



Chief Executive Officer's Report

David Buckingham



“iiNet’s continued focus on delivering market leading customer service and the very best products saw the company drive strong growth in new customers over FY14. We are strongly positioned for continued growth in FY15.”

I am honoured to have the opportunity of writing to you as iiNet’s new CEO.

Before I review the company’s performance over the past 12 months and outlook for the next 12 months, I would like to say a few words about Michael Malone, iiNet’s founder and until March the company’s Managing Director and CEO. Michael has been an omnipresent force for the Internet in Australia. Since founding iiNet in a suburban Perth garage in 1993, he has maintained a drive and passion for the Internet that has been unrivaled.

Michael led iiNet with commitment, energy and enthusiasm over the past 21 years and stayed true to the mantra of providing our customers with excellent customer service. He leaves the company in a strong financial position and with a strong growth plan for future success. I would like to thank Michael personally, and on behalf of everyone at iiNet, for leading and growing the business. I wish him all the best in his future endeavours.

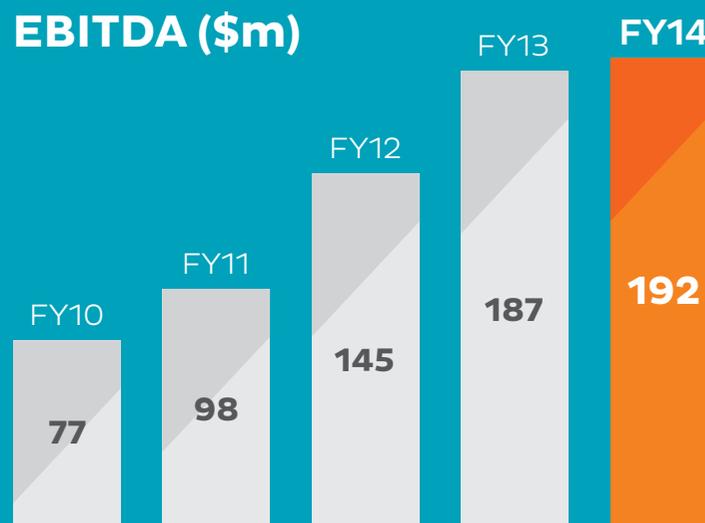
I’d like to now turn to the company’s performance over FY14 and outlook for FY15. iiNet has again produced a record breaking financial result and passed the \$1 billion revenue milestone. Under-pinning the company’s record result was a return to organic growth with 40,000 net new broadband customers added in the year. Off the back of several successful years acquiring and integrating complementary businesses and improving service levels for all our customers to current market-leading levels, our focus over FY14 changed to driving organic growth and maximising operational performance. We have delivered organic growth in the Business customer market too, with Business revenues up 11% on prior year, establishing this as a new organic growth area for iiNet.

Another record year with a return to organic growth

FY14 saw growing revenues and improved margins driven by net organic growth, as well as the acquisition of Adam Internet, plus the continued benefits flowing from the integration of previous acquisitions. iiNet has achieved strong growth in earnings before interest, tax, depreciation and amortisation (EBITDA) and net profit after tax (NPAT) on the prior year. As well as this, the company increased returns to shareholders with the total dividend paid for the year up 16% to 22 cents per share fully franked.

Comparing the FY14 results to FY13:

- Group revenue up 7% to \$1,006 million
- Business revenue up 11% to \$204 million
- Reported EBITDA up 3% to \$192 million
- Reported NPAT up 3% to \$63 million
- Underlying NPAT up 19% to \$66 million
- Earnings per share up 3% to 39.1 cents per share

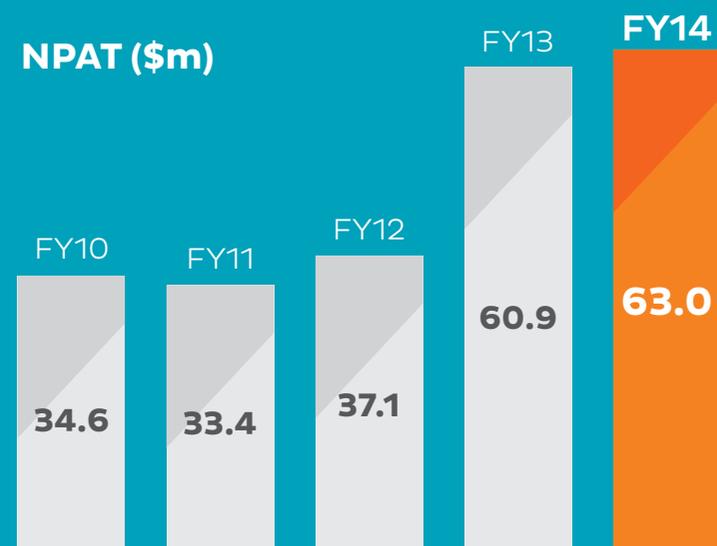


*Refer to page 41 for profit before income tax reconciliation to EBITDA.



The company's strong cashflows have enabled us to continue to pursue strategic acquisitions that were immediately earnings accretive. We have also been able to quickly reduce debt, with \$32 million of borrowings repaid since the acquisition of Adam Internet on 30 August 2013.

Our shareholders have benefited from the successful execution of the company's focused growth strategy with 43% average annual growth in total shareholder returns (share price and dividends reinvested) over the past five years. Considering the fierce competition iiNet faces every day, this level of shareholder return is testament to the very hard work and dedication of the entire iiNet team.





Leading the industry in customer service

Awesome customer service continues to be at the core of everything we do. Our experienced and engaged staff are dedicated to delivering fantastic, internationally recognised results and service for our customers.

In a fiercely competitive market, our customer service strategy clearly differentiates us from our competitors and underpins our industry low churn levels. As part of integrating acquired companies, we have also directed significant effort and resource to lifting the level of service to an iiNet standard.

iiNet's customer satisfaction is measured by our Net Promoter Score (NPS), which averaged an industry-leading 58% through FY14. Strong NPS performance keeps our customer churn at industry low levels, despite the high competitive pressure within our market. The strength of our customer service focus was again recognised by a number of industry service awards during FY14 including:

- Global Business Excellence award winner for 2014 – iiNet picked up three big wins including Outstanding Customer Service Team, Outstanding Customer Service initiative and Outstanding Blog
- ICCSO International Service Excellence award winner 2013 – iiNet picked up the Large Business Award
- Auscontact Association awards – iiNet walked away with Contact Centre of the Year in Sydney, Melbourne, Perth and Adelaide, as well as Multi-site/Virtual Contact Centre of the Year
- Customer Service Institute of Australia (CSIA) awards – iiNet picked up 10 awards including National Winner for Large Business, WA winner Service Excellence in a Contact Centre, and WA Customer Service Team of the year for techii™.

“With over 950,000 connected households and businesses at the end of FY14, product innovation is an important part of our overall strategy to reduce churn and drive new revenue and margin growth. ”

Lifting brand awareness

A key focus over FY14 was to increase brand awareness to drive new sales. In particular, we looked to lift brand awareness in the Eastern States through several, highly effective marketing campaigns.

We continued to increase brand awareness and trigger calls to action for our customers through our corporate sponsorship and campaign messages aligned with our retail offers. Our sponsorship of the Hawthorn Football Club and the Sydney Sixers has resulted in a strong upswing in brand awareness in key markets in the East. This growth in brand awareness combined with targeted messaging around our offers encouraged switching behaviour, delivered sales, strengthened our brand and contributed to net organic growth across the group.

Organic growth

With over 950,000 connected households and businesses at the end of FY14, product innovation is an important part of our overall strategy to reduce churn and drive new revenue and margin growth.

During the past twelve months we were able to add 40,000 net broadband customers, signalling a return to net organic growth. We expanded our mobile product offer with the introduction of the latest Samsung mobile handset range, we continued to innovate through new and upgraded product

offers such as Call Packs and iiNet TV with Fetch. These popular initiatives were combined with a range of successful marketing campaigns to drive organic growth in the year.

Scale consolidates market position

iiNet strengthened its position as the clear No.2 broadband DSL provider through successful acquisitions, which continued in FY14 with the acquisition of Adam Internet.

We are driving substantial value and efficiencies off the back of our acquisitions. We have integrated the networks of TransACT and Internode, with the Adam integration nearing completion. We have also completed the migrations of both the TransACT and Adam customer bases to the iiNet billing system, leaving us ready to tackle the same process for our Internode customers. The benefits of these integrations flow through in improved services for customers, improved margins and increased scale to invest in future growth.

Business customer base continues to grow

We have continued to see revenue growth over the past 12 months for our Business customer base as we look to expand our footprint in the telecommunications sector. Business customer revenues grew 11% to \$204 million in FY14 and now represent 20% of group revenue. We see this market as providing substantial growth opportunities given it leverages iiNet's natural strengths – brand, products and customer service.

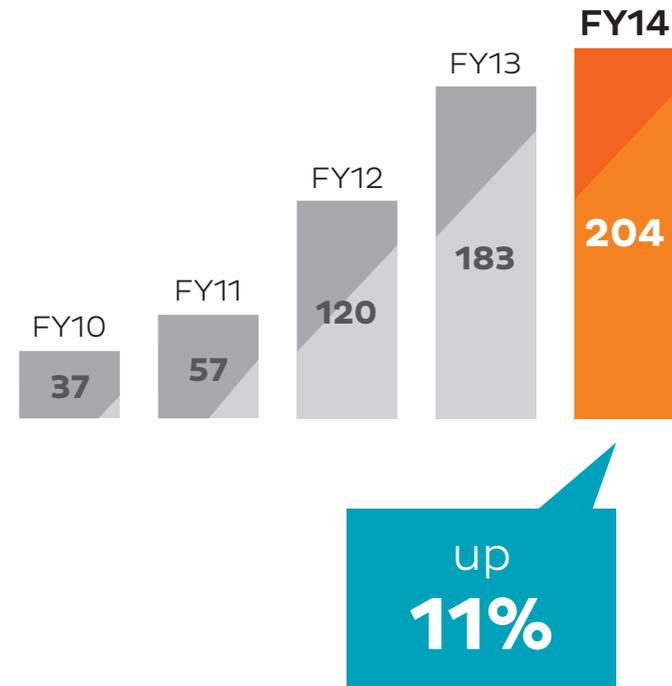
Our core focus on the Small Office Home Office “SOHO” and Small to Medium Enterprises “SME” continues to drive growth through product offers that enable customers to access better value hosted telecommunication service solutions than they previously used. We also continued to increase our presence in the government and corporate segment as we leverage our product, network and data centre assets.

NBN rollout cements organic growth

In line with our achievement of being the first telecommunications company to be ready to operate in an NBN world, we have quickly become one of the largest providers of telecommunications services over the NBN with over 40,000 customers at 30 June 2014.

The Australian Government's NBN plan continues to offer significant growth opportunities for iiNet and we have actively pursued these in FY14 with a number of successful NBN-specific marketing campaigns in each new area. The plan to use a mix of existing and new technologies will likely enable a faster rollout, opening new markets and providing a level 'playing field' for wholesale telecommunication services for the first time. We expect to bring more new customers to iiNet as the rollout allows Australian households access to more choices for services and products.

Business Revenue (\$m)



We've said it before and we'll say it again... we're not slowing down

A strategy for further growth

Following several years of substantial acquisition and integration activity, we are poised for our next phase of growth that will see us deliver operational excellence and drive further organic growth.

iiNet has a new strategy in place that will seek to expand on its position as the No.2 broadband DSL provider in Australia. The essence of this strategy is the combination of leveraging our core assets and extending our customer relationships into new areas of growth:

- Increasing market share on the East Coast
- NBN market share outperforming our national broadband DSL average
- Business customer base growing revenue and market share
- Further growth in mobile and IPTV

- Leveraging our service advocacy into greater sales and marketing opportunities
- Extending our trusted brands further into the connected worlds of our customers

We will also continue to pursue our interest in attractive acquisition opportunities as they arise and complement these strategic goals.

On behalf of the management team and staff, I would like to close by thanking you, our shareholders, for your continued support. FY14 saw many achievements and I look forward to another year of sustainable growth.