



MELBOURNE **IT**

delivering **value**



2005

< Annual Financial Report >

Melbourne IT delivers . . .

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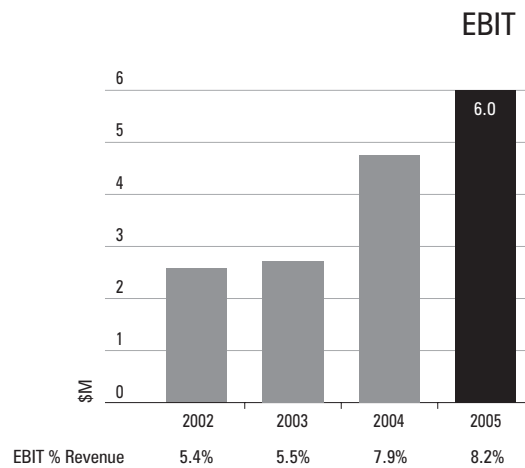
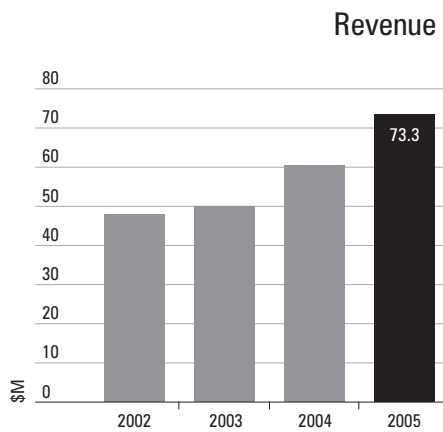
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DELIVERING VALUE

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

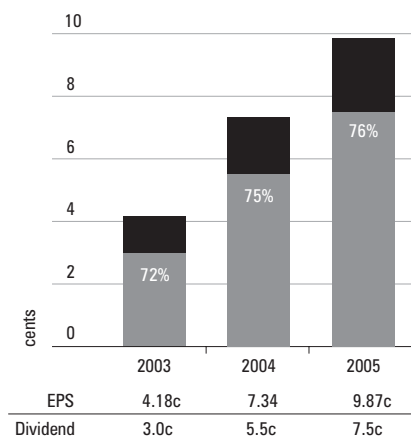
\$73.3m | +21.8%

EBIT

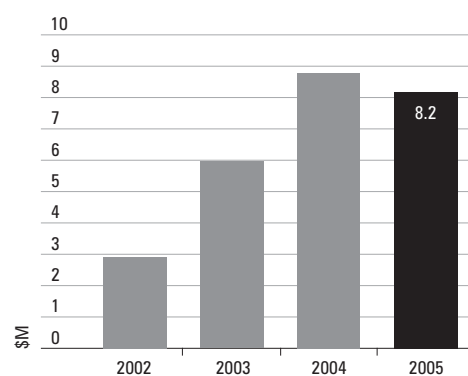
\$6.0m | +26.4%

“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%

directors'.report

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

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

DIRECTORS

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

Names, qualifications, experience and special responsibilities:

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.

directors' report/continued

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:	2005	2004
REVENUE	\$'000	\$'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
Total Revenue (excluding interest)	72,204	59,520
Total Earnings Before Interest and Tax	6,004	4,750
Net Interest Income	1,140	801
Net Profit before Tax	7,144	5,551
Tax Expense	1,790	1,448
Net Profit After Tax	5,354	4,103
Cashflow from Operations	8,180	8,770

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.

Further details of remuneration of director and key management personnel are also provided in Note 28 of the financial statements.

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 below.

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 ⁽²⁾ \$	Super Cont. \$	Primary	Options Granted during Period	Equity
				Total \$		Amort. Expense during Period \$ ⁽³⁾
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
Total	301,800	10,260	27,162	339,222	–	5,255

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 ⁽²⁾ \$	Super Cont. \$	Primary	Options Granted during Period	Equity
					Total \$		Amort. Expense during Period \$ ⁽³⁾
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 ⁽¹⁾	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 ⁽⁴⁾	273,335	71,180	5,614	39,096	389,225	–	12,021
Total	1,336,867	419,750	121,170	148,434	2,026,221	–	44,369

(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 ⁽¹⁾		HRRNC ⁽²⁾	
	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. Kiing.

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, and is also contained in the additional ASX information section of this 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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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 \$'000s	2004 \$'000s	2005 \$'000s	2004 \$'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)
Gross profit		33,805	29,710	24,085	23,109
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)
Profit before tax		7,144	5,551	6,284	4,755
Income tax expense	4	1,790	1,448	1,994	1,297
Profit Attributable to Members of Melbourne IT Ltd	24	5,354	4,103	4,290	3,458
Earnings per share (cents per share)					
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 \$'000s	2004 \$'000s	2005 \$'000s	2004 \$'000s
ASSETS					
Current Assets					
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
Total Current Assets		42,593	34,875	38,353	30,737
Non-Current Assets					
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	–	–
Total Non-current Assets		20,086	16,805	19,588	16,220
TOTAL ASSETS		62,679	51,680	57,941	46,957
LIABILITIES					
Current Liabilities					
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
Total Current Liabilities		30,665	27,254	28,492	24,275
Non-Current Liabilities					
Provisions	17	454	196	454	196
Income received in advance		15,785	11,482	15,785	11,482
Total Non-Current Liabilities		16,239	11,678	16,239	11,678
TOTAL LIABILITIES		46,904	38,932	44,731	35,953
NET ASSETS		15,775	12,748	13,210	11,004
EQUITY					
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
TOTAL EQUITY		15,775	12,748	13,210	11,004

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

	Notes	CONSOLIDATED		MELBOURNE IT	
		2005 \$'000s	2004 \$'000s	2005 \$'000s	2004 \$'000s
CASH FLOWS FROM OPERATING ACTIVITIES					
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)
NET CASH FLOWS FROM OPERATING ACTIVITIES	19(a)	8,180	8,770	8,330	8,616
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(525)	(1,110)	(303)	(783)
Acquisition of subsidiary, net of cash acquired	19(c)	–	(4,577)	–	(4,577)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		(525)	(5,687)	(303)	(5,360)
CASH FLOWS FROM FINANCING ACTIVITIES					
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)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(2,274)	(607)	(2,437)	(607)
NET INCREASE IN CASH HELD AND CASH EQUIVALENTS		5,381	2,476	5,589	2,649
Cash and cash equivalents at beginning of period		20,833	18,357	19,061	16,412
CASH AND CASH EQUIVALENTS AT END OF PERIOD	19(b)	26,214	20,833	24,650	19,061

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

	CONSOLIDATED				MELBOURNE IT			
	Issued Capital	Retained Earnings	Other Reserves	Total	Issued Capital	Retained Earnings	Other Reserves	Total
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
As at 1 January 2004	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)
As at 31 December 2004	8,774	3,644	330	12,748	8,774	2,230	–	11,004

	CONSOLIDATED				MELBOURNE IT			
	Issued Capital	Retained Earnings	Other Reserves	Total	Issued Capital	Retained Earnings	Other Reserves	Total
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
As at 1 January 2005	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)
As at 31 December 2005	9,975	5,523	277	15,775	9,975	3,045	190	13,210

CORPORATE INFORMATION

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.

The nature of the operations and principal activities of the Group are described in note 23.

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. A summary of the significant accounting policies of Melbourne IT Ltd under AIFRS are disclosed in Note 1(c) below.

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(aa) below.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Melbourne IT Ltd and its subsidiaries ('the Group').

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

Subsidiaries are consolidated from the date on which control is transferred to Melbourne IT Ltd and cease to be consolidated from the date on which control is transferred out of Melbourne IT Ltd.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which Melbourne IT Ltd has control.

(d) Foreign currency translation

Both the functional and presentation currency of Melbourne IT Ltd is in Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

notes.to.the.financial.statements/ for the year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation (continued)

The functional currency of each overseas subsidiary is as follows:

- Investment in Spanish subsidiary — Euro
- Investment in Cogent subsidiary — SEK (Swedish Krona)
- Investment in New Zealand subsidiary — NZD (New Zealand Dollar)
- Investment in US subsidiary — USD (United States Dollar)

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Melbourne IT Ltd at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Rendering of services — domain names

Revenue is recognised by reference to percentage of completion method. The percentage of completion is determined by reference to the extent of services performed to date on the agreement as a percentage of total services to be performed under the agreement. Revenue is recognised in the financial period in which services are rendered.

Where cash has been received for services yet to be performed pursuant to the agreement, the amount has been classified in the Consolidated Balance Sheet as "Income received in advance".

The following table summarises the domain name registration revenue and registry cost recognition policy for Melbourne IT Ltd and Domainz Ltd:

LENGTH OF REGISTRATION — YEARS	First Month	Per Other Month
1	78.0000%	2.0000%
2	54.0000%	2.0000%
3	36.0000%	1.8286%
4	27.0000%	1.5532%
5	21.6000%	1.3288%
6	18.0000%	1.1549%
7	15.4286%	1.0189%
8	13.5000%	0.9105%
9	12.0000%	0.8224%
10	10.8000%	0.7496%

Rendering of services — non domain name revenue

Non domain name registration revenue is recognised on an earned basis for all entities within the Melbourne IT Ltd Group.

Interest

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

(f) Expenditure carried forward — prepayment of domain name registry charges

Significant items of expenditure having a benefit or relationship to more than one period are written off over the periods to which such expenditure relates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(h) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

(i) Trade and other receivables

Trade receivables, which generally have 14–30 day terms, are recognised and carried at amortised cost which is at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(j) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment. Major depreciation periods are:

	2005	2004
Leasehold improvements	The lease term	The lease term
Plant and equipment	2 to 4 years	2 to 4 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

(k) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Impairment losses recognised for goodwill are not permitted to be subsequently reversed.

Domainz Ltd

The recoverable amount of Domainz Ltd has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five year period.

notes.to.the.financial.statements/ for the year ended 31 December 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Goodwill (continued)

The discount rate applied to cash flow projections is 14% (2004: 14%) and cash flows beyond the five year period are extrapolated using a 2.5% growth rate (2004: 2.5%), which is the company's estimate of the long term average growth rate for the industry in which the company operates.

Cogent IPC Group AB

The recoverable amount of Cogent IPC Group AB has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five year period.

The discount rate applied to cash flow projections is 14% (2004: N/A) and cash flows beyond the five year period are extrapolated using a 2.5% growth rate (2004: N/A), which is the company's estimate of the long term average growth rate for the industry in which the company operates.

Melbourne IT Ltd acquired Cogent IPC Group AB during the 2004 financial year and relied on the purchase consideration as a fair estimate of the recoverable amount at 31 December 2004.

(l) Intangible assets

Acquired both separately and from a business combination

Intangible assets acquired separately are capitalised at cost and from a business combination are

capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be finite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement through the 'amortisation & depreciation expenses' line item.

Intangible assets created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

(m) Recoverable amount of assets

At each reporting date, Melbourne IT Ltd assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, Melbourne IT Ltd makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(n) Investments

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments which are classified as available-for-sale, are measured at fair value.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured (and linked derivatives) are measured at cost.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Investments (continued)

For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

(o) Trade and other payables

Liabilities for trade creditors and other amounts are carried at amortised cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Payables to related parties are carried at amortised cost.

(p) Provisions

Provisions are recognised when Melbourne IT Ltd has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

(q) Leases

Finance leases, which transfer to Melbourne IT Ltd substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(r) Employee entitlements

Provision is made for employee entitlements accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee entitlement liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability are used.

Employee entitlement expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave and other leave entitlements; and
- other types of employee entitlements are recognised against profits on a net basis in their respective categories.

(s) Share-based payment transactions

The Melbourne IT Ltd Executive & Employee Option Plan(s) have been established where employees and directors of the company are issued with options over the ordinary shares of Melbourne IT Limited ('equity-settled transactions'). The options, issued for nil consideration, are issued in accordance with performance guidelines established by the directors of Melbourne IT Limited.

The options cannot be transferred and will not be quoted on the ASX. All of the directors (including non-executive directors) and full-time or permanent part-time employees of the company or any of its related body corporates are eligible to participate in the option plan.

Options are issued free of charge. Each option is to subscribe for one fully paid Share. When issued, the Share will rank equally with other Shares. The options are not transferable except to the legal personal representative of a deceased or legally incapacitated option holder. The options are issued for a term of 5 years, and are exercisable in 3 tranches from the issue date.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Share-based payment transactions (continued)

Under the Option Plan, the options have other terms specified at the time the options are offered. These terms differ between directors, senior executives and general employees ('employees'). The terms may include conditions, which set out the number or percentage of options able to be exercised at certain time periods or under certain circumstances. For directors and senior executives performance conditions may require that the number of options able to be exercised be reduced or that some or all of the options lapse under specified circumstances.

The Board has adopted certain policies concerning the terms of the options to be granted under the Option Plan. The Board has the absolute discretion to change these policies at any time, although any change in its policies will have an effect only on options that are issued at or after the time of the change. The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted.

The fair value is determined by an external valuer using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Melbourne IT Ltd ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of Melbourne IT Ltd, will ultimately vest. This opinion is formed based on the best available information at balance date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(t) Derivative financial instruments

Melbourne IT Ltd conducts a substantial amount of its business in US dollars ("USD") and is therefore exposed to movements in the AUD / USD dollar exchange rate. The company actively manages this risk via its foreign currency risk management strategy.

As at 31 December 2005, Melbourne IT Ltd has entered into a number of foreign currency option contracts ('derivative financial instruments') with the primary objective of minimising the impact on the company of achieving its objectives in the financial year. For the year ended 31 December 2005, the strategy substantially reduced the negative impact of revaluation of the company's USD assets, and provided more certainty over earned USD sales transactions.

Melbourne IT Ltd uses derivative financial instruments such as foreign currency contracts to hedge its risks associated with currency fluctuations. Such derivative financial instruments are stated at fair value. The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purposes of hedge accounting, hedges are classified as cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to cash flow hedges (forward foreign currency contracts) to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of an asset or a liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability.

For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same year in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Income tax

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date. Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(v) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(w) Contributed equity

Ordinary share capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(x) Earnings per share

Basic earnings per share is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share are calculated as net profit attributable to members, adjusted for:

- costs of servicing equity;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and the dilutive potential ordinary shares, adjusted for any bonus element.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(y) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

(z) AASB 1 Transitional exemptions

Melbourne IT Ltd has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

Business combinations

AASB 3 'Business Combinations' was applied retrospectively to past business combinations that occurred during the year ended 31 December 2003.

Designation of previously recognised financial instruments

Financial instruments were designated as financial assets or liabilities at fair value through profit or loss or as available-for-sale at the date of transition to AIFRS.

Share-based payment transactions

AASB 2 'Share-Based Payments' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139

Melbourne IT Ltd has not elected to adopt this exemption and has applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

(aa) 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:

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

	31 December 2004	CONSOLIDATED 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	—
Total Equity under AIFRS	12,748	8,952

(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 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)
Total profit after tax under AIFRS	4,103

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Impact of adoption of AIFRS (continued)

(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.

(ab) Statement of compliance

Except for the revised AASB 119 Employee Benefits (issued December 2005), Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 31 December 2005.

AASB AMENDMENT	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for Group
2005-1	AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	A change to accounting policy may be required. Unable to quantify impact as at 31 December 2005	1 January 2006	1 January 2006
2005-5	AASB 1: <i>First-time adoption of AIFRS</i> AASB 139: <i>Financial Instruments: Recognition and Measurement</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 January 2006
2005-6	AASB 3: <i>Business Combinations</i>	No change to accounting policy required. Therefore no impact	1 January 2006	1 January 2006
2005-10	AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> , AASB 117: <i>Leases</i> , AASB 133: <i>Earnings per Share</i> , AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 1: <i>First-time adoption of AIFRS</i> , AASB 4: <i>Insurance Contracts</i> , AASB 1023: <i>General Insurance Contracts</i> and AASB 1038: <i>Life Insurance Contracts</i>	No change to accounting policy required. Therefore no impact	1 January 2007	1 January 2007
New standard	AASB 7: <i>Financial Instruments: Disclosures</i>	No change to accounting policy required. Therefore no impact	1 January 2007	1 January 2007

* Application date is for the annual reporting periods beginning on or after the date shown in the above table.

(ac) Derecognition of financial assets and financial liabilities

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 January 2005. Outlined below are the relevant accounting policies applicable to the derecognition of financial assets and financial liabilities for the years ending 31 December 2005 and 31 December 2004.

Accounting policies applicable for the year ending 31 December 2005

(i) Financial asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Group could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ac) Derecognition of financial assets and financial liabilities (continued)

(ii) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Accounting policies applicable for the year ending 31 December 2004

(i) Financial assets

A financial asset was derecognised when the contractual right to receive or exchange cash no longer existed.

(ii) Financial liabilities

A financial liability was derecognised when the contractual obligation to deliver or exchange cash no longer existed.

(ad) Impairment of financial assets

The Group has elected to apply the option available under AASB 1 of adopting AASB 132 and AASB 139 from 1 January 2005. Outlined below are the relevant accounting policies applicable for the years ending 31 December 2005.

Accounting policies applicable for the year ending 31 December 2005

The Group assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (ie the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

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	CONSOLIDATED		MELBOURNE IT	
	2005 \$'000s	2004 \$'000s	2005 \$'000s	2004 \$'000s
2. REVENUE				
(i) REVENUE				
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
	73,334	60,174	61,345	51,077
(ii) OTHER INCOME				
Government grant	–	147	–	147
Other	10	–	3	–
	10	147	3	147
Total revenue	73,344	60,321	61,348	51,224
3. EXPENSES AND (LOSSES)/GAINS				
(A) DEPRECIATION AND AMORTISATION EXPENSES				
Depreciation of non-current assets				
Fit out	78	74	72	70
Plant and equipment	764	568	449	333
Furniture	18	15	17	13
Total depreciation of non-current assets	860	657	538	416
Amortisation of non-current assets				
Other investments	85	363	85	363
Total amortisation of non-current assets	85	363	85	363
Total depreciation and amortisation expenses	945	1,020	623	779
(B) OTHER EXPENSES				
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	6,932	7,669	4,591	7,351

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	CONSOLIDATED		MELBOURNE IT	
	2005 \$'000s	2004 \$'000s	2005 \$'000s	2004 \$'000s
4. INCOME TAX				
The major components of income tax expense are:				
Income statement				
<i>Current income tax</i>				
Current income tax charge	2,144	1,666	1,885	1,427
Adjustments in respect of current income tax of previous years	–	(191)	–	(191)
<i>Deferred income tax</i>				
Relating to origination and reversal of temporary differences ⁽¹⁾	(354)	(27)	109	61
Income tax expense reported in the income statement	1,790	1,448	1,994	1,297

(1) Includes 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 Ltd.

Statement of recognised income and expense

Deferred income tax related to items charged or credited directly to equity

Net gain/(loss) on revaluation of cash flow hedges	28	(68)	28	(68)
Income tax expense reported in equity	28	(68)	28	(68)

A reconciliation between tax expense and the product of accounting profit before income tax multiplied the Group's applicable income tax rate is as follows:

Accounting profit before income tax	7,144	5,551	6,284	4,755
At the groups statutory income tax rate of 30% (2004 30%)	2,144	1,666	1,885	1,427
Adjustments in respect of current income tax of previous years	–	(191)	–	(191)
Expenditure not allowable for income tax purposes	(354)	(27)	109	61
Income tax expense reported in the consolidated income statement	1,790	1,448	1,994	1,297

5. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY

(A) DIVIDENDS PAID DURING THE YEAR

(i) Current year — interim

Franked dividends (3.0 cents per share) (2004: 2.0 cents)	1,600	1,048	1,600	1,048
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(ii) Previous year — final

Franked dividends (3.5 cents per share) (2004: 2.0 cents per share)	1,875	1,021	1,875	1,021
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(B) DIVIDENDS PROPOSED AND NOT RECOGNISED AS A LIABILITY

Franked dividends (4.5 cents per share) (2004: 3.5 cents)	2,450	1,875	2,200	1,875
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(C) FRANKING CREDIT BALANCE

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		
	3,358	3,828		

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.

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	CONSOLIDATED		MELBOURNE IT	
	2005	2004	2005	2004
	\$'000s	\$'000s	\$'000s	\$'000s
6. TRADE AND OTHER RECEIVABLES (CURRENT)				
Trade debtors	5,046	4,564	3,548	2,590
Provision for doubtful debts	(174)	(459)	(99)	(396)
	4,872	4,105	3,448	2,194

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

- (i) Trade debtors are non-interest bearing and generally on 14 day terms

7. OTHER FINANCIAL ASSETS (CURRENT)

Loan to Cogent subsidiary	–	–	–	518
Other	–	131	–	131
	–	131	–	649

Terms and conditions

Terms and conditions relating to the above financial instruments

- (a) The loans provided by Melbourne IT Ltd to its subsidiaries are interest bearing and payable on demand.

8. OTHER ASSETS (CURRENT)

Other prepayments	1,347	1,319	604	832
Input tax credit	68	149	68	139
	1,415	1,468	672	971

9. OTHER FINANCIAL ASSETS (NON-CURRENT)

Investments at cost comprise:

Investment in INWW Espana (Spain)	–	–	5	5
Investment in Cogent IPC Group AB	–	–	4,663	4,577
Investment in Domainz Ltd	–	–	1,671	1,671
Investment in INWW Inc (USA)	–	–	1	1
	–	–	6,340	6,254

Investment in Neulevel Inc.:

Investment in Neulevel Inc.	2,113	2,113	2,113	2,113
Impairment loss	(777)	(777)	(777)	(777)
	1,336	1,336	1,336	1,336
	1,336	1,336	7,676	7,590

Terms and conditions

Terms and conditions relating to the above financial assets

- (i) The investment in Neulevel Inc. was written down from \$7.9 million to \$1.06 million at 31 December 2002. A subsequent investment of \$275,000 was made during 2003, which was capitalised. Neulevel is currently carried at its cost less impairment losses of \$1.336 million. The remaining investment in Neulevel Inc. represents 10% of the equity, the other 90% of the equity is held by NeuStar Inc.

INVESTMENT NAME

Balance Date

Ownership interest 2005

NeuLevel Inc	31 December 2005	10%
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PRINCIPAL ACTIVITIES

- (i) NeuLevel Inc is a provider of domain name registry services to the internet community. In 2001 NeuLevel was awarded the registry contract from ICANN for the .biz generic top level domain name.
- (ii) Domainz Ltd is a provider of domain name registry services to the internet community, predominately within New Zealand.
- (iii) Cogent is the provider of Consulting and Management services to large public and private enterprises with offices in Stockholm, London, San Francisco, Paris and Amsterdam.
- (iv) Investments in controlled entities are initial capital investments and are eliminated in the consolidated financial statements.

INTERESTS IN SUBSIDIARIES

Country of Incorporation

Percentage of equity interest held by the consolidated entity

		2005 %	2004 %
Internet Names Worldwide (US), Inc — Ordinary shares	USA	100	100
Internet Names Worldwide Espana SL — Ordinary shares	Spain	100	100
Domainz Ltd — Ordinary Shares	New Zealand	100	100
Cogent IPC — Ordinary Shares	Sweden	100	100

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	CONSOLIDATED		MELBOURNE IT	
	2005 \$'000s	2004 \$'000s	2005 \$'000s	2004 \$'000s
10. PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT)				
<i>Leasehold improvements</i>				
At cost	1,685	1,682	1,614	1,612
Accumulated amortisation	(1,412)	(1,287)	(1,348)	(1,277)
	273	395	265	335
<i>Plant and equipment</i>				
At cost	7,448	7,359	5,016	4,677
Accumulated depreciation	(6,185)	(5,847)	(4,132)	(3,643)
	1,263	1,512	884	1,034
<i>Furniture and fittings</i>				
At cost	393	243	110	105
Accumulated depreciation	(262)	(150)	(84)	(65)
	131	93	25	40
<i>Total property, plant and equipment</i>				
At cost	9,526	9,284	6,739	6,394
Accumulated depreciation and amortisation	(7,859)	(7,284)	(5,564)	(4,985)
Total written down amount	1,667	2,000	1,175	1,409
Reconciliations				
Reconciliations of the carrying amounts of leasehold improvements, plant and equipment and furniture/fittings at the beginning and end of the current and previous financial year.				
<i>Leasehold improvements</i>				
Carrying amount at beginning	395	469	335	405
Additions	3	–	1	1
Disposals	–	–	–	–
Transfer/other	(47)	–	–	–
Depreciation expense	(78)	(74)	(71)	(71)
	273	395	265	335
<i>Plant and Equipment</i>				
Carrying amount at beginning	1,512	926	1,034	588
Additions	448	1,154	184	780
Disposals	–	–	–	–
Transfer/other	66	–	–	–
Depreciation expense	(764)	(568)	(334)	(334)
	1,263	1,512	884	1,034
<i>Furniture and fittings</i>				
Carrying amount at beginning	93	76	40	51
Additions	164	32	–	2
Disposals	–	–	–	–
Transfer/other	(108)	–	(2)	–
Depreciation expense	(18)	(15)	(13)	(13)
	131	93	25	40
Total written down amount	1,667	2,000	1,175	1,409

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	CONSOLIDATED		MELBOURNE IT	
	2005 \$'000s	2004 \$'000s	2005 \$'000s	2004 \$'000s
11. INTANGIBLE ASSETS				
Goodwill — Domainz Ltd	720	720		
Goodwill — Cogent IPC Group AB ⁽¹⁾	5,564	5,480		
Customer List	163	163	163	163
Customer List — Accumulated amortisation (over 24 months)	(88)	—	(88)	—
	6,359	6,363	75	163

(1) The net increase in goodwill represents the deferred settlement of the Retention Fund component of the purchase in the amount of 500,000 SEK (\$84,000).

12. DEFERRED INCOME TAX ASSET (NON-CURRENT)

	2005	2004	2005	2004
	1,005	952	980	926
Deferred income tax at 31 December relates to the following:				
<i>Deferred tax assets</i>				
Accelerated depreciation for tax purposes	0	22	0	22
Unrealised gains on foreign currency	94	(88)	94	(88)
Movement in employee benefits	382	328	357	328
Movement in provisions	294	443	294	443
Movement in accrued expenses	257	219	257	221
Other	(22)	28	(22)	—
	1,005	952	980	926

13. OTHER ASSETS (NON-CURRENT)

Rental bond	37	22	—	—
	37	22	—	—

14. TRADE AND OTHER PAYABLES (CURRENT)

Trade creditors	1,093	1,733	151	885
Sundry creditors	586	192	228	192
Deposits received in advance	1,428	1,113	1,428	1,113
Taxes payable	—	802	—	471
Accrued expenses	6,230	5,124	5,241	4,168
	9,337	8,964	7,048	6,829
Aggregate amounts payable to related parties:				
— controlled entities	—	—	2,229	1,245
Total payables	9,337	8,964	9,277	8,074

(a) Terms and conditions relating to trade creditors:

- (i) Trade creditors are non-interest bearing and are normally settled within agreed trading terms.
- (ii) Sundry creditors are non-interest bearing and are normally settled within agreed trading terms.
- (iii) Amounts payable to related parties are interest bearing and payable on demand.

15. PROVISIONS (CURRENT)

Employee benefits	1,205	872	950	713
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	CONSOLIDATED		MELBOURNE IT	
	2005	2004	2005	2004
	\$'000s	\$'000s	\$'000s	\$'000s
16. CURRENT TAX LIABILITIES				
Income tax	855	1,434	815	827

17. PROVISIONS (NON-CURRENT)				
Employee benefits	454	196	454	196

18. CONTRIBUTED EQUITY

(a) Issued and paid-up capital

Ordinary shares each fully paid	9,975	8,774	9,975	8,774
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(b) Movements in shares on issue

	No. of Shares	2005 \$'000s	No. of Shares	2004 \$'000s
Beginning of the financial year	52,804,364	8,774	50,922,068	7,342
Issued during the year				
– dividend reinvestment scheme	284,830	365	1,544,496	1,244
– Executive and employee options exercised	1,250,500	836	337,800	188
End of the financial year	54,339,694	9,975	52,804,364	8,774

(c) Share Options

Options over ordinary shares

During the financial year 867,950 options were issued over ordinary shares, exercisable from the first anniversary from the date of issue and with an issue term of 5 years. The options had a weighted average exercise price of \$1.1929. Details are provided in Note 32. At the end of the year there were 3,108,250 (2004: 3,770,300) unissued ordinary shares in respect of which options were outstanding.

	CONSOLIDATED		MELBOURNE IT	
	2005	2004	2005	2004
	\$'000s	\$'000s	\$'000s	\$'000s

19. STATEMENT OF CASH FLOWS

(a) Reconciliation of the operating profit after tax to the net cash flows from operations:

Operating profit after tax	5,354	4,103	4,290	3,458
Depreciation of non-current assets	860	657	538	415
Amortisation of non-current assets	85	363	–	363
Unrealized (gains)/losses in FX translations/options	(202)	69	–	142
Provision for employee entitlements	591	149	496	156
Provision for doubtful debts	–	23	–	–
Net (gain)/loss on disposal of investments	–	(195)	–	(192)

Changes in assets and liabilities

Trade debtors	(767)	(52)	(454)	1,935
Prepayments	(2,007)	(1,818)	(1,178)	(1,787)
Employee share options	352	162	352	–
Income received in advance	3,929	4,882	3,451	4,170
Investments	(61)	121	2	121
Deferred Income Tax Asset	(53)	(72)	–	(85)
Accounts payable	678	656	900	(52)
Income tax provision	(579)	(278)	(67)	(27)
Net cash flow from operating activities	8,180	8,770	8,330	8,616

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	CONSOLIDATED		MELBOURNE IT	
	2005	2004	2005	2004
	\$'000s	\$'000s	\$'000s	\$'000s
19. STATEMENT OF CASH FLOWS (continued)				
(b) Reconciliation of cash and cash equivalent				
Cash and cash equivalent balances comprise:				
Cash and cash equivalent on hand	8,832	6,068	7,267	4,296
Cash and cash equivalent — term deposits	12,382	9,765	12,382	9,765
Cash and cash equivalent — commercial bills	5,000	5,000	5,000	5,000
Closing cash and cash equivalent balances	26,214	20,833	24,650	19,061

(c) Change in composition of Melbourne IT Ltd.

On 1 April 2004, Melbourne IT Ltd acquired the Cogent IPC Group — a European Firm with offices in Stockholm, London, Paris and Amsterdam. Cogent IPC provides global online brand management services with current clients in the airline, automotive, clothing, banking, electrical, IT, furniture, food and beverage industries.

Consideration

– cash paid	–	4,577		
Net assets of the Cogent IPC Group at 1 April 2004				
– cash	–	–		
– trade debtors	–	1,684		
– other net liabilities ⁽¹⁾	–	(1,910)		
		–	(226)	
– employee provision	–	(114)		
– Pre acquisition adjustment to fair value of net tangible assets acquired ⁽²⁾	–	(494)		
– fair value of net tangible assets acquired	–	(834)		
– goodwill arising on acquisition	–	5,411		
		–	4,577	
Net cash effect				
Cash consideration paid	–	4,577		
Cash included in net assets acquired	–	–		
Cash paid for purchase of controlled entity as reflected in the consolidated statement of cash flows.	–	4,577		

(1) Included within 'Other Net Liabilities' was a 'Provision for Reconstruction Costs' of \$259,000.

(2) Includes a pre acquisition adjustment for the provision of outstanding tax liabilities and associated penalties at 31 December 2004.

20. EXPENDITURE COMMITMENTS

Lease expenditure commitments

Operating leases

Minimum lease payments

– not later than one year	728	593	335	336
– later than one year and not later than five years	755	1,428	755	1,259
Aggregate lease expenditure contracted for at reporting date	1,483	2,021	1,090	1,595

21. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

Employee Benefits

The aggregate employee benefit liability comprises:

Provisions (current)	15	1,205	872	950	713
Provisions (non-current)	17	454	196	454	196
		1,659	1,068	1,404	909

22. DERIVATIVE FINANCIAL INSTRUMENTS

Hedging Activities

Cashflow hedges

At 31 December 2005, Melbourne IT held five foreign exchange contracts designated as cash flow hedges of expected future sales to customers in the United States for which the company has firm commitments.

The exchange contracts are being used to reduce the exposure of foreign exchange risk. The terms of these contracts are as follows:

SELL	Maturity	Protection Rate	Advantage Rate
US\$ 610,000	31 January 2006	A\$/US\$ 0.781	A\$/US\$ 0.755
US\$575,000	28 February 2006	A\$/US\$ 0.765	A\$/US\$ 0.741
US\$625,000	31 March 2006	A\$/US\$ 0.777	A\$/US\$ 0.745
US\$575,000	28 April 2006	A\$/US\$ 0.764	A\$/US\$ 0.735
US\$600,000	31 May 2006	A\$/US\$ 0.760	A\$/US\$ 0.744

The terms of the foreign exchange contracts have been negotiated to match the terms of the commitments.

At 31 December 2004, the Group held five forward exchange contracts to hedge future sales that are deferred in the balance sheet. The terms of these contracts are as follows:

SELL	Maturity	Protection Rate	Advantage Rate
US\$ 650,000	31 January 2005	A\$/US\$ 0.716	A\$/US\$ 0.687
US\$675,000	28 February 2005	A\$/US\$ 0.707	A\$/US\$ 0.678
US\$700,000	31 March 2005	A\$/US\$ 0.732	A\$/US\$ 0.702
US\$520,000	29 April 2005	A\$/US\$ 0.766	A\$/US\$ 0.736
US\$575,000	31 May 2005	A\$/US\$ 0.789	A\$/US\$ 0.758

As at 31 December 2005, a net unrealised loss of \$92,087 (2004: gain of \$227,000) is included in equity in respect of these contracts.

23. 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	2004	2005	2004	2005	2004				
\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
SEGMENT REVENUE ⁽¹⁾										
Revenue from operating activities										
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
Revenue from non-operating activities										
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
Segment Result	4,362	3,823	362	226	642	412	(12)	(358)	5,354	4,103

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

24. ISSUED CAPITAL AND RESERVES

	CONSOLIDATED				MELBOURNE IT			
	ISSUED CAPITAL	RETAINED EARNINGS	OTHER RESERVES	TOTAL	ISSUED CAPITAL	RETAINED EARNINGS	OTHER RESERVES	TOTAL
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
As at 1 January 2004	7,342	1,610	–	8,952	7,342	841	–	8,183
Currency translation differences	–	–	(59)	(59)	–	–	–	0
Employee Share Option Reserve	–	–	162	162	–	–	–	0
Net gains/(losses) on cashflow hedges	–	–	227	227	–	–	–	0
Total income and expense for the period recognised directly in equity	–	–	330	330	–	–	–	0
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)
As at 31 December 2004	8,774	3,644	330	12,748	8,774	2,230	–	11,004

	CONSOLIDATED				MELBOURNE IT			
	ISSUED CAPITAL	RETAINED EARNINGS	OTHER RESERVES	TOTAL	ISSUED CAPITAL	RETAINED EARNINGS	OTHER RESERVES	TOTAL
	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s	\$'000s
As at 1 January 2005	8,774	3,644	330	12,748	8,774	2,230	–	11,004
Currency translation differences	–	–	(16)	(16)	–	–	–	0
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)
As at 31 December 2005	9,975	5,523	277	15,775	9,975	3,045	190	13,210

Nature and purpose of reserves

Net unrealised gain/(loss) reserve (ie Net gain/(losses) on cashflow hedges)

This reserve records movements for available-for-sale financial assets to fair value and for the forward currency contracts.

Employee share option reserve

The employee share option plan reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.

Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

It is also used to record the net investments hedged in these subsidiaries.

25. CONTINGENT LIABILITIES

- (a) The company has standby Letters of Credit totalling US\$2,700,000 in accordance with various Registry Licence Agreements. These standby Letters of Credit are due to expire on 31 May 2007 at which time it is expected that they will be renewed for another 24 months.
- (b) A Bank Guarantee of AUD\$155,320 has been issued in favour of Perpetual Trustee Company Limited in accordance with the lease agreement for Levels 1 & 2, 120 King St, Melbourne.

26. EVENTS SUBSEQUENT TO 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.

This profit on sale has not been provided for in the 31 December 2005 financial statements.

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.

27. 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
	Number of shares	Number of shares
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	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

28. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Key Management Personnel

(i) Specified directors

Mr Rob Stewart	Chairman (non-executive)
Dr Mark Toner	Deputy Chairman (non-executive)
Prof. Iain Morrison	Director (non-executive)
Mr Tom Kiing	Director (non-executive)
Mr Simon Jones	Director (non-executive)

(ii) Key Management Personnel

Mr Theo Hnarakis	Chief Executive Officer/Managing Director
Mr Andrew Field	Chief Financial Officer
Dr Bruce Tonkin	Chief Technology Officer
Mr Tom Mackey	Senior Vice President and General Manager — Reseller
Mr Ewan Watt	General Manager — Direct
Mr Anders Eriksson	Chief Executive — CBS

(b) Remuneration of Specified Directors and Key Management Personnel

(i) Remuneration Policy

Details of the remuneration of directors & key management personnel are also provided within the Remuneration Report in pages 9–12 of the Directors Report.

Further details of the remuneration of directors and key management personnel is provided opposite.

28. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(ii) Remuneration of Directors

2005		Short Term	Post Employment	Equity		Total \$
DIRECTORS	Base Salary \$	Other \$	Super Cont. \$	Options Granted during Period	Amort. Expense during Period ⁽¹⁾ \$	
Mr Robert Stewart	105,800	10,260	9,522	–	1,421	127,003
Prof. Iain Morrison	46,000	–	4,140	–	711	50,851
Dr Mark Toner	52,000	–	4,680	–	711	57,391
Mr Tom Kiing	46,000	–	4,140	–	1,206	51,346
Mr Simon Jones	52,000	–	4,680	–	1,206	57,886
Total 2005	301,800	10,260	27,162	–	5,255	344,477

2004		Short Term	Post Employment	Equity		Total \$
DIRECTORS	Base Salary \$	Other \$	Super Cont. \$	Options Granted during Period	Amort. Expense during Period ⁽¹⁾ \$	
Mr Robert Stewart	105,800	6,006	9,522	–	3,292	124,620
Prof. Iain Morrison	46,000	–	4,140	–	1,646	51,786
Dr Mark Toner	52,000	–	4,680	–	1,646	58,326
Mr Tom Kiing	46,000	–	4,140	–	2,925	53,065
Mr Simon Jones	52,000	–	4,680	–	2,925	59,605
Total 2004	301,800	6,006	27,162	–	12,434	347,402

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

(iii) Remuneration of Key Management Personnel

2005		Short Term		Post Employment	Share based payments		Total \$
KEY MANAGEMENT PERSONNEL ⁽²⁾	Base Salary \$	Bonuses \$	Other \$	Super Cont. \$	Amort. Expense during Period ⁽¹⁾ \$	Options Granted during Period	
Mr Theo Hnarakis	316,514	150,813	39,114	28,292	14,771	–	549,504
Mr Andrew Field	193,125	45,500	14,077	17,381	2,417	–	272,500
Dr Bruce Tonkin	177,000	44,000	11,068	15,986	2,417	–	250,471
Mr Thomas Mackey ⁽³⁾	237,643	56,557	23,872	35,646	2,721	–	356,439
Mr Ewan Watt	139,250	51,700	27,425	12,033	10,022	–	240,430
Mr Anders Eriksson ⁽⁴⁾	273,335	71,180	5,614	39,096	12,021	–	401,246
Total	1,336,867	419,750	121,170	148,434	44,369	–	2,070,590

2004		Short Term		Post Employment	Share based payments		Total \$
KEY MANAGEMENT PERSONNEL ⁽²⁾	Base Salary \$	Bonuses \$	Other \$	Super Cont. \$	Amort. Expense during Period ⁽¹⁾ \$	Options Granted during Period	
Mr Theo Hnarakis	286,239	132,276	22,271	29,029	27,296	–	497,111
Mr Andrew Field	187,500	41,875	21,270	18,038	5,598	–	274,281
Dr Bruce Tonkin	172,000	40,900	9,320	16,723	5,598	–	244,541
Mr Thomas Mackey ⁽³⁾	233,284	49,844	27,520	34,196	5,962	–	350,806
Mr Ewan Watt	118,000	60,500	10,091	11,700	5,305	–	205,596
Mr Anders Eriksson ⁽⁴⁾	240,043	71,571	6,157	26,364	6,607	–	350,742
Total 2004	1,237,066	396,966	96,629	136,050	56,366	–	1,923,077

(1) No options were granted during the period. The expense relates to the amortisation of the fair value of options granted prior to the year ended 31 December 2005.

(2) Key Management Personnel are defined as the Chief Executive Officer/Managing Director, the Chief Financial Officer and Chief Information Officer, as well as the leaders of each of Melbourne IT's global Business Units in Reseller, Direct and Corporate Brand Services ("CBS")

(3) Paid in equivalent \$USD through INWW Inc. (USA)

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

28. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

(iv) Compensation by Category: Key Management Personnel

	CONSOLIDATED		MELBOURNE IT	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Short Term	1,837	1,684	1,174	1,056
Post Employment	148	136	74	75
Share-based Payment	44	56	30	44
	2,029	1,876	1,278	1,175

(c) Option holdings of Directors and Key Management Personnel

OPTIONS HELD IN MELBOURNE IT LTD	Balance at 1 January 2005	Granted as Remuneration	Options Exercised	Balance at 31 December 2005	Not Exercisable	Exercisable
Directors						
Mr Robert Stewart	70,000	–	–	70,000	–	70,000
Prof. Iain Morrison	35,000	–	(35,000)	–	–	–
Dr Mark Toner	35,000	–	–	35,000	–	35,000
Mr Tom Kiing	35,000	–	–	35,000	14,000	21,000
Mr Simon Jones	35,000	–	–	35,000	14,000	21,000
Key Management Personnel						
Mr Theo Hnarakis	480,000	–	(336,000)	144,000	–	144,000
Mr Andrew Field	120,000	–	–	120,000	–	120,000
Dr Bruce Tonkin	120,000	–	(120,000)	–	–	–
Mr Thomas Mackey	120,000	–	–	120,000	20,000	100,000
Mr Ewan Watt	96,000	–	(40,000)	56,000	32,000	24,000
Mr Anders Eriksson	120,000	–	–	120,000	48,000	72,000
Total 2005	1,266,000	–	(531,000)	735,000	128,000	607,000

(d) Shareholdings of Directors and Key Management Personnel

SHARES HELD IN MELBOURNE IT LTD	Balance at 1 January 2005	Granted as Remuneration	On exercise of Options	Net Change Other	Balance at 31 December 2005
Directors					
Mr Robert Stewart	59,133	–	–	1,239	60,372
Prof. Iain Morrison	11,000	–	35,000	(11,000)	35,000
Dr Mark Toner	110,000	–	–	–	110,000
Mr Tom Kiing	5,986,547	–	–	(125,000)	5,861,547
Mr Simon Jones	19,128	–	–	523	19,651
Key Management Personnel					
Mr Theo Hnarakis	177,442	–	336,000	4,798	518,240
Mr Andrew Field	20,615	–	–	–	20,615
Dr Bruce Tonkin	10,000	–	120,000	–	130,000
Mr Thomas Mackey	–	–	–	–	–
Mr Ewan Watt	–	–	40,000	(40,000)	–
Mr Anders Eriksson	–	–	–	–	–
Total 2005	6,393,865	–	531,000	(169,440)	6,755,425

28. DIRECTOR AND EXECUTIVE DISCLOSURES (continued)

All equity transactions with directors and key management personnel have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

(h) Other Transactions and Balances with Directors and Key Management Personnel

Purchases

During the period, payments for consulting services of \$13,500 (2004: \$Nil) were made to Toner & Associates, a business owned by Dr Mark Toner. The rates paid for these services were made under normal commercial terms and conditions.

During the period, payments for consulting services of \$Nil (2004: \$4,812) were made to ENOVIT Pty Ltd a company in which Professor Ian Morrison is a Director. The rates paid for these services were made under normal commercial terms and conditions.

29. AUDITORS' REMUNERATION

	CONSOLIDATED		MELBOURNE IT	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Amounts received or due and receivable by the auditors of Melbourne IT Ltd for:				
– an audit or review of the financial statements of the entity and any other entity in the consolidated entity.	214	213	101	101
– other services in relation to the entity and any other entity in the consolidated entity	120	81	120	81
	334	294	221	182

30. RELATED PARTY DISCLOSURES

Ultimate parent

The ultimate Australian parent entity in the wholly owned group is Melbourne IT Ltd.

During the year various intercompany transactions were undertaken between companies in the wholly owned group. These transactions were undertaken on a no net margin basis. The effect of these transactions are fully eliminated on consolidation.

All intercompany balances, payable and receivable, are on an "arms length" basis with standard terms and conditions.

31. SHARE OPTIONS

The Melbourne IT Executive & Employee Option Plan(s) have been established where employees and directors of the company are issued with options over the ordinary shares of Melbourne IT Limited. The options, issued for nil consideration, are issued in accordance with performance guidelines established by the directors of Melbourne IT Limited. The options cannot be transferred and will not be quoted on the ASX. All of the directors (including non-executive directors) and full-time or permanent part-time employees of the company or any of its related body corporates are eligible to participate in the option plan.

During the year 1,250,500 options under the Melbourne IT Executive & Employee Option Plan(s) were exercised at an average price of \$0.5156 cents.

General Terms of Options

Options are issued free of charge. Each option is to subscribe for one fully paid Share. When issued, the Share will rank equally with other Shares. The options are not transferable except to the legal personal representative of a deceased or legally incapacitated option holder. The options are issued for a term of 5 years, and are exercisable in 3 tranches from the issue date.

Under the Option Plan, the options have other terms specified at the time the options are offered. These terms differ between directors, senior executives and general employees. The terms may include conditions, which set out the number or percentage of options able to be exercised at certain time periods or under certain circumstances. For directors and senior executives performance conditions may require that the number of options able to be exercised be reduced or that some or all of the options lapse under specified circumstances.

The Board has adopted certain policies concerning the terms of the options to be granted under the Option Plan. The Board has the absolute discretion to change these policies at any time, although any change in its policies will have an effect only on options that are issued at or after the time of the change.

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31. SHARE OPTIONS (continued)

(a) Options held at the beginning of the reporting period:

The following table summarises information about options held by directors and employees as at 1 January 2005:

NUMBER OF OPTIONS	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price
1,690,600	7 June 2002	7 December 2002	7 June 2007	0.5100
360,000	30 December 2002	30 June 2003	30 December 2007	0.3900
125,000	19 March 2003	19 September 2003	19 March 2008	0.3315
70,000	20 June 2003	20 December 2003	20 June 2008	0.3315
190,800	23 October 2003	23 April 2004	23 October 2008	0.5500
338,900	14 April 2004	14 October 2004	14 April 2009	0.8329
686,000	10 May 2004	10 November 2004	10 May 2009	0.7616
309,000	5 November 2004	5 May 2005	5 November 2009	1.1929
3,770,300				

(b) Options granted during the reporting period:

The following table summarises information about options granted by Melbourne IT Limited to directors and employees during the year:

	2005			2004	
Number of Options	226,500	641,450	338,900	686,000	309,000
Grant date	22 April 2005	25 October 2005	14 April 2004	10 May 2004	5 Nov 2004
First Vesting date	22 October 2005	25 October 2006	14 Oct 2004	10 Nov 2004	5 May 2005
Weighted Average Price	\$1.277355	\$1.1640	\$0.8329	\$0.7616	\$1.1929

31. SHARE OPTIONS (continued)

(c) Options exercised during the reporting period:

The following table summarises information about options exercised by directors and employees during the year ended 31 December 2005:

NO. OF OPTIONS	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price	Issue Date	Fair Value of Shares Issued ⁽¹⁾
4,500	16/04/04	16/10/04	15/04/09	\$0.8239	10-Jan	\$1.30
2,000	07/06/05	07/12/05	06/06/10	\$0.5100	10-Jan	\$1.30
2,100	07/06/02	07/12/02	06/06/07	\$0.5100	16-Feb	\$1.33
9,000	07/06/02	07/12/02	06/06/07	\$0.5100	1-Mar	\$1.29
9,000	07/06/02	07/12/02	06/06/07	\$0.5100	1-Mar	\$1.29
42,000	07/06/02	07/12/02	06/06/07	\$0.5100	3-Mar	\$1.24
42,000	07/06/02	07/12/02	06/06/07	\$0.5100	15-Mar	\$1.34
9,000	07/06/02	07/12/02	06/06/07	\$0.5100	15-Mar	\$1.34
7,000	10/05/04	09/11/04	09/05/09	\$0.7616	23-Mar	\$1.30
4,000	23/10/03	23/04/04	21/10/08	\$0.5500	21-Apr	\$1.28
9,000	19/03/03	18/09/03	17/03/08	\$0.3315	21-Apr	\$1.28
21,000	07/06/02	07/12/02	06/06/07	\$0.5100	21-Apr	\$1.28
12,000	23/10/03	23/04/04	21/10/08	\$0.5500	18-May	\$1.26
4,500	10/05/04	09/11/04	09/05/09	\$0.7616	18-May	\$1.26
4,200	23/10/03	23/04/04	21/10/08	\$0.5500	18-May	\$1.26
7,500	10/05/04	09/11/04	09/05/09	\$0.7616	5-Jul	\$1.185
7,500	10/05/04	09/11/04	09/05/09	\$0.7616	5-Jul	\$1.185
7,000	07/06/02	07/12/02	06/06/07	\$0.5100	21-Jul	\$1.18
24,000	07/06/02	07/12/02	06/06/07	\$0.5100	2-Aug	\$1.25
28,000	07/06/02	07/12/02	06/06/07	\$0.5100	2-Aug	\$1.25
7,000	07/06/02	07/12/02	06/06/07	\$0.5100	11-Aug	\$1.25
2,100	10/05/04	09/11/04	09/05/09	\$0.7616	11-Aug	\$1.25
20,000	07/06/02	07/12/02	06/06/07	\$0.5100	30-Aug	\$1.22
7,000	07/06/02	07/12/02	06/06/07	\$0.5100	30-Aug	\$1.22
15,000	07/06/02	07/12/02	06/06/07	\$0.5100	30-Aug	\$1.22
7,000	07/06/02	07/12/02	06/06/07	\$0.5100	30-Aug	\$1.22
3,000	07/06/02	07/12/02	06/06/07	\$0.5100	30-Aug	\$1.22
20,000	07/06/02	07/12/02	06/06/07	\$0.5100	30-Aug	\$1.22
2,800	07/06/02	07/12/02	06/06/07	\$0.5100	30-Aug	\$1.22
2,800	07/06/02	07/12/02	06/06/07	\$0.5100	30-Aug	\$1.22
21,000	14/04/04	14/10/04	13/04/09	\$0.8239	30-Aug	\$1.22
4,000	07/06/02	07/12/02	06/06/07	\$0.5100	30-Aug	\$1.22
120,000	07/06/02	07/12/02	06/06/07	\$0.5100	27-Sep	\$1.28
216,000	30/12/02	01/07/03	29/12/07	\$0.3900	27-Sep	\$1.28
3,500	19/03/03	18/09/03	17/03/08	\$0.3315	27-Sep	\$1.28
5,000	07/06/02	07/12/02	06/06/07	\$0.5100	27-Sep	\$1.28
2,100	10/05/04	09/11/04	09/05/09	\$0.7616	27-Sep	\$1.28
2,400	05/11/04	07/05/05	04/11/09	\$1.1929	27-Sep	\$1.28
3,500	07/06/02	07/12/02	06/06/07	\$0.5100	27-Sep	\$1.28
4,200	23/10/03	23/04/04	21/10/08	\$0.5500	27-Sep	\$1.28
7,000	07/06/02	07/12/02	06/06/07	\$0.5100	27-Sep	\$1.28
120,000	07/06/02	07/12/02	06/06/07	\$0.5100	24-Oct	\$1.16
40,000	07/06/02	07/12/02	06/06/07	\$0.5100	24-Oct	\$1.16
18,000	19/03/03	18/09/03	17/03/08	\$0.3315	24-Oct	\$1.16
2,800	07/06/02	07/12/02	06/06/07	\$0.5100	24-Oct	\$1.16
70,000	07/06/02	07/12/02	06/06/07	\$0.5100	24-Oct	\$1.16
42,000	23/10/03	23/04/04	21/10/08	\$0.5500	24-Oct	\$1.16
3,000	07/06/02	07/12/02	06/06/07	\$0.5100	24-Oct	\$1.16
16,000	07/06/02	07/12/02	06/06/07	\$0.5100	24-Oct	\$1.16
24,000	16/04/04	16/10/04	15/04/09	\$0.8239	24-Oct	\$1.16
7,000	07/06/02	07/12/02	06/06/07	\$0.5100	15-Nov	\$1.25
4,200	23/10/03	23/04/04	21/10/08	\$0.5500	15-Nov	\$1.25
14,000	07/06/02	07/12/02	06/06/07	\$0.5100	12-Dec	\$1.505
2,800	07/06/02	07/12/02	06/06/07	\$0.5100	12-Dec	\$1.505
28,000	07/06/02	07/12/02	06/06/07	\$0.5100	12-Dec	\$1.505
3,000	23/10/03	23/04/04	21/10/08	\$0.5500	12-Dec	\$1.505
40,000	07/06/02	07/12/02	06/06/07	\$0.5100	12-Dec	\$1.505
15,000	07/06/02	07/12/02	06/06/07	\$0.5100	23-Dec	\$1.36
7,000	07/06/02	07/12/02	06/06/07	\$0.5100	23-Dec	\$1.36
6,000	07/06/02	07/12/02	06/06/07	\$0.5100	23-Dec	\$1.36
42,000	15/04/04	15/10/04	14/04/09	\$0.7616	12-Dec	\$1.505
15,000	07/06/02	07/12/02	06/06/07	\$0.5100	23-Dec	\$1.36
1,250,500						

(1) = Fair values of shares during the reporting period is estimated to be the market prices of shares in Melbourne IT Limited on the ASX as at the close of trading on their respective issue dates.

31. SHARE OPTIONS (continued)

(c) Options exercised during the reporting period (continued):

The following table summarises information about options exercised by directors and employees during the year ended 31 December 2004:

NO. OF OPTIONS	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price	Issue Date	Fair Value of Shares Issued ⁽¹⁾
12,000	07/06/02	07/12/02	06/06/07	\$0.5100	15-Jan	\$0.55
21,000	07/06/02	07/12/02	06/06/07	\$0.5100	9-Mar	\$0.78
12,000	07/06/02	07/12/02	06/06/07	\$0.5100	3-Mar	\$0.79
21,000	07/06/02	07/12/02	06/06/07	\$0.5100	13-Apr	\$0.81
2,100	07/06/02	07/12/02	06/06/07	\$0.5100	21-Apr	\$0.82
9,000	07/06/02	07/12/02	06/06/07	\$0.5100	21-Apr	\$0.82
6,000	19/03/03	19/09/03	17/03/08	\$0.3315	4-May	\$0.79
4,200	07/06/02	07/12/02	06/06/07	\$0.5100	4-May	\$0.79
2,100	23/10/03	23/04/04	21/10/08	\$0.5500	13-May	\$0.75
4,200	07/06/02	07/12/02	06/06/07	\$0.5100	28-Jun	\$0.83
6,000	19/03/03	19/09/03	17/03/08	\$0.3315	5-Jul	\$0.88
4,200	07/06/02	07/12/02	06/06/07	\$0.5100	9-Jul	\$0.88
12,000	07/06/02	07/12/02	06/06/07	\$0.5100	15-Jul	\$0.86
9,000	07/06/02	07/12/02	06/06/07	\$0.5100	15-Jul	\$0.86
20,000	07/06/02	07/12/02	06/06/07	\$0.5100	6-Aug	\$1.04
4,200	07/06/02	07/12/02	06/06/07	\$0.5100	12-Aug	\$1.12
4,200	07/06/02	07/12/02	06/06/07	\$0.5100	31-Aug	\$1.10
7,000	07/06/02	07/12/02	06/06/07	\$0.5100	31-Aug	\$1.10
2,100	23/10/03	23/04/04	21/10/08	\$0.5500	31-Aug	\$1.10
7,000	07/06/02	07/12/02	06/06/07	\$0.5100	13-Oct	\$1.09
24,000	07/06/02	07/12/02	06/06/07	\$0.5100	13-Oct	\$1.09
6,000	19/03/03	19/09/03	17/03/08	\$0.3315	15-Oct	\$1.07
40,000	07/06/02	07/12/02	06/06/07	\$0.5100	26-Oct	\$1.20
3,500	07/06/02	07/12/02	06/06/07	\$0.5100	26-Oct	\$1.20
7,000	07/06/02	07/12/02	06/06/07	\$0.5100	4-Nov	\$1.20
24,000	07/06/02	07/12/02	06/06/07	\$0.5100	5-Nov	\$1.20
60,000	07/06/02	07/12/02	06/06/07	\$0.5100	17-Nov	\$1.32
4,000	07/06/02	07/12/02	06/06/07	\$0.5100	17-Nov	\$1.32
337,800						

(1) = Fair values of shares during the reporting period is estimated to be the market prices of shares in Melbourne IT Limited on the ASX as at the close of trading on their respective issue dates.

(d) Options lapsed or forfeited during the reporting period:

A total of 279,500 (2004: 169,800) options lapsed or were forfeited by directors and employees during the year ended 31 December 2005.

31. SHARE OPTIONS (continued)

(e) Options held as at the end of the reporting period:

The following table summarises information about options held by directors and employees as at 31 December 2005:

NUMBER OF OPTIONS	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price
829,800	7 June 2002	7 December 2002	7 June 2007	0.5100
144,000	30 December 2002	30 June 2003	30 December 2007	0.3900
88,500	19 March 2003	19 September 2003	19 March 2008	0.3315
70,000	20 June 2003	20 December 2003	20 June 2008	0.3315
101,500	23 October 2003	23 April 2004	23 October 2008	0.5500
263,500	14 April 2004	14 October 2004	14 April 2009	0.8239
490,000	10 May 2004	10 November 2004	10 May 2009	0.7616
260,000	5 November 2004	5 May 2005	5 November 2009	1.1929
219,500	22 April 2005	22 October 2005	22 April 2010	1.2774
641,450	25 October 2005	25 October 2006	25 October 2010	1.1640
3,108,250				

32. EMPLOYEE BENEFITS

(a) Employee share option plan

Employees are able to participate in The Melbourne IT Executive & Employee Option Plan(s) ("ESOP"). Options issued under these plans are for nil consideration and are issued in accordance with performance guidelines established by the directors of Melbourne IT Limited. The options cannot be transferred and will not be quoted on the ASX. All full-time or permanent part-time employees of the company or any of its related body corporates are eligible to participate in the option plan.

During the year 719,500 options under the Melbourne IT Executive & Employee Option Plan(s) were exercised by employees (excluding key management personnel) at an average price of \$0.5453 cents.

General Terms of Options

Options are issued free of charge. Each option is to subscribe for one fully paid Share. When issued, the Share will rank equally with other Shares. The options are not transferable except to the legal personal representative of a deceased or legally incapacitated option holder. The options are issued for a term of 5 years, and are exercisable in 3 tranches from the issue date.

Under the Option Plan, the options have other terms specified at the time the options are offered. These terms differ between senior executives and general employees. The terms may include conditions, which set out the number or percentage of options able to be exercised at certain time periods or under certain circumstances. For senior executives performance conditions may require that the number of options able to be exercised be reduced or that some or all of the options lapse under specified circumstances.

The Board has adopted certain policies concerning the terms of the options to be granted under the Option Plan. The Board has the absolute discretion to change these policies at any time, although any change in its policies will have an effect only on options that are issued at or after the time of the change.

During the year ended 31 December 2005 the following options were granted over ordinary shares, exercisable upon meeting the vesting conditions detailed above. The fair value of the options are estimated at the date of grant using the Binomial Tree option-pricing model. The following table outlines the assumptions made in determining the fair value of the options granted in the year ended 31 December 2005.

	2005	2006
Number of Options	226,500	641,450
Grant date	22 April 2005	25 October 2005
First Vesting date	22 October 2005	25 October 2006
Weighted Average Price	\$1.277355	\$1.1640
Expected volatility	42%	30%
Historical volatility	42%	30%
Risk-free interest rate	5.4%	5.38%
Expected life of option	5	5

32. EMPLOYEE BENEFITS (continued)

(a) Employee share option plan (continued)

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 assumptions that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

During the year ended 31 December 2005, 719,500 options were exercised by employees over ordinary shares, with a total cash consideration received by Melbourne IT of \$392,379.

The following table illustrates the number and weighted average exercise prices (WAEP) of share options issued under the ESOP.

	2005 Number	2005 WAEP \$	2004 Number	2004 WAEP \$
Outstanding at beginning of year	2,504,300	0.6813	1,854,000	0.5060
Granted during the year	867,950	1.2524	996,000	0.9030
Forfeited/Expired during the year	(279,500)		(319,000)	
Exercised during the year	(712,500)	0.5156	(313,800)	0.5010
Outstanding at the end of the year	2,380,250	0.8992	2,504,300	0.6813

Share options issued under the ESOP and outstanding at the end of the year have the following exercise prices:

EXPIRY DATE	Exercise Price \$	2005 Number	2004 Number
7 June 2007	0.5100	534,800	1,104,600
19 March 2008	0.3315	38,500	75,000
23 October 2008	0.5500	101,500	190,800
16 April 2009	0.8239	207,500	258,900
10 May 2009	0.7616	370,000	566,000
5 November 2009	1.1929	260,000	309,000
22 April 2010	1.2774	226,500	–
25 October 2010	1.1640	641,450	–
		2,380,250	2,504,300

33. FINANCIAL INSTRUMENTS

(a) Interest rate risk

The company's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

FINANCIAL INSTRUMENTS	FLOATING INTEREST RATE		FIXED INTEREST RATE MATURING IN:				WEIGHTED AVERAGE EFFECTIVE INTEREST RATE [b]			
	2005 \$'000	2004 \$'000	1 year or less		Over 1 to 5 year		Non-interest bearing		2005 %	2004 %
			2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000		
(i) Financial assets										
Cash	8,832	6,068	–	–	–	–	–	–	3.10%	3.10%
Commercial Bills	–	–	5,000	5,000	–	–	–	–	5.65%	5.32%
Term Deposit	–	–	12,382	9,765	–	–	–	–	5.65%	5.34%
Trade Debtors	–	–	–	–	–	–	2,288	685	N/A	N/A
Non-hedging FX receivable	–	–	–	–	–	–	2,758	3,420	N/A	N/A
Derivatives receivable	–	–	–	–	–	–	–	227	N/A	N/A
Foreign Exchange Option	–	–	–	–	–	–	–	131	N/A	N/A
(ii) Financial liabilities										
Trade Creditors	–	–	–	–	–	–	6,798	5,864	N/A	N/A
Other Creditors	–	–	–	–	–	–	229	192	N/A	N/A
Derivatives payable	–	–	–	–	–	–	92	–	N/A	N/A
Non-hedging FX payable	–	–	–	–	–	–	2,310	2,454	N/A	N/A

33. FINANCIAL INSTRUMENTS (continued)

(b) Currency risk

Both the functional and presentation currency of Melbourne IT Ltd is in Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

The functional currency of each overseas subsidiary is as follows:

- Investment in Spanish subsidiary — Euro
- Investment in Cogent subsidiary — SEK (Swedish Krona)
- Investment in New Zealand subsidiary — NZD (New Zealand Dollar)
- Investment in US subsidiary — USD (United States Dollar)

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Melbourne IT Ltd at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

Due to the prescribed global market arrangements regarding domain name registration, Melbourne IT Limited earns a substantial amount of its revenues, and incurs a substantial amount of its costs in US dollars ("USD") and is therefore exposed to movements in the AUD/USD dollar exchange rate. The company actively manages the gross margin risk by its foreign currency risk management strategy. Please refer to Note 22 for further details.

(c) Net fair values

The carrying amounts of financial assets and financial liabilities, both recognised and unrecognised, at balance date, approximate their aggregate net fair values.

The following methods and assumptions are used to determine the net fair values of financial assets and liabilities:

Recognised financial instruments

Cash and cash equivalents:

The carrying amount approximates fair value because of their short-term to maturity.

Trade debtors and creditors:

The carrying amount approximates fair value because of their short-term to maturity.

Foreign exchange options:

The carrying amount approximates fair value because of their short-term to maturity.

Shares and units in unlisted entities:

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured (and linked derivatives) are measured at cost.

For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

(d) Credit risk exposures

The company's maximum exposures to credit risk at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Consolidated Balance Sheet.

The company minimised concentration of credit risk in relation to trade receivables by undertaking transactions with a large number of customers from across a range of geographies.

(e) Hedging instruments

Hedges of specific commitments

Melbourne IT Limited earns a substantial amount of its revenues, and incurs a substantial amount of its costs in US dollars ("USD") and is therefore exposed to movements in the AUD/USD dollar exchange rate. The company actively manages the gross margin risk by its foreign currency risk management strategy.

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33. FINANCIAL INSTRUMENTS (continued)

(e) Hedging instruments (continued)

As at 31 December 2005, Melbourne IT Limited has entered into a number of foreign currency option contracts with the primary objective of minimising the impact on the company of achieving its objectives in the financial year.

The options have been treated in accordance with cashflow hedge accounting, as the approximate value of the purchase and entities with which the transactions will be entered is presently known.

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
The number of shareholders holding less than a marketable parcel of shares are:	210	32,929

(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%
	32,628,049	59.80%

(c) Voting rights

All ordinary shares carry one vote per share without restriction.

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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/.

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.

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AGM DETAILS

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

Shareholders can save costs and paper by registering online to receive printed Annual Reports and other materials. Alternatively, you can elect not to receive. Simply go to the Link Market Services website at www.linkmarketservices.com.au and become a member.

IMPORTANT INFORMATION FOR SHAREHOLDERS

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

MELBOURNE IT LTD

ABN: 21 073 716 793

DIRECTORS

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

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