



MELBOURNE **IT**

empowering **growth** _

2003

< Annual Report | Concise Version >

Melbourne IT Delivers Shareholder Value

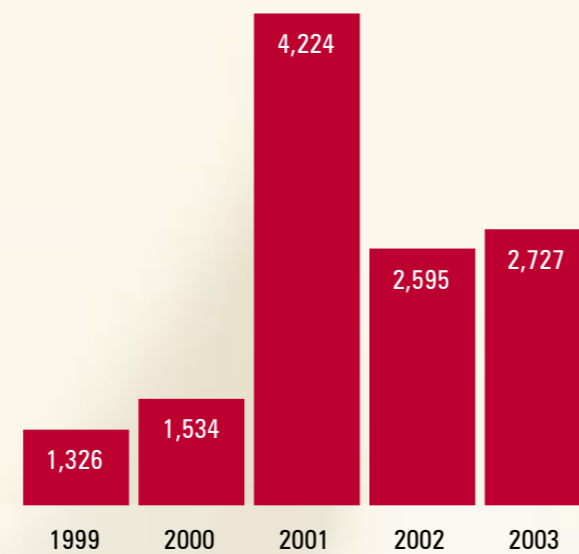
Revenue Growth

| PERFORMANCE (000's) | % CHANGE FROM FY'02 |
|---------------------|---------------------|
| \$49,897 | +4.0% |



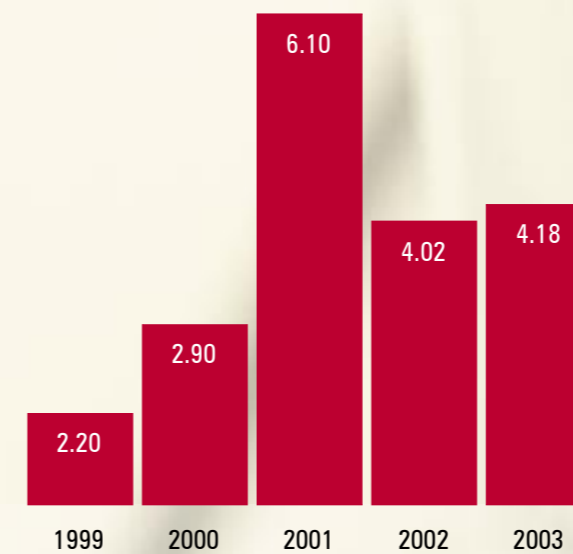
EBIT Growth (BEFORE SIGNIFICANT ITEMS)

| PERFORMANCE (000's) | % CHANGE FROM FY'02 |
|---------------------|---------------------|
| \$2,727 | +5.1% |



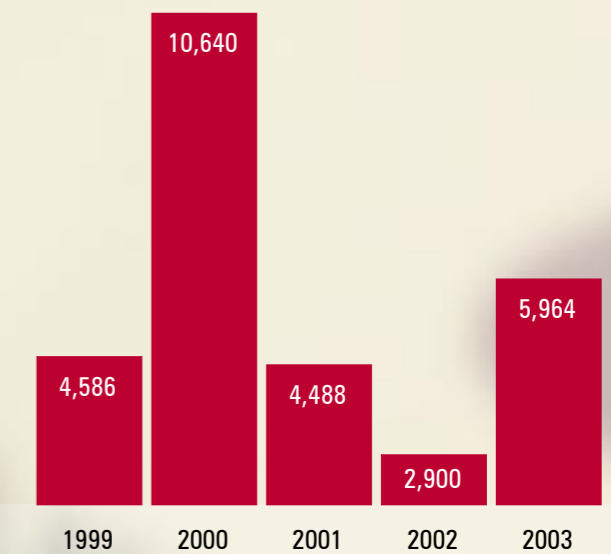
EPS Growth (BEFORE SIGNIFICANT ITEMS)

| PERFORMANCE (CENTS) | % CHANGE FROM FY'02 |
|---------------------|---------------------|
| 4.18¢ | +4.0% |



Operating Cash Growth

| PERFORMANCE (000's) | % CHANGE FROM FY'02 |
|---------------------|---------------------|
| \$5,964 | +103% |



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Chairman's Report

"The Board's confidence in the company's future was clearly signalled by the payment of interim and final dividends – the first dividends paid since listing in 1999."

The building blocks that were laid by the Board and Management in 2002 to secure Melbourne IT's long-term future proved to be a solid foundation for the 2003 results. The Board's confidence in the company's future was clearly signalled by the payment of interim and final dividends – the first dividends paid since listing in 1999.



Results

Melbourne IT's results in summary were:

- Earnings Before Interest and Tax for 2003 were \$2.7 million compared with a loss of \$4.5 million for 2002
- Positive operating cash was \$6.0 million compared with \$2.9 million for 2002, an increase of 103%
- Revenue for the year was \$49.9 million compared with \$47.9 million, an increase of 4%
- Profit After Tax was \$2.1 million compared with a loss of \$5.0 million for 2002
- At 31 December 2003, the cash balance was \$18.4 million, an increase from 31 December 2002 of 25%, and deferred gross margin was \$10.6 million.

These results are very satisfactory when viewed against the situation we faced in 2002 with the deregulation of the Australian market and the write-down of our investment in NeuLevel.

It should also be noted that the results were achieved despite the 33% appreciation of the AUD\$ against the USD\$ in 2003. Given that more than 60% of the company's revenue was in USD\$, the bottom-line impact of this appreciation was considerable, notwithstanding the company's prudent foreign exchange risk management program.

Dividends

As I have stated, the company's first dividend of 1 cent per share was declared at the half-year. A further dividend of 2 cents per share, also fully franked, was declared at the full year making a total of 3 cents per share.

The Board remains committed to a prudent and conservative dividend policy which seeks to provide shareholders with a solid yield but, at the same time, ensures that funding for growth and development is readily accessible.

Overview

We have put the deregulation phase behind us and focused our Australian operations on higher value services that complement our domain name operations. These new services are aimed at small to medium businesses looking to build an Internet presence and/or commence their e-commerce activities.

In the wholesale/reseller business, the company continued to acquire significant international companies as customers.

We have also substantially increased our Corporate Domain Management business which, although small, is a high-value service and a rapidly growing market sector with the acquisition of the European company, Cogent, after year end. The NeuLevel joint venture, in which we have a 10% equity, benefited from a management restructure and a new business plan, and in the final quarter of 2003 achieved positive cash flow and earnings. The outlook for NeuLevel is much brighter than a year ago.

Directors and Management

In September, our Chief Executive Officer, Mr Theo Hnarakis, was appointed to the company's Board as Managing Director in recognition of Mr Hnarakis' broad management experience and skills.

We also announced some key management changes at that time. Ms Moana Weir was appointed Company Secretary. She was previously Chief Legal Officer and continues in this role. This appointment has enabled our previous company secretary, Mr Andrew Field, to expand his role as Chief Financial Officer and to take on additional responsibilities, including his appointment as a non-executive Director of NeuLevel, our joint-venture business.

People

The Board of Melbourne IT is very proud of the quality of the company's people. In 2003 they again were called upon to perform at exceptional levels and they did so. On behalf of the Board and all shareholders, I thank them for their contribution.

Rob Stewart
Chairman

Managing Director's report

"We will continue to pursue profitable growth by increasing transactional value per customer.

Process efficiency and effective cost management will also continue to be a key focus of our business."

CEO and Managing Director, Theo Hnarakis, answers questions about the company's results and strategy for the future.



Q. The company produced a strong result for 2003 – what were the main factors contributing to this?

A. We created three clear business divisions – Reseller, Direct and Corporate Domain Management – and developed strategies unique to each business division. We then set specific performance goals and measured ourselves against these. We also carefully managed our costs, creating a strict culture of maximising the returns on any expenditure we make and improving process efficiency.

Q. You say Melbourne IT is expanding into new, value-added services, what does that mean?

A. We have, in the past, been a domain name-centric business. To grow and become more profitable, we have introduced a broader range of higher value services that build on our existing strengths. Our strategy has been to develop and procure best practice services that our customers need to effectively operate on the Internet. This fundamental change is transforming Melbourne IT into an integrated web solutions provider.

Q. What new services were introduced and how did they contribute to earnings?

A. The new services introduced during 2003 included entry-level web enabling tools that allow small to medium enterprises and home office businesses the ability to become web enabled, and to prepare themselves for e-commerce. Roll-out of these services only commenced in April 2003 and they have already contributed well to earnings.

Q. What is the company's future as a domain name registrar?

A. Selling and managing domain names is our core business. Our expansion into new services in no way lessens the importance of domain names to our business. Our total domain names under management rose by 10% to 2.3 million in 2003, which shows that we continue to achieve profitable growth in this market and that we are clearly the supplier of choice in this industry.

Q. Are you happy with how the three operating divisions performed in 2003?

A. Yes, all made good progress – although the Reseller Division was adversely affected by exchange rates where the AUD\$ appreciated 33% against the USD\$. On the positive side, this Division grew domain names under management by 17% and established agreements with major new resellers such as Microsoft, XO Communications and Terra Lycos – these should generate additional sales in 2004.

The Direct Division, which is largely focused on the Australian and New Zealand market, increased its sales by 29% to AUD\$19.5 million – an outstanding performance. It was through this Division that we introduced our new, higher value services and solutions.

Corporate Domain Management services also had an exceptional year. The Division operates in Australia and Spain and its Australian operations grew strongly. Revenue increased from \$1.5 million to \$2 million. The acquisition of Cogent will see revenue grow to over \$9 million in 2004 and we foresee further growth as major organisations become more aware of the need to protect their online brands. Excellent opportunity also exists here for offering a range of additional higher value services.

Q. Why acquire Cogent, a European company?

A. Cogent was acquired in April 2004 and is a specialist Corporate Domain Management business with a strong presence in the European and North American markets. By merging it with our existing CDM Division, we create a global business. Melbourne IT/Cogent will be uniquely placed to offer a global solution supported by localised customer care in each major region to international enterprises. Cogent is an excellent fit with Melbourne IT and meets all the strict criteria that we apply to merger and acquisition prospects.

Q. How does the company strive to control costs and improve processes?

A. We constantly strive to reduce our costs of doing business. We reduced our general overheads by 18% in 2003 and held total labour cost steady *after* taking into account the acquisition of Domainz. We also have underway a process improvement strategy that will create more efficient provisioning and procurement systems, improve our speed to market with new products and reduce our cost per transaction.

Q. How did the strengthening of the AUD\$ against the USD\$ impact on the results?

A. The exchange rates did impact significantly on our international business. This generates around 60% of our revenue and our largest international market is the United States. However, with strict treasury management programs, we dampened the impact of the 33% appreciation of the AUD\$ against the USD\$.

Q. What is the role of the New Products and Services Division?

A. This is our former Research and Development Division. Its major focus is the development or procurement of profitable new offerings that we can rapidly bring to market. This will improve and diversify our service offering to customers, and maximise our profits in the long term.

Q. What is the outlook for the company in 2004 and beyond?

A. We are encouraged by the company's prospects both for 2004 and for the longer term. The internet sector is strengthening, broadband penetration is growing as are economies of scale, and the uptake of e-commerce continues. Despite the impact of exchange rates, we will continue to pursue international growth because our future lies in being a successful global player. As a reliable and secure business offering world's best practice solutions, we will continue to gain large resellers which will help us increase our presence in global markets.

We will continue to pursue profitable growth by increasing transactional value per customer. Process efficiency and effective cost management will also continue to be a key focus of our business.

We shall also look for acquisitions as a means of complementing our organic growth. Melbourne IT has demonstrated an ability to prosper despite intense competition and tough times. We have sound, focused strategic plans that we know can take us to new horizons. At the heart of our business is an outstanding and motivated team of people.

+29%

Sales Revenue for the Direct Division in 2003 grew 29% to AUD\$19.5 million (2002: AUD\$15.1 million).



The Melbourne IT Direct business, which is largely based in Australia and New Zealand, with in excess of 150,000 customers, produced a significant proportion – 39% – of all revenues booked in 2003. The Division grew by 29% during the year, an outstanding outcome considering that the Australian market was deregulated in July 2002 and Melbourne IT lost its monopoly position as a registrar and registry of .com.au names.

The overall domain name market in Australia and New Zealand grew by 26% in 2003 and globally by about 19%, reflecting the overall strengthening of the Internet industry.

In 2003 the Direct Division embarked on an aggressive three-year growth strategy with the following set of objectives:

New Customer Growth

The key strategy to increase the number of customers is to focus on customer referrals through the delivery of a high-quality service. Our aim is to increase our number of unique customers by 20% by 2004. This will be achieved by significantly expanding referral programs with trusted third parties who either influence or educate small businesses on how to get online.

Increased Range of Customer Interactions

The Direct Division began offering a suite of value-added services and by the close of the year over 4,000 customers had purchased a value-added service from Melbourne IT. This successful strategy will continue in 2004. Melbourne IT's ability to increase our value per customer is due to the fact that we are both a natural entry point to the Internet and a trusted service provider.

Increased Customer Retention

Low customer churn and high domain name renewal rates have been achieved in 2003 due to Melbourne IT's trusted market position and the implementation of improved business processes.

Domain name renewals continued to be a key revenue source for Melbourne IT's Direct Division. In 2003 specific efforts were directed at securing maximum domain name renewal rates. These rates increased 5% across the year.

“Melbourne IT's ability to increase our value per customer is due to the fact that we are both a natural entry point to the Internet and a trusted service provider.”

Enhanced Customer Service and Useability

In late 2003 the Direct Division introduced a new way of interacting with its customers – My Account. My Account is a new platform allowing our customers to aggregate multiple domain names and services with Melbourne IT. This new improved method of product ordering and tracking greatly enhances a customer's experience with Melbourne IT.

Outlook

As the Australasian and International online industry continues its strong performance we expect the demand for both domain names and value-added services to grow.

Throughout 2004, Melbourne IT will expand its range of online solutions targeted at small to medium businesses and aimed at helping them succeed online.

+17%

Domain Names Under Management for the Reseller Division in 2003 grew 17% to 2 million (2002: 1.7 million).



Melbourne IT's Reseller Division supplies a technical and support solution for domain name registration to market leading technology and telecommunications organisations globally. The Division experienced a strong year despite the unfavourable movement in exchange rates.

The Division achieved a number of major goals in 2003, including increasing the number of domain names under management by 17%. Domain name volume growth was most rapid in Asia which increased by 21%, while North America grew by 14% and Europe remained steady.

This performance was supported by a 16% increase in the overall global domain name market. This was a result of strong new registration performance and importantly, growth in industry-wide renewal rates. Specifically, renewal rates for .com and .net domain names increased from below 50% in 2002 to over 60% in 2003. Melbourne IT's overall renewal rates exceeded the industry average during 2003.

A highlight of 2003 for Melbourne IT was the establishment of key long-term agreements with major Internet and technology companies. These included Microsoft, Terra Lycos, About.com and XO Communications.

Microsoft is the world leader in software, services and internet technologies for personal and business computing. Terra Lycos is a global Internet group with a presence in 42 countries in 19 languages.

About.com is a leading American portal, while XO Communications offers a range of services including voice services, internet access, private data networking and hosting services.

We are confident that these agreements will give our international operations significant impetus in the years ahead.

“A highlight of 2003...was the establishment of key long-term agreements with...Microsoft, Terra Lycos, About.com and XO Communications.”

During 2003, many of our long-term resellers such as Yahoo, NTT Communications, Verio and others also continued to grow strongly in the sector and this contributed to increasing the number of domain names under management. Our policy of linking with market leaders which have strong business models and a focus on delivering outstanding services to their customers, has been central to the establishment of Melbourne IT as a leader in the global domain name markets.

During the year we completed a significant system rebuild. This enhanced scalability, reliability, security, provided greater functionality and enabled us to maintain our commitment to industry best practice.

Outlook

The Reseller Division will continue to build relationships with existing resellers and seek new resellers to increase our penetration of the major and emerging international markets. Melbourne IT will also focus on identifying additional market needs and developing new services to meet them.

Given the strengthening of the Internet industry and predictions of high levels of growth in e-commerce, we expect that our international operations will experience solid growth in the coming years.

+71% Australian Clients for the CDM Division in 2003 grew 71% to 96 (2002: 56 clients).



“Our specialised CDM team has developed what we consider to be the most comprehensive and strategic approach to managing a corporate domain name portfolio.”

Managing brands on the Internet is an ever-increasing challenge. Many companies and government organisations with sizable domain name portfolios now turn to Melbourne IT to help them protect and manage their online brands with our Corporate Domain Management (CDM) service.

Since the inception of the CDM service in September 2001, our specialised CDM team has developed what we consider to be the most comprehensive and strategic approach to managing a corporate domain name portfolio.

This methodology is based on a three-stage process utilising our specialist technical and industry knowledge, and features continuous feedback and evaluation to ensure client priorities are met. This has led to exceptional client retention and a significant uptake of new services through these trusted client relationships.

In 2003, CDM had an exceptional year, increasing revenue from \$1.5 million to \$2 million.

In Australia, the number of accounts increased from 56 to 96. Amongst the new clients were leading global companies including Qantas, Unilever, Amcor and Flight Centre.

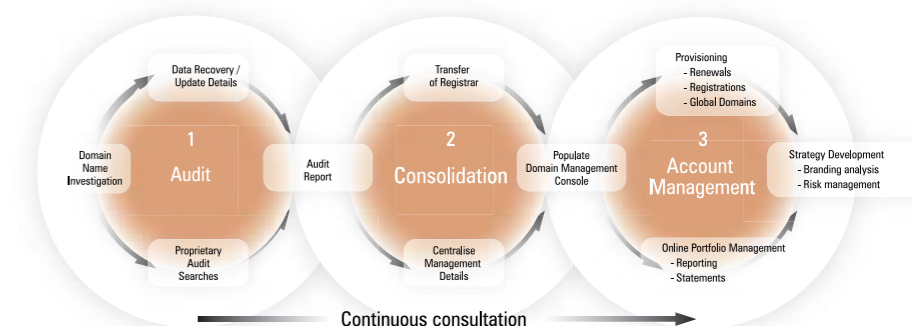
CDM now manages some of Australia’s most important domain names, including:

- The nation’s largest media portal site - ninemsn.com.au
- The country’s tourism gateway site - australia.com
- Domestic airline sites – virginblue.com.au and qantas.com.au

An exciting feature of 2003 was the release of a series of new products and services by the CDM team to many of our clients. These included:

- Domain recovery services
- Strategic audits
- Branding gap reports
- Domain monitoring
- Web forwarding
- Digital certificate listing
- Hosting analysis

Domain Management & Protection Model



Our Spanish CDM operation also continued to grow, providing CDM services to some major companies and high-profile brands in Spain, including Terra Lycos, BBVA Bank and Real Madrid.

In late 2003, CDM was launched in the US market with account management provided from our San Francisco office.

Outlook

2003 was a year of building on our market leadership in Australia, whilst entering new markets in a strategic and cost-effective manner.

2004 will be an exciting year for CDM as we build on the success of our current business by combining with Cogent. This will create a global CDM business with localised customer care in each major international region.



In April 2004, Melbourne IT acquired for approximately AUD\$4.5 million, Cogent IPC, a Swedish-based Corporate Domain specialist which manages many of the world's most famous brand names on the Internet.

Cogent IPC has offices in Stockholm, London, Paris, Amsterdam and New York and manages domain names for world leaders in the airline, automotive, clothing, banking, electrical, IT, furniture and food and beverages industries.

The acquisition was financed from cash reserves and met all of our strict criteria for building long-term shareholder value. Cogent is highly complementary to our existing CDM businesses in Australia, New Zealand, Spain and the United States.

Cogent had revenue of around AUD\$7 million in 2003 and is likely to match that performance in 2004. The acquisition is expected to be immediately cash flow positive, and to be earnings neutral in 2004 due to integration costs. However, we are confident that Cogent will make a positive contribution to earnings in 2005.

The combined Melbourne IT/ Cogent service and solution will position us as the only global CDM company offering expertise and support in each major region – Australasia, Europe and the Americas – for international companies seeking to safeguard their brands on the Internet throughout the world.

Cogent was founded in 1996 and has 35 employees. While most of its clients are European, it has a growing base and impressive client list in the United States.

Melbourne IT acquired New Zealand's leading domain name supplier, Domainz, in September 2003. Since the acquisition, significant progress has been made in integration and performance with Domainz meeting all expectations. The highlights were:

Direct

The Domainz brand was repositioned as "The Name You Trust", reinforcing the strength of existing relationships with Direct customers. This repositioning combined with new product enhancements, saw Domainz' renewal rate of .nz names increase to well above industry standards.

Reseller

After acquisition, Domainz quickly solidified relationships with its 120 Resellers. These range from large US and European-based domain name specialists to New Zealand and Australian-based ISPs and hosting providers.

Corporate Domain Management

Domainz introduced Corporate Domain Management into the New Zealand market in late November 2003. The market response to date has been encouraging, with negotiations underway with several leading New Zealand companies.

New Products and Services

During late 2003, Domainz launched a set of starter website hosting and design solutions that simplify online marketing for small to medium businesses. Take-up of the products has been consistently strong and is continuing to grow.

New registration services were introduced for both international domains (including .com, .net, .org, .biz and .info) as well as Australian domain names, leveraging existing Melbourne IT infrastructure.

Domainz introduced the capacity for retail and wholesale customers to register .nz domain names for up to 10 years, increasing the average number of registration years purchased by more than 30%.

Outlook

The pleasing performance of Domainz in the last quarter of 2003 and early 2004, provides a strong base for future growth and earnings.



new.products.and.services

The company's Research and Development Division was re-named the New Products and Services Division in 2003 to reflect the very close association between the research and development we undertake, and the commercialisation of this work.

During 2003, Melbourne IT successfully market-tested new Internet services that were largely focused on entry level business solutions for small to medium businesses and home offices. To do this, Melbourne IT took advantage of its strategic relationships with major global Internet service companies that have large economies of scale for providing some Internet services. This allows Melbourne IT to enter the market quickly at a cost and performance advantage over smaller companies.

For small business:

(1) Email Forwarding

Email forwarding allows a customer that already has an unbranded email account to register a domain name that relates to the customer's business name, and publish an email address that automatically forwards all mail to the customer's existing email account.

(2) Website Forwarding

This service allows a customer who already has a website to register additional domain names that may be chosen by a user guessing the name of the website or misspelling their name, and have users that select one of these names to be automatically redirected to the main website.

(3) Do-it-yourself Website Builder

This gives a customer who purchases a domain name the ability to establish a simple website at the time of purchase. This equates to creating a "business card" using do-it-yourself tools or software.

(4) Website Design Service

For a customer who wants a simple, unique customised website, this gives access to a professional service which can quickly establish a professional online presence. This is the equivalent of using a professional service to design and print unique branded business cards or other stationery.

For corporates:

Domain Name Brand Monitoring Service

This service gives a customer the ability to monitor the registration and use of domain names that match a user-selected keyword. A person or organisation trying to mimic a brand may try to register a variation of the name, and this service will alert the user when the domain name is created.

The Division carried out a substantial re-engineering of the company's technology platforms during the year. This has significantly reduced the cost of supporting domain names. The savings will enable us to focus development on new products and services beyond domain names in 2004.

Melbourne IT also continued to develop, assisted by an R&D Start Grant from AusIndustry, a platform called RSP to support a range of new internally developed Internet services.

Outlook

Over the coming year, we will expand our new service offerings and upgrade our internal business systems around customer service, sales, and accounts to provide improved customer service for existing customers, more flexible billing and payment options, and identify customer needs for new solutions.

industry.and.market.overview

Melbourne IT operates within the Internet Software and Services Industry. Industry participants include: domain name registrars (eg Melbourne IT), Internet service providers (ISPs) (eg Earthlink) that provide connectivity to the Internet; web hosting companies (eg Webcentral) that operate websites; portals (eg ninemsn, Yahoo) that act as a common reference point for using the Internet; and search service providers (eg MSN Search) that assist Internet users to find content.

Domain names are an important first step for business and individuals establishing their own online presence, and are an important indicator of the growth of the overall industry. Melbourne IT provides domain names directly to end users as well as to many of the other major companies in the industry (such as Yahoo, Microsoft, Terra Lycos) that use domain names as part of more sophisticated offerings.

The worldwide domain name market comprises global top level domains (gtlds) such as .com, .net, .org, .biz, .info as well as country code top level domains (cctlds) such as .us, .au, .nz, .de, and .uk. The overall growth of registered top level domain names worldwide in 2003 was around 16%. The major gtlds and cctlds (such as .au) grew at closer to 20%.

Another important indicator of the health of the industry is the rate at which domain name licences are renewed.

In early 2000, many .com domain names were registered either for the purposes of possible resale, or without a clear understanding of the next steps to take to establish an online presence. In the following years many of these domain names were not renewed, resulting in overall industry renewal rates of below 50%, and for a short period a net drop in the number of .com domain names registered. The industry renewal rates for .com names are now in excess of 60%, indicating that domain name holders are becoming long-term customers.

The longer a domain name holder holds a domain name, and begins to use it to establish an online presence through an email service and a website service, the more services a holder tends to take up. For this reason many of the industry participants attempt to acquire customers through service packages around a domain name, and then progressively upsell a customer to more sophisticated offerings.

2004 should see steady growth in the registration of domain names using non-English alphabet characters, following the establishment of an Internet standard in 2003. Browsers such as Netscape now incorporate the necessary software as part of their new browser software. Gtld registries such as .com, .net, .org, and .info are launching domain name services based on the new standards in 2004. In Germany, .de launched internationalised domain names early in 2004 and registered around 130,000 new names in a 48-hour period.

directors' 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 Stewart (Chairman)

Mr Stewart was national managing partner of Minter Ellison, one of Australia's leading law firms, for 11 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; a director of Uecomm Limited, a telecommunications carrier; Chairman of QSR International Pty Ltd, which produces qualitative research software; and Chairman of Plantic Limited, a producer of bio-degradable packaging

Mr Stewart was appointed to the Board on 14 September 1999.

Mark Toner (Deputy Chairman)

Dr Toner is the former managing director of Kvaerner E&C Australia, a subsidiary of the international Engineering & Construction Group, Kvaerner (recently renamed Aker Kvaerner).

Dr Toner's background is in technical 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 Chair of the Co-Operative Research Centre for Sensor Signal and Information Processing; Immediate Past President of the Business/Higher Education Round Table; an Adjunct Professor in the Faculty of Engineering at Monash University; and a Fellow of Engineers Australia. He is a Fellow and former Chair of the Institution of Chemical Engineers in Australia. He operates his own management consulting business.

Dr Toner was appointed to the Board on 1 February 2001.

Theo Hnarakis*

Theo Hnarakis was appointed to the position of Chief Executive Officer in November 2002, and invited to join the Board as Managing Director in September 2003.

Joining Melbourne IT in 2000, Mr Hnarakis spent two years in the role of Group General Manager, during which time he initiated many strategic global partnerships, and managed the international Sales and Marketing, Product Management, and Customer Service arms of the business.

Prior to joining Melbourne IT, Mr Hnarakis held senior roles with News Corporation, Boral Group, and the PMP Communications Group. Throughout the 1990s he held chief executive and senior line management roles with these companies including managing director of PMP's Canberra Press and Pacific Publications, and managing director of News Corporation's Southdown Press.

* Appointed to the Board on 20 September 2003.

Tom Kiing

Tom Kiing is a Director of Bridge Capital, an Australian technology investment firm that manages a portfolio of investments in the IT sector.

He currently also sits on the Board of Safehouse Technologies, a world leader in visual intelligence software.

Tom travels extensively through the ASEAN region to promote a wide range of Australian Investment opportunities to Asian governments, institutions and private investors.

Mr Kiing was appointed to the Board on 19 December 2002.

Simon Jones*

Mr Jones is a Chartered Accountant and the former managing director of N.M. Rothschild and Sons (Australia) Melbourne office.

Also a former head of Audit and Business Advisory (Australia & New Zealand), Corporate Finance (Melbourne), of Arthur Andersen, Mr Jones has extensive experience in investment advisory, valuations, mergers and acquisitions, public offerings, audit and venture capital.

Mr Jones is now a Director of Canterbury Partners Pty Ltd which is a boutique investment advisory and venture capital business located in Melbourne, Victoria and Chairman of The Advisory Board of MAB Limited.

* Appointed to the Board on 12 March 2003.

Iain Morrison

Professor Morrison is Professor of Information Systems at The University of Melbourne and has been closely involved for over 15 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 Limited, appointed in 1996. He was a member of the auDA Board from October 1999 to 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.



In order to assist shareholders understand the approach by Melbourne IT to Corporate Governance in the context of recent debate on the topic, this report has been set out using the same headings as used by the ASX Corporate Governance Council's "Principles of Good Corporate Governance".

Principle 1

Lay Solid Foundations for Management and Oversight by Board

The Board of Directors is responsible for guiding and monitoring the company on behalf of the shareholders by whom it is elected and to whom it is accountable. In discharging its stewardship it makes use of sub-committees which are able to focus in greater detail on relevant issues in their areas of responsibility. The current Board committees are the Audit & Risk Management Committee and the Human Resources, Remuneration & Nominations Committee.

The responsibility for the operations and administration of the company is delegated by the Board to the Chief Executive Officer and the executive management team. Authorities and Delegation limits are approved and reviewed by the Board from time to time.

The key functions of the Board of Directors are:

- Providing input into the development, and approving and monitoring the implementation, of the strategic direction of the company
- Overseeing the company and its performance
- Adopting the annual budget and operating plan and monitoring the performance against them on a regular basis
- Appointment and removal of the CEO and setting appropriate remuneration and performance targets as well as reviewing the CEO's performance against those targets
- Ratification of the appointment (and removal) of the Chief Financial Officer and the Company Secretary
- Monitoring and reviewing the performance of management
- Ensuring that the company puts in place appropriate human relations and remuneration strategies
- Ensuring that proper risk management systems and internal controls are in place
- Approving and monitoring financial and other reporting
- Approving and monitoring the progress of major capital expenditure, capital management and acquisitions and divestitures
- Monitoring and managing potential conflicts of interest of management, board members and shareholders
- Reviewing Board performance and remuneration and ensuring a formal and transparent Board nomination process
- Ensuring that the company complies with the law and complies with the highest standards of ethical and business behaviour
- Ensuring that policies on key issues are in place.

Management's responsibilities are:

- To be responsible to the Board for the overall management and performance of the company
- Charting the strategic direction of the company in conjunction with, and for approval by the Board
- Taking actions and initiatives in accordance with the strategic direction of the company as approved by the Board
- Providing leadership and direction to the company and all staff
- Maintaining effective risk management and internal control systems
- Maintaining the company's efficiency and competitiveness
- Ensuring the integrity and timeliness of financial reporting to the Board and to shareholders
- Ensuring that all members of management and staff comply with company policies.

The Chairman's role is to ensure that the relationships between the Board, management, shareholders, other stakeholders and the individual directors are effective, efficient and further the best interests of the company. In doing so the Chairman needs to work closely with the CEO but, at the same time, retain an independent perspective so as to best represent the interests of the company, shareholders, the Board and other stakeholders.

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.

Whilst it had not been the company's practice in the past to issue formal letters of appointment of directors, it is the company's intention to do this not only with new appointments but also to issue such a letter to each of the current directors.

Principle 2

Structure the Board to Add Value

The Constitution of Melbourne IT allows for the appointment of up to 10 directors. There are currently six directors, five of whom are non-executive directors. The directors have been chosen so as to provide an appropriate mix of experience and qualifications for the governance of the company.

Four of the five non-executive directors are considered by the Board to be independent directors (Simon Jones, Iain Morrison, Rob Stewart and Mark Toner). As Tom Kiing is a substantial shareholder in the company he is considered by the Board not to be an independent director. Directors are considered by the Board to be independent if they are independent of management, are not a substantial shareholder, and are free from any business or other relationship that could, or could reasonably be perceived to, materially interfere with the director's ability to exercise an unfettered and independent judgement. Materiality is assessed on a case-by-case basis by reference to each director's individual

circumstances rather than by applying general materiality thresholds.

The Chairman is an independent non-executive director. The Chairman and the CEO are different people.

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

The Board has established a Human Resources, Remuneration & Nominations Committee. This Committee has the responsibility for ensuring that proper human resource management and remuneration policies are developed and followed by the company and for assisting the Board in reviewing the performance of the Board and individual directors and in selecting any new directors. It comprises three non-executive directors with the CEO attending by invitation. The members are: Mark Toner (Chairman), Tom Kiing and Rob Stewart. Mark Toner and Rob Stewart are both independent directors. It has direct access to the senior management of the company and meets at least three times each year.

Particular issues it is to cover include:

- Recommending to the Board the compensation and key performance targets for the CEO
- Assisting in the annual performance review of the CEO
- Assisting in the annual performance review of the Board
- Identifying, evaluating and recommending suitable individuals for appointment as directors
- Recommending to the Board appropriate compensation policies for the non-executive directors
- Approving the compensation programmes and performance targets for senior executives
- Succession planning for the Board, CEO and key executives
- Managing the company's Share Option Plan
- Overseeing the company's superannuation arrangements
- Overseeing the development of appropriate strategies and plans for people management, career development of staff and general human resources policies.

The Charter of the Human Resources, Remuneration & Nominations Committee can be viewed on the company's website.

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.

When considering an appointment of a new director, the Board first makes an assessment of the particular skills and experience that it feels would be desirable to meet the company's needs going forward, given the current mix of skills and experience of the other directors. In evaluating a particular candidate, the Committee would consider the individual's:

- Experience and professional qualifications
- Ability to exercise sound professional judgement
- Leadership ability and/or prominence in a specified field
- Integrity and moral reputation
- Any potential conflicts of interest or legal impediments to acting as a director
- Willingness and availability to commit the time required to serve as an effective director of the company.

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

Principle 3

Promote Ethical and Responsible Decision-making

The company is finalising a Code of Conduct applicable to all directors and staff. The Code is based on the premise that, in all conduct, the company, directors and staff are to act honestly, diligently, lawfully and fairly. A copy of the Code will shortly be available on the company's website.

The company has also developed Guidelines for Buying and Selling Melbourne IT Ltd shares. This applies to all directors and staff and sets out the approach to be followed should any of them wish to buy or sell Melbourne IT Ltd securities. A copy of these Guidelines can be viewed on the company's website.

Principle 4

Safeguard Integrity in Financial Reporting

The Board has established an Audit and Risk Management Committee with 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 and independent directors. The Committee Chairman is not the Chairman of the Board. Current members are: Simon Jones (Chairman), Iain Morrison and Rob Stewart. The CEO and Chief Financial Officer attend the meetings by invitation of the committee. The relevant Partner and staff of the external auditor also attend by invitation. It meets at least three times each year and has direct access to the company's auditors and senior management. On at least one occasion each year it meets with the auditors without management being present.

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

Its role includes:

- Reviewing reports submitted by external auditors
- Reviewing and recommending to the Board for approval half-yearly and yearly financial statements
- Reviewing the performance of the auditors and recommending to the Board any change in the company's auditors
- 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).

The Charter of the Audit and Risk Management Committee can be viewed on the company's website.

The CEO and CFO are required to state to the Board in writing, at the time of submitting the draft half year and full year accounts, that the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Principle 5

Make Timely and Balanced Disclosure

The Board has adopted a Continuous Disclosure Protocol to ensure the timely and appropriate release of disclosable information to the market in accordance with the ASX Listing Rules. Details of the Protocol are available on the company's website.

The Company Secretary has been appointed as the Continuous Disclosure Officer. The Chairman and CEO approve the final form of announcements, subject to any comments from directors, who are given the opportunity to comment on proposed announcements prior to their release.

Principle 6

Respect the Rights of Shareholders

It is a fundamental tenet that the Board must act in the interests of all shareholders and, where board decisions may affect different shareholder groups differently, the Board must treat all shareholders fairly.

The company is committed to ensuring that shareholders are fully informed on the company's affairs. Effective communications with shareholders is, therefore, very important. The ways in which the company does this include:

- Regular reports to shareholders – including the company's annual report
- The Annual General Meeting – where the external auditor is in attendance and available to answer any shareholder questions about the audit and the auditor's report
- An Investor Relations section on the company's website, which includes all announcements by the company as well as other information on the company and its operations.

Further details are available on the company's website.

Principle 7

Recognise and Manage Risk

It is a key part of the role of the Audit and Risk Management Committee to oversee the establishment and implementation of the risk management system.

Whilst the company has had for some time now a strong system of internal controls across all areas of its operations, this has not yet been developed into a comprehensive risk management system. This is now being developed with the assistance of KPMG.

As part of the completion of the 2004 accounts, the CEO and CFO will be required to state to the Board that the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Principle 8

Encourage Enhanced Performance

The expected performance of the CEO, staff reporting directly to him (known as direct reports) and some other senior staff members, is specified each year using Key Performance Indicators (KPIs) in individual role agreements. These KPIs include financial targets for the company overall as well as personal objectives and targets, appropriate for each individual's role.

The Board has established a Human Resources, Remuneration & Nominations Committee (HRRNC) to assist it to address the various issues in this area (see Principle 2 above). The CEO reviews the performance of his direct reports and makes recommendations to the HRRNC for approval. The CEO's own performance is reviewed by the Board, facilitated by the HRRNC and the Company Chairman.

The HRRNC also facilitates an annual review of the Board's performance – both of the Board as a whole and of individual directors.

Enhanced performance by executives and senior staff is encouraged by structuring their remuneration with fixed and variable elements, as outlined in Principle 9.

Within the company's annual budget an amount is set aside to enable directors and senior executives of the company to have access to continuing education to enhance their skills and contribution to the company.

It is vital that directors are provided with and have access to all relevant information to enable them to properly discharge their duties. Management is responsible for ensuring that reporting to the Board is comprehensive and timely. The principle that management is required to follow here is that there should be "no surprises" for the Board.

Directors can request from management (through the CEO, CFO or the Company Secretary) whatever information they require to enable the Board to make informed decisions. As mentioned previously, if necessary, directors may also access independent professional advice at the company's expense.

The Company Secretary is appointed, and can only be removed, by the Board and is accountable to the Board on all governance matters.

Principle 9

Remunerate Fairly and Responsibly

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

Remuneration of non-executive directors comprises the following two elements:

- 1 Fixed fee
- 2 Variable remuneration: long-term incentive

Non executive directors are paid fixed fees in accordance with a determination of the Board but within a global limit (currently \$500,000) fixed by the shareholders at a General Meeting. This fixed fee includes an allowance for membership of committees of the Board on which directors sit. As from 1 January 2004, the Chairmen of each committee receive an additional amount to reflect (at least to some extent) the additional workload and responsibility required of them to carry out that role.

The long-term incentive for non-executive directors is membership of the Directors' and Executives' Employee Share Option Plan (which has been previously approved by shareholders). Broadly, non-executive directors are entitled to options in three tranches vesting over three years at exercise prices determined by the share price at the time of issue. Options in the Directors' and Executives' Employee Share Option Plan can only be exercised if a performance hurdle has been met. That hurdle is an increase of at least 10% in the latest half-year Earnings Before Interest and Tax (EBIT) when compared with the average of the previous four half-year EBIT results. General staff are members of a similar Employee Share Option Plan (previously approved by shareholders) which has no performance hurdle.

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

The remuneration of the CEO and executives comprises the following three elements:

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

The short-term incentive for each executive is an annual cash payment determined by the amount of fixed salary and achievement of individual KPIs (described in Principle 8). The Human Resources, Remuneration & Nomination Committee ("HRRNC") reviews and approves recommendations from the CEO covering salary reviews for all staff and the payment of any incentives, and makes its own recommendations to the Board covering the salary review of the CEO and the payment of any incentives to him. The long-term incentive is membership of the Directors' and Executives' Employee Share Option Plan as described above.

Details of remuneration paid and options granted in 2003 to directors and executives are set out in full in the Directors' Report.

Principle 10

Recognise Legitimate Interests of Shareholders

The company is finalising a Code of Conduct (a copy will shortly be available on the website). The Code will include a mechanism for employees to report any breach of the Code without fear of retribution.

The company also has adopted policies and trains its staff in a number of areas including privacy, compliance with trade practices and fair dealing laws and other legislative requirements.

Honest dealings and integrity are a key aspect of the company's values and behaviours, which are currently being reinforced by their incorporation into role descriptions throughout the company.

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows.
The information is current as at 29 February 2004.

(a) Distribution of equity securities

| Holding range | Number of holders | Ordinary Shares |
|-----------------------------------------------------------------------------------|-------------------|------------------|
| | | Number of shares |
| 1-1,000 | 1,547 | 1,208,522 |
| 1,001-5,000 | 3,033 | 7,458,396 |
| 5,001-10,000 | 624 | 4,844,707 |
| 10,001-100,000 | 421 | 10,131,515 |
| 100,001 and over | 34 | 27,299,928 |
| Grand Total | 5,659 | 50,943,068 |
| The number of shareholders holding less than a marketable parcel of shares are :- | 505 | 190,122 |

(b) Twenty largest shareholders

| The names of the 20 largest holders of quoted shares are : | | Number of shares | Percentage of Ordinary shares |
|------------------------------------------------------------|------------------------------------------------|------------------|-------------------------------|
| 1 | RBC Global Services Australia Nominees Pty Ltd | 6,740,930 | 13.23% |
| 2 | BB Nominees Pty Ltd | 6,486,547 | 12.73% |
| 3 | J P Morgan Nominees Australia Limited | 3,467,025 | 6.81% |
| 4 | National Nominees Ltd | 3,135,151 | 6.15% |
| 5 | Citicorp Nominees Pty Limited | 796,370 | 1.56% |
| 6 | Zelia Nominees Pty Limited | 715,504 | 1.40% |
| 7 | Dulwich Storage Company Limited | 712,068 | 1.40% |
| 8 | ANZ Nominees Limited | 654,019 | 1.28% |
| 9 | Mr Robert Thomas Bishop | 500,000 | .98% |
| 10 | Naiko Investments Pty Ltd | 499,900 | .98% |
| 11 | Three Crowns Investments Pty Limited | 384,275 | .75% |
| 12 | Invia Custodian Pty Limited | 292,233 | .57% |
| 13 | Denman Investments Limited | 236,944 | .47% |
| 14 | Principal Funds Management Pty Limited | 225,000 | .44% |
| 15 | Mr Robert John Tricker | 200,000 | .39% |
| 16 | Mrs Khylee Rodwell | 175,000 | .34% |
| 17 | Mrs Sandy Hnarakis | 171,046 | .34% |
| 18 | Invia Custodian Pty Limited | 168,117 | .33% |
| 19 | Amits Enterprises Pty Ltd | 152,586 | .30% |
| 20 | Mr William Barry Gilbo | 150,000 | .29% |
| | Report Total | 25,862,715 | 50.77% |

Voting rights

(c) All ordinary shares carry one vote per share without restriction.

IMPORTANT INFORMATION ABOUT THIS CONCISE REPORT

The Directors' Report, Concise Financial Report and Auditor's Statement contained within this document represent a Concise Report. The Concise Report contained within this document has been derived from the full financial report of Melbourne IT Limited for the financial year ended 31 December 2003 and cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

Your directors submit their report for the year ended 31 December 2003.

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 :
R J Stewart; I Morrison; M C Toner; T Kiing; S D Jones (Appointed 12 March 2003); T Hnarakis (Appointed 20 September 2003); K F Courtney (Retired 16 April 2003) and C M Adam (Retired 7 May 2003).

MANAGING DIRECTOR

T Hnarakis

COMPANY SECRETARY

M Weir

REGISTERED OFFICE

Level Two, 120 King Street Melbourne, Victoria Australia 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 and related bodies corporate were :

| | Ordinary Shares | Options over Ordinary Shares |
|-------------|-----------------|------------------------------|
| R J Stewart | 50,861 | 70,000 |
| I Morrison | 11,000 | 35,000 |
| M C Toner | 110,000 | 35,000 |
| T Kiing | 6,516,547 | 35,000 |
| S D Jones | 18,310 | 35,000 |
| T Hnarakis | 171,046 | 480,000 |

PRINCIPAL ACTIVITIES

The principal activities of the company during the year were:

- Registration of .au and .nz domain names
- Registration of other country code (ccTLD) domain names (for example: .us, .it, .de, .to and .uk)
- Registration of generic Top Level Domain (gTLD) names (.com, .net, .org, .biz, .info and .name)
- Consulting and management services to large public and private enterprises through its Corporate Domain Management division ("CDM")
- Other value added Internet related products to SMEs and SOHOs such as domain forwarding and website development tools
- Research and development of registry-related technologies.

EARNINGS PER SHARE

| | 2003 cents | 2002 cents |
|----------------------------|------------|------------|
| Basic earnings per share | 4.18 | (10.1) |
| Diluted earnings per share | 3.97 | (10.1) |

RESULTS

The profit after tax of the Melbourne IT Group for the year ended 31 December 2003 was \$2.098 million (2002: \$5.046 million loss).

DIVIDENDS

| | Cents | \$'000 |
|-----------------------------------------------|-------|--------|
| Dividends paid in the year on ordinary shares | 1.00 | 500 |

At the 23rd February 2004 Board Meeting, the directors declared a final dividend of 2.0 cents per share, fully franked. This dividend has not been provided for as at 31 December 2003.

REVIEW AND RESULTS OF OPERATIONS

RESULTS

- Earnings Before Interest and Tax for 2003 were \$2.7 million compared with a loss of \$4.5 million for 2002
- Positive operating cashflow was \$6 million compared with \$2.9 million for 2002, an increase of 103%
- Revenue for the year was \$49.9 million compared with \$47.9 million, an increase of 4%
- Profit After Tax was \$2.1 million compared with a loss of \$5.0 million for 2002
- At 31 December 2003, the cash balance was \$18.4 million, an increase of 25% from 31 December 2002
- Deferred gross margin was \$10.6 million at 31 December 2003 compared with \$9.7 million at 31 December 2002
- These results were achieved despite the 33% appreciation of the AUD\$ against the USD\$ in 2003 and this being the first full 12 months of carrying registry fees in the Australian market (vs. 6 months in 2002)
- A second half dividend of 2 cents per share declared, making a total of 3 cents per share for 2003, fully franked.

OPERATIONS

- Continued expansion into higher value online solutions business with the successful launch of new products and services
- Direct (Retail) sales revenue up 29% to \$19.5 million partly as a result of new, higher value services
- Reseller domain name registrations were up by 10% but, due to the exchange rate impact, revenues were down by 16% to \$29.1 million
- International Reseller agreements signed with Microsoft, Terra Lycos and XO Communications
- Corporate Domain Management – sales revenue increased from \$1.5 million to \$2 million and there was a 71% growth in the number of Australian clients
- Total names under management rose to 2.3 million – a 10% increase over 2002
- Domainz, the New Zealand acquisition made in early September 2003, has met all our expectations and is now profitable
- NeuLevel joint-venture (MLB 10%) exceeded our expectations and, in Q4, achieved positive cash flow and earnings.

Summarised operating result for the period ended 31 December 2003

| | 2003 | 2002 |
|-----------------------------------------------|---------------|---------|
| | \$'000 | \$'000 |
| Revenue | | |
| Registrar business | 48,427 | 46,542 |
| Other revenue | 920 | 856 |
| Total Revenue | 49,347 | 47,398 |
| Total Earnings Before Interest and Tax | 2,727 | (4,459) |
| Net Interest Income | 550 | 484 |
| Net Profit before Tax | 3,277 | (3,975) |
| Tax Expense | 1,179 | 1,071 |
| Net Profit After Tax | 2,098 | (5,046) |
| Cashflow from operations | 5,964 | 2,900 |

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Significant changes in the state of affairs during the year were :

- the acquisition of the Domainz business in New Zealand during September 2003, purchasing the business out of operating cash flows.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

At 23 February 2004 Board Meeting, the directors declared a final dividend of 2.0 cents per share, fully franked. This dividend has not been provided for as at 31 December 2003.

On 18th March 2004, Melbourne IT Limited announced the purchase of Cogent IPC, a European firm with offices in Stockholm, London, Paris, Amsterdam and New York. Cogent IPC serves global clients in the airline, automotive, clothing, banking, electrical, IT, furniture, food and beverages industries. Melbourne IT Limited entered into an agreement to acquire Cogent IPC for approximately AUD\$4.5 million with a purchase date of 1 April 2004. This acquisition was financed from existing cash reserves.

No other significant items have occurred after the balance date and up to the date of this report that require disclosure.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Despite the challenges of 2003, and the continuing adverse impact of the appreciating AUD\$, we believe the outlook for Melbourne IT is positive. The global strategic alliances entered into in 2003 should generate an increasing flow of Reseller business that will be reflected in the 2004 earnings and the growth of our value-added direct services should also contribute.

We have restructured the business into three business streams – Direct, Reseller and Corporate Domain Management.

Productivity will continue to be increased through ongoing cost containment, business improvement programs and the introduction of ongoing technology enhancements. These new technology enhancements will be designed to create improved productivity within our current business, provide enhanced services to our customers and facilitate the generation of new business streams outside the domain name industry.

In the Direct market, Melbourne IT will continue to release a range of value-added products and services. These products which have been launched with strategic partners include e-commerce enabling services for small to medium businesses.

The 2004 year has commenced well, as the Internet services environment continues to strengthen. During 2004, Melbourne IT expects to rollout further new products and services and will continue expanding its reseller network internationally. The continued strengthening of the AUD\$ will, however, prove challenging.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the company paid a premium in respect of a Director's and Officer's 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 & Nomination Committee (HRRNC) of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, the managing director, and the executive team. The HRRNC 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 HRRNC 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 Incentive Plan which currently provides a cash incentive where specified criteria are met (including criteria relating to cost control, profitability and cash flow).

Details of the nature and amount of each element of the emolument of each director of the company and each of the six 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

| | Annual Emoluments | | | | Long-Term Emoluments | |
|----------------------------------|-------------------|---------------|---------------|----------------|-------------------------------|---------------|
| | Base Salary | Other | Super Cont. | Total | Options Vesting During Period | |
| | \$ | \$ | \$ | \$ | No. | \$ |
| Mr Robert Stewart | 111,333 | – | 10,020 | 121,353 | 21,000 | 6,930 |
| Prof Iain Morrison | 40,000 | – | 3,600 | 43,600 | 10,500 | 3,465 |
| Dr Mark Toner | 40,000 | – | 3,600 | 43,600 | 10,500 | 3,465 |
| Mr Tom Kiing | 38,702 | – | 3,483 | 42,185 | 10,500 | 2,730 |
| Mr Simon Jones ⁽¹⁾ | 34,663 | – | 3,120 | 37,783 | 10,500 | 2,730 |
| Mr Kevin Courtney ⁽³⁾ | 15,267 | 40,000 | 1,200 | 56,467 | 10,500 | 3,465 |
| Dr Colin Adam ⁽⁴⁾ | 13,334 | 40,000 | 4,800 | 58,134 | 10,500 | 3,465 |
| Total | 293,299 | 80,000 | 29,823 | 403,122 | 84,000 | 26,250 |

Emoluments of the six most highly paid executive directors and officers of the company and the Consolidated Entity

| | Annual Emoluments | | | | Long-Term Emoluments | | |
|---------------------------------|-------------------|----------------|---------------|---------------|----------------------|-------------------------------|---------------|
| | Base Salary | Bonuses | Other | Super Cont. | Total | Options Vesting During Period | |
| | \$ | \$ | \$ | \$ | \$ | No. | \$ |
| Mr Theo Hnarakis ⁽²⁾ | 245,004 | 45,000 | 30,225 | 24,771 | 345,000 | 144,000 | 37,800 |
| Mr Thomas Mackey ⁽⁵⁾ | 237,122 | – | – | 8,272 | 245,394 | 36,000 | 9,930 |
| Mr Andrew Field | 140,712 | 28,000 | 37,000 | 15,994 | 221,706 | 36,000 | 11,880 |
| Dr Bruce Tonkin | 164,480 | 27,500 | – | 14,802 | 206,782 | 36,000 | 11,880 |
| Mr Guye Engel | 170,019 | 11,200 | – | 15,302 | 196,521 | 21,000 | 6,930 |
| Mrs Melissa Fitzpatrick | 123,416 | 11,200 | 17,000 | 12,637 | 164,253 | 21,000 | 6,930 |
| Total | 1,080,753 | 122,900 | 84,225 | 91,778 | 1,379,656 | 294,000 | 85,350 |

The category "Other" includes the value of any non-cash benefits provided.

(1) Mr Simon Jones joined the Board on 12 March 2003

(2) Mr Theo Hnarakis is the current Chief Executive Officer and joined the Board as Managing Director on 20 September 2003

(3) Mr Kevin Courtney retired from the Board on 16 April 2003

(4) Dr Colin Adam retired from the Board on 7 May 2003

(5) Mr Thomas Mackey is paid through INWWW (US) Inc in USD equivalents.

EMPLOYEES

The consolidated entity employed 133.3 full-time equivalent ("FTE") employees as at 31 December 2003, including 12 staff from Domainz Ltd, which was acquired on 5 September 2003. (2002:124.5 FTE employees)

DIRECTORS' MEETINGS

| | Directors' Meetings | | Meetings of Committees | | | |
|--------------------|----------------------|----------|------------------------|----------|----------------------|----------|
| | | | ARMC ⁽¹⁾ | | HRRNC ⁽²⁾ | |
| | No. of meetings held | 13 | 5 | 7 | | |
| | Eligible | Attended | Eligible | Attended | Eligible | Attended |
| Mr Robert Stewart | 13 | 13 | 5 | 5 | 7 | 7 |
| Prof Iain Morrison | 13 | 13 | 5 | 5 | – | – |
| Dr Mark Toner | 13 | 13 | – | – | 7 | 7 |
| Mr Tom Kiing | 13 | 13 | – | – | 7 | 7 |
| Mr Simon Jones | 10 | 10 | 3 | 3 | – | – |
| Mr Theo Hnarakis | 4 | 4 | – | – | – | – |
| Mr Kevin Courtney | 4 | 4 | 2 | 2 | – | – |
| Dr Colin Adam | 5 | 5 | – | – | 2 | 2 |

The above table shows the numbers of meetings of directors held during 2003. 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 Resources, Remuneration & Nomination Committee of the Board of Directors. The members of the Audit & Risk Management Committee are Mr S D Jones (Chairman), Mr R Stewart and Prof I Morrison. The members of the Human Resources, Remuneration & Nomination Committee are Dr M Toner (Chairman), Mr R Stewart and Mr T Kiing.

NOTES

⁽¹⁾ Audit & Risk Management Committee ⁽²⁾ Human Resources, Remuneration & Nomination Committee

ROUNDING

The amounts contained in this report and in the financial statements have been rounded under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Melbourne IT Ltd support and have adhered to the principles of corporate governance. The company's corporate governance statement is contained in the additional ASX information section of the 2003 annual report.

Signed in accordance with a resolution of the directors.



Robert James Stewart (Chairman)
Melbourne
Date: 29 March 2004

| | Notes | CONSOLIDATED | | MELBOURNE IT | |
|---------------------------------------------------------------|-------|--------------|--------------|--------------|---------|
| | | 2003 | 2002 | 2003 | 2002 |
| | | \$'000s | \$'000s | \$'000s | \$'000s |
| REVENUE FROM ORDINARY ACTIVITIES | 2 | 49,897 | 47,882 | 48,093 | 46,646 |
| Registry costs | | 26,358 | 22,864 | 25,688 | 22,510 |
| Salaries and employee benefits expenses | | 12,094 | 12,017 | 10,374 | 9,969 |
| Impairment of asset | 3 (c) | – | 7,054 | – | 7,054 |
| Depreciation and amortisation expenses | 3 (a) | 1,762 | 2,063 | 1,353 | 1,746 |
| Other expenses from ordinary activities | 3 (b) | 6,406 | 7,859 | 7,533 | 9,745 |
| PROFIT FROM ORDINARY ACTIVITIES | | 3,277 | (3,975) | 3,145 | (4,378) |
| Income Tax Expense relating to ordinary activities | | 1,179 | 1,071 | 1,058 | 976 |
| Net Profit Attributable to Members of Melbourne IT Ltd | | 2,098 | (5,046) | 2,087 | (5,354) |
| Basic earnings per share (cents per share) | 27 | 4.18 cents | (10.1) cents | | |
| Diluted earnings per share (cents per share) | 27 | 3.97 cents | (10.1) cents | | |
| Franked dividends per share (cents per share) | | 1.0 cents | – | | |

statement.of.cash.flows/for the year ended 31 December 2003

| | CONSOLIDATED | | MELBOURNE IT | |
|------------------------------------------------------------------------------|--------------|----------|--------------|----------|
| | 2003 | 2002 | 2003 | 2002 |
| | \$'000s | \$'000s | \$'000s | \$'000s |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Receipt of service revenue and recoveries | 53,330 | 51,023 | 51,655 | 49,957 |
| Payments to suppliers and employees | (47,888) | (46,586) | (45,435) | (45,764) |
| Interest received | 550 | 484 | 533 | 472 |
| Grant received | 316 | 300 | 316 | 300 |
| Bank charges and credit card merchant fees | (695) | (461) | (679) | (447) |
| Income tax (paid)/refunded | 351 | (1,860) | (540) | (1,861) |
| NET CASH FLOWS FROM OPERATING ACTIVITIES | 5,964 | 2,900 | 5,850 | 2,657 |
| CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES | | | | |
| Acquisition of property, plant and equipment | (427) | (220) | (478) | (220) |
| Proceeds from sales of property, plant and equipment | – | 26 | – | 26 |
| Purchase of controlled entity | (1,071) | – | (1,668) | – |
| Investments | (276) | (3,522) | (276) | (3,522) |
| NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES | (1,774) | (3,716) | (2,422) | (3,716) |
| CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES | | | | |
| Proceeds from issue of ordinary shares | 529 | – | 529 | – |
| Payment of dividend on ordinary shares | (500) | – | (500) | – |
| NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES | 29 | – | 29 | – |
| NET INCREASE/(DECREASE) IN CASH HELD | 4,219 | (816) | 3,457 | (1,059) |
| Add opening cash brought forward | 14,691 | 15,976 | 13,428 | 14,877 |
| Effect of exchange rate changes on balances of cash held in foreign currency | (553) | (469) | (473) | (390) |
| CLOSING CASH CARRIED FORWARD | 18,357 | 14,691 | 16,412 | 13,428 |

| | CONSOLIDATED | | MELBOURNE IT | |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2003 \$'000s | 2002 \$'000s | 2003 \$'000s | 2002 \$'000s |
| CURRENT ASSETS | | | | |
| Cash assets | 18,357 | 14,691 | 16,412 | 13,428 |
| Receivables | 2,200 | 2,394 | 1,990 | 2,452 |
| Other financial assets | – | 122 | 1,197 | 1,328 |
| Other assets | 8,817 | 6,857 | 8,247 | 6,486 |
| TOTAL CURRENT ASSETS | 29,374 | 24,064 | 27,846 | 23,694 |
| NON-CURRENT ASSETS | | | | |
| Other financial assets | 1,792 | 1,876 | 3,467 | 1,882 |
| Property, plant and equipment | 1,471 | 2,180 | 1,044 | 1,672 |
| Intangible assets | 697 | – | – | – |
| Future income tax benefit | 880 | 728 | 841 | 675 |
| Other assets | 5,079 | 3,677 | 5,062 | 3,670 |
| TOTAL NON-CURRENT ASSETS | 9,919 | 8,461 | 10,414 | 7,899 |
| TOTAL ASSETS | 39,293 | 32,525 | 38,260 | 31,593 |
| CURRENT LIABILITIES | | | | |
| Payables | 5,588 | 5,760 | 5,913 | 5,967 |
| Provisions | 721 | 638 | 668 | 584 |
| Tax liabilities | 1,192 | (168) | 855 | (519) |
| Other liabilities | 13,305 | 12,763 | 13,082 | 12,763 |
| TOTAL CURRENT LIABILITIES | 20,806 | 18,993 | 20,518 | 18,795 |
| NON-CURRENT LIABILITIES | | | | |
| Provisions | 83 | 43 | 83 | 43 |
| Other liabilities | 9,476 | 6,688 | 9,476 | 6,688 |
| TOTAL NON-CURRENT LIABILITIES | 9,559 | 6,731 | 9,559 | 6,731 |
| TOTAL LIABILITIES | 30,365 | 25,724 | 30,077 | 25,526 |
| NET ASSETS | 8,928 | 6,801 | 8,183 | 6,067 |
| EQUITY | | | | |
| Contributed equity | 7,342 | 6,813 | 7,342 | 6,813 |
| Retained profits | 1,586 | (12) | 841 | (746) |
| TOTAL EQUITY | 8,928 | 6,801 | 8,183 | 6,067 |

| | CONSOLIDATED | | MELBOURNE IT | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2003 \$'000s | 2002 \$'000s | 2003 \$'000s | 2002 \$'000s |
| 2. REVENUE FROM ORDINARY ACTIVITIES | | | | |
| Revenue from operating activities | | | | |
| Registration revenue | 48,001 | 46,315 | 46,218 | 45,092 |
| Consulting revenue | 426 | 227 | 426 | 227 |
| Revenue from non-operating activities | | | | |
| Interest | 550 | 484 | 533 | 471 |
| Government grant | 300 | 359 | 300 | 359 |
| Other revenues | 620 | 471 | 616 | 471 |
| Proceeds on sale of non-current assets | – | 26 | – | 26 |
| Total revenue from ordinary activities | 49,897 | 47,882 | 48,093 | 46,646 |
| 3. EXPENSES AND (LOSSES)/GAINS | | | | |
| (a) Depreciation and amortisation expenses | | | | |
| Depreciation of non-current assets | | | | |
| Fit out | 579 | 209 | 579 | 209 |
| Plant and equipment | 917 | 1,123 | 510 | 807 |
| Furniture | 15 | 14 | 13 | 13 |
| Total depreciation of non-current assets | 1,511 | 1,346 | 1,102 | 1,029 |
| Amortisation of non-current assets | | | | |
| Neulevel establishment costs | – | 466 | – | 466 |
| Other investments | 251 | 251 | 251 | 251 |
| Total amortisation of non-current assets | 251 | 717 | 251 | 717 |
| Total depreciation and amortisation expenses | 1,762 | 2,063 | 1,353 | 1,746 |
| (b) Other expenses from ordinary activities | | | | |
| Travel and accommodation | 392 | 683 | 385 | 651 |
| Financial and legal | 1,855 | 1,941 | 1,792 | 1,917 |
| Rental – operating leases | 676 | 555 | 547 | 431 |
| Communications | 710 | 910 | 630 | 868 |
| Marketing | 257 | 365 | 249 | 340 |
| Net foreign currency exchange (gain)/loss | 667 | 334 | 536 | 330 |
| Bad debts and doubtful debts | 181 | 646 | 177 | 619 |
| Net (gain)/loss on disposal of property plant and equipment | (50) | (11) | (50) | (11) |
| Other expenses | 1,718 | 2,436 | 3,267 | 4,600 |
| Total other expenses from ordinary activities | 6,406 | 7,859 | 7,533 | 9,745 |
| (c) Specific items | | | | |
| Profit from ordinary activities before income tax expense includes the following material expense for which disclosure is relevant in explaining the financial performance of the entity | | | | |
| Impairment of asset (Neulevel \$6.847 million) | – | 7,054 | – | 7,054 |

27. EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted earnings per share:

| | | |
|---------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Net profit | 2,098 | (5,046) |
| | Number of shares | Number of shares |
| Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share | 50,173,678 | 50,000,000 |
| Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share | 52,847,511 | 51,662,375 |

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 and of the consolidated entity are in accordance with 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 2003 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Robert James Stewart (Chairman)
Melbourne
Date: 29 March 2004

independent.audit.report



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DX: 293 Melbourne

INDEPENDENT AUDIT REPORT

SCOPE

The concise financial report and directors' responsibility

The concise financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the consolidated entity for the year ended 31 December 2003. The consolidated entity comprises both Melbourne IT Limited (the company) and the entities it controlled during the year.

The directors of the company are responsible for preparing a concise financial report that complies with Accounting Standard AASB 1039 "Concise Financial Reports", in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the concise financial report.

Audit approach

We conducted an independent audit on the concise financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the concise financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the concise financial report is presented fairly in accordance with Accounting Standard AASB 1039 "Concise Financial Reports". We formed our audit opinion on the basis of these procedures, which included:

- testing that the information in the concise financial report is consistent with the full financial report, and
- examining, on a test basis, information to provide evidence supporting the amounts, discussion and analysis, and other disclosures in the concise financial report that were not directly derived from the full financial report.

We have also performed an independent audit of the full financial report of the company for the year ended 31 December 2003. Our audit report on the full financial report was signed on 29 March 2004 and was not subject to any qualification. For a better understanding of our approach to the audit of the full financial report, this report should be read in conjunction with our audit report on the full financial report.

INDEPENDENCE

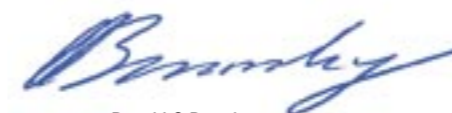
We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. In addition to our audit of the full and concise financial reports, we were engaged to undertake the services disclosed in the notes to the financial statements of the full financial report. The provision of these services has not impaired our independence.

AUDIT OPINION

In our opinion, the concise financial report of Melbourne IT Limited complies with Accounting Standard AASB 1039 "Concise Financial Reports".



Ernst & Young



Donald C Brumley
Partner

Melbourne
Date: 29 March 2004

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 are committed to developing our international markets by being the best service provider and the most technologically advanced domain name supplier in the world. We will also continue to work directly with customers and with our resellers, with whom we seek to establish mutually rewarding, long-term relationships.

We aim to always be a first-choice employer that attracts, trains and retains the best people by offering a stimulating and rewarding workplace. Through our people we will continue to nurture a culture in which innovation and creativity are encouraged but always with the clear objective of building commercial sustainability and long-term shareholder value.

To continue to remain an employer of choice Melbourne IT is developing a Strategic Leadership culture to empower our staff.

A set of values and behaviours have been developed around

Integrity
Excellence
Collaboration
Innovation
Commercial Discipline

and are linked to how we

Deliver results
Optimise processes
Provide leadership
Develop our people



San Francisco (USA)
New York (USA)

Stockholm (Sweden)
London (UK)
Paris (France)
Madrid (Spain)
Amsterdam (The Netherlands)

Melbourne (Australia)
Wellington (New Zealand)

agm.details

The Annual General Meeting (AGM) will be held at the Australian Stock Exchange Theatre, Ground Floor, 530 Collins Street Melbourne on 20 May, 2004 at 11:00am. All shareholders are invited to attend the AGM or to complete and return the proxy that accompanies the Notice of Meeting.