



iiNET LIMITED

ABN 48 068 628 937

**FINANCIAL REPORT FOR THE HALF –YEAR ENDED
31 DECEMBER 2004**

INET LIMITED

**FINANCIAL REPORT FOR THE HALF-YEAR ENDED
31 DECEMBER 2004**

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iiNET LIMITED

Results for announcement to the market

Current Reporting Period: Half-Year ended 31 December 2004

Previous Corresponding Period: Half-Year ended 31 December 2003

	Percentage Change	Amount
	%	\$A'000
Revenue and Net Profit		
Revenues from ordinary activities	up 74%	64,149
Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)	up 83%	15,061
Profit from ordinary activities after tax attributable to members	up 25%	1,905
Net Profit after Tax before Amortisation (NPATBA)	up 94%	7,217
Net Profit for the period attributable to members	up 25%	1,905
	Amount per security	Franked Amount per security

Dividends

Interim Dividend	2.5	2.5
Record Date for determining entitlements to the dividend		
Final Dividend Interim Dividend	Nil	Nil 15 February 2005

Brief Explanation of Revenue and Net Profit

Net profit before goodwill amortisation was \$7.2 million for the 6 months ended 31 December 2004, an increase of 94% on the previous corresponding period.

Consolidated revenues from ordinary activities were \$64.1 million. This represented a 74% increase from the corresponding period in the previous year. This increase can be attributed to the growth in iiNet's customer base following the acquisition of Virtual Communities in October 2004 and full contribution from ihug (acquired midway through the previous corresponding period) for the reporting period.

	Half Year-Ended	Half Year-Ended
	31-Dec-04	31-Dec-03
NTA Backing		
Net tangible asset backing per ordinary security	0.17 cents	3.7 cents

iiNET LIMITED

DIRECTORS' REPORT

The directors of iiNet Limited present the financial report for the half-year ended 31 December 2004. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

DIRECTORS

The names and particulars of the directors of the company during or since the end of the half-year are:

Mr P. C. Harley (Chairman)

Mr K.N. Goodall

Mr M. M. Malone

Mr A. L. Milner

Mr A.L. Fergusson (resigned 26 November 2004)

Mr P.R. James

REVIEW OF OPERATIONS

For the half-year ended 31 December 2004, the consolidated entity generated a net profit after tax of \$1,905,169 (2003: \$1,527,123).

Net Profit before goodwill and amortisation for the same period increased by 94% to \$7,216,728, continuing the strong performance of the company.

Consolidated operating revenues of \$64.1 million were 74% higher than that reported for the previous corresponding half. Earnings before interest, taxation, depreciation and amortisation of \$15.1 million is an increase of 83% on the \$8.2 million achieved in the previous corresponding period.

As at 31 December 2004, consolidated cash holdings stood at \$6.8 million.

	6 months 31 Dec 2004	6 months 31 Dec 2003
	\$	\$
Operating Profit		
Operating profit from ordinary activities after income tax attributable to members	1,905,169	1,527,123
Operating Profit before Amortisation		
Operating profit from ordinary activities after income tax before amortisation attributable to members	7,216,728	3,717,054

Dividends

In respect of the half-year ended 31 December 2004, the directors recommend the payment of a 2.5 cent interim dividend with a record date of 15 February 2005 and a payment date of 4 April 2005. The Directors anticipate paying a dividend at the full year.

IINET LIMITED

DIRECTORS' REPORT

INDEMNIFICATION OF OFFICERS AND AUDITORS

During the half-year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretary, all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary, or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the half-year, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

AUDITORS INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditors, Ernst & Young, as presented on page 16 of this half-year financial report.

Signed in accordance with a resolution of the directors.

On behalf of the Directors



M. M. Malone
Managing Director
Perth, WA
15 February 2005



P. C. Harley
Chairman
Perth, WA
15 February 2005

Independent review report to members of iiNet Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements for the consolidated entity comprising both iiNet Limited (the company) and the entities it controlled during the half-year, and the directors' declaration for the company, for the period ended 31 December 2004.

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 consolidated entity, and that complies with Accounting Standard AASB 1029 "Interim Financial Reporting", 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.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the director's of the company a written Auditor's Independence Declaration a copy of which is attached to the Director's Report. In addition to our review of the financial report, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising iiNet Limited and the entities it controlled during the half-year is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2004 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



G H Meyerowitz
Partner
Perth
15 February 2005

iiNET LIMITED

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of iiNet Limited, we state that:

In the opinion of the directors:

- a) the financial statements and notes of the consolidated entity:
 - i) give a true and fair view of the financial position as at 31 December 2004 and the performance for the half year ended on that date of the consolidated entity; and
 - ii) comply with Accounting Standard AASB 1029 "Interim Financial Reporting" and the 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 Directors



M. M. Malone
Managing Director
Perth, WA
15 February 2005



P. C. Harley
Chairman
Perth, WA
15 February 2005

IINET LIMITED		CONSOLIDATED	
		2004	2003
CONDENSED STATEMENT OF FINANCIAL PERFORMANCE		\$	\$
FOR THE HALF YEAR ENDED 31 DECEMBER 2004	Note		
Revenue from ordinary activities	2	64,149,099	36,803,032
Network costs		(26,978,117)	(14,445,469)
ADSL customer modem and set up costs		(1,619,415)	(1,989,713)
Employee expenses		(12,313,407)	(7,388,303)
Depreciation and amortisation expense		(9,603,399)	(5,105,592)
Marketing expenses		(1,278,709)	(715,592)
Borrowing costs		(376,236)	(49,941)
Office costs		(4,507,551)	(3,298,453)
Other expenses from ordinary activities		(2,247,214)	(602,889)
Profit from ordinary activities before income tax expense		5,225,051	3,207,080
Income tax expense relating to ordinary activities		(3,319,882)	(1,679,957)
Net Profit attributable to members of the parent entity		1,905,169	1,527,123
Net exchange difference on translation of financial statements of foreign controlled entities		95,811	80,410
Share issue costs		-	(1,077,085)
Total Revenues and Expenses attributable to members of iiNet Limited and recognised directly in equity		95,811	(996,675)
Total Changes in Equity other than those resulting in transactions with owners as owners attributable to members of iiNet Limited		2,000,980	530,448
Basic earnings per share (cents per share)		2.2	2.4
Basic earnings per share before amortisation (cents per share)		8.4	5.8
Diluted earnings per share (cents per share)		2.2	2.3
Franked dividends per share (cents per share)		-	2.5

IINET LIMITED
CONDENSED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2004

		CONSOLIDATED	
		AS AT	AS AT
	Notes	31-Dec-04	30-Jun-04
		\$	\$
CURRENT ASSETS			
Cash assets		6,829,949	6,241,685
Receivables		5,218,615	4,473,138
Inventories		489,084	397,458
Other		674,709	803,160
TOTAL CURRENT ASSETS		13,212,357	11,915,441
NON-CURRENT ASSETS			
Property, plant and equipment		25,355,956	17,075,855
Intangibles		87,884,889	85,486,063
Deferred tax assets		2,051,122	2,039,937
Other		2,785,201	2,538,292
TOTAL NON-CURRENT ASSETS		118,077,168	107,140,147
TOTAL ASSETS		131,289,525	119,055,588
CURRENT LIABILITIES			
Payables		14,770,074	12,518,860
Unearned revenue		6,396,640	7,034,196
Interest-bearing liabilities		5,703,176	3,041,174
Current tax liabilities		358,355	4,208,669
Provisions		2,833,629	2,385,941
TOTAL CURRENT LIABILITIES		30,061,874	29,188,840
NON-CURRENT LIABILITIES			
Interest-bearing liabilities		12,782,362	1,512,608
Deferred tax liabilities		151,856	375,061
Provisions		253,088	694,317
TOTAL NON-CURRENT LIABILITIES		13,187,306	2,581,986
TOTAL LIABILITIES		43,249,180	31,770,826
NET ASSETS		88,040,345	87,284,762
EQUITY			
Contributed equity	8	86,369,053	84,397,113
Reserves	8	639,204	543,393
Retained Profits	8	1,032,088	2,344,256
TOTAL EQUITY		88,040,345	87,284,762

INET LIMITED	CONSOLIDATED	
CONDENSED STATEMENT OF CASH FLOWS	2004	2003
HALF-YEAR ENDED 31 DECEMBER 2004	\$	\$
Cash Flows from Operating Activities		
Receipts from customers	58,225,894	35,419,085
Payments to suppliers and employees	(44,358,296)	(27,337,781)
Interest received	97,620	120,965
Interest and other costs of finance paid	(340,052)	(49,941)
Income tax paid	(7,099,694)	(741,590)
Net cash provided by operating activities	6,525,472	7,410,738
Cash Flows from Investing Activities		
Payment for property, plant and equipment	(10,192,266)	(4,957,822)
Proceeds from sale of property, plant and equipment	918	13,000
Payment for acquisition of business	(8,750,698)	-
Payment for subscriber bases	-	(840,324)
Payment for acquisition of controlled entities	-	(30,986,422)
Purchase of other intangible assets	-	(236)
Net cash used in investing activities	(18,942,046)	(36,771,804)
Cash Flows from Financing Activities		
Proceeds from issues of equity securities	1,971,940	31,286,115
Payments for capital raising costs	-	(1,077,085)
Repayment of borrowings	(3,095,005)	(335,936)
Proceeds of borrowings	17,076,551	-
Dividends paid	(3,217,337)	(1,595,945)
Net cash provided by financing activities	12,736,149	28,277,149
Net increase/(decrease) in cash held	319,575	(1,083,917)
Cash at the beginning of the financial year	6,241,685	8,575,816
Impact of Foreign Currency Translation	268,689	(126,931)
Cash at the end of the half year	6,829,949	7,364,968

iiNET LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

Note 1 Basis of Preparation of the Half-Year Financial Report

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of iiNet Limited as at 30 June 2004. It is also recommended that the half-year Financial Report be considered together with any public announcements made by iiNet Limited and its controlled entities during the half-year ended 31 December 2004 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

a) Basis of Accounting

The half-year 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 including AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

The half-year financial report has been prepared in accordance with the historical cost convention.

For the purpose of preparing the half-year financial report, the half year has been treated as a discrete reporting period.

b) Changes in Accounting Policy

The accounting policies adopted are consistent with the most recent Annual Financial Report for the year ended 30 June 2004.

Note 2 Profit from Ordinary Activities

	CONSOLIDATED	
	2004	2003
	\$	\$
Revenue		
Rendering of services	61,855,420	35,661,062
Sale of goods	1,413,999	997,990
Interest received	97,620	120,965
Proceeds on sale of assets	500,000	-
Other	282,060	23,015
	<u>64,149,099</u>	<u>36,803,032</u>

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

Note 3 Dividends Paid or Provided for on Ordinary Shares

	2004	2003
a) Dividends declared pre December and recognised as a liability		
	\$	\$
Franked dividends	-	-
b) Dividends paid during the half year		
Franked dividends	3,217,337	1,595,945
c) Dividends declared post 31 December 2004 and not recognised as a liability		
	cents	cents
Franked dividends (cents per share)	2.5	2.5

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

Note 4 Changes in Composition of the Entity

During the period 1 July 2004 to 31 December 2004 the composition of the entity was changed as follows:

	2004
	\$
<i>Virtual Communities Acquisition</i>	
On 9 October 2004, iiNet Limited acquired the assets and some liabilities of Virtual Communities.	
Consideration	
Cash	7,750,000
Directly attributed costs	<u>423,813</u>
	8,173,813
Fair Value of Net Assets Acquired	
Fixed assets	2,100,828
Inventory	93,979
Deferred tax asset	218,798
Intangibles	<u>5,249,595</u>
	7,663,200
Employee provisions	(400,995)
Unearned revenue	(1,372,627)
Provision for onerous contracts	<u>(566,680)</u>
	(2,340,302)
Net assets acquired	<u>5,322,898</u>
Goodwill arising on acquisition	2,850,915
	<u>8,173,813</u>
Total consideration	<u>8,173,813</u>

From 9 October 2004 Virtual Communities contributed a loss of \$310,100 to iiNet profit from ordinary activities after income tax for the half year ended 31 December 2004.

Wave Acquisition

In accordance with the deferred settlement associated with the 30 June 2004 acquisition of the Wave Internet Business in New Zealand, an amount of \$576,885 was paid during the six months ended 31 December 2004.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

Note 4 Changes in Composition of the Entity (cont'd)

	2004
	\$
<i>Disposals</i>	
On 31 December 2004, iiNet Limited disposed of the Ultra Satellite business.	
Consideration	500,000
Net Assets Disposed	
Fixed assets	115,976
Stock	77,781
Subscriber bases	341,639
	<u>535,396</u>
Loss on Disposal	<u>(35,396)</u>

For the six month period the Ultra business contributed a profit of \$104,600 to iiNet profit from ordinary activities after income tax for the half year ended 31 December 2004.

Note 5 Contingent Assets and Liabilities

Since the 30 June 2004 Annual Report, bank guarantees and monies held as security have increased from \$1,974,430 to \$2,317,528.

Under the self assessment provisions of the Income Tax Assessment Act and following the receipt of professional advice, certain costs relating to the acquisitions of subscriber bases were claimed as deductions for income tax purposes for the years ended 30 June 1998 to 2001. The Australian Taxation Office (ATO) has disputed the deductibility of these costs.

Since 30 June 2004 the group has entered into an arrangement with the ATO to pay 50% of the disputed balances, however this does not change the groups position on this matter.

As at the date of this report there is potential liability for additional tax and associated general interest charges payable, which have not been provided for as an amount cannot be reliably measured by management at this stage.

iiNET LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

Note 6 Segment Information

The consolidated entity operates in the Telecommunications industry in the geographical locations of Australia and New Zealand.

	Australia		New Zealand		Consolidated	
	2004	2003	2004	2003	2004	2003
Segment Revenue						
Rendering of services	45,695,111	29,894,146	16,160,309	5,766,916	61,855,420	35,661,062
Other revenue	1,803,870	1,118,451	489,809	23,519	2,293,679	1,141,970
	<u>47,498,981</u>	<u>31,012,597</u>	<u>16,650,118</u>	<u>5,970,435</u>	<u>64,149,099</u>	<u>36,803,032</u>
Segment result before amortisation	5,187,411	4,638,210	5,349,199	758,802	10,536,610	5,397,012
Amortisation	(4,054,037)	(2,189,932)	(1,257,522)	-	(5,311,559)	(2,189,932)
Segment result	<u>1,133,374</u>	<u>2,448,278</u>	<u>4,091,677</u>	<u>758,802</u>	<u>5,225,051</u>	<u>3,207,080</u>

Note 7 Subsequent Events

On 15 February 2004, iiNet Limited through its wholly owner subsidiary iiNet (OzEmail) Pty Ltd executed a conditional asset purchase agreement to acquire the OzEmail internet access business from Nasdaq listed company MCI. The acquisition price is \$104.5 million plus the assumption of a working capital deficit of \$4.8 million and employee entitlements \$0.8 million. The acquisition is to be funded through a combination of debt and equity.

With the exception of the above, no matters or circumstances have arisen since the end of the half-year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity.

Note 8 Additional Information

Reconciliation of retained profit

	CONSOLIDATED	
	31 December 2004	30 June 2004
	\$	\$
Balance at the beginning of the period	2,344,256	1,909,526
Net profit attributable to members of the parent entity	1,905,169	2,422,861
Dividends provided for or paid	(3,217,337)	(1,988,131)
Balance at end of the period	<u>1,032,088</u>	<u>2,344,256</u>

iiNET LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

Reconciliation of Foreign Currency Translation Reserve

Balance at the beginning of the half-year	543,393	80,410
Gain on translation of overseas controlled entities	95,811	462,983
Balance at year end	639,204	543,393

Note 8 Additional Information (continued)

Reconciliation of contributed equity

	31 December 2004		30 June 2004	
	#	\$	#	\$
Balance at beginning of the period	79,591,416	84,397,113	79,386,916	84,313,693
Issues of shares under the employee share option plans	1,406,500	1,971,940	204,500	83,420
Balance at end of the period	80,997,916	86,369,053	79,591,416	84,397,113

Note 9 Impact of Adopting AASB Equivalents to IASB Standards

iiNet Limited has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (IFRS). The Company has allocated internal resources and engaged expert consultants to perform diagnostics and conduct impact assessments to isolate key areas that will be impacted by the transition to IFRS. As iiNet has a 30 June year end, priority has been given to considering the preparation of an opening balance sheet in accordance with AASB equivalents to IFRS as at 1 July 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when iiNet prepare its first fully IFRS compliant financial report for the year ended 30 June 2006. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of iiNet. At this stage the company has not been able to reliably quantify the impacts on the financial report.

Goodwill

Under the Australian Equivalent to AASB 3 *Business Combinations*, goodwill will no longer to be amortised but instead will be subject to annual impairment testing. This will result in a change in the group's current accounting policy which amortises goodwill over its life not exceeding 20 years. Under the new policy, amortisation will no longer be charged, but goodwill be written down to the extent it is impaired. Reliable estimation of the future financial effects of this change in accounting policy is impracticable because the conditions under which impairment will be assessed are not yet known. For the purposes of the transitional balance sheet (1 July 2004), the directors are currently in the process of determining whether there will be any adjustment.

Impairment of Assets

Under the Australian equivalent to AASB 36 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of the net selling price and value in use. This will result in a change to the group's current accounting policy in which non-current assets are written down to recoverable amount where the carrying value exceeds recoverable amount. In determining the recoverable amount of the non-current assets, under current policy the expected net cash flows are not discounted to their present value. Under the new policy it is likely that the impairment of assets will be sooner and the amount of write-downs will be greater. Reliable estimation of the future financial effects of the change in accounting policy is impracticable at this stage. For the purposes of the transitional balance sheet (1 July 2004), the directors are currently in the process of determining whether there will be any adjustment.

IINET LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2004

Note 9 Impact of Adopting AASB Equivalents to IASB Standards (continued)

Intangible Assets

Under the Australian equivalent of AASB 38 *Intangible Assets*, costs incurred in the research phase of development of an internally generated intangible must be expensed. This will result in a change in the group's current accounting policy which allows for the capitalisation of costs incurred during the research phase of an internally generated intangible asset where future benefits are expected beyond reasonable doubt. Under the new policy all research costs will be written off as incurred.

Income Taxes

Under the Australian Equivalent to AASB 112 *Income Taxes*, the Company will be required to use balance sheet liability method which shifts the focus of the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. For the purposes of the transitional balance sheet (1 July 2004), the directors are currently in the process of determining whether there will be any adjustment.

Share Based Payments

Under AASB 2 *Share based payments* the Company will be required to determine the fair value of the options issued to employees as remuneration and recognise an expense in the Statement of Financial Position. This standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share-based payments issued after 7 November 2002 which have not vested as at 1 January 2005. Reliable estimation of the future financial effect of this change in accounting policy is impracticable as the details of future equity based remuneration plans are unknown.

The Board of Directors
iiNet Limited
263 Adelaide Terrace
PERTH WA 6000

Auditor's Independence Declaration to the Directors of iiNet Limited

In relation to our review of the financial report of iiNet Limited for the half-year ended 31 December 2004, 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.



Ernst & Young



G H Meyerowitz
Partner
15 February 2005