



Chairman's Review

Michael Smith



“Another year of record results, with strong organic and inorganic growth, and a change in leadership that highlighted the strength of our current team...”

iiNet, Australia’s leading challenger in the telecommunications market, has once again delivered a record result over the past financial year.

Strong revenue growth has been delivered through a return to organic growth with the addition of 40,000 net new broadband customers and Business revenue growing by 11%. These reflect the continued provision of excellent customer service with churn levels at industry leading lows, leading on product and service innovation, and investing in brand, particularly in the Eastern States.

In addition, we acquired Adam Internet on 30th August 2013 building scale in the key South Australian market and continued to successfully integrate acquisitions, driving further profitable growth.

Over the past year we have strengthened our position as the clear “Number 2” broadband DSL provider and the third largest provider of residential fixed broadband services in Australia. We now supply over 1.8 million broadband, telephony, mobile, Internet Protocol TV (IPTV) and other services to over 950,000 broadband subscribers.



Breaking through the billion dollar revenue mark

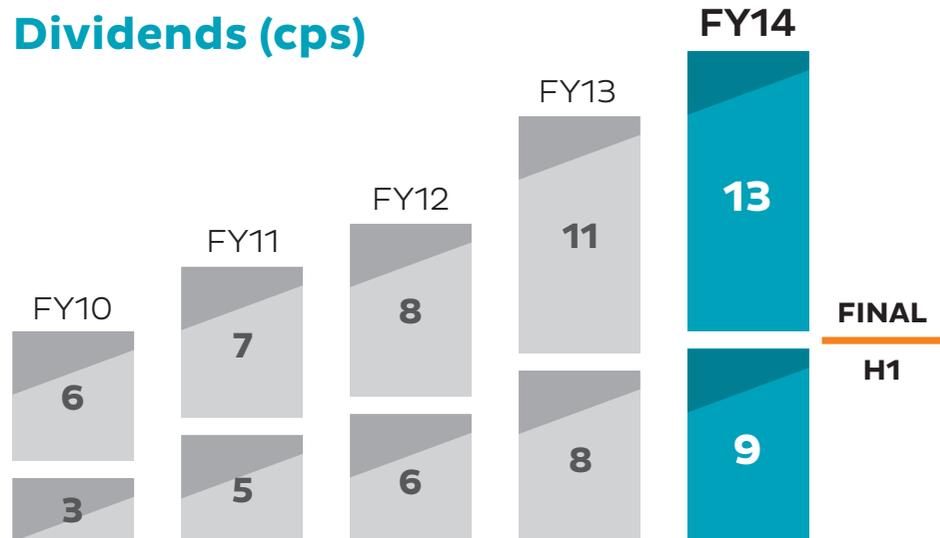
FY14 saw iiNet break through the billion dollar revenue milestone. Revenue was up 7% to \$1.01 billion, reflecting a return to organic customer growth whilst maintaining low levels of churn. We expanded the range of products and services provided to our customers, completed acquisitions, and continued to grow in our business customer base.

Underlying net profit after tax was up 19% to \$65.8 million. This increase was the result of continued organic growth, growing margins, the benefits of acquisition synergies flowing through, lower operating costs and the benefits of economies of scale.

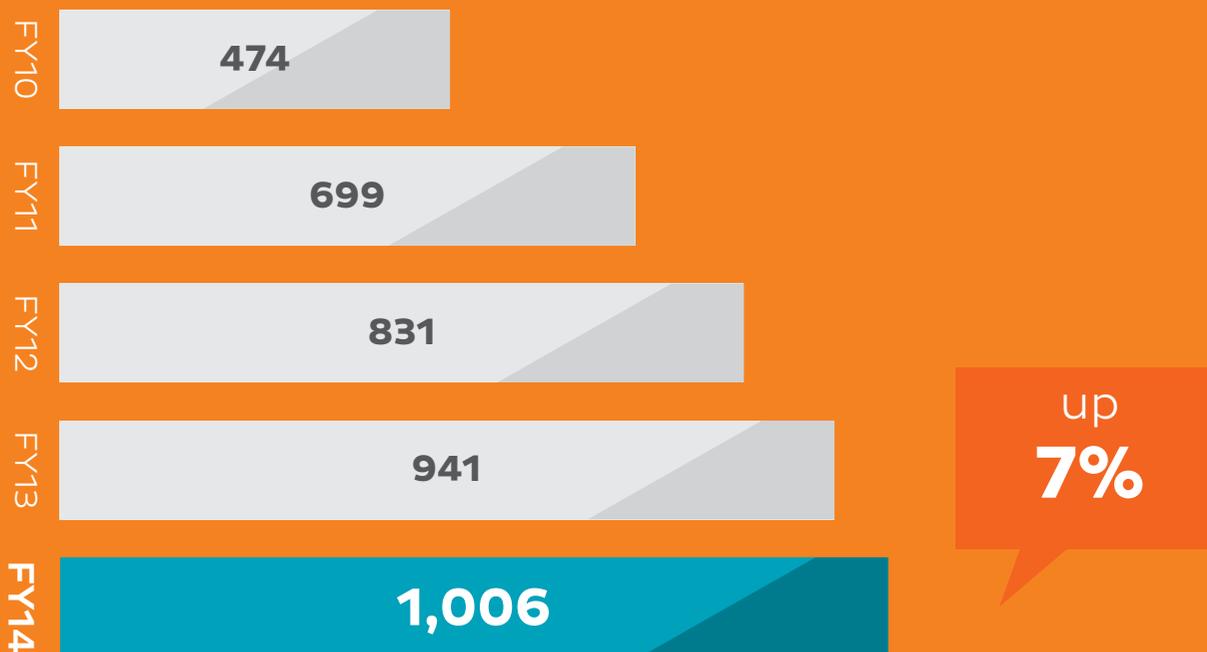
Continued increase in dividends

Reflecting the company's continued growth in earnings, strong cash flows, robust balance sheet, and confidence in iiNet's future growth, your Board has declared a total dividend for the 2014 financial year of 22.0 cents per share fully franked, up 16% on FY13's total dividend.

Our dividend policy has delivered growing returns to shareholders while maintaining the capacity and flexibility for major capital expenditure projects or merger and acquisition activity as attractive opportunities arise. This strategy has driven an increased share price and seen total shareholder returns grow by an average of 43% per annum over the past five years.



Revenue (\$m)



Earnings per Share (cents)



Acquisition of Adam Internet

We were pleased to announce the completion of the acquisition of Adam Internet on 30 August 2013 for \$60 million. This acquisition increased iiNet's scale, cemented the company's competitive position in the South Australian market, and provided further revenue and synergy growth opportunities.

Adam Internet represented an attractive opportunity to deliver growth and accretive returns for shareholders. We have been delighted to welcome the Adam Internet staff to the iiNet family and look forward to jointly maximising the opportunity this acquisition presents over FY15 and beyond.

Strategy of building scale through acquisitions driving growing margins

The acquisition of Adam Internet in August 2013 represented the culmination of several years of active consolidation by iiNet. These acquisitions have driven substantial shareholder value through their successful integration and the efficiencies we have been able to generate. We have now integrated the networks of TransACT and Internode, with the Adam integration nearing completion. We have also completed the upgrade of our VDSL network in the ACT to VDSL2 which allows us to offer improved speeds to our Canberra customers.

Our underlying return on equity is up to 19% in FY14 highlighting the returns being derived from our increased scale.

National Broadband Network (NBN)

We have continued leading the pack in our approach to the NBN and have gained over 40,000 NBN customers, with a 26% market share in new fibre estates and a 19% market share in areas with an existing internet connection. We have used our scale, network and technology capabilities to take advantage of the opportunities presented by the NBN and to continue to respond to customers' evolving needs with innovative service and product development. We were the first in the industry to get behind the NBN, and when added to our award winning customer service and technical expertise, we have more than lived up to the title of 'The NBN Experts'. While the NBN is still small in the context of iiNet's total subscriber base, this will continue to grow as the roll-out progresses and expands the market size available to iiNet.

Regulatory update

On 11 July 2013 the ACCC commenced a combined public inquiry into making final access determinations for a number of fixed line services and the wholesale ADSL service. Due to the number and complexity of the pricing issues, the ACCC is undertaking extensive consultation with iiNet and the industry during its inquiry. It is expected that this will take most of this financial year. iiNet will continue to lobby strongly for a better pricing structure that will deliver true competition and better services for Australian broadband customers.

Change in Managing Director & CEO

On 20 March 2014 Michael Malone resigned from his role as Managing Director and CEO of iiNet, having founded the business in his parents' garage 21 years ago. Michael is a legend and widely recognised as a visionary by Australia's telecommunications industry. Under Michael's leadership iiNet grew to be the leading challenger in the Telecommunications market, renowned for industry leading customer service. On behalf of the Board, management, staff, shareholders and customers, I would like to thank Michael for his service and commitment to excellence over the years.

Following Michael's departure, and having undertaken an extensive global search process, I was pleased to announce on 14 July 2014 that David Buckingham, previously Chief Financial Officer, was appointed to the role of CEO. Having worked with iiNet over the past seven years and having led the many successful acquisitions and integrations undertaken, David is uniquely placed to lead iiNet through its next growth phase. His appointment reflects the strength of the company's senior management team, and I and the Board congratulate David on his appointment.

Resignation of Directors

Mr Paul Broad resigned as Non-Executive Director at the 2013 Annual General Meeting and Mr Simon Hackett resigned as Non-Executive Director, effective 27 November 2013.

Paul and Simon have made valuable long term contributions to iiNet through their extensive experience in the sector. It has been a pleasure to work with them during that time and I thank them for their input to the successful growth of iiNet.

iiNet's growth is a testament to our dedicated team

Our financial and operational results, in addition to industry leading customer service levels, rest on the shoulders of the talented and dedicated staff employed by iiNet across three countries. Their professionalism assures us that iiNet is well placed to continue building on our successes in FY15.

On behalf of the Board, I would like to thank iiNet's entire team for all their brilliant work and dedication over FY14 that saw the company deliver another record year.

I would also like to thank my fellow Directors for their extraordinary contribution to the company's direction and success over the last twelve months.

Most importantly, I would like to thank you, our shareholders, for your ongoing support. We are proud of our achievements over FY14. We believe we have the right strategy and team to drive continued growth over FY15 and beyond.

