry.

## *Impact of new model on Melbourne IT*

- Melbourne IT will continue to provide retail domain name services to domain name licence holders. This will be in competition with other domain name retailers, and the level of competition is likely to remain the same.
- Melbourne IT will continue to provide wholesale services to companies that provide domain name retail services, but choose not to involve themselves in complex policy administration or in developing software to interface to the registry. This will be in competition with other domain name retailers that choose to become registrars, and choose to also provide wholesale services.
- Melbourne IT will lose some revenue that it previously obtained from its role as providing .com.au registry services, but will save some costs previously incurred.
- Melbourne IT will gain some revenue from changes to the domain name policy that may increase .com.au domain name volumes, and from access to markets for .net.au, .org.au, .asn.au, and .id.au.

## *Impact for the consumer for new industry model*

- consumers will have a better chance of obtaining the domain name they want as a result of changes in the names policy;
- the risk is that competition in applying the names policy will result in an inconsistent policy environment, and will tend to favour some competitors that do not verify the accuracy of information supplied by registrants. This may devalue the integrity of the .com.au namespace that has been established since 1996, and result in customers choosing other domain name products from Melbourne IT;
- the challenge for auDA will be to ensure that the current quality control in policy compliance checking is maintained.

## *Outlook*

auDA has recently established a code of practice committee to develop an industry code for implementation by mid 2002. Melbourne IT will be an active participant in the process to ensure that adequate measures are taken by auDA to ensure consumer protection in an industry where the current competition has already led to problems for consumers - especially in the area of unsolicited renewal notices.



# Director's . Report

## 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 retired on 26 November 2001. He 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.



**Colin McLean Adam**

Dr Adam retired from the Commonwealth Scientific and Industrial Research Organisation (CSIRO) in 2001 having previously acted as Chief Executive and Special Advisor to the new Chief Executive. He was responsible for commercial activities of the organisation. He serves as a Board Member for a number of companies, including the Strategic Industry Research Foundation and Ceramic Fuel Cells Ltd. He also holds a non-executive Board position with the Australia – Indonesia Institute, and the Board of the Australian Universities Quality Agency. Dr Adam was appointed to the board on 22 April 1999.



**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. He is also a Board member of DOXA Foundation which works with under privileged youth. 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.



**Mark Christopher Toner\***

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. His qualifications include a BE(Chem) from the University of Melbourne and a PhD from Monash University. Dr Toner is President of the Institution of Chemical Engineers in Australia and President of the Business/Higher Education Round Table, an Adjunct Professor in the Faculty of Engineering at Monash University, and a Fellow of the Institution of Engineers Australia.

\*Appointed to board on 1 February 2001



**Stephen John Gumley\***

Dr Gumley acted as a non-executive director from 1 October 1999 until his resignation from the board on 26 January 2001. Dr Gumley was also the Chairman of the Remuneration Committee. Dr Gumley is currently the Vice President of Information Services with Boeing in Seattle, USA.

\*Former Non-Executive director, retired on 26 January 2001

# Corporate . governance

## ***Board representation***

The Board of Directors of Melbourne IT Ltd is responsible for the overall corporate governance of the company. The Board 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 responsibility for the operation and administration of the company is delegated by the Board to the Chief Executive Officer and the Executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the chief executive and the executive team.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved. In addition to the roles carried out by the committees referred to below, these mechanisms include the following:

- Setting the business and financial objectives of the entity;
- Approving and periodically reviewing the strategies and plans prepared by management;
- Reviewing the implementation of operational plans and budgets by management and monitoring of progress against budget – this includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes;
- Board review and approval of acquisitions and disposals of businesses and assets and the approval of contracts and financing arrangements within defined limits; and
- Board review and approval of the organisation's treasury policy, including management of the organisation's financial risk, liquidity, interest rate and credit policies and exposures and monitoring of management's actions to ensure they are in line with company policy.

The Constitution of Melbourne IT Ltd 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 (with the exception of a 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 performance of the Board is reviewed on an annual basis – 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 CEO to ensure proper coverage of strategic, financial and major risk 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. Directors receive a base fee and then an amount for each committee of the Board on which they sit. The issuing of options to directors must be approved by shareholders. Details of remuneration paid and options granted in 2001 are set out in full in the Directors' Report.

A Deed of Access, Indemnity and Insurance is entered into by the company with each director to provide access to board records and documents while they are a director, and for up to seven years after leaving office as a director, provided that access is for an approved purpose. After leaving office, an approved purpose is to assist the former director in the preparation for any legal proceedings against the company or that person while a director of the company. The company has also taken out directors' and officers' insurance to protect directors from liability to the extent permitted by law.

## ***Purchase and Sale of Shares by Directors***

Although it is not a requirement as a director to own shares, 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 Ltd. They must also comply with the disclosure requirements of the ASX and the Corporations Law.

## ***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 Ltd.

## ***Board Committees***

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

### ***Audit and Risk Management Committee***

The Audit and Risk Management Committee has responsibility 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 comprises three non-executive directors. The members are: Kevin Courtney (Chairperson), Iain Morrison and Rob Stewart.

It meets at least three times each year and has direct access to the company's auditors and senior management. The Chief Financial Officer attends the meetings by invitation of the committee. The Partner and staff of the external auditor also attend by invitation. This committee also receives regular reports from the external auditors concerning any matters which arise in connection with the performance of their role, including adequacy of internal controls.

Its role includes:

- i) Reviewing reports submitted by external auditors
- ii) Reviewing and recommending to the Board for approval half-yearly and yearly financial statements
- iii) Funds management
- iv) Foreign exchange risk management
- v) Capital expenditure approval procedures
- vi) Insurances
- vii) Monitoring Regulatory Compliance
- viii) Risk management generally (including issues such as Occupational Health and Safety and management of information systems and internal controls).

### ***Human Resources and Remuneration Committee***

The Human Resources and Remuneration Committee has the responsibility for ensuring that proper human resource management and remuneration policies are developed and followed by the company. It comprises three non-executive directors with the CEO attending by invitation. The members are: Mark Toner (Chairperson), Colin Adam and Rob Stewart.

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

Its role includes:

- i) The recommendation to the Board of the compensation and key performance targets for the CEO
- ii) Assisting in the annual performance review of the CEO
- iii) Recommending to the Board appropriate compensation policies for the non-executive directors
- iv) Approval of the compensation programmes and performance targets for senior executives
- v) Succession planning for the Board, CEO and key executives
- vi) Management of the company's Share Option Plan
- vii) Oversight of the company's superannuation arrangements
- viii) Overseeing the development of appropriate strategies and plans for people management, career development of staff and general human resources policies.

## ***Communication with shareholders***

The Board is committed to meeting 'best practice' guidelines in communicating with the company's shareholders. This will include:

- i) Half yearly and annual reports to shareholders
- ii) The Annual General Meeting
- iii) An Investor Relations section on the company's website, which includes all announcements by the company as well as information on the company and its operations, ownership structure and trading in the company's shares.

## ***Privacy***

The company has developed a privacy policy and undertaken internal training in compliance with the new privacy regime which came into effect in December 2001. The policy can be found on the company's website at [www.melbourneit.com.au/privacy](http://www.melbourneit.com.au/privacy).

## corporate . governance / shareholders

### Statement of Shareholdings As at 28 December 2001

Holding range	Distribution of equity securities	No. of Holders	No. of Shares Held
1-1,000	VARIOUS	4,028	2,666,441
1,001-5,000	VARIOUS	3,806	10,076,732
5,001-10,000	VARIOUS	716	5,757,892
10,001 - 100,000	VARIOUS	456	11,576,373
100,001 and over	VARIOUS	27	19,922,562
	<b>GRAND TOTAL</b>	<b>9,033</b>	<b>50,000,000</b>
The number of shareholders holding less than a marketable parcel of shares are :-		2,204	876,616

Names of the 20 largest shareholders		% Held
RBC GLOBAL SERVICES AUSTRALIA NOMINEES PTY LTD	5,637,356	11.27
INVIA CUSTODIAN PTY LTD	2,450,000	4.90
CHASE MANHATTAN NOMINEES LTD	1,891,955	3.78
NIAKO INVESTMENTS PTY LTD	1,543,197	3.09
AUSTRALIAN FOUNDATION	1,000,000	2.00
FOSTER STOCKBROKING NOMINEES PTY LTD	960,868	1.92
SHIP AGENCIES AUSTRALIA PTY LTD	663,377	1.33
INVIA CUSTODIAN PTY LTD <WAM EQUITY FUND A/C>	654,051	1.31
DULWICH STORAGE COMPANY LIMITED	575,000	1.15
QUEENSLAND INVESTMENT CORPORATION	480,000	0.96
ANZ NOMINEES LIMITED	426,760	0.85
RESERVE PROPERTIES PTY LTD	416,967	0.83
MERRILL LYNCH (AUSTALIA) NOMINEES PTY LTD	404,301	0.81
INVIA CUSTODIAN PTY LTD <WAM CAPITAL LIMITED A/C>	395,949	0.79
MRS KAY MITRIS	363,376	0.73
NATIONAL NOMINEES LTD	336,822	0.67
AMCIL LIMITED <INVESTMENT PORTFOLIO A/C>	325,000	0.65
CRANPORT PTY LTD	250,000	0.50
RACWA HOLDING PTY LTD	250,000	0.50
MR ROBERT JOHN WILSON	221,083	0.44
<b>REPORT TOTAL</b>		<b>38.48</b>

### Voting Rights

All ordinary shares carry one vote per share without restriction.

## directors . report

The Directors present their report for the calendar year ended 31 December 2001 Melbourne IT ACN 073 716 793.

### Directors

R J Stewart, I Morrison, C M Adam, K F Courtney, M C Toner, S J Gumley. 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 C 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 2001	Ordinary Shares
R J Stewart	50,000
I Morrison	11,000
C M Adam	45,000
K F Courtney	50,000
M C Toner	100,000

### Principal Activities

The principal activities of the Company during the year were:

- administration of the second level internet Domain 'com.au';
- registration of generic Top Level Domain (gTLD) names (.com, .net, .org, .biz, info, .name);
- research and development in information technologies, telecommunications.

Melbourne IT's Joint Venture with Ericsson Asia Pacific Lab, was wound up during the period, due to the downturn in the telecommunication industry and Melbourne IT's joint venture partner, Ericsson, wanting to scale down its research and development activities in Australia.

### Earnings Per Share

	Cents
Basic earnings per share	6.1
Diluted earnings per share	6.1

### Results and Dividends

The profit after tax of the Melbourne IT Group for the year ended 31 December 2001 was \$3.053 million. No dividends were provided for the year ended 31 December 2001.

### Review and Result of Operations

Net profit after tax of AUD\$3.053million (2000: \$1.481 million) and revenue of \$51.272 million (2000: \$43.320 million) for the year was achieved. An EBIT of \$ 4.224 million (2000:\$1.534 million) exceeded the company's forecast. This EBIT figure represents 175% increase on the year 2000 result.

The EBIT result of \$4.224 million was achieved in the challenging environment faced by the company in 2001.

The company's registrar business registered approximately 1,000,000 global top level domain names (gTLDs .com, .net, .org, .biz, .info, .name) for the year. Melbourne IT's market share of the gTLD total names under management now stands at 5%. Combined with the continued solid performance in .com.au registrations, the company now has in excess of 1.7 million domain names under management worldwide.



Cashflow generated from operations during the year was \$4.4m (2000: \$10.6m) and Gross Margin in advance at 31 December 2001 was \$10.37 m (2000:\$10.5m). At the end of the year, Melbourne IT had \$15.9 million in cash on its balance sheet, although the company foresees the potential for some reduction in cash available by the end of the first quarter of 2002 as a result of tax and creditor payments, together with potential capital investments.

Summarised operating result for the year ended 31 December 2001:

	<b>Actual</b>
	<b>\$ 000</b>
<b>Revenue Registrar business</b>	<b>46,624</b>
Professional Services : ASAC	1,604
ASAC21 Joint Venture	530
Consulting	1,683
Other revenue	227
<b>Total Revenue</b>	<b>50,668</b>
<b>Total Earnings Before Interest and Tax</b>	<b>4,224</b>
Net Interest Income	604
<b>Net Profit before Tax</b>	<b>4,828</b>
Tax Expense	1,775
<b>Net Profit After Tax</b>	<b>3,053</b>
Cashflow from operations	4,488

**Significant Events after the Balance Date**

No significant events have occurred up to the date of this report that require disclosure.

**Likely Developments and Expected Results**

The deregulation of the Australian domain name market, due to occur during 2002 is likely to mean that Melbourne IT will have a smaller share of what is expected to be a larger market. As our focus is on increasing our share of international registrar markets, we do not believe deregulation in Australia will have a major impact on the company over the longer term.

However, there will be a period of adjustment during which prices may fall to some degree. Because of the relatively high registry fee set by auDA, and auDA's own high fees, Melbourne IT believes that prices should not fall dramatically.

With growth opportunities throughout the world, a strong cash position and a sound business plan, Melbourne IT is well positioned for another good year in 2002. New strategic partnerships are actively being sought, our renewal rates for domain names are high and the new generation of domain names is growing steadily.

Global economic conditions, which are forecast to be soft in the first half and to improve during the second half, will influence our rate of growth. The domain name market is highly competitive and difficult to predict. Nevertheless, the solid platform established during 2001 provides us with cautious optimism for 2002 and beyond.

**Share Options**

No share options were issued during the year and details of share options are disclosed in Note 29 to the financial report.

**Indemnification and Insurance of Directors**

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. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

**Directors' and other Officers' Emoluments**

The Human Resource & 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 Human Resource & 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 Human Resource & 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 a cash incentive where specified criteria are met (including criteria relating to profitability, cash flow and share price growth). Details regarding the issue of share options are provided in Note 28 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 \$
Mr Robert Stewart	151,419	12,048	163,467
Dr Colin Adam	55,673	2,981	58,654
Prof. Iain Morrison	39,847	3,175	43,022
Mr Kevin Courtney	39,455	3,139	42,594
Dr Mark Toner	36,689	2,928	39,617
*Dr Stephen Gumley	2,299	184	2,483

(\*Dr Stephen Gumley resigned on 26 January 2001)

**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 \$
Mr Adrian Kloeden	414,250	—	—	414,250
Mr Theo Hnarakis	230,803	24,121	14,162	269,086
Mr Andrew Field	191,472	30,623	13,916	236,011
Mr. Scott Arbuthnot	209,690	—	11,489	221,179
Mr Bruce Tonkin	186,862	—	10,433	197,295

(The category 'Other' includes the value of any non-cash benefits provided)

	Directors Meetings		Meetings of Committees			
			Audit	Remuneration		
Number of meetings held	16		4	5		
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Mr Rob Stewart	16	16	4	4	5	5
Mr Colin Adam	16	15	—	—	5	5
Prof. Iain Morrison	16	16	4	4	—	—
Mr Kevin Courtney	16	16	4	4	—	—
Mr Mark Toner	15	15	—	—	4	4
Dr Stephen Gumley	1	0	—	—	1	1



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The previous table shows the numbers of meetings of directors held during 2001. 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 & Risk Management Committee and a Human Resource & Human Resource & Remuneration Committee of the Board of Directors.

The members of the Audit & Risk Management Committee are Mr K. Courtney (chairman), Mr R. Stewart and Prof. I. Morrison.  
The members of the Human Resource & Remuneration Committee are Dr M. Toner (chairman), Mr R. Stewart and Dr C. Adam.

Notes:  
Dr Stephen Gumley retired on 26 January 2001.  
Dr Mark Toner was appointed to the Board on 1 February 2001 and is also Chairman of the Human Resource & 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.

Robert James Stewart (Chairman)  
Melbourne, 20th March 2002

**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 2001 as set out on pages 12 to 36, 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, and other mandatory professional reporting requirements in Australia and statutory requirements, 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 Act 2001 including:
  - (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 31 December 2001 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards and the Corporations Regulations 2001;
- b other mandatory professional reporting requirements in Australia.

Ernst & Young

Donald C Brumley  
Partner  
Melbourne, 20th March 2002

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW)

The reference to pages 12 to 36 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.

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 and of the consolidated entity are in accordance with the Corporations Act and Corporations Regulations 2001, including:
    - i giving a true and fair view of the company's and the consolidated entity's financial position as at 31 December 2001 and of their 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



Robert James Stewart (Chairman)  
Melbourne, 20th March 2002

	Notes	Consolidated		Melbourne IT	
		2001 \$ 000s	2000 \$ 000s	2001 \$ 000s	2000 \$ 000s
<b>REVENUE FROM ORDINARY ACTIVITIES</b>	2	<b>51,272</b>	44,462	<b>48,212</b>	43,676
Depreciation and amortisation expenses	3	<b>1,913</b>	1,133	<b>1,583</b>	955
Salaries and employee benefits expenses		<b>13,994</b>	13,863	<b>12,076</b>	13,210
Other expenses from ordinary activities		<b>30,537</b>	27,126	<b>30,555</b>	27,191
<b>PROFIT FROM ORDINARY ACTIVITIES</b>		<b>4,828</b>	2,340	<b>3,998</b>	2,320
Income Tax Expense Relating to Ordinary Activities	4	<b>1,775</b>	859	<b>1,358</b>	853
<b>NET PROFIT ATTRIBUTABLE TO MEMBERS OF MELBOURNE IT LTD</b>		<b>3,053</b>	1,481	<b>2,640</b>	1,467
Basic earnings per share (cents per share)		<b>6.1 cents</b>			
Diluted earnings per share (cents per share)		<b>6.1 cents</b>			



	Notes	Consolidated		Melbourne IT	
		2001 \$ 000s	2000 \$ 000s	2001 \$ 000s	2000 \$ 000s
<b>CURRENT ASSETS</b>					
Cash assets		15,976	14,982	14,877	14,823
Receivables	6	4,707	3,443	4,570	3,146
Other financial assets	7	0	0	1,206	1,122
Other	8	7,072	6,315	7,033	6,287
<b>TOTAL CURRENT ASSETS</b>		<b>27,755</b>	<b>24,740</b>	<b>27,686</b>	<b>25,378</b>
<b>NON-CURRENT ASSETS</b>					
Other financial assets	9	6,124	2,227	6,168	2,232
Property, plant and equipment	10	3,401	4,559	2,618	3,615
Future Income Tax Benefit	11	1,272	464	1,279	464
Other	12	7	0	0	0
<b>TOTAL NON-CURRENT ASSETS</b>		<b>10,804</b>	<b>7,250</b>	<b>10,065</b>	<b>6,311</b>
<b>TOTAL ASSETS</b>		<b>38,559</b>	<b>31,990</b>	<b>37,751</b>	<b>31,689</b>
<b>CURRENT LIABILITIES</b>					
Payables	13	5,835	5,256	5,877	5,051
Provisions	14	2,321	816	2,296	816
Tax liabilities	15	1,339	504	940	422
Other	16	11,445	12,323	11,445	12,323
<b>TOTAL CURRENT LIABILITIES</b>		<b>20,940</b>	<b>18,899</b>	<b>20,558</b>	<b>18,612</b>
<b>NON-CURRENT LIABILITIES</b>					
Provisions	17	55	29	55	29
Other	18	5,717	4,268	5,717	4,268
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>5,772</b>	<b>4,297</b>	<b>5,772</b>	<b>4,297</b>
<b>TOTAL LIABILITIES</b>		<b>26,712</b>	<b>23,196</b>	<b>26,330</b>	<b>22,909</b>
<b>NET ASSETS</b>		<b>11,847</b>	<b>8,794</b>	<b>11,421</b>	<b>8,780</b>
<b>SHAREHOLDERS' EQUITY</b>					
Contributed equity	19	6,813	6,813	6,813	6,813
Retained earnings		5,034	1,981	4,608	1,967
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>11,847</b>	<b>8,794</b>	<b>11,421</b>	<b>8,780</b>

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

	Notes	Consolidated		Melbourne IT	
		2001 \$ 000s	2000 \$ 000s	2001 \$ 000s	2000 \$ 000s
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipt of service revenue and recoveries		46,959	53,186	43,745	52,697
Payments to suppliers and employees		(41,134)	(41,769)	(35,760)	(41,436)
Interest received		595	806	595	806
Grant received		200	27	200	27
Bank charges		(476)	(427)	(464)	(425)
Income tax paid		(1,853)	(1,183)	(1,853)	(1,183)
Income tax refund - year 2000		197	0	197	0
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	20(a)	<b>4,488</b>	<b>10,640</b>	<b>6,660</b>	<b>10,486</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Acquisition of property, plant and equipment		(294)	(2,790)	(126)	(1,669)
Proceeds from sales of property, plant and equipment		0	50	0	50
Investments		(3,350)	(2,227)	(3,474)	(3,348)
<b>NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES</b>		<b>(3,644)</b>	<b>(4,967)</b>	<b>(3,600)</b>	<b>(4,967)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
		0	0	0	0
<b>NET INCREASE IN CASH HELD</b>		<b>844</b>	<b>5,673</b>	<b>3,060</b>	<b>5,519</b>
Add opening cash brought forward		14,982	9,309	14,824	9,309
Effect of exchange rate changes on balances of cash held in foreign currency		150	0	(3,007)	(4)
<b>CLOSING CASH CARRIED FORWARD</b>	20(b)	<b>15,976</b>	<b>14,982</b>	<b>14,877</b>	<b>14,824</b>

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 was wound up in the second half.

**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

**INWWW** 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

## 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.

## JOIN US ONLINE

By being an online Melbourne IT shareholder, you can access information more quickly and cost effectively. We continually upgrade and update the information on our website for benefit of shareholders.

The cost of publishing and mailing the Annual Report and other shareholder communication is very high so we are looking for ways to reduce these costs and deliver the savings back to our shareholders. By registering online to receive your information via the Internet and electing not to receive printed Annual Reports and other materials, you can help us make your company more profitable.

To be an online shareholder simply;  
Go to the ASX Perpetual Registrars website at [www.registrars.aprl.com.au](http://www.registrars.aprl.com.au) and become a member. When you become a member, you have access to your Melbourne IT shareholding information online.

When following these steps, you will have the option of not receiving a printed Annual Report. We will email you to advise when the report is lodged on our website and you will also receive email notification of all other company reports and announcements that we lodge with the Australian Stock Exchange

## Corporate Directory

**Melbourne IT Limited**  
**ACN 073 716 793**  
Level 2  
120 King Street  
Melbourne 3000  
Telephone 613 8624 2400

**Directors (April 2002)**  
Rob Stewart (Chairman)  
Dr Colin Adam  
Kevin Courtney  
Professor Iain Morrison  
Dr Mark Toner

**Share Registrar**  
ASX Perpetual Registrars Limited  
Level 4  
333 Collins Street  
Melbourne Victoria 3000

**Auditors**  
Ernst & Young  
120 Collins Street  
Melbourne Victoria 3000

## 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 2001 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](mailto: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 2001 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.