



MELBOURNE **IT**

delivering **value**

2005

< Annual Report | Concise Version >

Melbourne IT delivers . . .

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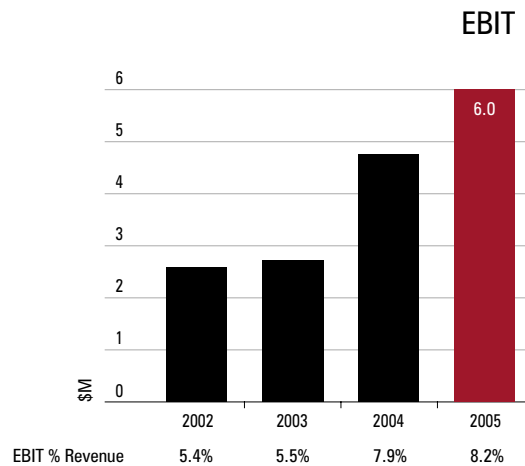
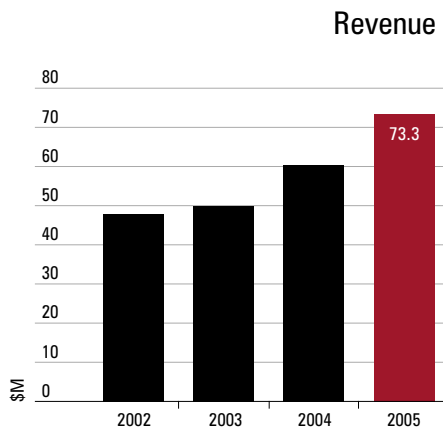
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# delivering.**financial.highlights**

## DELIVERING VALUE

Melbourne IT experienced another strong year of growth in 2005 with each of its key financial indicators showing an upswing. These excellent results were achieved through consistent and positive performance in each of the Divisions with implementation of Melbourne IT's core strategy: to maintain the focus on delivering value to customers.

The year also saw the success of another key objective: to diversify revenue streams. Total consulting and value-added revenue doubled from \$4.8 million to \$9.8 million in 2005 with this revenue stream representing almost 14% of total revenues.



## MELBOURNE IT'S GROWTH PERFORMANCE — AT A GLANCE

REVENUE

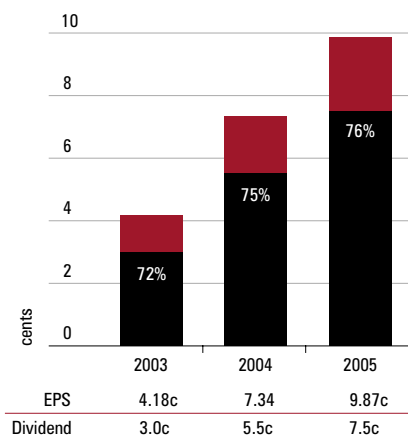
**\$73.3m | +21.8%**

EBIT

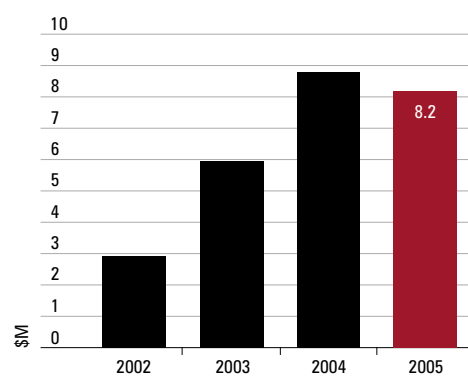
**\$6.0m | +26.4%**

“We anticipate continued success in diversifying revenue streams, both through assisting SMEs to be successful online and through helping companies protect their online identities.”

EPS & Dividend



Operating Cash



PROFIT AFTER TAX

**\$5.3m | +30.5%**

DIVIDEND

**7.5c | +36.4%**

# delivering.chairman's.review/**robert stewart**

## **Strategy Success**

The past year has seen Melbourne IT's focus firmly on the ways in which we can deliver value to our customers across the globe. This is about developing the products and services they need, combined with a world-class customer service approach. The success of this strategy of "delivering value" is reflected in the excellent results the company achieved in the period.

## **Strong Performance**

In 2005, Melbourne IT delivered another very strong financial performance. Key indicators, including revenue and EBIT, increased by more than 20% for the year and our cash flow remained strong. For our shareholders, we delivered both continued growth in dividends for the year of 36.4% and a further improvement in the company's share price. We were able to achieve these very good results through the work completed in implementing the 2005 Divisional strategy.

## **Significant Achievements**

Part of Melbourne IT's strategy is to achieve diversification of income streams through the development of revenues from sources other than domain names. In 2005, we made significant progress towards this goal through the increased offer of value-added Internet products, and the strong growth of consulting revenues. The year also saw the completion of the successful integration of the Cogent and Domainz businesses into the Corporate Brand Services and Direct Divisions respectively.

## **2006 Outlook**

As a company, we operate in the context of rapid growth of e-commerce, and the development of the Internet as the highway on which a wide range of business services are now operating. In the past year, more than any other, the Internet has been recognised as a "must-have" channel for business success. This is as true for a large corporate like a global airline or retailer, as it is for a small "one-person" business wanting to market its products or services. At the same time, the rapid growth in broadband services has seen a shift in demand and the increased take up of online products and services both at consumer and corporate levels. All the indicators suggest that the above trends will continue and Melbourne IT is well placed to take advantage of them. We therefore expect 2006 to be a year of continued growth for our company.

## **Our People**

I would like to recognise the company's excellent "people" record and the human resources contribution to our results. As the section on "People and Values" later in this Report indicates, Melbourne IT enjoys high staff retention rates and won a national award in 2005 as a result of its approach. We have invested in identifying and developing the values and behaviours needed not only to provide the support our customers expect, but also to create a workplace that supports our people and recognises and rewards outstanding performance.

I would also like to take this opportunity to recognise the continued efforts of my fellow Board members in guiding the development of our successful strategy, together with the Managing Director, Theo Hnarakis for his strong and effective leadership. Theo is ably supported by an excellent management team and staff and their contribution to our results should be applauded. Finally, I would like to thank the dedicated individuals who make up the global Melbourne IT team for their efforts in achieving success during 2005.



**Robert Stewart**  
Chairman

“Melbourne IT is well placed to take advantage of the rapid growth of e-commerce and the development of the Internet as the highway on which business takes place.”



“We have a clear strategy for growth and a focused and talented team ready to execute that strategy in an industry that is growing and continues to throw up many exciting opportunities.”



### **Our Culture**

During 2005, Melbourne IT continued to invest in the development of a customer-focused and performance culture. A key aspect of this is about valuing our employees, having them embrace our values and behaviours, and defining clear performance measures for them. Performance measurement is now an integral part of our business with a defined percentage of remuneration "at risk" and the employee rewards provided based on performance.

### **Diversification of Revenue**

We view the deriving of revenue from diversified sources as a key to the company's future success. The past year has seen significant achievement in this area. We have invested heavily in new products and services, processes and reporting. Melbourne IT has established a brand that delivers and supports products that help our customers succeed online. Our ultimate goal is to help them navigate the complexities of the Internet: overcoming the "noise" so they can effectively market their own products and services through this medium. For corporate customers, the challenges are not just about protecting and managing brands online now, but also being positioned to monitor and protect against future infringement. Brand performance through the Internet will become one of the great marketing challenges of the future and Melbourne IT is positioning itself to assist customers overcome this challenge.

### **Reseller Division**

Core to our Reseller strategy is the continued provision of the registry platforms that allow our clients to compete with, and outperform the competition. During 2005, this strategy was successful in the highly competitive markets of the US and Europe. We also seek to offer additional functionality to enhance the ongoing success of our Reseller clients. In 2006, and beyond, we will deliver products and services adding to the profitability of our clients as well as to that of Melbourne IT.

### **Direct Division**

In recent years, the Direct Division has successfully transformed itself from a product-oriented unit into a service-oriented one. During 2005, Melbourne IT assisted its SME client base meet the challenges of doing business on the Internet head on. We now have a "one-stop-shop" whereby an SME can establish its presence online: set up and develop a brand, build and host a website, and utilise strategies to effectively market their business online. Despite increased price competition for domain names, our SME customers are also discovering Melbourne IT's packages deliver the value they need. Furthermore, Melbourne IT is one of the few companies to offer 24x7 customer support in both solving problems and enhancing performance.

### **Corporate Brand Services Division**

Today, Melbourne IT manages leading global brands including AB Electrolux, Inter IKEA Systems B.V., Lonely Planet, LEGO Group and QANTAS. We are one of only a few companies globally to offer services in every major market including the Americas, Australasia and Europe. We predict that electronic brands will become as valuable as traditional intellectual property such as trademarks and patents, and that the Internet will become core to the communications, marketing and e-commerce strategies for large enterprises around the world.

Melbourne IT will continue to provide proactive services to assist corporates manage their portfolio of electronic brands, but also do more to assist and enhance their communications over the Internet. Some of these services include monitoring tools, domain name recovery services, and website traffic enhancement services. As a professional services division, the growth in the CBS market offers enormous potential and Melbourne IT is well placed as a leading provider in this area.

### **Mergers and Acquisitions**

As we look ahead, it is clear Melbourne IT has established a track record of strong growth and dividend yields for its shareholders. It is generating positive cash flow, and has a significant cash balance of more than \$26 million. We are actively seeking acquisition opportunities that will increase the company's value, grow its profits, and allow us to continue to deliver shareholder value. I thank all those involved for their support in meeting the challenges of the past year as we look forward to the exciting opportunities of 2006 and beyond.



**Theo Hnarakis**  
Managing Director

delivering.**new.products.and.services**

“In 2005, 90% of Melbourne IT’s Search Engine Optimisation customers consistently achieved Top 10 ranking results in Google.”



Chris Dobbyn,  
General Manager, Products & Marketing

Bruce Tonkin,  
Chief Technology Officer

### **New products and services developed to meet customer needs**

Across each customer and geographic segment, the focus has been on delivering value through new and innovative solutions aimed at helping our customers successfully implement their own online strategies. The past year saw the continued development of customer solutions — and the diversification of the Melbourne IT product range.

### **Delivering value to small and medium size businesses**

In this segment of the market, Melbourne IT is focused on providing a “one-stop-shop” for its SME customers. The 2005 product development effort significantly enhanced capability in this area through the following extension of products and services:

#### *Domain Names*

- Introduction of additional domain name spaces including Dot-EU and Dot-Travel.
- Development of the Global Domain Name Availability Report aimed at assisting our export customers research their global online branding strategies.
- Introduction of Private Registration allowing customers to mask their contact details in the public gTLD Whois as a means of limiting the impact of unsolicited marketing activity.

### **Email, Web Hosting and Web Design**

- Delivery of upgraded email and hosting plans to include significantly enhanced storage capacity, additional email accounts, spam filtering and virus protection.
- Offer of a broader range of website design solutions ranging from a basic 3-page website to a complete custom-developed website including an Online Store. Packages include access to a content management system: an easy, cost effective means of updating content and graphics.

### **Customer Testimonial**

*“...since Melbourne IT started working on my SEO program, I have achieved the highest sales I've ever reported. Sales jumped by 100% in 2 months. I'm very happy, I can assure you!”*

Donald Munro, Managing Director, Triple X Aquatic Clothing.

### **Website marketing**

- Rollout of solutions to drive Internet users to customer websites involving the registration of targeted domain names in conjunction with the provision of Search Engine Optimised websites.
- Offer of a Free Website Ranking Report and a Free Search Engine Consultation, as part of the strategy of educating our customers about the benefits of Search Engine Optimisation (SEO).

### **Improving the customer experience**

Melbourne IT is focused on improving customer experience in a number of key areas:

- Introduction of monthly billing systems allowing SMEs to ‘Pay as they Earn’.
- Offer of bundled options through pre-defined packages tailored for the most common customer requirements.
- Promotion of Melbourne IT’s 24-hour/7day-a-week Customer Sales and Service facility.
- Offer of free activation assistance for customers requiring more guidance through the product set-up phase.

### **Delivering value to Reseller customers**

Several new products and services were also successfully launched through the Reseller Division during the year, including:

- Dot-EU and Dot-Travel
- The upgraded NameBuddy name suggestion tool
- Names By Request name backorder service
- Private Registration
- Search Engine Information Service
- Email and Website Hosting
- Search Engine Optimisation

### **Delivering value to customers of Corporate Brand Services**

Melbourne IT’s Corporate Brand Services Division (CBS) has continued to develop and refine its market-leading solutions that are aimed at improving both brand protection and brand performance for global corporations. Solution enhancements delivered during 2005 included:

- Introduction of additional domain names including Dot-EU; Dot-Travel; Dot-Jobs and a range of additional country code domain names such as .com.es in Spain.
- Rollout of Self-Managed DNS services.
- Significantly enhanced domain name monitoring capability, informing customers of relevant brand infringement activity across multiple geographies.

Melbourne IT invested significant effort in improving the usability of the Online Portal, its customer management tool. Enhancements offered in 2005 included:

- Development of a number of additional functions such as DNS management and digital certificate listing capability.
- Addition of a case management repository, to ensure transparency regarding service enquiries or status of client work.



“By year end, 14% of revenue from the Melbourne IT Direct Division came from non-domain name product areas.”

**How we deliver easy and complete solutions to get SMEs online fast**

In 2005, Melbourne IT successfully achieved the transformation of its Direct Division into a leading Australian provider of online solutions. The Division continued to expand its range of online services, and delivered accelerated revenue growth from non-domain name related areas. By the end of 2005, 14.2% of revenue from the Melbourne IT Direct Division came from non-domain name product areas (an increase of 262% on 2004).

The Direct Division’s key market is located in Australia. Despite increased competition during the year, Direct achieved strong results in each of its key performance areas. Revenues grew by 20%, whilst customer retention rates and customer transactional values rose. The Average Transaction Value for new customers grew from \$153 in 2004 to \$156 in 2005.

A key driver of the Direct Division’s revenue growth was the increased take up of additional online services by the large domain name customer base. In 2005, more than 39,000 customers were using additional online services provided by Melbourne IT. This excellent result was achieved through improved customer profiling, expansion of Direct’s sales capabilities, and the introduction of monthly billing.

In both Australia and overseas, the Internet-focused software and software services industry continued to experience strong growth, particularly in the domain name, broadband and online advertising markets. Accordingly, the Australian .com.au domain name market grew at a strong rate of 27% in 2005, whilst the Australian online advertising market grew by 63% to \$488 million dollars in 2005.

To capitalise on these emerging marketing opportunities, the Direct Division leverages Melbourne IT’s trusted brand, its experience, and its expertise to deliver a wider range of online services to a growing number of small businesses. Customer satisfaction remains paramount to the Melbourne IT value proposition: trusted for online success.



Bernard Blake, General Manager, Direct

#### **2005 Highlights**

The Direct Division delivered a wide range of new products and services during the year and invested in its customer delivery as a way of ensuring value. Highlights of the year included the successful introduction of website promotion services where revenues and customer demand both grew strongly. Direct launched a new website to promote Melbourne IT's expanded range of online services including the introduction of 24-hour/7-day-a-week customer support for all online services. A key achievement was the conferring of the "Hitwise" Award to the MelbourneIT.com.au website for Most Popular Australian Website in the Web Hosting & Domain Names category.

The year also saw significant expansion of sales operations and a strong performance in retention rates. Direct successfully launched its Managed Affiliate Program to leverage third party referral relationships and introduced a bi-monthly "Online Success" newsletter to provide advice and increase touch points with its customer base.

#### **Outlook**

As the Internet becomes an increasingly important tool for business, Melbourne IT's Direct Division is ideally placed to take advantage of this trend. The Division's aim is to increase the value of online services provided to its growing base of more than 234,000 customers. Direct also understands the Internet is a market environment characterised by rapid change. The Division plans to stay abreast of this through innovation and strategic planning to ensure it takes advantage of emerging market opportunities and continues to provide value for money.

In the past two years, Direct has invested in developing a unique and comprehensive range of Internet solutions. Looking ahead, this offers the Division an ideal platform to not only maximise the value of its customer base but also reach new customers in new markets. For 2006, the key goal of the Direct Division is to become the leading supplier of online services to Australian businesses.

**How we provide domain name registration and value-added product solutions to large technology companies**

The Melbourne IT Reseller Division had a successful year in 2005, realising growth in both its Domain Name and Value-Added Product offerings. Reseller total domain names under management grew significantly from 2.4 million in 2004 to 3.3 million in 2005, an increase of 40%.

Several new products and services were also successfully launched during the year including Name Generation, Search Engine Information Service, Names By Request, and Private Registration. By the end of 2005, more than 120,000 active Private Registrations were registered through our global reseller partners. This figure is forecast to increase by an additional 350,000 private registrations in 2006.

**2005 Highlights**

The Reseller Division brought in \$36.3 million in revenue in 2005, representing a 23% increase over 2004. Regionally, North America contributed 71% of the year's total Reseller revenue, while Europe contributed 11%, Asia 10%, and Australia 8%.

A key highlight of 2005 was the emergence of the use of domain names as highly visible and successful promotional vehicles for many of our top resellers. Yahoo! Japan utilised the .name TLD in a highly successful campaign that effectively doubled the total number of its domain name customers.

In the US, Yahoo! also promoted domain names as a means of gaining small business customers during the second half of the year. This was achieved through the placement of banner advertisements on Yahoo!'s front page and conducting outbound email campaigns. The results also saw a significant increase in Yahoo!'s overall domain names under management. Microsoft aggressively promoted domain names through the launch of its new Office Live product. This product provides small business customers with a free domain name bundled with email and web hosting.

“Reseller total domain names under management grew significantly from 2.4 million in 2004 to 3.3 million in 2005, an increase of 40%.”



Thomas Mackey, Senior Vice President & General Manager, Reseller Division

#### **Outlook**

For the coming year, the Reseller Division will continue to strengthen relationships with existing reseller partners.

We will accomplish this by extending our services through additional divisions within our major reseller customer organisations. We also plan to launch additional domain name related value-added services and solutions. Among these will be our “Secondary Market” domain name offering. Essentially, this will create a “clearing house” our resellers can use to market previously registered domain names for sale and auction to their own customers. We will also be releasing enhanced Search Engine Improvement Services for our Internet portal reseller partners.

Another important focus will be to continue our work with the Direct and Corporate Brands Services Divisions to cross-promote services through our reseller channels wherever possible. Leverage for the Direct Division’s solutions can be achieved by establishing co-branded or private labelled Managed Affiliate offerings through international reseller organisations. Working with our CBS Division we will promote its services to those of our major global reseller partners with large domain name portfolios.

The Reseller Division also recognises the need to develop new customers across the international marketplace in 2006. The achievement of this will improve our position both in established, as well as emerging international markets. A planned increase in the total number of ccTLDs that we offer through our resellers will improve our overall services and solutions surrounding these spaces. Proactively marketing the pan-European dot-EU TLD (scheduled for release in mid-2006) to our global resellers doing business in Europe is a further target for the year.



“During the year, CBS attracted 58 new corporate clients, an increase of 24% on 2004, and maintained a 99% client retention rate.”

Anders Eriksson, Chief Executive Officer — Corporate Brand Services

**How CBS helps enterprises around the world monitor and protect their brands online**

With the rise of the Internet and the evolution of the international business environment, new challenges have emerged for large corporations managing known and recognisable global brands and trademarks online. The challenges include third party infringements on valuable online intellectual property, domain name management issues, search engine visibility, and ensuring a return on website investments. Today, companies and organisations strongly value finding a long-term partner to support them in the area of Online Brand Management.

As a leading supplier of Online Brand Management services, Corporate Brand Services (CBS) helps companies and organisations worldwide succeed online by maximising brand and trademark value through innovative Internet solutions. These solutions are designed to minimise risk and reduce cost.

Since 1996, Melbourne IT has delivered Online Brand Management services, and been trusted with the management of the world's leading brands. Today, the CBS Division offers the expertise required to effectively manage and utilise brand assets on the Internet.

**2005 Highlights**

During 2005, the CBS global brand was launched following the integration of the resources and expertise of the former Cogent IPC group and Melbourne IT CDM Division. Consolidating operations under one global brand was an important milestone in the implementation of a long-term business strategy in which the CBS Division will be the leading global supplier of Online Brand Management services. For 2005, the focus was on providing specialised and dedicated solutions in managing brands and trademarks on the Internet with local service and delivery. To complement the launch of the CBS brand, a new website ([www.melbourneitcbs.com](http://www.melbourneitcbs.com)) was launched together with a new client online portfolio interface: Online Portal (formerly known as Extranet).

The CBS portfolio of clients includes leading global brands such as Microsoft, GlaxoSmithKline, Yahoo!, HSBC, AB Electrolux, Inter IKEA Systems B.V., Volvo Car Corporation, ABSOLUT®, QANTAS, and the LEGO Group. CBS attracted 58 new corporate clients — an increase of 24% on 2004 — and maintained a 99% client retention rate. New clients included Computer Patent Annuities (CPA), AstraZeneca AB, Husqvarna AB, H&M Hennes & Mauritz AB, Lonely Planet, Nordea, Seven Network, Securitas Systems, and the Australian Olympic Committee.

The CBS Division financial performance also exceeded expectations, improving revenues from \$8.1 million in 2004 to \$11.9 million in 2005, an increase of 47%. The CBS Division's Corporate Domain Management services continued to grow positively while our value-adding services: Online Brand Infringement and Web Traffic Services, also experienced strong growth.



## Outlook

The CBS Division is strategically positioned in eight major markets around the world providing Online Brand Management expertise to many of the globe's leading brands. For the CBS Division, 2006 will be a year to invest in additional resources for these markets and explore new opportunities to further develop the customer base.

Delivering value and ensuring customer satisfaction remains our priority and a means of ensuring long-term success. Our capabilities will be further improved during 2006 through our investment in local market resources and the development of a competitive service portfolio. We are on the brink of an exciting new era for CBS as we research, develop and deliver the global solutions our clients need.

## Online Brand Management

### Service Areas

#### Corporate Domain Management

Global Portfolio Audit  
Portfolio Centralisation  
Portfolio Management  
Domain Policy  
DNS Services  
Online Portal

#### Online Brand Infringement

Global Infringement Audit  
Domain Name Monitoring  
Brand Control  
Registrant Investigation  
Domain Acquisition  
DRP and UDRP  
Site Shutdown  
Online Case Management

#### Web Traffic Services

Web Traffic Development

- Search Engine Marketing
- Sponsored Links Management
- Search Engine Ranking Analysis

Web Traffic Management

- Web Traffic Analysis
- Link Management

Online Portal

#### Digital Certificates

SSL Management

- New Registrations
- Renewals
- Audit

Online Portal Listing  
Immediate Issue



delivering **people.and.values**

Melissa Fitzpatrick, General Manager, Operations

“We believe in being customer focused in everything that we do.”

**How our management approach enables our Business Divisions to meet their targets**

At Melbourne IT, we believe the secret of achieving higher performance and retention rates is to increase employee engagement levels. Our strategy focuses on transmission of the company’s stated Values and Behaviours. We are committed to cultivating leaders, providing recognition and rewards, and developing a culture of two-way feedback. Melbourne IT’s Values and Behaviours set the benchmarks for performance and ethical behaviour, and underpin everything that we do. They are:

**OUR VALUES**

- Integrity
- Excellence
- Collaboration
- Innovation
- Commercial Discipline

**OUR BEHAVIOURS**

- Deliver Results
- Provide Leadership
- Optimise Processes
- Develop People

**Offering a qualified and multilingual workforce**

Employing 218 full-time equivalent employees (FTE’s) across eight countries, we have a talented workforce fluent in more than twenty different languages.

Our employee education levels are also high: 72% of our people hold university under-graduate degrees or above while a further 15% have completed a diploma qualification. With offices across the world, we also understand the importance of creating a global culture that values diversity.

**How our success has been recognised**

In 2005, Melbourne IT won the national 2005 Australian Human Resources Institute (AHRI) Award for Excellence in People Management (Small — Private Sector Category). The AHRI Awards recognise leadership and innovation within people management and the human resources profession.



**How we deliver outstanding customer service through our dedicated team**

The Melbourne IT's Customer Service Centre's overall goal is to deliver world class service 24 hours a day, every day of the year, in over 20 different languages.

**"We are proud of the fact that our service is recognised globally among our customers and competitors as a key differentiator that delivers value."**

To provide ultimate customer satisfaction, our service goals aim to provide customers with:

- Reliability
- Security
- Availability
- Accountability
- Accurate, clear and ethical information
- Expert knowledge and advice
- Simple and easy solutions with fast problem resolution
- Value for money

**"Employee turnover in our Service Centre was only 8% in 2005, in an industry where average turnover ranges from 25% to 50%."**

We offer more than just standard call centre roles based on "clock in clock out". Instead, we promote people through the business, support lateral moves and help our people really make a difference for our customers. This collaborative approach has resulted in higher employee retention, highly experienced employees, and high levels of customer satisfaction.

During 2005, we:

- evolved into a 24 x 7 Service, Sales and Activation Centre
- increased the size of our support teams
- improved our customer service levels by more than 10%
- further developed our comprehensive Online Help Centre
- improved our productivity by 34% through process and system improvements
- continued to invest in employee development and quality management programs
- trained specialised employees as product, service and technical experts
- expanded our My Account program allowing customers to easily view and manage their own information
- benchmarked and improved our service against our global competitors.

“Your Board is committed to optimising shareholder returns within a framework of ethical business practices.”

## Robert 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 Chairman of Meditech Research Limited, a biotechnology company focused on developing and commercialising drugs that improve the health and quality of life of patients with cancer and other chronic diseases; Deputy Chairman of emitch Limited, an online advertising and media placement company; Chairman of C E Bartlett, one of the leading manufacturers in Australia of quality products in the fabrication of synthetic and canvas fabrics; and a director of QSR International Pty Ltd, which produces qualitative research software.

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

## Dr Mark Toner

Deputy Chairman  
Non-Executive Director

Dr Toner is the former Managing Director of Kvaerner E&C Australia, a subsidiary of the international Engineering & Construction Group, Kvaerner (now Aker Kvaerner). Dr Toner's background is in technical marketing and management with a career focus on science, engineering and IT. 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, an Adjunct Professor in the Faculty of Engineering at Monash University and a former Past President of the Business/Higher Education Round Table. He is a Fellow of the following organisations: the Australian Academy of Technological Sciences and Engineering, Engineers Australia, the Institution of Chemical Engineers in Australia (and former Chair) and the Australian Institute of Company Directors.

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

## Professor Iain Morrison

Non-Executive Director

Iain Morrison is Professor of Information Systems at the University of Melbourne. His research and teaching interests span the design and development of large-scale distributed information systems and their application to e-commerce, healthcare and education.

His earlier career path encompassed senior IT management roles and he has over 15 years' experience in the design, implementation, and operation of large-scale online business systems, and in Business and IT Strategic Planning and Management. He was a founding director of AuDA until his resignation in November 2001, and served for 10 years on the Board of AARNet, the Australian Academic and Research Network. He offers particular expertise in project planning and management, business continuity planning, process assurance and automation and IT audit. He has consulted to industry and government in telecommunications, copyright, online legislation and applications of IT.

Professor Morrison was appointed to the Board in 1996.



**Simon Jones**  
Non-Executive Director

Mr Jones is a Chartered Accountant and the former Managing Director of N.M. Rothschild and Sons (Australia) — Melbourne office. He is a former Head of Audit and Business Advisory (Australia & New Zealand), and 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 a director of Canterbury Partners Pty Ltd, a boutique investment advisory and venture capital business located in Melbourne, Victoria and Chairman of the Advisory Board of MAB Limited. He is also a director of Computershare Limited.

Mr Jones was appointed to the Board on 12 March 2003.

**Tom Kiing**  
Non-Executive Director

Mr Kiing is a director of Bridge Capital Pty Ltd, an Australian technology investment firm that manages a portfolio of investments in the IT sector. He currently sits on the Board of Safehouse Technologies Pty Ltd, a world leader in visual intelligence software as well as Consolidated Franchise Group Limited, an aggregator of master franchises in Australia. Mr Kiing has extensive experience in M&A, capital markets and corporate finance. He continues to travel 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.

**Theo Hnarakis**  
Managing Director

Mr Hnarakis was appointed to the position of Chief Executive Officer in November 2002 and was invited to join the Board 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.

Mr Hnarakis joined the Board as Managing Director on 20 September 2003.

# corporate.governance

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

Melbourne IT's Corporate Governance statement in its Annual Report for 2003 set out the company's approach to the ASX Corporate Governance Council's "Principles of Good Corporate Governance".

During 2004 and 2005, the company made further progress in its delivery of the Principles. It is the view of the company that its corporate governance practices are now entirely consistent with the ASX "best practice" recommendations.

A full statement regarding Melbourne IT's corporate governance practices as they relate to the ASX Principles of Good Corporate Governance is set out in the Corporate section of the Melbourne IT website at [http://corporate.melbourneit.com.au/corporate\\_governance/](http://corporate.melbourneit.com.au/corporate_governance/).

While that full statement is not set out here, we have included a summary of Melbourne IT's Corporate Governance approach in accordance with the ASX "best practices", as well as some additional information in relation to the management and oversight of the company by the Board.

This Report has been set out using the same headings used by the ASX Corporate Governance Council Principles.

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

The Board of Directors is responsible for guiding and monitoring Melbourne IT 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 that 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 & Nomination Committee.

The responsibility for the operations and administration of Melbourne IT 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 Melbourne IT
- overseeing Melbourne IT 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 Melbourne IT 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 Melbourne IT 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 Melbourne IT
- charting the strategic direction of Melbourne IT in conjunction with, and for approval by the Board
- taking actions and initiatives in accordance with the strategic direction of Melbourne IT as approved by the Board
- providing leadership and direction to Melbourne IT and all staff
- maintaining effective risk management and internal control systems
- maintaining Melbourne IT'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 Melbourne IT. 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 Melbourne IT, shareholders, the Board and other stakeholders.

## **Principle 2 — Structure the Board to Add Value**

The qualifications of the current Board members are set out on pages 18–19.

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 Melbourne IT 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.

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.

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

The Human Resources Remuneration & Nomination Committee (HRRNC) comprises three non-executive directors: Mark Toner (Chairman), Tom Kiing and Rob Stewart. Mark Toner and Rob Stewart are both independent directors. The CEO attends all meetings by invitation.

### **Principle 3 — Promote Ethical and Responsible Decision Making**

The company has a Code of Conduct to guide the directors, the Chief Executive Officer, the Chief Financial Officer and other key executives as to:

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

This is included in the Corporate section of Melbourne IT's website.

The company's Trading Policy concerning trading in company securities by directors, officers and employees involved in material transactions or privy to material information, is also included in the Corporate section of Melbourne IT's website.

### **Principle 4 — Safeguard Integrity in Financial Reporting**

The CEO and the Chief Financial Officer have stated in writing to the Board for the financial year 2005 that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

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

The CEO and Chief Financial Officer attend the meetings by invitation of the Committee. The relevant Partner and staff of each of the external and internal auditors also attend by invitation. It meets at least three times each year and has direct access to Melbourne IT's auditors and senior management. On at least one occasion each year it meets with the auditors without management being present.

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

The ARMC Charter is included in the Corporate Governance Section of Melbourne IT's website.

### **Principle 5 — Make Timely and Balanced Disclosure**

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

- reviewing compliance with Melbourne IT's continuous disclosure obligations
- co-ordination of the timely release of information to the market
- maintaining a record of disclosure information (including any information that was considered but rejected for disclosure and the reasons for non-disclosure).

### **Principle 6 — Respect the Rights of Shareholders**

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

- Notices and explanatory memoranda of annual general meetings
- The annual report and the concise annual report
- The annual general meeting
- The Corporate section of Melbourne IT's website located at <http://corporate.melbourneit.com.au>
- Periodic analyst briefings, which are released to the ASX
- Periodic shareholder newsletters, which are also released to the ASX.

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

## **Principle 7 — Recognise and Manage Risk**

The Board has established appropriate policies on risk oversight and management.

In respect of the 2005 financial year, the CEO and the Chief Financial Officer have stated to the Board in writing that:

- the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control that implements the policies adopted by the Board
- 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 performances of the CEO, staff reporting directly to him (known as 'direct reports') and some other senior staff members, are specified each year using Key Performance Indicators (KPIs) in individual role agreements.

These KPIs include financial targets for Melbourne IT overall as well as personal objectives and targets, appropriate for each individual's role.

The Board has also established the 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 Chairman.

The HRRNC also facilitates an annual review of the Board's performance – both of the Board as a whole and of individual directors. In each of the past 3 years, the reviews of the Board and the CEO have been conducted with the assistance of an external facilitator and of '360 degree' feedback.

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

## **Principle 9 — Remunerate Fairly and Responsibly**

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

Remuneration of non-executive directors comprises 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 fixed by the shareholders at a General Meeting. The current global limit of \$500,000 was approved by shareholders at a General Meeting in 2002. 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 Performance Share Option Plan (that has been approved by shareholders).

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:

- Fixed Salary
- Variable remuneration: short-term incentive
- 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. The long-term incentive is membership of the Directors' and Executives' Employee Performance Share Option Plan as described above.

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

## **Principle 10 — Recognise the Legitimate Interests of Stakeholders**

Melbourne IT has developed a written Code of Conduct, which (amongst other things) addresses its obligations to stakeholders. Training sessions and policies for all staff cover areas such as privacy, compliance with trade practices and fair dealing laws and other relevant legislative requirements.

A copy of the Melbourne IT Code of Conduct is available from the Corporate section of Melbourne IT's website.

# directors' .report

## IMPORTANT INFORMATION ABOUT THIS CONCISE REPORT

Your directors submit their report for the year ended 31 December 2005.

### DIRECTORS

Mr Robert Stewart; Dr Mark Toner; Prof Iain Morrison; Mr Tom Kiing;  
Mr Simon Jones; Mr Theo Hnarakis

### MANAGING DIRECTOR

Mr Theo Hnarakis

### COMPANY SECRETARY

Mr Angelo Tsagarakis

## 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 |
|-------------------------|-----------------|------------------------------|
| Mr Robert Stewart       | 60,372          | 70,000                       |
| Professor Iain Morrison | 35,000          | —                            |
| Dr Mark Toner           | 110,000         | 35,000                       |
| Mr Tom Kiing            | 5,861,547       | 35,000                       |
| Mr Simon Jones          | 19,651          | 35,000                       |
| Mr Theo Hnarakis        | 662,240         | —                            |

## 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 (.us, .it, .de, .to and .uk)
- registration of generic Top Level Domain (gTLD) names (.com, .net, .org, .biz, .info, .name)
- consulting and management services to large public and private enterprises through its Corporate Brand Services Division. ("CBS")
- other value-added Internet-related products to SME's ("Small and Medium Enterprises") and SOHO's ("Small Office and Home Office") such as domain forwarding, web hosting, search engine optimisation ("SEM") and website development tools
- research and development of registry-related technologies.

## EARNINGS PER SHARE

|                            | 2005 Cents | 2004 Cents |
|----------------------------|------------|------------|
| Basic earnings per share   | 9.87       | 7.34       |
| Diluted earnings per share | 9.40       | 6.90       |

## RESULTS

The profit after tax of the Melbourne IT Group for the year ended 31 December 2005 was \$5.354 million (2004: \$4.103 million).

## DIVIDENDS

|  | Cents | \$'000 |
|--|-------|--------|
| Final Dividends recommended on ordinary shares | 4.5   | 2,450  |

## DIVIDENDS PAID IN THE YEAR

|  |     |       |
|--|-----|-------|
| Final Dividend — 2004 on ordinary shares   | 3.5 | 1,875 |
| Interim Dividend — 2005 on ordinary shares | 3.0 | 1,600 |

At the 20th February 2006 Board Meeting, the directors declared a final dividend of 4.5 cents per share, fully franked. The total amount of this final dividend is \$2.450 million. This dividend has not been provided for at 31 December 2005.

## REVIEW AND RESULTS OF OPERATIONS

*This is the first full-year financial report prepared, based on AIFRS, and comparatives for the full year ended 31 December 2004 have been restated accordingly.*

- Revenue for the full year ended 31 December 2005 was \$73.334 million (2004: \$60.174 million), an increase of 21.8%.
- Earnings Before Interest and Tax for the full year ended 31 December 2005 was \$6.004 million (2004: \$4.750 million), an increase of 26.4%.
- Profit after Tax for the year ended 31 December 2005 was \$5.354 million (2004: \$4.103 million), an increase of 30.5%.

# directors' report/continued

## REVIEW AND RESULTS OF OPERATIONS (continued)

- Included within Profit after Tax for the year ended 31 December 2005, is the positive impact to Income Tax Expense of \$350,000 following a favourable ruling by the Swedish Tax Authorities over the validity of Cogent IPC Group AB carried forward tax losses at 31 December 2003 — prior to its acquisition by Melbourne IT Limited.
- Positive Operating Cashflow for the year ended 31 December 2005 was \$8.180 million (2004: \$8.770 million). Timing differences can occur due to the receipt of cash from customers and the payment of registry fees.
- Deferred Gross Margin was \$15.187 million at 31 December 2005 (31 December 2004: \$13.223 million), an increase of 14.9%.
- Cash and cash equivalents was \$26.214 million at 31 December 2005 (31 December 2004: \$20.833 million), an increase of 25.8%.

### Summarised operating results are as follows:

| REVENUE                                       | 2005<br>\$'000 | 2004<br>\$'000 |
|---|----------------|----------------|
| Registration Revenue                          | 62,348         | 54,563         |
| Consulting Revenue                            | 6,656          | 3,764          |
| Value-Added Products Revenue                  | 3,190          | 1,046          |
| Other Revenue                                 | 10             | 147            |
| <b>Total Revenue (excluding interest)</b>     | <b>72,204</b>  | <b>59,520</b>  |
| <b>Total Earnings Before Interest and Tax</b> | <b>6,004</b>   | <b>4,750</b>   |
| Net Interest Income                           | 1,140          | 801            |
| Net Profit before Tax                         | 7,144          | 5,551          |
| Tax Expense                                   | 1,790          | 1,448          |
| <b>Net Profit After Tax</b>                   | <b>5,354</b>   | <b>4,103</b>   |
| <b>Cashflow from Operations</b>               | <b>8,180</b>   | <b>8,770</b>   |

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

During the financial year there was no significant change in the state of affairs of the consolidated entity other than referred to in the financial statements or notes thereto.

## RISK MANAGEMENT

The Group takes a proactive approach to risk management and an active risk management plan is in place. The company's approach to risk management is to determine the material areas of risk it is exposed to in running the organisation, and to put in place plans to manage and/or mitigate those risks.

This involves identification of specific actions to be taken by the management team, the successful completion of which forms a material component of their annual incentive plan.

In addition, risk areas are reviewed by the Group's risk management staff and/or external advisors, in order to determine the effectiveness of the risk management plan.

Internal audit of key business processes is scheduled across the Group.

The entire risk management plan is reviewed at least annually.

## SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

In late February 2006, the company received and accepted an offer from NeuStar Inc. (being the 90% equity holders in NeuLevel Inc.) to acquire the remaining 10% interest in NeuLevel Inc. from Melbourne IT Ltd for USD\$4.3 million.

On the sale of its 10% interest in NeuLevel Inc., Melbourne IT Ltd recorded an accounting gain of AUD \$4.475 million during the 2006 year.

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operation of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

There has not been any other matter or circumstance in the interval between the end of the financial year and the date of this report that has materially affected or may materially affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial periods.

# directors' report/continued

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

## SHARE OPTIONS

### Unissued shares

As at the date of this report, there were 2,813,550 unissued ordinary shares under options (3,108,250 at reporting date).

Option holders do not have any right, by virtue of the option rules, to participate in any share issue of the company or any related body corporate or in the interest issue of any other registered scheme.

### Shares issued as a result of the exercise of options

During the financial year, employees and directors have exercised the option to acquire 1,250,500 (2004: 337,800) fully paid ordinary shares in Melbourne IT Limited at a weighted average exercise price of \$0.6685 (2004: \$0.5010). Since the end of the financial year, a further 225,500 options have been exercised, at a weighted average exercise price of \$0.7832.

The fair value of each option is estimated on the date of grant using a Binomial Tree option-pricing model with the following weighted average assumptions used for grants made on 22 April 2005 and 25 October 2005:

|                         | 22 April 2005 | 22 October 2005 |
|-------------------------|---------------|-----------------|
| Expected volatility     | 42%           | 30%             |
| Historical volatility   | 42%           | 30%             |
| Risk-free interest rate | 5.4%          | 5.38%           |
| Expected life of option | 5             | 5               |

The dividend yield reflects the assumption that the current dividend payout will continue with no anticipated increases. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. The historical volatility is calculated by reference to the period of 2 years prior to the grant date of the relevant options. The resulting weighted average fair values per option for those options vesting after 1 January 2003 are:

| Number of options | Grant date | Vesting date | Weighted average fair value |
|-------------------|------------|--------------|-----------------------------|
| 108,000           | 30/12/02   | 29/6/03      | .2579                       |
| 108,000           | 30/12/02   | 29/6/04      | .2579                       |
| 144,000           | 30/12/02   | 29/12/05     | .2579                       |
| 21,000            | 20/06/03   | 19/12/03     | .2586                       |
| 21,000            | 20/06/03   | 19/12/04     | .2586                       |
| 28,000            | 20/06/03   | 19/12/06     | .2586                       |
| 27,000            | 19/3/03    | 18/9/03      | .1877                       |
| 36,000            | 19/3/03    | 18/9/04      | .1926                       |
| 36,000            | 19/3/03    | 18/3/06      | .1969                       |
| 21,000            | 23/10/03   | 22/4/04      | .2540                       |
| 21,000            | 23/10/03   | 22/4/05      | .2610                       |
| 28,000            | 23/10/03   | 22/10/06     | .2674                       |
| 99,000            | 10/5/04    | 9/11/04      | .3154                       |
| 99,000            | 10/5/04    | 9/11/05      | .3248                       |
| 132,000           | 10/5/04    | 9/5/07       | .3333                       |
| 66,000            | 16/4/04    | 15/10/04     | .3804                       |
| 66,000            | 16/4/04    | 15/10/05     | .3910                       |
| 88,000            | 16/4/04    | 15/4/07      | .4006                       |
| 92,700            | 5/11/04    | 4/5/05       | .4888                       |
| 92,700            | 5/11/04    | 4/5/06       | .5165                       |
| 123,600           | 5/11/04    | 4/5/07       | .5422                       |
| 226,500           | 22/4/05    | 22/10/05     | .5539                       |
| 641,450           | 25/10/05   | 25/4/06      | .3947                       |

# directors' report/continued

## **SHARE OPTIONS (continued)**

Prior to 31 December 2004, fair values of these grants have not been recognised as an expense in the financial statements. However, had these grants been expensed, they would have been amortised over the vesting periods resulting in an increase in employee benefits expense of \$269,961 to this date.

For the year ended 31 December 2005, the fair value of grants recognised as an expense in the financial statements as an increase in employee benefits expense was \$222,145.

## **REMUNERATION REPORT**

This report outlines the remuneration arrangements in place for directors, executives and staff of Melbourne IT Limited (the company).

### **Remuneration philosophy**

The performance of the company depends upon the quality of its directors, executives and staff.

To prosper, the company must attract, motivate and retain highly skilled directors, executives and staff.

To this end, the company embodies the following principles in its remuneration framework for executives:

- Provide competitive rewards to attract high-calibre executives.
- Link executive rewards to shareholder value.
- Have a significant portion of executive remuneration 'at risk', dependent upon meeting pre-determined performance benchmarks.
- Establish appropriate, demanding performance hurdles for variable executive remuneration.

The Human Resources, Remuneration & Nomination Committee ("HRRNC") of the Board of Directors of the company is responsible for determining and reviewing compensation arrangements for directors, executives and staff.

The HRRNC assesses the appropriateness of the nature and amount of remuneration of directors and executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the recruitment and retention of a high-quality Board and executive team.

### **Remuneration structure**

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

### **Non-executive director remuneration**

#### *Objective*

The Board seeks to set aggregate remuneration at a level that provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

#### *Structure*

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 22 May 2002 when shareholders approved an aggregate remuneration of \$500,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed periodically. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

### **Fixed Remuneration**

Each director receives a fee for being a director of the company. Each director is expected to sit on at least one committee. An additional fee is paid for chairing a Board committee. The payment of additional fees for chairing a Board committee recognises the additional time commitment required.

Non-executive directors have long been encouraged by the Board to hold shares in the company (purchased by the directors on market). It is considered good governance for directors to have a stake in the company on whose Board they sit.

The remuneration of non-executive directors for the period ending 31 December is detailed opposite.

# directors' report/continued

## REMUNERATION REPORT (continued)

### Variable Remuneration — Long-Term Incentives (LTI)

#### Objective

The objective of the LTI plan is to reward directors in a manner that aligns this element of remuneration with the creation of shareholder wealth.

As such, LTI grants have been made to directors as they are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance.

#### Structure

LTI grants to directors have been delivered in the form of options.

Director LTI options are only exercisable under the Long-Term Incentive Plan if the company achieves an Earnings Before Interest and Tax ("EBIT") for the most recent half year, at least equal to 10% greater than the average of the four (4) half year EBIT's, previous to the most recent half year, as reported to the ASX.

This approach aims to achieve alignment between comparative shareholder return and reward for directors.

Details of the nature and amount of each element of the emolument of each non-executive director of the company for the financial year are as follows:

### Emoluments of non-executive directors of Melbourne IT Ltd

|                         | Base Salary \$ | Other <sup>(2)</sup> \$ | Super Cont. \$ | Primary        | Options Granted during Period | Equity   |
|-------------------------|----------------|-------------------------|----------------|----------------|-------------------------------|--|
|                         |                |                         |                | Total \$       |                               | Amort. Expense during Period \$ <sup>(3)</sup> |
| Mr Robert Stewart       | 105,800        | 10,260                  | 9,522          | 125,582        | –                             | 1,421  |
| Mr Mark Toner           | 52,000         | –                       | 4,680          | 56,680         | –                             | 711  |
| Professor Iain Morrison | 46,000         | –                       | 4,140          | 50,140         | –                             | 711  |
| Mr Tom Kiing            | 46,000         | –                       | 4,140          | 50,140         | –                             | 1,206  |
| Mr Simon Jones          | 52,000         | –                       | 4,680          | 56,680         | –                             | 1,206  |
| <b>Total</b>            | <b>301,800</b> | <b>10,260</b>           | <b>27,162</b>  | <b>339,222</b> | <b>–</b>                      | <b>5,255</b>                                   |

### Senior manager and executive director remuneration

#### Objective

The company aims to reward executives and senior managers with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as to:

- reward executives and senior managers for company, business unit and individual performance against targets set by reference to appropriate benchmarks
- Align the interests of executives and senior managers with those of shareholders
- Link reward with the strategic goals and performance of the company
- Ensure total remuneration is competitive by market standards.

#### Structure

To assist in achieving these objectives, the HRRNC links the nature and amount of executive emoluments to the company's financial and operational performance. All 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).

Remuneration consists of the following key elements:

- Fixed Remuneration
- Variable Remuneration
  - Short-Term Incentive (STI); and
  - Long-Term Incentive (LTI)

The proportion of fixed and variable remuneration (potential short-term and long-term incentives) is established for executives by the HRRNC. The table on page 29 details the fixed and variable components of the key management personnel of the Group and the company.

# directors' report/continued

## **REMUNERATION REPORT (continued)**

### **Fixed remuneration**

#### *Objective*

Fixed remuneration is reviewed annually by the HRRNC. The process consists of a review of company-wide, business unit and individual performance, relevant comparative remuneration in the market and internally and, where appropriate, external advice on policies and practices. As noted above, the HRRNC has access to external advice independent of management.

#### *Structure*

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

The fixed remuneration component of the key management personnel is detailed below.

### **Variable Remuneration — Short-Term Incentives (STI)**

#### *Objective*

The objective of the STI program is to link the achievement of the Group's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executives to achieve the operational targets and such that the cost to the Group is reasonable in the circumstances.

#### *Structure*

Actual STI payments granted to each executive depend on the extent to which specific operational targets set at the beginning of the year are met. The operational targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial measures of performance. Typically included are measures such as contribution to profit, customer service, IT production and development management, product and marketing management, finance, legal and human resources management, risk management and leadership/team contribution. The Group has predetermined benchmarks that must be met in order to trigger payments under the STI scheme.

On an annual basis, after consideration of performance against KPIs, an overall performance rating for the Group and each individual business unit is approved by the HRRNC. The individual performance of each executive is also rated and all three ratings are taken into account when determining the amount, if any, of the short-term incentive that is to be paid to each executive. This process usually occurs within 2 months after the reporting date.

The aggregate of annual STI payments available for executives across the Group is subject to the approval of the HRRNC.

### **Variable Remuneration — Long-Term Incentives (LTI)**

#### *Objective*

The objective of the LTI plan is to reward executives, senior management and staff in a manner that aligns this element of remuneration with the creation of shareholder wealth.

As such, LTI grants are made to executives, senior management and staff who are able to influence the generation of shareholder wealth and thus have a direct impact on the Group's performance against the relevant long-term performance hurdle.

#### *Structure*

LTI grants to executives are delivered in the form of options.

Executive LTI options are only exercisable under the Long-Term Incentive Plan if the company achieves an Earnings Before Interest and Tax ("EBIT") for the most recent half year, at least equal to 10% greater than the average of the four (4) half year EBIT's, previous to the most recent half year, as reported to the ASX.

The use of the above aims to achieve alignment between comparative shareholder return and reward for executives.

Details of the nature and amount of each element of the emolument of the key management personnel of the company for the financial year are as follows:

# directors' .report/continued

## REMUNERATION REPORT (continued)

### Emoluments of Key Management Personnel of the Company and the Consolidated Entity:

|                                   | Base Salary \$   | Bonuses \$     | Other <sup>(2)</sup> \$ | Super Cont. \$ | Primary          | Options Granted during Period | Equity   |
|-----------------------------------|------------------|----------------|-------------------------|----------------|------------------|-------------------------------|--|
|                                   |                  |                |                         |                | Total \$         |                               | Amort. Expense during Period \$ <sup>(3)</sup> |
| Mr Theo Hnarakis                  | 316,514          | 150,813        | 39,114                  | 28,292         | 534,733          | –                             | 14,771   |
| Mr Andrew Field                   | 193,125          | 45,500         | 14,077                  | 17,381         | 270,083          | –                             | 2,417  |
| Dr Bruce Tonkin                   | 177,000          | 44,000         | 11,068                  | 15,986         | 248,054          | –                             | 2,417  |
| Mr Thomas Mackey <sup>(1)</sup>   | 237,643          | 56,557         | 23,872                  | 35,646         | 353,718          | –                             | 2,721  |
| Mr Ewan Watt                      | 139,250          | 51,700         | 27,425                  | 12,033         | 230,408          | –                             | 10,022   |
| Mr Anders Eriksson <sup>(4)</sup> | 273,335          | 71,180         | 5,614                   | 39,096         | 389,225          | –                             | 12,021   |
| <b>Total</b>                      | <b>1,336,867</b> | <b>419,750</b> | <b>121,170</b>          | <b>148,434</b> | <b>2,026,221</b> | <b>–</b>                      | <b>44,369</b>                                  |

(1) These personnel are paid through Internet Names Worldwide (US) Inc. in USD equivalents.

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

(3) The expense relates to the amortisation of the fair value of options granted prior to the year ended 31 December 2005.

(4) Paid in equivalent Swedish Krona (SEK) through Cogent IPC Group AB.

### Employment Contracts

The CEO, Mr Hnarakis, is employed under contract. The current employment contract commenced in November 2002 and continues until such time as that employment is terminated.

- Mr Hnarakis receives a fixed remuneration package (inclusive of superannuation) of \$370,000.
- Mr Hnarakis is entitled to receive a further 50% remuneration based on achieving annual performance criteria set by the Board.
- Mr Hnarakis' remuneration is reviewed annually.
- Mr Hnarakis may resign from his position and thus terminate his contract by giving 6 months' notice.
- The company may terminate this employment agreement by providing 12 months' written notice or by providing payment in lieu of the notice period (based on the fixed component of Mr Hnarakis' remuneration).

### EMPLOYEES

The consolidated entity employed 217.5 (2004:187.5) full-time equivalent ("FTE") employees as at 31 December 2005.

### DIRECTORS MEETINGS

| NUMBER OF MEETINGS HELD | Directors Meetings |          |          |          | Meetings of Committees |                      |
|-------------------------|--------------------|----------|----------|----------|------------------------|----------------------|
|                         |                    |          |          |          | ARMC <sup>(1)</sup>    | HRRNC <sup>(2)</sup> |
|                         | Eligible           | Attended | Eligible | Attended | Eligible               | Attended             |
|                         | 12                 |          | 4        |          | 8                      |                      |
| Mr Rob Stewart          | 12                 | 12       | 4        | 4        | 8                      | 8                    |
| Dr Mark Toner           | 12                 | 12       | –        | –        | 8                      | 8                    |
| Professor Iain Morrison | 12                 | 11       | 4        | 4        | –                      | –                    |
| Mr Tom Kiing            | 12                 | 12       | –        | –        | 8                      | 5                    |
| Mr Simon Jones          | 12                 | 12       | 4        | 4        | –                      | –                    |
| Mr Theo Hnarakis        | 12                 | 12       | –        | –        | –                      | –                    |

(1) = Audit and Risk Management Committee

(2) = Human Resources, Remuneration and Nomination Committee

The above table shows the numbers of meetings of directors held during 2005. The table also shows the number of meetings attended by each director and the number of meetings each director was eligible to attend.

# directors' report/*continued*

## **DIRECTORS MEETINGS (continued)**

As at the date of this report, the company had an Audit & Risk Management Committee ("ARMC") and a Human Resource, Remuneration & Nomination Committee ("HRRNC") of the Board of Directors.

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

The members of the Human Resource, Remuneration & Nomination Committee are Dr M. Toner (Chairman), Mr R. Stewart and Mr T. King.

The Managing Director, Mr Theo Hnarakis attends each Audit & Risk Management Committee and each Human Resource, Remuneration & Nomination Committee by invitation.

## **ROUNDING**

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

## **CORPORATE GOVERNANCE**

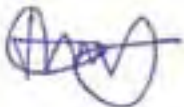
In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Melbourne IT Ltd support and have adhered to the principles of corporate governance.

The company's Corporate Governance statement is available on the company's website [www.melbourneit.com.au](http://www.melbourneit.com.au), and will be contained in the additional ASX information section of the 2005 annual report.

## **AUDITORS INDEPENDENCE DECLARATION**

We have obtained the following independence declaration from our auditors, Ernst & Young.

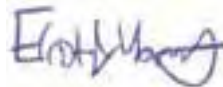
In relation to our audit of the financial report of Melbourne IT Limited for the year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



**David Shewring**

Partner

Melbourne, 27 March 2006



**Ernst & Young**

Signed in accordance with a resolution of the directors.

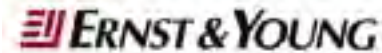


**Robert James Stewart**

Chairman

Melbourne, 27 March 2006

# independent.audit.report



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Melbourne VIC 3001

## INDEPENDENT AUDIT REPORT TO MEMBERS OF MELBOURNE IT LIMITED

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Melbourne IT Limited (the company) and the consolidated entity, for the year ended 31 December 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, 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 financial report.

#### *Audit approach*

We conducted an independent audit of the 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 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 financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

### 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 financial report, we were engaged to undertake services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

### Audit opinion

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

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the financial position of Melbourne IT Limited and the consolidated entity at 31 December 2005 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

Ernst & Young

David Shewring

Partner

Melbourne, 28 March 2006

# directors' declaration

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

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 2005 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.
- (c) the directors have been given declarations required by S.295A of the Corporations Act 2001.

On behalf of the Board



**Robert James Stewart**  
Chairman  
Melbourne, 27 March 2006

## income statement/ for the year ended 31 December 2005

|   | Notes | CONSOLIDATED    |                 | MELBOURNE IT    |                 |
|---|-------|-----------------|-----------------|-----------------|-----------------|
|   |       | 2005<br>\$'000s | 2004<br>\$'000s | 2005<br>\$'000s | 2004<br>\$'000s |
| Revenue   | 2     | 73,334          | 60,174          | 61,345          | 51,077          |
| Other Income  | 2     | 10              | 147             | 3               | 147             |
| Registry and Value-Added Product costs                    |       | (39,539)        | (30,611)        | (37,263)        | (28,116)        |
| <b>Gross profit</b>                                       |       | <b>33,805</b>   | <b>29,710</b>   | <b>24,085</b>   | <b>23,109</b>   |
| Salaries and employee benefits expenses                   |       | (18,784)        | (15,470)        | (12,587)        | (10,224)        |
| Depreciation and amortisation expenses                    | 3 (a) | (945)           | (1,020)         | (623)           | (779)           |
| Other expenses  | 3 (b) | (6,932)         | (7,669)         | (4,591)         | (7,351)         |
| <b>Profit before tax</b>                                  |       | <b>7,144</b>    | <b>5,551</b>    | <b>6,284</b>    | <b>4,755</b>    |
| Income tax expense  | 4     | 1,790           | 1,448           | 1,994           | 1,297           |
| <b>Profit Attributable to Members of Melbourne IT Ltd</b> | 24    | <b>5,354</b>    | <b>4,103</b>    | <b>4,290</b>    | <b>3,458</b>    |
| <b>Earnings per share (cents per share)</b>               |       |                 |                 |                 |                 |
| Basic earnings per share (cents per share)                | 27    | 9.87            | 7.34 cents      |                 |                 |
| Diluted earnings per share (cents per share)              | 27    | 9.40            | 6.90 cents      |                 |                 |
| Franked dividends per share (cents per share)             | 5     | 6.5 cents       | 4.0 cents       |                 |                 |

# balance.sheet/as at 31 December 2005

|  | Notes | CONSOLIDATED    |                 | MELBOURNE IT    |                 |
|--|-------|-----------------|-----------------|-----------------|-----------------|
|  |       | 2005<br>\$'000s | 2004<br>\$'000s | 2005<br>\$'000s | 2004<br>\$'000s |
| <b>ASSETS</b>                              |       |                 |                 |                 |                 |
| <b>Current Assets</b>                      |       |                 |                 |                 |                 |
| Cash and cash equivalents                  | 19(b) | 26,214          | 20,833          | 24,650          | 19,061          |
| Trade and other receivables                | 6     | 4,872           | 4,105           | 3,448           | 2,194           |
| Other financial assets                     | 7     | –               | 131             | –               | 649             |
| Derivatives                                |       | –               | 227             | –               | 227             |
| Prepayment of Domain Name Registry Charges |       | 10,092          | 8,111           | 9,583           | 7,862           |
| Other assets                               | 8     | 1,415           | 1,468           | 672             | 744             |
| <b>Total Current Assets</b>                |       | <b>42,593</b>   | <b>34,875</b>   | <b>38,353</b>   | <b>30,737</b>   |
| <b>Non-Current Assets</b>                  |       |                 |                 |                 |                 |
| Other financial assets                     | 9     | 1,336           | 1,336           | 7,676           | 7,590           |
| Property, plant and equipment              | 10    | 1,667           | 2,000           | 1,175           | 1,409           |
| Intangible assets                          | 11    | 6,359           | 6,363           | 75              | 163             |
| Deferred income tax assets                 | 12    | 1,005           | 952             | 980             | 926             |
| Prepayment of Domain Name Registry Charges |       | 9,682           | 6,132           | 9,682           | 6,132           |
| Other assets                               | 13    | 37              | 22              | –               | –               |
| <b>Total Non-current Assets</b>            |       | <b>20,086</b>   | <b>16,805</b>   | <b>19,588</b>   | <b>16,220</b>   |
| <b>TOTAL ASSETS</b>                        |       | <b>62,679</b>   | <b>51,680</b>   | <b>57,941</b>   | <b>46,957</b>   |
| <b>LIABILITIES</b>                         |       |                 |                 |                 |                 |
| <b>Current Liabilities</b>                 |       |                 |                 |                 |                 |
| Trade and other payables                   | 14    | 9,337           | 8,964           | 9,277           | 8,074           |
| Provisions                                 | 15    | 1,205           | 872             | 950             | 713             |
| Current tax liabilities                    | 16    | 855             | 1,434           | 815             | 827             |
| Derivatives                                |       | 92              | –               | 92              | –               |
| Income received in advance                 |       | 19,176          | 15,984          | 17,358          | 14,661          |
| <b>Total Current Liabilities</b>           |       | <b>30,665</b>   | <b>27,254</b>   | <b>28,492</b>   | <b>24,275</b>   |
| <b>Non-Current Liabilities</b>             |       |                 |                 |                 |                 |
| Provisions                                 | 17    | 454             | 196             | 454             | 196             |
| Income received in advance                 |       | 15,785          | 11,482          | 15,785          | 11,482          |
| <b>Total Non-Current Liabilities</b>       |       | <b>16,239</b>   | <b>11,678</b>   | <b>16,239</b>   | <b>11,678</b>   |
| <b>TOTAL LIABILITIES</b>                   |       | <b>46,904</b>   | <b>38,932</b>   | <b>44,731</b>   | <b>35,953</b>   |
| <b>NET ASSETS</b>                          |       | <b>15,775</b>   | <b>12,748</b>   | <b>13,210</b>   | <b>11,004</b>   |
| <b>EQUITY</b>                              |       |                 |                 |                 |                 |
| Contributed equity                         | 18    | 9,975           | 8,774           | 9,975           | 8,774           |
| Other reserves                             | 24    | 277             | 330             | 190             | –               |
| Retained profits                           | 24    | 5,523           | 3,644           | 3,045           | 2,230           |
| <b>TOTAL EQUITY</b>                        |       | <b>15,775</b>   | <b>12,748</b>   | <b>13,210</b>   | <b>11,004</b>   |

# statement.of.cash.flows/ for the year ended 31 December 2005

|   | Notes | CONSOLIDATED    |                 | MELBOURNE IT    |                 |
|---|-------|-----------------|-----------------|-----------------|-----------------|
|   |       | 2005<br>\$'000s | 2004<br>\$'000s | 2005<br>\$'000s | 2004<br>\$'000s |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>           |       |                 |                 |                 |                 |
| Receipt of service revenue and recoveries             |       | 85,961          | 64,167          | 69,436          | 56,401          |
| Payments to suppliers and employees                   |       | (75,691)        | (53,812)        | (59,428)        | (46,663)        |
| Interest received                                     |       | 1,140           | 801             | 1,066           | 783             |
| Grant received  |       | –               | 147             | –               | 147             |
| Bank charges and credit card merchant fees            |       | (808)           | (728)           | (684)           | (634)           |
| Income tax (paid)/refunded                            |       | (2,422)         | (1,805)         | (2,060)         | (1,418)         |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>       | 19(a) | <b>8,180</b>    | <b>8,770</b>    | <b>8,330</b>    | <b>8,616</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>           |       |                 |                 |                 |                 |
| Purchase of property, plant and equipment             |       | (525)           | (1,110)         | (303)           | (783)           |
| Acquisition of subsidiary, net of cash acquired       | 19(c) | –               | (4,577)         | –               | (4,577)         |
| <b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>    |       | <b>(525)</b>    | <b>(5,687)</b>  | <b>(303)</b>    | <b>(5,360)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>           |       |                 |                 |                 |                 |
| Proceeds from issue of ordinary shares — DRP          |       | 365             | 1,003           | 365             | 1,003           |
| Proceeds from issue of ordinary shares — ESOP         |       | 836             | 169             | 673             | 169             |
| Payment of dividend on ordinary shares                |       | (3,475)         | (1,779)         | (3,475)         | (1,779)         |
| <b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>       |       | <b>(2,274)</b>  | <b>(607)</b>    | <b>(2,437)</b>  | <b>(607)</b>    |
| <b>NET INCREASE IN CASH HELD AND CASH EQUIVALENTS</b> |       | <b>5,381</b>    | <b>2,476</b>    | <b>5,589</b>    | <b>2,649</b>    |
| Cash and cash equivalents at beginning of period      |       | 20,833          | 18,357          | 19,061          | 16,412          |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>     | 19(b) | <b>26,214</b>   | <b>20,833</b>   | <b>24,650</b>   | <b>19,061</b>   |

# statement.of.changes.in.equity/ for the year ended 31 December 2005

|  | CONSOLIDATED      |                      |                   |               | MELBOURNE IT      |                      |                   |               |
|--|-------------------|----------------------|-------------------|---------------|-------------------|----------------------|-------------------|---------------|
|  | Issued<br>Capital | Retained<br>Earnings | Other<br>Reserves | Total         | Issued<br>Capital | Retained<br>Earnings | Other<br>Reserves | Total         |
|  | \$'000s           | \$'000s              | \$'000s           | \$'000s       | \$'000s           | \$'000s              | \$'000s           | \$'000s       |
| <b>As at 1 January 2004</b>                        | 7,342             | 1,610                | –                 | 8,952         | 7,342             | 841                  | –                 | 8,183         |
| Currency translation differences                   | –                 | –                    | (59)              | (59)          | –                 | –                    | –                 | –             |
| Employee Share Option Reserve                      | –                 | –                    | 162               | 162           | –                 | –                    | –                 | –             |
| Net gains/(losses) on cashflow hedges              | –                 | –                    | 227               | 227           | –                 | –                    | –                 | –             |
| Total income and expense for the period recognised |                   |                      |                   |               |                   |                      |                   |               |
| Directly in equity                                 | –                 | –                    | 330               | 330           | –                 | –                    | –                 | –             |
| Profit for the period                              | –                 | 4,103                | –                 | 4,103         | –                 | 3,458                | –                 | 3,458         |
| Total income/expense for the period                | –                 | 4,103                | 330               | 4,433         | –                 | 3,458                | –                 | 3,458         |
| Exercise of options                                | 188               | –                    | –                 | 188           | 188               | –                    | –                 | 188           |
| Issue of share capital through DRP                 | 1,244             | –                    | –                 | 1,244         | 1,244             | –                    | –                 | 1,244         |
| Equity dividends                                   | –                 | (2,069)              | –                 | (2,069)       | –                 | (2,069)              | –                 | (2,069)       |
| <b>As at 31 December 2004</b>                      | <b>8,774</b>      | <b>3,644</b>         | <b>330</b>        | <b>12,748</b> | <b>8,774</b>      | <b>2,230</b>         | <b>–</b>          | <b>11,004</b> |

|  | CONSOLIDATED      |                      |                   |               | MELBOURNE IT      |                      |                   |               |
|--|-------------------|----------------------|-------------------|---------------|-------------------|----------------------|-------------------|---------------|
|  | Issued<br>Capital | Retained<br>Earnings | Other<br>Reserves | Total         | Issued<br>Capital | Retained<br>Earnings | Other<br>Reserves | Total         |
|  | \$'000s           | \$'000s              | \$'000s           | \$'000s       | \$'000s           | \$'000s              | \$'000s           | \$'000s       |
| <b>As at 1 January 2005</b>                        | 8,774             | 3,644                | 330               | 12,748        | 8,774             | 2,230                | –                 | 11,004        |
| Currency translation differences                   | –                 | –                    | (16)              | (16)          | –                 | –                    | –                 | –             |
| Employee Share Option Reserve                      | –                 | –                    | 282               | 282           | –                 | –                    | 282               | 282           |
| Net gains/(losses) on cashflow hedges              | –                 | –                    | (319)             | (319)         | –                 | –                    | (92)              | (92)          |
| Total income and expense for the period recognised |                   |                      |                   |               |                   |                      |                   |               |
| Directly in equity                                 | –                 | –                    | (53)              | (53)          | –                 | –                    | 190               | 190           |
| Profit for the period                              | –                 | 5,354                | –                 | 5,354         | –                 | 4,290                | –                 | 4,290         |
| Total income/expense for the period                | –                 | 5,354                | (53)              | 5,301         | –                 | 4,290                | 190               | 4,480         |
| Exercise of options                                | 836               | –                    | –                 | 836           | 836               | –                    | –                 | 836           |
| Issue of share capital through DRP                 | 365               | –                    | –                 | 365           | 365               | –                    | –                 | 365           |
| Equity dividends                                   | –                 | (3,475)              | –                 | (3,475)       | –                 | (3,475)              | –                 | (3,475)       |
| <b>As at 31 December 2005</b>                      | <b>9,975</b>      | <b>5,523</b>         | <b>277</b>        | <b>15,775</b> | <b>9,975</b>      | <b>3,045</b>         | <b>190</b>        | <b>13,210</b> |

## **CORPORATE INFORMATION**

This concise financial report is an extract from the 31 December 2005 annual financial report of Melbourne IT Limited. The financial statements and specific disclosures included in this concise financial report have been derived from the 31 December 2005 annual financial report. This concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Melbourne IT Ltd as the 31 December 2005 annual financial report. Further financial information regarding Melbourne IT Ltd can be obtained from the 31 December 2005 annual financial report and this financial report is available, free of charge, on request to Melbourne IT Ltd.

The annual financial report of Melbourne IT Ltd for the year ended 31 December 2005 was authorised for issue in accordance with a resolution of the directors on 27th March 2006.

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

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **(a) Basis of Preparation**

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, applicable Accounting Standards, and other mandatory professional reporting requirements.

The financial report has been prepared on an historical cost basis, except for derivative financial instruments that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged with fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

### **(b) Statement of Compliance**

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first financial report prepared based on AIFRS, and comparatives for the year ended 31 December 2004 have been restated accordingly.

Reconciliations of:

- AIFRS equity as at 1 January 2004, and 31 December 2004; and
- AIFRS profit for the year 31 December 2004,

to the balances reported in the 31 December 2004 financial report prepared under Australian Generally Accepted Accounting Principles ('AGAAP') are detailed in Note 1(c) below.

### **(c) Impact of adoption of AIFRS**

The impact of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2004 ('AGAAP') are illustrated opposite:

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

|   |     | 31 December 2004 | CONSOLIDATED<br>1 January 2004 |
|---|-----|------------------|--------------------------------|
|   |     | \$'000           | \$'000                         |
| Total Equity under AGAAP                                |     | 12,041           | 8,928                          |
| Write back of goodwill amortisation — 2004              | (a) | 456              | —                              |
| Write back of goodwill amortisation — 2003              | (a) | 24               | 24                             |
| Recognition of fair value of cashflow hedge derivatives | (b) | 227              | —                              |
| <b>Total Equity under AIFRS</b>                         |     | <b>12,748</b>    | <b>8,952</b>                   |

(a) Goodwill is not amortised under AASB 3 'Business Combinations', but was amortised under AGAAP.

(b) Unrealised gains / (losses) on unexpired foreign exchange contracts that are cashflow hedges are included in other reserves as the contracts hedge forecast sales and qualify for hedge accounting.

### (ii) Reconciliation of profit after tax under AGAAP to that under AIFRS

|  |     | YEAR ENDED<br>31 December 2004 |
|--|-----|--------------------------------|
|  |     | \$'000                         |
| Profit after tax as previously reported    |     | 3,809                          |
| Write back of goodwill amortisation — 2004 | (a) | 456                            |
| Recognition of share-based payment expense | (b) | (162)                          |
| <b>Total profit after tax under AIFRS</b>  |     | <b>4,103</b>                   |

(a) Goodwill is not amortised under AASB 3 'Business Combinations', but was amortised under AGAAP.

(b) Share-based payment costs are charged to the income statement under AASB 2 'Share-based Payment', but not under AGAAP.

### (iii) Explanation of material adjustments to the cashflow statements

There are no material differences between the cashflow statements presented under AIFRS and those presented under AGAAP.

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|  | CONSOLIDATED    |                 | MELBOURNE IT    |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2005<br>\$'000s | 2004<br>\$'000s | 2005<br>\$'000s | 2004<br>\$'000s |
| <b>2. REVENUE</b>  |                 |                 |                 |                 |
| <b>(i) REVENUE</b>   |                 |                 |                 |                 |
| Registration revenue                                       | 62,348          | 54,563          | 57,133          | 48,892          |
| Consulting revenue   | 6,656           | 3,764           | 215             | 648             |
| Value-Added Products revenue                               | 3,190           | 1,046           | 2,931           | 754             |
| Interest   | 1,140           | 801             | 1,066           | 783             |
|  | <b>73,334</b>   | <b>60,174</b>   | <b>61,345</b>   | <b>51,077</b>   |
| <b>(ii) OTHER INCOME</b>                                   |                 |                 |                 |                 |
| Government grant   | –               | 147             | –               | 147             |
| Other  | 10              | –               | 3               | –               |
|  | <b>10</b>       | <b>147</b>      | <b>3</b>        | <b>147</b>      |
| <b>Total revenue</b>                                       | <b>73,344</b>   | <b>60,321</b>   | <b>61,348</b>   | <b>51,224</b>   |
| <b>3. EXPENSES AND (LOSSES)/GAINS</b>                      |                 |                 |                 |                 |
| <b>(A) DEPRECIATION AND AMORTISATION EXPENSES</b>          |                 |                 |                 |                 |
| <b>Depreciation of non-current assets</b>                  |                 |                 |                 |                 |
| Fit out  | 78              | 74              | 72              | 70              |
| Plant and equipment  | 764             | 568             | 449             | 333             |
| Furniture  | 18              | 15              | 17              | 13              |
| Total depreciation of non-current assets                   | <b>860</b>      | <b>657</b>      | <b>538</b>      | <b>416</b>      |
| <b>Amortisation of non-current assets</b>                  |                 |                 |                 |                 |
| Other investments  | 85              | 363             | 85              | 363             |
| Total amortisation of non-current assets                   | <b>85</b>       | <b>363</b>      | <b>85</b>       | <b>363</b>      |
| <b>Total depreciation and amortisation expenses</b>        | <b>945</b>      | <b>1,020</b>    | <b>623</b>      | <b>779</b>      |
| <b>(B) OTHER EXPENSES</b>                                  |                 |                 |                 |                 |
| Travel & accommodation                                     | 589             | 585             | 373             | 437             |
| Financial & legal  | 1,829           | 2,586           | 1,575           | 2,366           |
| Rental — operating leases                                  | 768             | 878             | 501             | 430             |
| Communications   | 851             | 947             | 533             | 685             |
| Marketing  | 534             | 465             | 433             | 373             |
| External consultants/systems                               | 931             | 892             | 493             | 592             |
| Net foreign currency exchange (gain)/loss                  | 42              | 69              | 24              | 96              |
| Bad debts and doubtful debts                               | 49              | 100             | 8               | 37              |
| Net (gain)/loss on disposal of property, plant & equipment | –               | (195)           | –               | (225)           |
| Expensing of share-based payments                          | 222             | 162             | –               | –               |
| Other expenses   | 1,117           | 1,180           | 651             | 2,559           |
| Total other expenses from ordinary activities              | <b>6,932</b>    | <b>7,669</b>    | <b>4,591</b>    | <b>7,351</b>    |

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|   | CONSOLIDATED    |                 | MELBOURNE IT    |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2005<br>\$'000s | 2004<br>\$'000s | 2005<br>\$'000s | 2004<br>\$'000s |
| <b>4. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES</b>   |                 |                 |                 |                 |
| <b>(A) DIVIDENDS PAID DURING THE YEAR</b>   |                 |                 |                 |                 |
| <b>(i) Current year — interim</b>   |                 |                 |                 |                 |
| Franked dividends (3.0 cents per share)<br>(2004: 2.0 cents)  | 1,600           | 1,048           | 1,600           | 1,048           |
| <b>(ii) Previous year — final</b>   |                 |                 |                 |                 |
| Franked dividends (3.5 cents per share)<br>(2004: 2.0 cents per share)  | 1,875           | 1,021           | 1,875           | 1,021           |
| <b>(B) DIVIDENDS PROPOSED AND NOT RECOGNISED AS A LIABILITY</b>   |                 |                 |                 |                 |
| Franked dividends (4.5 cents per share)<br>(2004: 3.5 cents)  | 2,450           | 1,875           | 2,200           | 1,875           |
| <b>(C) FRANKING CREDIT BALANCE</b>  |                 |                 |                 |                 |
| The amount of franking credits available for the subsequent financial year are:                               |                 |                 |                 |                 |
| • franking account balance as at the end of the financial year at 30% (2004: 30%)                             |                 |                 | 3,358           | 3,637           |
| • franking credits that will arise from the payment of income tax payable as at the end of the financial year |                 |                 | –               | 191             |
|   |                 |                 | <b>3,358</b>    | <b>3,828</b>    |

At the 20 February 2006 Board Meeting, the directors declared a 4.5 cents fully franked dividend on ordinary shares in respect of the year ended 31 December 2005. (31 December 2004: 3.5 cents)

In accordance with accounting standards the total amount of this final dividend of \$2.450 million has not been provided for in the 31 December 2005 financial statements.

## 5. SEGMENT REPORTING

### Geographical Segments — Continuing Operations

The following table presents the revenue and profit information regarding legal entity segments for the years ended 31 December 2005 and 31 December 2004.

|  | AUSTRALIA        |                | NEW ZEALAND    |                | EUROPE                           |                | ELIMINATIONS   | CONSOLIDATED   |                |                |
|--|------------------|----------------|----------------|----------------|----------------------------------|----------------|----------------|----------------|----------------|----------------|
|  | MELBOURNE IT LTD |                | DOMAINZ LTD    |                | COGENT IPC GROUP, INCL INWW ESP. |                |                |                |                |                |
|  | 2005<br>\$'000   | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000                   | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 | 2005<br>\$'000 | 2004<br>\$'000 |
| <b>SEGMENT REVENUE</b>                       |                  |                |                |                |                                  |                |                |                |                |                |
| <b>Revenue from operating activities</b>     |                  |                |                |                |                                  |                |                |                |                |                |
| Registration revenue                         | 57,153           | 48,892         | 2,514          | 2,258          | 2,958                            | 3,503          | (277)          | (90)           | 62,348         | 54,563         |
| Consulting revenue                           | 1,244            | 648            | 133            | 20             | 5,623                            | 3,096          | (344)          | –              | 6,656          | 3,764          |
| Value-Added Products revenue                 | 2,931            | 754            | 259            | 292            | –                                | –              | –              | –              | 3,190          | 1,046          |
| Interest                                     | 1,066            | 783            | 63             | 19             | 11                               | 13             | –              | (14)           | 1,140          | 801            |
| <b>Revenue from non-operating activities</b> |                  |                |                |                |                                  |                |                |                |                |                |
| Government grant                             | –                | 147            | –              | –              | –                                | –              | –              | –              | –              | 147            |
| Other  | 3                | –              | –              | –              | 7                                | –              | –              | –              | 10             | –              |
| Total segment revenue                        | 62,397           | 51,224         | 2,969          | 2,589          | 8,599                            | 6,612          | (621)          | (104)          | 73,344         | 60,321         |
| <b>Segment Result</b>                        | 4,362            | 3,823          | 362            | 226            | 642                              | 412            | (12)           | (358)          | 5,354          | 4,103          |

(1) Cogent IPC Group was acquired in April 2004.

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## 6. EARNINGS PER SHARE

|   | CONSOLIDATED            |                         |
|---|-------------------------|-------------------------|
|   | 2005                    | 2004                    |
|   | \$'000                  | \$'000                  |
| The following reflects the income and share data used in the calculations of basic and diluted earnings per share:  |                         |                         |
| Net profit  | 5,354                   | 4,103                   |
|   | <b>Number of shares</b> | <b>Number of shares</b> |
| Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share | 54,268,487              | 51,869,265              |
| Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share                  | 56,952,424              | 55,233,075              |

### ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. The information below was current as at 28 February 2006.

#### (a) Distribution of equity securities

|  | ORDINARY SHARES   |                  |
|--|-------------------|------------------|
|  | Number of holders | Number of shares |
| 1–1,000  | 1,249             | 913,460          |
| 1,001–5,000  | 2,421             | 6,174,113        |
| 5,001–10,000   | 489               | 3,843,440        |
| 10,001–100,000   | 333               | 7,995,229        |
| 100,001 and over   | 45                | 35,468,252       |
|  | 4,537             | 54,394,494       |
| <b>The number of shareholders holding less than a marketable parcel of shares are:</b> | <b>210</b>        | <b>32,929</b>    |

#### (b) Twenty largest shareholders

| The names of the twenty largest holders of quoted shares are: | No. of shares     | Percentage of ordinary shares |
|---|-------------------|-------------------------------|
| 1. RBC Global Services Australia Nominees Pty Ltd             | 6,714,459         | 12.31%                        |
| 2. National Nominees Pty Ltd                                  | 5,736,610         | 10.51%                        |
| 3. J P Morgan Nominees Australia Limited                      | 5,274,597         | 9.67%                         |
| 4. York Investments Limited                                   | 2,933,823         | 5.38%                         |
| 5. Siena Pty Limited  | 2,848,399         | 5.22%                         |
| 6. ANZ Nominees Limited                                       | 1,333,534         | 2.44%                         |
| 7. Westpac Custodian Nominees Limited                         | 968,863           | 1.78%                         |
| 8. Invia Custodian Pty Limited                                | 953,060           | 1.75%                         |
| 9. Dulwich Storage Limited                                    | 764,232           | 1.40%                         |
| 10. USB nominees Pty Ltd                                      | 759,667           | 1.39%                         |
| 11. Citicorp Nominees Pty Limited                             | 658,427           | 1.21%                         |
| 12. Fortis Clearing Nominees Pty Ltd                          | 531,843           | 0.97%                         |
| 13. Mr Theo Hnarakis  | 480,000           | 0.88%                         |
| 14. Mr Robert Thomas Bishop                                   | 450,000           | 0.82%                         |
| 15. Niako Investments Pty Ltd                                 | 449,900           | 0.82%                         |
| 16. Cogent Nominees Pty Ltd                                   | 437,571           | 0.80%                         |
| 17. Principal Funds Management Pty Ltd                        | 375,000           | 0.69%                         |
| 18. Invia Custodian Pty Limited                               | 356,218           | 0.65%                         |
| 19. Forbar Custodians Limited                                 | 336,415           | 0.62%                         |
| 20. Dr Amarjit S. Sandhu                                      | 265,431           | 0.49%                         |
|   | <b>32,628,049</b> | <b>59.80%</b>                 |

#### (c) Voting rights

All ordinary shares carry one vote per share without restriction.

## **AGM DETAILS**

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The Annual General Meeting (AGM) will be held at the Coles Theatre Melbourne University Business School, 200 Leicester Street Carlton, Melbourne, Australia on 23 May, 2006 at 11:00 am. All shareholders are invited to attend the AGM or to complete and return the proxy form that accompanies the Notice of Meeting.

## **REGISTER ONLINE**

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## **IMPORTANT INFORMATION FOR SHAREHOLDERS**

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Melbourne IT's Annual Report, Concise Financial Report and Auditor's Statement contained within this document represent a Concise Report. It 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.

Shareholders wishing to receive a copy of the Full Financial Report and Auditor's Report may arrange delivery free of charge by contacting the company via our website or by telephone. The Report can also be viewed on the website at [www.melbourneit.com.au](http://www.melbourneit.com.au)

## **MELBOURNE IT LTD**

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ABN: 21 073 716 793

## **DIRECTORS**

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Mr R.J. Stewart (Chairman)  
Dr M.C. Toner (Deputy Chairman)  
Prof I. Morrison  
Mr T. Kiing  
Mr S.D. Jones  
Mr T.J. Hnarakis

## **MANAGING DIRECTOR**

---

Mr T.J. Hnarakis

## **CHIEF FINANCIAL OFFICER**

---

Mr A.C. Field

## **COMPANY SECRETARY**

---

Mr A. Tsagarakis

## **REGISTERED OFFICE**

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