

2002

< Annual Report | Concise Version >

Trusted Reputation

The global leader in
online brand management

Global Reputation Management

who we are

Melbourne IT is a world leader in the supply of domain names, superior domain name registration services and related value-added services. We also provide professional consulting and corporate domain name management services to business. Our markets are world-wide and we access them directly and through a large number of resellers.

Our resellers include some of the largest and best known information technology and telecommunications organisations in their respective fields. Based in Melbourne, Australia, we also have offices in the United States and Spain.

Listed on the Australian Stock Exchange in December 1999 under the code MLB, we have approximately 8,000 shareholders.

what we believe in

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

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

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

contents

Chairman's report	5
CEO's report	6
review of global operations/wholesale	8
review of global operations/retail	10
review of global operations/corporate domain management	12
research and development	14
industry and market overview	15
our people	16
directors' report	18
corporate governance	20
statement of financial performance/for the year ended 31 december 2002	25
statement of cash flows/for the year ended 31 december 2002	25
statement of financial position/as at 31 december 2002	26
notes to the financial report/for the year ended 31 december 2002	27
directors' declaration	28
independent audit report	29
corporate governance/shareholders	30

agm details

The Annual General Meeting will be held at Le Meridien at Rialto, 495 Collins Street, Melbourne on 21 May 2003 at 11.00 am.

All shareholders are invited to attend the Annual General Meeting or to complete and return the proxy that accompanies the Notice of Meeting.

highlights

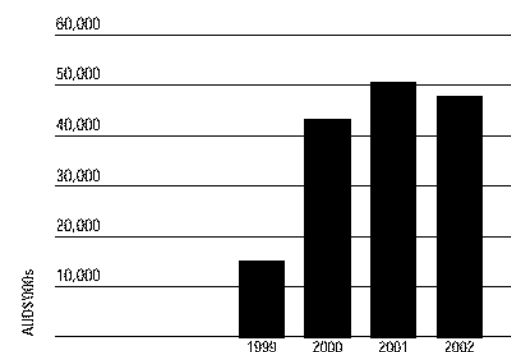


FIGURE 1 > Total revenue excluding interest

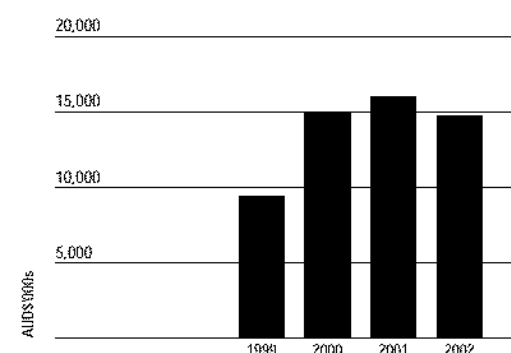


Figure 3 > Cash and liquid investments

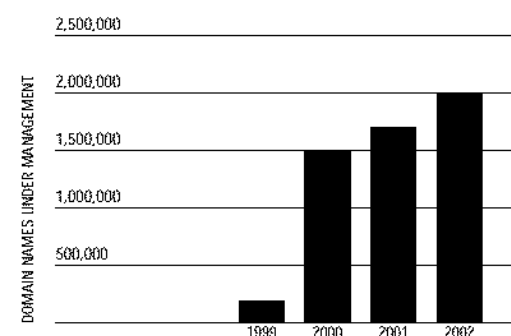


Figure 5 > Total domain names under management

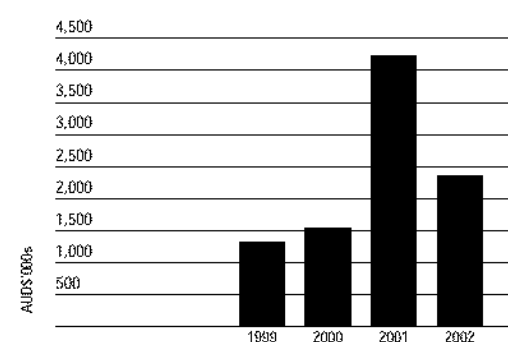


Figure 2 > Earnings before interest and tax (before significant items)

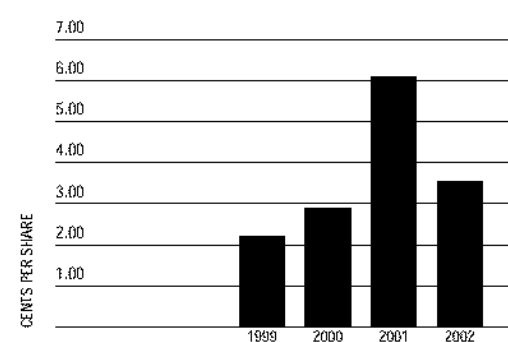


Figure 4 > Basic earnings per share (before significant items)

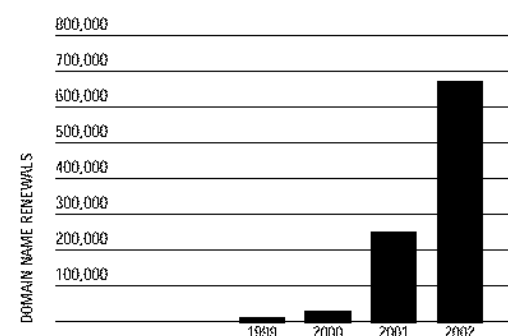


Figure 6 > Total domain name renewals

Operating Highlights	2002 \$'000	2001 \$'000
Operating revenue	\$47,882	\$51,272
EBIT	(\$4,459)	\$4,224
Net profit after tax	(\$5,046)	\$3,053
Cashflow from operations	\$2,900	\$4,488
Cash and liquid investments	\$14,691	\$15,976
Gross margin in advance	\$10,400	\$10,615

Chairman's report

For Melbourne IT, 2002 was a watershed year in which we faced several major challenges. These included the deregulation of the Australian market (which led to the loss of the company's position as the sole licensee for .com.au) and flat global economic conditions. In these circumstances, the company weathered the storm and has positioned itself well for the future.

Results

The results in brief were :

- Earnings Before Interest and Tax for 2002, before significant items, was \$2.389 million compared with \$4.22 million for 2001;
- positive operating cash was \$2.9 million;
- revenue for the year was \$47.8 million, a decrease of 7% (\$51.2 million for 2001);
- Profit After Tax, before significant items, was \$2.008 million compared with \$3.05 million for 2001;
- significant items of \$6.8 million related largely to the write-down of the company's investment in the NeuLevel joint venture;
- after significant items the company recorded an after-tax loss of \$5.0 million;
- at 31 December 2002, the cash balance was \$14.7 million and deferred gross margin was \$10.4 million.

The major disappointment for the year was the write down of our investment in NeuLevel, the joint-venture domain name registry business in which we have 10% equity. The high hopes that we had for this business were dashed by the decline in the domain name market overall which led to a much slower uptake of the new generation .biz domain name than expected. Directors took the decision to write down the value of Melbourne IT's investment in NeuLevel from \$7.9 million to \$1.1 million following a comprehensive review of the joint venture. The write-down has no cash effect. Consistent with NeuLevel's Operating Plan, we expect capital contributions by Melbourne IT in 2003 to be less than AUD\$500,000. An extensive restructuring of NeuLevel together with renewals of .biz names and new revenue streams such as .cn, are expected to result in positive operating cash flow by the fourth quarter of 2003.

Directors

In December, we were delighted to have Mr Tom Kiing join the Board as a Non Executive Director. Mr Kiing is a Foundation Director of Bridge Capital, an Australian technology investment firm which manages a portfolio of investments in the IT sector. Interests associated with Mr Kiing hold approximately 13% of Melbourne IT's ordinary shares.

In March 2003, the Board was further strengthened when Mr. Simon Jones joined as a Non Executive Director. An Investment Banker and Venture Capitalist, Mr Jones was formerly managing director of NM Rothchild & Sons' Melbourne office. He has considerable experience and expertise in capital markets, mergers and acquisitions, and accounting.

Two long-standing directors, Dr Colin Adam and Mr Kevin Courtney, decided to retire from the Board effective in April to free themselves for their other commitments. On behalf of the directors and all shareholders, I thank both for their excellent contributions since 1999, the year that we listed on the Australian Stock Exchange.

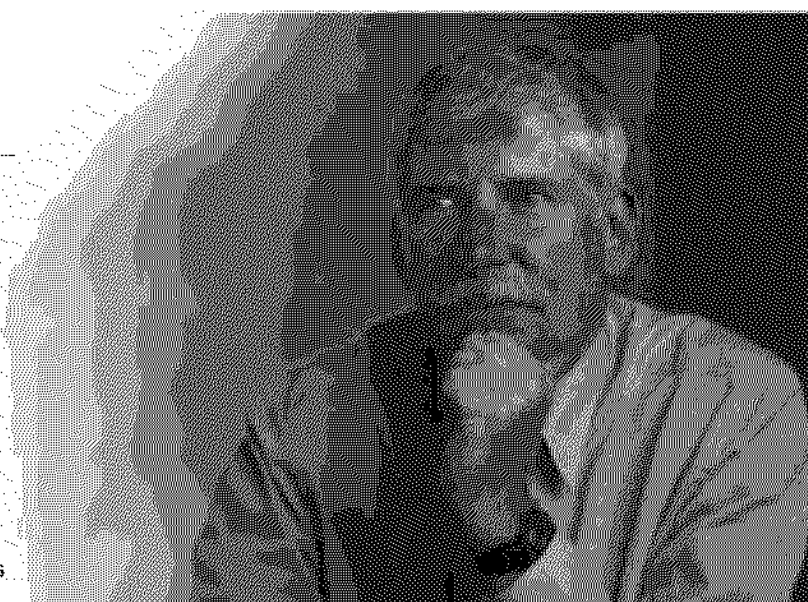
Management and People

Our chief executive officer, Mr Adrian Kloeden, announced his resignation in July to take up a senior position with another organisation. Mr Kloeden's resignation was accepted with regret.

He was succeeded in November by Mr Theo Hnarakis, who was previously Group General Manager of Melbourne IT and has been with the company since 2000. Mr Hnarakis was appointed following an extensive internal and external search in Australia and overseas and he was clearly the outstanding candidate. He initiated many of the strategic partnerships with major organisations that the company put in place during 2001/02 and is committed to the long-term growth and profitability of the company. Before joining Melbourne IT, he held a number of senior managerial positions with major media corporations. Mr Hnarakis details his strategy for the company in the Chief Executive Officer's section of this report.

With the deregulation of the Australian market and the tight economic conditions in many of our key markets, the people of Melbourne IT were called upon to perform well in a very difficult and uncertain environment. I believe that they performed exceptionally well and, on behalf of the Board and all shareholders, I thank them for their contribution during 2002.

Rob Stewart
Chairman



CEO's report

Despite a turbulent business environment in Australia and flat economic conditions in several of our key international markets, Melbourne IT completed a satisfactory year in 2002. To overcome lower earnings, we put in place a strategy and key building blocks for the long-term growth and prosperity of the company.

Melbourne IT's reputation for reliability, security, service quality and superior technologies were the key reasons for our continuing international growth and market leadership in Australia. These characteristics enabled us to attract important new international partners as resellers and to withstand the competitive pressures of deregulation in Australia during the second half.

Highlights

The major highlights for the year included :

- the business restructure into three major streams, Wholesale, Retail and Corporate Domain Management, to reflect the changed environment and focus specific growth strategies in each division;
- registration of our two millionth domain name under management;
- attainment of 602,000 gTLD renewals – more than three times the 2001 level of gTLD renewals;
- establishing strategic alliances with major international organisations such as MSN Search, EarthLink, Interland, Pacific Access, NTT Smart Connect, Net4India and Jippii Group; and
- maintaining market leadership in Australia following deregulation in July.

Strategy

Our objective is to increase shareholder value and build sustainable, reliable earnings over the long term.

The strategy upon which Melbourne IT's business is based can be summarised as follows :

- expansion of our global wholesale markets through our links with major international organisations;
- retention of market leadership in Australia through provision of a high level of customer service, value-added features, and providing a secure, trusted domain management service;
- development of Corporate Domain Management – our consulting services are aimed at large public and private sector organisations in Australia and internationally;
- leverage our Research & Development activities to maintain Melbourne IT's asset base of intellectual property and create additional revenue streams;
- search for suitable mergers and acquisitions that will consolidate our market leadership position in domain name related activities and create other opportunities through diversification;

- challenge all cost structures and business processes to ensure best practice and maximise earnings; and
- foster a work environment which encourages innovation and creativity by our people.

Overview of operations

The "two million domain names under management" milestone was a significant one for the company. It compared with 1.7 million for 2001 and demonstrated that we are continuing to build a business which has a high annuity income component. Total renewals registered in 2002 were 669,000, significantly up on the 2001 level of 254,000 - an important indicator of our ability to attract "repeat business".

Of the revenue generated during the year, around 60% came from international markets. North America continued to be our largest market but there was pleasing growth in Europe and Asia where the domain name industry is still relatively under-developed. A high percentage of our international registrations came via our strategic alliances.

As detailed in the Chairman's Report, the performance of NeuLevel was the major disappointment of the year. The market for the new .biz domain names did not meet expectations and resulted in our write-down of the investment in NeuLevel which had been established as a registry of .biz names. One pleasing development for NeuLevel is the successful exclusive partnership with the Chinese registry to offer .com.cn and .cn to the global community outside of China. As NeuLevel increases its names under management, we expect the business to become a solid contributor.

In the Australian market, deregulation in July created an entirely new and unprecedented business environment. The domain name authority, auDA, separated the central registry business from registrar activities and set registry costs at \$50 for a two-year registration. The additional layer of costs impacted heavily on our margins even though we have held our average retail selling prices at pre-deregulation levels. We did experience some wholesale price erosion and some of our resellers became registrars in their own right, taking their registration business with them. On the other hand, the new environment did allow us to offer for the first time the entire .au suite of names.

Our new .au registrations were just over 57,000, slightly down on the 60,000 of the previous year, while renewals were just under 67,000 compared with nearly 70,000 in 2001. Given the changed marketplace in the second half, the retention of our market leadership was pleasing.

"The 'two million domain names under management' milestone was a significant one for the company."

As new registrars entered the market, some attempted to win market share by offering domain names at unsustainable prices. Our continued focus has been to offer a high level of expertise and customer service to registrants interested in securing their domain name with a trusted and secure provider.

The growth of Corporate Domain Management (CDM) was very pleasing and it attracted business from some of Australia's largest and best known organisations. Initiatives to roll out CDM internationally resulted in our first major contract in early 2003 when we reached agreement with EarthLink in the United States. We see CDM as an important, high-value business stream with significant international growth potential.

Our offices in the United States and Spain contributed well to our international growth and provided us with important regional representation in these major markets.

Outlook

We see a positive outlook for Melbourne IT in 2003 and beyond, notwithstanding the uncertainties of global political and economic conditions. Based on early experience, the strategic alliances entered into in 2002 should generate an increasing flow of business which will underpin our international growth.

International demand will gain new impetus through the proliferation of new country code names and through the relaxation of policies on country codes. Names such as .se (Sweden), .cn (China) and .eu (European Union) are expected to gain popularity in the future. We also expect the roll-out of broadband cable to create a resurgence of interest in online services including domain names.

In Australia, we will continue to develop products and services that add value to the basic domain name registration business. In late February 2003, we established a strategic alliance to offer e-commerce enabling services for small to medium enterprises and home offices. These services, which include entry level hosting and email, are expected to generate additional revenue for our Retail Division. By creating value-added services, we believe we can overcome the impact of the high registry costs.

We are continuing to drive costs down in all areas of the business, improving processes and re-engineering our systems. This will create a more cost-efficient company with greater productivity and enhanced service offerings.

We recognise the importance of deploying our cash resources wisely for the long-term benefit of shareholders and we are committed to do so in the coming year.

Global Registrar of Choice

Melbourne IT provides a wholesale domain name technical platform and customer service to large well-established industry leaders including web hosting companies, telecommunications suppliers, internet service providers and advertising portals.

Melbourne IT's solution is consistently selected by these industry leaders due to its sophistication, reliability and scalability. These organisations are attracted to Melbourne IT's commitment to meeting Service Level Agreements and our ability to contribute to the formulation of their sales and marketing strategies.

The global market for gTLDs in 2002 appeared to bottom-out late in the second quarter and showed encouraging signs of recovery for the balance of the year. The speculative bubble that commenced in 2000 was finally washed out of the system, as evidenced by the non-renewal of a large number of names in the 12 months to August 2002. The gradual recovery was driven by geographic growth and by the broader availability of new names, including country codes such as .us.

In 2002, we registered 735,000 new gTLD names, including the new generation names such as .biz and .info. We also renewed 602,000 gTLD domain names compared with 184,000 in 2001. This is a clear indicator that Melbourne IT is building a strong annuity business. We now have a worldwide market share of 5.5%.

Throughout the year, we concentrated on establishing new relationships with well-recognised market leaders throughout the world. We also consolidated existing relationships and a number of these, signed in 2001, began to generate strong wholesale business in 2002. This growth came largely from the relationships that were created prior to 2002 with organisations such as Yahoo! Inc and Verio.

Some of the key new agreements signed during 2002 included :

- **EarthLink**, one of the largest national internet service providers which is based in Atlanta and has nearly five million subscribers;
- **Interland**, the world's largest independent provider of business-class web hosting solutions;
- **MSN Search**, part of the MSN Division of Microsoft Corporation;
- **NTT Smart Connect**, a division of NTT, the Japanese telecommunications company;
- **LookSmart** (in Australia), the global leader in web directories;
- **Net4India**, the largest ISP on the Indian sub-continent; and
- **Jippii Group**, a leading global wireless entertainment solutions company with a market presence in over 20 countries worldwide.

With some 60% of our revenue now coming from outside Australia, the establishment and nurturing of these relationships has become a central part of Melbourne IT's growth strategy. Of particular note is that in 2002, Melbourne IT achieved a growth of more than 40% within the Asian market.

"Throughout the year, we concentrated on establishing new relationships with well-recognised market leaders throughout the world."

Outlook

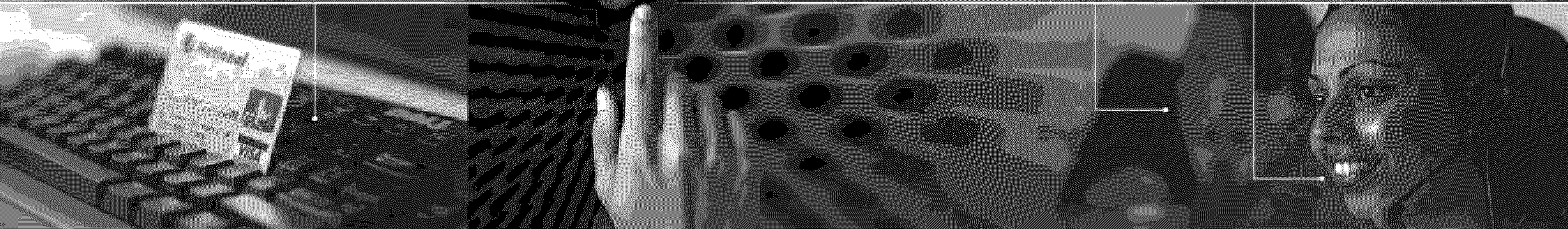
We expect that the partnerships that were established in 2002 will drive further international wholesale growth in 2003 and beyond and we continue to seek new relationships with industry leaders in several parts of the world. We aim to consolidate and strengthen our position in the US and European markets, and further develop our presence in many of the Asian markets including China, Japan, Singapore and Hong Kong.

We will continue to invest in our technical platform and customer support infrastructure to ensure we remain ahead of the competition.

We expect solid renewal performance on the new domain names released in 2002. The liberalisation of access to country codes should also be a stimulant to demand over the longer term. Specifically, .cn, scheduled for a March launch, and .eu, planned for release later in 2003, both present significant opportunities for growth. In addition, the Internet Corporation for Assigned Names and Numbers (ICANN) will consider proposals for four new domain spaces during the second half of 2003.

The overall growth of the wholesale market is expected to be steady. Much however, will depend on the international economic and political environment and the impact it has on business confidence.

Your Trusted Registrar



Melbourne IT's retail services are largely concentrated in the Australian market. In addition to domain name sales, we offer value-added services.

In July 2002, the Australian .au market underwent significant regulatory change driven by auDA, which separated registry and registrar activities and awarded a tender for the registry services to AusRegistry. This resulted in considerable additional costs for Melbourne IT because auDA levies and registry fees increased by 390%. When the decision to separate the two streams was made, Melbourne IT decided not to tender to operate the registry as we believed that we could add considerably more value to our business by remaining a registrar. We continue to hold this view.

Despite the entry of new registrars into the Australian market, we have retained our market leadership by providing high quality service and advice to customers. This included helping customers understand the new rules applying to .au registrations and assisting them to register multiple domain names to protect their online brand names.

The positioning of Melbourne IT as a secure, trustworthy business resulted in our being seen in the market as the registrar of first choice.

Melbourne IT has also been successful in positioning itself as the "One Stop Shop" for Australian businesses for registering domain names and protecting brands online. We provide all of the major international and Australian domain names including :

- International : .com, .net, .org, .biz, .info, .us, .name
- Australian : .com.au, .net.au, .org.au, .asn.au

Our retail operations are supported by the most experienced team of internet consultants in the Australian domain name industry. Our team is available 24 hours a day to provide our customers with advice on how best to maximise their online presence.

Overall, the Australian market grew strongly in the second half despite a slight fall in renewals. While all categories grew, the .com.au space continued to dominate the market, representing 96% of the 310,000 .au domain names registered at the end of December 2002.

"Despite the entry of new registrars into the Australian market, we have retained our market leadership by providing high quality service and advice to customers."

Outlook

The volatility that hit the Australian market is expected to subside as the new regime settles in. We are confident the Australian domain name market will continue to grow during 2003. This growth should be generated by the increased availability of .au names resulting from the recent policy relaxation which allows multiple name registrations, and from the forecast growth in the number of SMEs (small to medium enterprises) and general internet users. Melbourne IT is well placed to access this growth and to build on the relationship of trust that we have developed with our wide retail customer base.

Although Melbourne IT has largely been a domain name supplier in the past, we believe a major opportunity exists to supply customers with additional online services in the Australian market. We therefore launched a range of value-added services in the first quarter of 2003. The first of these offerings was a package of web solutions for SMEs and home offices, comprising entry-level web hosting and email services.

With the introduction of new technology platforms in 2003 we will have the resources to further enhance the services we offer to our retail customers.

The global leader in online brand management

"CDM simplifies, secures and strategically
manages valuable online brands."

Corporate Domain Management (CDM) is a consulting service that addresses the risks and time-consuming tasks attached to domain name management that companies, government and non-profit organisations traditionally have performed in-house. CDM was launched by Melbourne IT in Australia in 2001 to complement our existing Spanish CDM offering. CDM is a relatively small but strategically important and growing part of our business.

Our Spanish CDM offering is an established, albeit small business that has been operating successfully for several years out of Madrid. It had a strong year in 2002 and continued to be the leading provider of CDM services to large corporations in the Spanish market with key clients including Telefonica, Terra Lycos and BBVA bank.

CDM simplifies, secures and strategically manages valuable online brands while saving organisations considerable time and resources in the process. The service offers protection against non renewal, "cybersquatting", and other processes that expose companies to risk. With domain names fast becoming as valuable to large corporations as any intellectual property such as trademarks or patents, it is vital to manage these assets effectively.

Melbourne IT developed the service after our research showed that many large organisations faced challenges in strategically managing domain name renewals and often had out of date administrative and billing details attached to some of their most valuable domain names.

Over the course of 2002, there was strong interest in Australia for CDM and several large and important new accounts were won. By the year end, we counted some of the country's largest and best-known organisations as clients. New clients secured during 2002 included ASX Limited, Austrade, Australian Tourist Commission, CSL, NineMSN, Optus, PBL, QBE, Rio Tinto, Smorgon Steel, Sony and Toll Holdings.

The key benefits of becoming a CDM client for large corporations and organisations include :

- CDM protects against many of the risks associated with domain name management: for example, cybersquatting and the renewal process for important names;
- CDM consolidates a company's internal domain name activities, improving the efficiency of registration, renewal, communication, billing and reporting;
- CDM enables a 'company wide' strategic approach to managing a domain name portfolio, and thereby enhances brand development, strengthens brand protection and increases web presence;
- CDM removes the need to deal with multiple domain name suppliers, and provides exclusive access to advice from experts in domain name policies and procedures across all domain spaces, many of which have complex rules and procedures attached to their registration;
- CDM provides one-to-one account management, a dedicated resource to ensure online brands are strategically managed;
- CDM improves internal controls and provides access to an online domain management console, a purpose-built online tool to assist in managing an organisation's domain name portfolio.

The biggest challenge for 2002 in the Australian market was to introduce a new product with many companies showing only a medium level of awareness about the importance of protective strategies for domain names. Hence, educating corporations about the pitfalls of not strategically managing online brands, the value that online brands represent to a company's operations, and highlighting the absence of strategic process/best practice in brand management, were the central themes of the sales effort.



CDM Foundation Client
Mr Sam Hendry, Business Manager - CDM with Ms Sharee Medley from Smorgon Steel Group Limited.

In the second half of 2002, we offered additional value to our client relationships by introducing the CDM online domain management console. The console is a web-based tool that provides CDM clients with real time access to their portfolio. The console is technology owned and created by Melbourne IT, and represents a significant step in the product's development as a complete online corporate solution.

The console will be further enhanced in 2003 with new reporting features to be added.

Outlook

The focus for 2003 is the continued growth of the business, introducing additional products to our clients that are central to brand management and protection, whilst maintaining high levels of client service.

The launch of CDM in the United States commenced early in 2003, following a detailed review of the CDM product offering, analysis of competition and market segmentation. Our first US client, EarthLink, was secured in January. EarthLink is one of the world's largest internet service providers with nearly five million subscribers. The Atlanta-based company also entered a strategic alliance in 2002 with Melbourne IT for the sale of domain names.

The continued international roll out of CDM provides Melbourne IT with an important value-added service that we believe will provide sound growth opportunities in the years ahead.

“The company has a world class in-house software development capability for its core domain name registration business...”

Melbourne IT has a strong commitment to maintaining its leadership in the development and commercialisation of new technologies.

The company has a world class in-house software development capability for its core domain name registration business and maintains strong links with local and international organisations to identify new product and service opportunities.

Highlights

- The highlights for 2002 were :
- developing a solution to pre-book .us registrations and interface to the .us registry ready for launch in April 2002;
 - interfacing to the .name registry for live registrations (previously handled via batch technology) in June 2002;
 - extensively testing the new .au registry prior to launch in July 2002;
 - redeveloping our .com.au registration system for the new registry environment;
 - developing CDM tools;
 - adding .ca (Canada) to our country code portfolio;
 - the award of an AusIndustry R&D Start Grant to investigate next generation systems; and
 - enhancing our business continuity plan and testing disaster recovery procedures.

Performance

The key activities during the year centred on the migration to the new .au environment. Melbourne IT worked closely with the new .au registry operator (AusRegistry) to ensure that the new registry software complied with the technical specifications based on the international EPP protocol, while ensuring that the software met the .au specific requirements. This work included providing advice on registry-registrar protocol design and extensive testing of the AusRegistry software.

We carried out a major overhaul of all our .com.au software. All software was rewritten for the new .au regulatory and technical environment against an extremely tight timetable.

Towards the end of 2002, Melbourne IT undertook a major review of its domain name registration software across all namespaces. As part of this process, meetings were held with major reseller customers to exchange information and to explore future business opportunities.

Outlook

- A major upgrade of Melbourne IT's registration software will be conducted during the first half of 2003. Key improvements will include :
- better support of retail customers that hold multiple domain names;
 - improvements to the software interface with resellers;
 - enhanced transaction and performance reporting;
 - improved features and functionality providing significant processing benefits to our resellers; and
 - enhanced speed to market with new developments.

The AusIndustry R&D Start Grant is being used to build a next generation platform that can be applied to applications other than domain names. Melbourne IT will be trialling some new services on this platform during 2003.

Generic Top Level Domains (gTLDs)

The development of policy for the gTLD domain space (.com, .net, .org, .biz, .info and .name) is the responsibility of the Internet Corporation for Assigned Names and Numbers (ICANN) (<http://www.icann.org>). The gTLD environment is very lightly regulated, and abuse of the procedures for transferring names between competitors has been rife. Melbourne IT played a significant role within ICANN during 2002 to create a new transfers policy.

The Chief Technology Officer of Melbourne IT was elected to the policy council for gTLDs in January 2002 by ICANN registrars, and was elected as chair of the policy council in September 2002. Further work has also been commenced on the WHOIS service for gTLDs. The WHOIS service is widely abused by domain name registrars and resellers to target potential customers, and subsequently some registrars have made it difficult to retrieve information from the WHOIS for .com and .net domain names required to facilitate transfers.

Despite improvements in the transfer policy it is still likely to be difficult to manage transfers, as registrars can still make it complicated for an end user to approve a transfer.

During 2003 and 2004 further new top level domains are likely, although the experience in the last round of new names shows that significant marketing resources are required by the registry operator to raise the profile of a new name space.

as many of Melbourne IT's reseller customers in the .com, .net and .org environment are already registrars for the country code relevant to their location. For example, reseller customers in the United Kingdom are already integrated to .co.uk and customers in China are already integrated to .cn. The .us domain was slightly different, however, as few resellers were selling .us names prior to the changes in the policy. The .eu name will provide an opportunity as it is a new domain name space.

.au

The development of policy for the .au domain space is the responsibility of the .au Domain Administration Limited (auDA), the industry self-regulatory body for Internet domains that end in .au. Melbourne IT provided extensive input to the development of an industry code of conduct and the development of a transfers policy between registrars to protect the rights and interests of consumers. The combination of enforcement by auDA of the Code of Conduct, and enforcement by the ACCC of the *Trade Practices Act*, has led to a more stable industry with suppliers focused on providing value to consumers.

There appears to be a limited market awareness of the relaxation of the policy rules. Companies can now register multiple .com.au domain names that have a close and substantial connection to their business (for example, names of products and services provided by a company). There is potential for further growth as this knowledge becomes more widespread.

“There has been a trend to reduce the policy complexity in many of the major country code spaces to make it easier for consumers to register names.”

Country Code Top Level Domains (ccTLDs)

Policy for each country code is managed within a range of different regulatory structures in each country. There has been a trend to reduce the policy complexity in many of the major country code spaces to make it easier for consumers to register names. There is also a trend towards standardised protocols (for example, EPP) when registry software is upgraded.

In 2002 the policy for .us (United States) was changed and a new registry operator (Neustar) was appointed. In 2003, the policy for .cn (China) will also be changed and Neustar has built a standard EPP interface for the .cn registry operator.

The opportunities in ccTLDs have been limited for Melbourne IT,

Outlook

There are a number of critical issues in the gTLD market that should be resolved in 2003. These include policy revisions and the launch of new, specialised domain names.

The following outcomes are expected :

- a revised transfer policy;
- a revised WHOIS policy with better protection for privacy; and
- new specialised top level domains (for example .travel).

The outlook for .au is for continued growth in the total number of .au registrations, with .com.au continuing to be the most significant domain name space within .au.

our.people

Melbourne IT derives much of its success from the high-quality people we employ. Because we operate in the rapidly changing and fiercely competitive information technology sector, recruitment and retention of the best people is a key priority. We also seek to ensure that our people's aims and aspirations are aligned to those of the company and our shareholders.

During 2002, a number of important initiatives were taken to help meet these objectives.

A new organisation structure was introduced to help the company meet the demands of a changing marketplace. Greater emphasis has been placed on specific product and service lines and our overseas offices have been brought into one dedicated division. The new structure is also designed to implement the strategy that is detailed in the Chief Executive Officer's section of this report.

With the deregulation of the Australian market, we reconfigured our internal structures so that we could better meet the needs of our wholesale and retail customers.

Training and development were again core activities of our human resources program for the year. A Management Development Program that was introduced in 2001 was successfully completed in 2002 and a second phase of the program is being introduced in 2003.

A number of other training programs ran throughout the year including courses on occupational health and safety, strategic sales, product development and time management.

Our retention strategy produced good results in 2002 with voluntary turnover at 8%. This was five percentage points better than the IT industry average.

As at 31 December 2002, there were 124.5 Full-Time Equivalent employees.

The breakdown by division was :

<i>Production and Development</i>	<i>41</i>
<i>Customer Service</i>	<i>38</i>
<i>Sales</i>	<i>15.5</i>
<i>US & Spain</i>	<i>9.5</i>
<i>Finance/Administration</i>	<i>10</i>
<i>Corporate</i>	<i>5.5</i>
<i>Research & Development</i>	<i>5</i>
<i>Total</i>	<i>124.5</i>

Outlook

- Important initiatives planned for 2003 include :
- the introduction of an online HR "self-service" system for all employees;
 - further development of the Succession Planning program;
 - further Occupational Health & Safety training;
 - ongoing Management Development training; and
 - improvements to our customer relations systems.

Theo Hnarakis Chief Executive Officer

Andrew Field Company Secretary & CFO

Dr Bruce Tonkin Chief Technology Officer

Guye Engel General Manager - Production & Development

Melissa Fitzpatrick General Manager - Operations

Tom Mackey Vice President Americas and Europe

Chris Dobbyn Manager, Global Products

Ewan Watt Sales Manager Australia & New Zealand

Willie Pang Director, Business Development - Asia

Sam Hendry Business Manager - CDM

FINANCE

LEGAL

RESEARCH AND DEVELOPMENT

PRODUCTION & DEVELOPMENT

CUSTOMER SERVICE

HUMAN RESOURCES

EUROPE

SPAIN

AMERICAS

WHOLESALE

RETAIL

CDM

MARKETING

"Our retention strategy produced good results in 2002 with voluntary turnover at 8%. This was five percentage points better than the IT industry average."

DIRECTORS

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



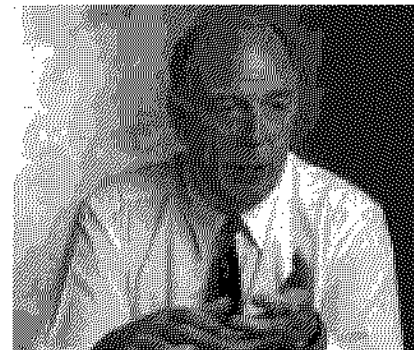
Robert Stewart (Chairman)

Mr Stewart was National Managing Partner of Minter Ellison, one of Australia's leading law firms, for 11 years, retiring in June 1999. He was also a non executive director of Memtec Ltd, a high technology filtration company, from 1988 until 1997. Memtec listed on NASDAQ and then the New York Stock Exchange prior to being taken over by a US company in 1997. Mr Stewart spent five years with Pacific Dunlop from 1976 to 1981 in a variety of general management positions within the Footwear Group. He is also Chairman of Forest Enterprise Australia Limited, a plantation forestry company; Deputy Chairman of eMitch Limited, an online advertising and media placement company; a Director of Uecom Limited, a telecommunications carrier; and Chairman of QSR International Pty Ltd, which produces qualitative research software. Mr Stewart was appointed to the Board on 14 September 1999.



Iain Morrison

Professor Morrison is Professor of Information Systems at The University of Melbourne and has been closely involved for over 10 years in the development of the Internet within Australia and in the effective applications of IT to business. He is a Founding Director of Melbourne IT. He was elected to the auDA Board on 7 October 1999, and retired on 26 November 2001. He serves as an Advisor and Consultant to government and the higher education sector on telecommunications, copyright, online legislation and applications of IT and information systems.



Mark Toner

Dr Toner is the former managing director of Kvaerner E&C Australia, a subsidiary of the international Engineering & Construction group, Kvaerner E&C which is headquartered in London. Dr Toner's background is in marketing and management with a career focus on science and engineering, including IT and biotech. His qualifications include a BE(Chem) from the University of Melbourne and a PhD from Monash University. Dr Toner is President of the Institution of Chemical Engineers in Australia and President of the Business/ Higher Education Round Table, an Adjunct Professor in the Faculty of Engineering at Monash University and a Fellow of the Institution of Engineers Australia. Dr Toner was appointed to the Board on 1 February 2001.



Tom Kiing*

Mr Kiing is a Foundation Director of Bridge Capital, an Australian technology investment firm that manages a portfolio of investments in the IT sector. He travels extensively through the ASEAN region to promote joint investments in the Australian IT industry and to seek market opportunities for Australian firms. Mr Kiing and interests associated with him, hold approximately 13% of the issued capital of the company.

** Appointed to the Board on 19 December 2002.*



Simon Jones*

Mr Jones is a Chartered Accountant and the former Managing Director of N.M. Rothschild and Sons (Australia) Melbourne office. Also a former head of Audit and Business Advisory (Australia & New Zealand), Corporate Finance (Melbourne), of Arthur Andersen. He has extensive experience in investment advisory, valuations, mergers and acquisitions, public offerings, audit and venture capital. He is now a Director of Canterbury Partners Pty Ltd which is a boutique investment advisory and venture capital business located in Melbourne, Victoria.

** Appointed to the Board on 12 March 2003.*



Colin Adam*

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

** Retiring April 2003.*



Kevin Courtney*

Mr Courtney is a Chartered Accountant and a former regional managing partner of Ernst & Young. He is a Director of Adacel Technologies Limited, a Director of two National Australia Bank Group companies and Chairman of the Audit & Risk Management Committee of the National Competition Council. He is also a Board member of DOXA Foundation, which works with under-privileged youth. Mr Courtney has held a number of appointments including commissioner of the City of Melbourne, a member of the Victorian Work Cover Authority, a member of the Sunraysia Rural Water Authority and a director of Connect.com.au, the Internet service provider sold to AAPT Limited. Mr Courtney was appointed to the Board on 22 October 1999.

** Retiring April 2003.*

corporate.governance

Board representation

The Board of Directors of Melbourne IT Ltd is responsible for the overall corporate governance of the company.

The Board guides and monitors the affairs of the company on behalf of the shareholders by whom they are elected and to whom they are accountable. The responsibility for the operation and administration of the company is delegated by the Board to the Chief Executive Officer (CEO) and the executive team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO and the executive team.

- The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved. In addition to the roles carried out by the committees referred to below, these mechanisms include the following :
- setting the overall business and financial objectives of the entity;
 - approving and periodically reviewing the strategies and plans prepared by management;
 - reviewing the implementation of operational plans and budgets by management and monitoring of progress against budget, this includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes;
 - Board review and approval of acquisitions and disposals of businesses and assets and the approval of contracts and financing arrangements above defined limits; and
 - Board review and approval of the organisation's treasury policy, including management of the organisation's financial risk, liquidity, interest rate, foreign exchange, credit policies, exposures and monitoring of management's actions to ensure they are in line with company policy.

The Constitution of Melbourne IT Ltd allows for the appointment of up to 10 directors. There are currently seven directors, all of whom are non executive directors. (As already advised to the ASX, two directors, Colin Adam and Kevin Courtney, are retiring effective April 2003.) Directors are chosen so as to provide an appropriate mix of experience and qualifications for the governance of the company. The Chairman is an independent non executive director. One third of the directors (with the exception of a Managing Director) must retire from office at the time of the Annual General Meeting each year. Directors are eligible for re-election. The directors who retire by rotation are those with the longest period in office since their appointment or last election. The performance of the Board is reviewed on an annual basis – both as to the performance of the Board as a whole and as to the performance of each individual director - including the Chairman and the CEO.

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

The total remuneration available to non executive directors is fixed by the shareholders at a General Meeting. The current limit is \$500,000. Directors receive a base fee, which includes an amount for their participation in one of the Board's standing committees. The issuing of any options to directors must be approved by shareholders. Details of remuneration paid and options granted in 2002 are set out in full in the Directors' Report.

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

Purchase and Sale of Shares by Directors

Although it is not a requirement for a director to own shares, the Board encourages directors to own shares in the company to further link their interests with those of the shareholders. Directors must comply with the company's Guidelines for Buying and Selling Shares in Melbourne IT Ltd. They must also comply with the disclosure requirements of the ASX and the Corporations Law.

External Advice to Directors

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

Board Committees

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

Audit and Risk Management Committee

The Audit and Risk Management Committee has responsibility for ensuring that proper accounting and auditing practices are maintained; that business risks are identified and managed effectively; that assets are protected against financial loss; and that legal and regulatory obligations are met. It comprises four non executive and independent directors. The current members are : Kevin Courtney (Chairperson), Simon Jones, Iain Morrison and Rob Stewart. It meets at least three times each year and has direct access to the company's auditors and senior management. On at least one occasion each year it meets with the auditors without management being present. The Chief Financial Officer attends the meetings by invitation of the Committee. The Partner and staff of the external auditor also attend by invitation. The Committee also receives regular reports from the external auditors concerning any matters which arise in connection with the performance of their role, including adequacy of internal controls.

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

Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee has the responsibility for ensuring that proper human resource management and remuneration policies are developed and followed by the company. It comprises four non executive directors with the CEO attending by invitation. The members are : Mark Toner (Chairperson), Colin Adam, Tom Kiing and Rob Stewart. It has direct access to the senior management of the company and is to meet at least three times each year.

Particular issues it is responsible for include :

- the recommendation to the Board of the compensation and key performance targets for the CEO;
- assisting in the annual performance review of the CEO;
- recommendation to the Board of appropriate compensation policies for the non executive directors;
- approval of the compensation programs and performance targets for senior executives;
- succession planning for the Board, CEO and key executives;
- management of the company's Share Option Plan;
- development of the company's superannuation arrangement; and
- overseeing the development of appropriate strategies and plans for people management, career development of staff and general human resources policies.

Communication with Shareholders

- The Board is committed to meeting 'best practice' guidelines in communicating with the company's shareholders. This will include :
- regular reports to shareholders;
 - the Annual General Meeting; and
 - an Investor Relations section on the company's website, which includes all announcements by the company as well as other information on the company and its operations.

Privacy

The Company has developed a Privacy Policy and undertaken internal training in compliance with the new privacy regime which came into effect in December 2001. The Policy can be found on the company's website at www.melbourneit.com.au/privacy.

Your directors submit their report for the year ended 31 December 2002.

DIRECTORS

The names and details of the directors of the company in office during the financial year and until the date of this report are :
R. J. Stewart; I. Morrison; C. M. Adam (Retiring April 2003); K.F. Courtney (Retiring April 2003); M.C. Toner; T. Kiing (Appointed 19 December 2002) and S. D. Jones (Appointed 12 March 2003).

CHIEF EXECUTIVE OFFICER

T. Hnarakis

COMPANY SECRETARY

A. C. Field

REGISTERED OFFICE

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

INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY

As at the date of this report, the interests of the directors in the shares and options of the company and related bodies corporate were :

Shares 2002	Ordinary Shares	Options over Ordinary Shares
R. J. Stewart	50,000	70,000
I. Morrison	11,000	35,000
C.M. Adam	45,000	35,000
K. F. Courtney	50,000	35,000
M.C Toner	110,000	35,000
T. Kiing	6,516,547	-
S. D. Jones	18,000	-

PRINCIPAL ACTIVITIES

The principal activities of the company during the year were:

- registration of .au domain names;
- registration of other country code (ccTLD) domain names (for example, .us, .it, .de, .to and .uk);
- registration of generic Top Level Domain (gTLD) names (.com, .net, .org, .biz, .info, .name);
- development and launch of the Corporate Domain Management business in Australia; and
- Research and Development of Registry-related technologies.

EARNINGS PER SHARE	Cents
Basic earnings per share	(10.1)
Diluted earnings per share	(10.1)

RESULTS AND DIVIDENDS

The loss after-tax of the Melbourne IT Group for the year ended 31 December 2002 was \$5.046 million.

No dividends were provided for the year ended 31 December 2002.

REVIEW AND RESULTS OF OPERATIONS

Net loss after tax and significant items of \$5.046 million (2001:profit of \$3.053 million) and revenue of \$47.882 million (2001:\$51.272 million) for the year was achieved. An EBIT before significant items of \$2.389 million (2001:\$4.224 million) was in line with company expectations. Directors took the decision to write down the value of Melbourne IT's 10% investment in NeuLevel from \$7.9 million to \$1.06 million following a comprehensive review of the investment. The difficult international market and the slow take-up of the new .biz domain names have impacted heavily on NeuLevel's business. The EBIT before significant items of \$2.389 million was achieved in the challenging environment faced by the company in 2002. Melbourne IT faced a greatly changed domain name environment in Australia with the introduction of competition, however, continued to demonstrate its strength in the international market with over 60% of total revenue now being export income. The company's registrar business registered approximately 1.3 million global top level domain names (gTLDs) for the year. Melbourne IT's market share of gTLD names under management now stands at 5.5% (2001:5%). This combined with the continued solid performance in .au registrations means that the company now has in excess of 2.1 million domain names under management worldwide. Cashflow generated from operations during the year was \$2.9m (2001:\$4.4m) and Gross Margin in advance at 31 December 2002 was \$10.4m (2001:\$10.6m) despite the introduction of a new registry fee in Australia on 1 July 2002. Melbourne IT paid \$2.9 million to the new Australian registry in the second half of 2002. At the end of the year, Melbourne IT had \$14.7 million in cash (2001:\$16 million).

Summarised operating result for the period ended 31 December		
Revenue	2002 \$'000s	2001 \$'000s
Registrar business	47,067	46,624
ASAC 21	-	2,134
Consulting	-	1,683
Other revenue	331	227
Total Revenue	47,398	50,668
Total Earnings Before Interest and Tax	(4,459)	4,224
Net Interest Income	484	604
Net Profit before Tax	(3,975)	4,828
Tax Expense	1,071	1,775
Net Profit After Tax	(5,046)	3,053
Cashflow from operations	2,900	4,488

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

- Significant changes in the state of affairs during the year were :
- the deregulation of the .au domain name market on 1 July 2002; and
 - the write-down of the Neulevel Investment as discussed in the Review and Results of Operation.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Despite the challenges of 2002, we believe the outlook for Melbourne IT is positive. The global strategic alliances entered into in 2002 should generate an increasing flow of wholesale business that will be reflected in the 2003 earnings and the growth of our value-added retail services should also contribute. We have restructured the business into three business streams – Retail, Wholesale and Corporate Domain Management. Productivity will be increased through cost reductions, business improvement programs and a new technology platform. The new technology platform is designed to create improved productivity within our current business, provide enhanced services to our customers and facilitate the generation of new business streams outside the domain name industry. For the retail market, we have just commenced the release of a range of value-added products and services. These products that have been launched with strategic partners include e-commerce enabling services for small to medium businesses. The uncertain global political and economic environment makes forecasting difficult, but we are confident that Melbourne IT is well placed to build on its existing strengths in 2003 and beyond.

SHARE OPTIONS

Share options were issued during the year. The details of share options are disclosed in Note 30 to the financial report.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

DIRECTORS' AND OTHER OFFICERS' EMOLUMENTS

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

To assist in achieving these objectives, the Human Resource & Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to the company's financial and operational performance. All senior executives have the opportunity to qualify for participation in the Executive Incentive Plan which currently provides a cash incentive where specified criteria are met (including criteria relating to cost control, profitability and cash flow). Details regarding the issue of share options are provided in Note 30 to the financial reports.

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

Emoluments of non executive directors of Melbourne IT Ltd			Annual Emoluments
	Base Fee \$	Statutory Superannuation Contributions \$	Total \$
Mr Robert Stewart	150,000	12,750	162,750
Dr Colin Adam	40,000	3,400	43,400
Prof. Iain Morrison	40,000	3,400	43,400
Mr Kevin Courtney	40,000	3,400	43,400
Dr Mark Toner	43,133	267	43,400
Mr Tom Kiing (1)	1,553	-	1,553

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

	Annual Emoluments			
	Base Fee and Bonus \$	Other \$	Superannuation \$	Total \$
Mr Adrian Kloeden (2)	419,307	-	-	419,307
Mr Thomas Mackey (4)	302,390	-	9,071	311,461
Mr Theo Hnarakis	258,275	19,505	18,875	296,655
Mis Anh Van Truong (4)	233,640	-	7,007	240,647
Mr Andrew Field	188,044	33,000	14,162	235,206
Mr Scott Arbuthnot (3)	211,838	-	9,333	221,171
Dr Bruce Tonkin	203,153	-	12,574	215,727

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

- (1) Mr Tom Kiing joined the Board on 19 December 2002
(2) Mr Adrian Kloeden left MLB on 8 November 2002
(3) Mr Scott Arbuthnot left MLB on 15 October 2002
(4) These personnel are paid through INWW US Inc in USD equivalents.

EMPLOYEES

The consolidated entity employed 124.5⁽ⁱ⁾ employees as at 31 December 2002 (2001:118⁽ⁱ⁾ employees)

⁽ⁱ⁾ Full-Time Equivalent

DIRECTORS' MEETINGS

Number of meetings held	Directors' Meetings : 14		Audit Meetings : 5		Remuneration Meetings : 4	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Mr Rob Stewart	14	14	5	5	4	4
Dr Colin Adam	14	14	-	-	4	4
Prof. Iain Morrison	14	14	5	5	-	-
Mr Kevin Courtney	14	14	5	5	-	-
Dr Mark Toner	14	14	-	-	4	4
Mr Tom Kiing	1	1	-	-	-	-

The above table shows the numbers of meetings of directors held during 2002. The table also shows the number of meetings attended by each director and the number of meetings each director was eligible to attend. As at the date of this report, the company had an Audit & Risk Management Committee and a Human Resource & Remuneration Committee of the Board of Directors. The members of the Audit & Risk Management Committee are Mr K. Courtney (Chairman), Mr R. Stewart, Prof. I. Morrison and Mr S. D. Jones. The members of the Human Resource & Remuneration Committee are Dr M. Toner (Chairman), Mr R. Stewart, Dr C. Adam and Mr T. Kiing.

NOTES

Mr Tom Kiing was appointed to the Board on 19 December 2002. Mr Jones was appointed to the Board on 12 March 2003.

ROUNDING

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

CORPORATE GOVERNANCE

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

Signed in accordance with a resolution of the directors.

Robert James Stewart (Chairman)
Melbourne, 27 March 2003

	Notes	CONSOLIDATED		MELBOURNE IT	
		2002 \$'000s	2001 \$'000s	2002 \$'000s	2001 \$'000s
REVENUE FROM ORDINARY ACTIVITIES		47,882	51,272	46,646	48,212
Registry costs		22,864	19,590	22,510	17,909
Salaries and employee benefits expenses		12,017	13,994	9,969	12,076
Impairment of Asset	3 (c)	7,054	-	7,054	-
Depreciation and amortisation expenses	3 (a)	2,063	1,913	1,746	1,583
Other expenses from Ordinary activities	3 (b)	7,859	10,947	9,745	12,646
PROFIT FROM ORDINARY ACTIVITIES		(3,975)	4,828	(4,378)	3,998
Income Tax Expense Relating to Ordinary Activities		1,071	1,775	976	1,358
Net Profit Attributable to Members					
of Melbourne IT LTD		(5,046)	3,053	(5,354)	2,640
Basic earnings per share (cents per share)	26	(10.1) cents	6.1 cents		
Diluted earnings per share (cents per share)	26	(10.1) cents	6.1 cents		

	CONSOLIDATED		MELBOURNE IT	
	2002 \$'000s	2001 \$'000s	2002 \$'000s	2001 \$'000s
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipt of service revenue and recoveries	51,023	46,959	49,957	43,745
Payments to suppliers and employees	(46,586)	(41,134)	(45,764)	(35,760)
Interest received	484	595	472	595
Grant received	300	200	300	200
Bank charges	(461)	(476)	(447)	(464)
Income tax paid	(1,860)	(1,656)	(1,861)	(1,656)
NET CASH FLOWS FROM OPERATING ACTIVITIES	2,900	4,488	2,657	6,660
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of property, plant and equipment	(220)	(294)	(220)	(126)
Proceeds from sales of property, plant and equipment	26	-	26	-
Investments	(3,522)	(3,350)	(3,522)	(3,474)
NET CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES	(3,716)	(3,644)	(3,716)	(3,600)
CASH FLOWS FROM FINANCING ACTIVITIES				
NET INCREASE IN CASH HELD	(816)	844	(1,059)	3,060
Add opening cash brought forward	15,976	14,982	14,877	14,824
Effect of exchange rate changes on balances of cash held	(469)	150	(390)	(3,007)
in foreign currency				
CLOSING CASH CARRIED FORWARD	14,691	15,976	13,428	14,877

statement.of.financial.position/as at 31 december 2002

	CONSOLIDATED		MELBOURNE IT	
	2002 \$'000s	2001 \$'000s	2002 \$'000s	2001 \$'000s
CURRENT ASSETS				
Cash assets	14,691	15,976	13,428	14,877
Receivables	2,394	4,707	2,452	4,570
Other financial assets	122	-	1,328	1,206
Other Assets	6,857	7,072	6,486	7,033
TOTAL CURRENT ASSETS	24,064	27,755	23,694	27,686
NON-CURRENT ASSETS				
Other financial assets	1,876	6,124	1,882	6,168
Property, plant and equipment	2,180	3,401	1,672	2,618
Future Income Tax Benefit	728	1,272	675	1,279
Other Assets	3,677	7	3,670	-
TOTAL NON-CURRENT ASSETS	8,461	10,804	7,899	10,065
TOTAL ASSETS	32,525	38,559	31,593	37,751
CURRENT LIABILITIES				
Payables	5,760	5,835	5,967	5,877
Provisions	638	2,321	584	2,296
Tax liabilities	(168)	1,339	(519)	940
Other liabilities	12,763	11,445	12,763	11,445
TOTAL CURRENT LIABILITIES	18,993	20,940	18,795	20,558
NON-CURRENT LIABILITIES				
Provisions	43	55	43	55
Other Liabilities	6,688	5,717	6,688	5,717
TOTAL NON-CURRENT LIABILITIES	6,731	5,772	6,731	5,772
TOTAL LIABILITIES	25,724	26,712	25,526	26,330
NET ASSETS	6,801	11,847	6,067	11,421
SHAREHOLDERS' EQUITY				
Contributed equity	6,813	6,813	6,813	6,813
Retained earnings	(12)	5,034	(746)	4,608
TOTAL SHAREHOLDERS' EQUITY	6,801	11,847	6,067	11,421

notes to the financial report/for the year ended 31 december 2002

NOTES TO THE FINANCIAL STATEMENTS 31 DECEMBER 2002

	CONSOLIDATED		MELBOURNE IT	
	2002 \$'000s	2001 \$'000s	2002 \$'000s	2001 \$'000s
2. REVENUE FROM ORDINARY ACTIVITIES				
Revenue from operating activities				
Registration revenue	46,542	46,624	45,319	44,100
Revenue from non-operating activities				
Interest	484	604	471	598
Government Grant	359	200	359	200
Consulting and other	471	3,844	471	3,314
Proceeds on sale of non-current assets	26	-	26	-
Total revenue from Ordinary activities	47,882	51,272	46,646	48,212
3. EXPENSES AND (LOSSES)/GAINS				
(a) Depreciation and amortisation expenses				
Depreciation of non-current assets				
Fit out	209	206	209	206
Plant and equipment	1,123	1,237	807	907
Furniture	14	14	13	14
Total Depreciation of non-current assets	1,346	1,457	1,029	1,127
Amortisation of non-current assets				
Neulevel establishment costs	466	310	466	310
Other Investments	251	146	251	146
Total amortisation of non-current assets	717	456	717	456
Total Depreciation and amortisation expenses	2,063	1,913	1,746	1,583
(b) Other expenses from ordinary activities				
Travel & Accommodation	683	1,140	651	1,053
Financial & Legal	1,634	3,131	1,611	3,107
Rental – operating leases	555	743	431	556
Communications	910	829	868	797
Marketing	365	448	340	434
Net foreign currency exchange (gain)/loss	334	(124)	330	(456)
Bad debts and doubtful debts	646	1,066	619	1,066
Other Expenses	2,732	3,714	4,895	6,089
Total other expenses from ordinary activities	7,859	10,947	9,745	12,646
(c) Specific items				
Profit from ordinary activities before income tax expense includes the following material expense for which disclosure is relevant in explaining the financial performance of the entity				
Impairment of Asset (Neulevel \$6.847 million)	7,054	-	7,054	-
26. EARNINGS PER SHARE				
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:				
Net profit	(5,046)	3,053		
	Number of shares	Number of shares		
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share	50,000,000	50,000,000		
No shares options were exercised or converted during the financial year 2002.				

directors'.declaration

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

(1) In the opinion of the directors :

- (a) the financial statements and notes of the company and of the consolidated entity are in accordance with the *Corporations Act 2001*, including :
 - (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 31 December 2002 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Robert James Stewart (Chairman)
Melbourne, 27 March 2003

independent.audit.report



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INDEPENDENT AUDIT REPORT

To the members of Melbourne IT Ltd

SCOPE

We have audited the financial report of Melbourne IT Ltd for the financial year ended 31 December 2002 as set out on pages 10 to 37, including the Directors' Declaration. The financial report includes the financial statements of Melbourne IT Ltd, and the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at year's end or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

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

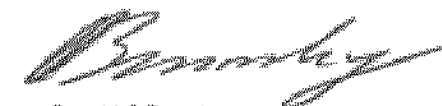
The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

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

- (a) The *Corporations Act 2001* including :
 - (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 31 December 2002 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.


Ernst & Young


Donald C Brumley
Partner
Melbourne,

27th March 2003

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

The reference to pages 10 to 37 contained in the independent Audit Report (above) relates to the full financial report and the auditor's report which is available on request by contacting Melbourne IT.

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows.

The information is current as at 28 February 2003.

Distribution of equity securities		Ordinary Shares
Holding range	Number of holder	Number of shares
1-1,000	3,445	2,260,035
1,001-5,000	3,179	8,375,463
5,001-10,000	653	5,279,878
10,001-100,000	447	11,722,997
100,001-and over	30	22,361,627
Grand Total	7,754	50,000,000
The number of shareholders holding less than a marketable parcel of shares are :-	3,744	2,625,522

The names of the 20 largest holders of quoted shares are :		Number of shares	Percentage of Ordinary shares
1	RBC Global Services Australia Nominees Pty Ltd	6,588,211	13.18%
2	BB Nominees Pty Ltd	6,486,547	12.97%
3	Commonwealth Custodial Services Limited	1,644,070	3.29%
4	Niako investments Pty Ltd	1,304,447	2.61%
5	Dulwich Storage Company Limited	700,000	1.40%
6	ANZ Nominees Limited	612,436	1.22%
7	J P Morgan Nominees Australia Limited	507,544	1.02%
8	Niederer Asset Management Pty Ltd	488,666	.98%
9	Ship Agencies Australia Pty Ltd	473,377	.95%
10	Three Crowns Investments Pty Ltd	365,000	.73%
11	Mrs Kay Mitrís	363,376	.73%
12	Citicorp Nominees Pty Ltd	266,130	.53%
13	Niederer Asset Management Pty Ltd (The Super A/C)	252,970	.51%
14	Zelia Nominees Pty Limited	240,000	.48%
15	Merrill Lynch (Australia) Nominees Pty Ltd	236,301	.47%
16	National Nominees Ltd	199,576	.40%
17	Nearwell Pty Ltd	175,000	.35%
18	Amits Enterprises Pty Ltd	150,000	.30%
19	Mr William Barry Gilbo & Mrs Mary Gilbo	150,000	.30%
20	Mr Robert Bishop	140,000	.28%
Report Total		21,343,651	42.70%

Voting rights

All ordinary shares carry one vote per share without restriction.

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Bitte beachten: www.registrars.aprf.com.au ist
das einzige Portal für die Anmeldung von Unternehmen in der
APR. Alle anderen Informationen sind nur als Ergänzung.

IMPORTANT INFORMATION FOR SHAREHOLDERS

CORPORATE DIRECTORY

Melbourne IT Offices

Share Register

Auditors